



**Institute for Governance Reform-IGR**

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## **IGR's ANALYSIS OF THE FISCAL YEAR 2022 BUDGET FOR SIERRA LEONE**

The purpose of this assessment is to examine key details of the 2022 fiscal year budget that was recently delivered by the Minister of Finance Hon Dennis K. Vandi to Parliament on November 19 2021. The key highlights of this FY2022 budget are focused on human capital development, economic diversification, infrastructure, governance, empowering women, children and persons living with disability, youth employment and sports as well as vulnerabilities to climate change and building resilience. We observe that for government to meet all or the greater part of government's priorities in the Medium-Term National Development Plan (MTNDP), revenue mobilization (improving domestic revenue collection), addressing vulnerabilities and building resilience along with stringent public financial management practices will have to be a top priority. Hence, the composition and allocation of Government expenditure for the 2022 financial year reflects these identified priority areas.

The theme of the FY2022 Budget is Building Resilience for an Inclusive Green Recovery. The budgetary theme is being promoted by an expected projection of revenue and grants to the tune of Le9.94 trillion. This includes domestic revenues of Le7.64 trillion (15.1 percent of GDP) and grants of Le2.3 trillion. On the grants, budgetary support will be provided by the World Bank to the expected amount of Le783.0 billion and specific project grants to the final tune of Le1.32 trillion. The total budget for 2022 is fully financed with no expected financing gap according to the Minister. Principal loan repayments will amount to Le740 billion in 2022 which will further be a burden on the economy and the increment on the domestic debt to GDP ratio.

The Government wage bill for 2022 has increased from Le3.75 trillion in 2021 to Le3.90 trillion (7.7 percent of GDP). This increase in the nominal wage bill reflects Government's commitment to the improvement of the education, health and security sectors. Total interest payments are projected at Le1.44 trillion (2.8 percent of GDP) for 2022. Of this, interest payments on domestic debt will amount to Le1.26 trillion and interest on foreign debt will rise to Le178.7 billion.

We also note the incremental steps taken towards revenue mobilization along with the increased access as well as nominal allocation of funds to the education and health sectors under the guise of investing in the human capital of the country. In order to pursue its stated policy objectives, the GoSL is employing a series of public debt sustainability strategies that allow the government to engage in borrowing with a ceiling maximum level levied (a level that government cannot legally borrow above). More importantly, we need to reduce the volume of public debt significantly so as to reduce the pressure on debt financing in the economy.

Of special note is the explicit attention given to governance reforms and empowering women, children and persons living with disability, sectors that have experienced years of neglect. This is reflected in the significant increase in budgetary allocation from 2021 to 2022 to the related ministries, departments and agencies.

A detailed analysis was done on the key highlights. These are as follows:

## **A. Human Capital Development**

Human Capital consists of education, health and social protection.

- i. Education – This remains the GoSL’s main policy priority, which is reflected in the FY 2022 budget. As in the FY2021 budget, this sector alone accounts for 22 percent (Le1.7 trillion) of the total discretionary budget for FY2022 and remains at the same 22 percent as reflected in the 2021 budget. This will support the continued delivery of President Bio’s Free Quality School Education programme. The budget reflects salaries of teachers and additional support to basic and secondary education as well as the salaries of staff and ancillary resources to higher and technical education.

We observe that there are additional needs within the education sector that the budget does not capture; such as teacher recruitment and retention in remote area, strengthening community oversight of education services and promoting accountability for a sector that is receiving a lion’s share of the budget.

- ii. Health – The health sector for FY2022 has been allocated Le896.7 billion, which reflects 11 percent of GoSL’s total discretionary expenditure, the same as the 2021 allocation. This expenditure line covers the salaries of health care professionals in the health-related agencies, transfers to NaCOVERC to continue to fight Covid-19, improving access to quality services as well as providing basic, reproductive and child health care services, the running and maintenance of hospitals as well as ambulance services. These identified priorities reflect GoSL’s commitment to sustaining the health sector. However, Sierra Leone is yet to reach its signed commitment to the 2001 Abuja Declaration of spending 15 percent of GDP on health and there remain severe inequalities in access to health services.
- iii. Social Protection – The FY2022 allocation of Le28.0 billion to the National Commission for Social Action is a substantial increase from the Le15.2 billion committed in 2021. Also, international development partners’ support in 2022 has risen substantially from Le81.1 billion in 2021 to Le149.8 billion in 2022.

This increase can be vital in providing direct cash transfers to cushion the effects of the COVID-19 pandemic on poor households working in Sierra Leone’s dominant informal economy as well as support labour intensive public works like road construction. The increase will also substantially support the rehabilitation of feeder roads as well as the construction of community infrastructure projects such as boreholes, hand-dug wells and family toilets.

## **B. Economic Diversification**

Economic diversification is subdivided into agriculture, fisheries and marine resources, tourism and culture and trade and industry.

- i. Agriculture – The 2022 allocation of Le278.0 billion to the Agriculture and Food Security sector is significantly lower than the 2021 allocation of Le422.6 billion. Development partners allocation of Le237.6 billion for 2022 is double the 2021 allocation of Le103 billion. Therefore, there is a decrease in budgetary allocation of 1.9 percent from 2021 to 2022. This is as a result of ongoing projects (investments made in tractors in 2021 for three years) for which funds were budgeted for and disbursed in 2021. The FY2022 budgetary allocation of 2.78 percent to the agriculture sector is far below the Africa Union 2003 Maputo Declaration on Agriculture and Food Security of allocating 10 percent of the national budget to the agricultural sector.

The budget line items include procurement and distribution of agricultural tools and equipment; rehabilitation of inland valley swamps; agricultural extension services; procurement of animal vaccines, transfers to local councils for agriculture and food security activities; the e-voucher system to provide agricultural inputs to farmers; support to the Chiefdom Youth Farms; to the Onion Development Project.

With all these allocations and management practices over the years Sierra Leone remains far behind in meeting national food self-sufficiency targets. We noticed that low budget allocation and inefficiencies in the management of the sector is responsible for achievement of the national food self-sufficiency in the country over the years. It is noted that investments in agriculture has been largely inefficient and a successive audit reports shows that moneys fall in wrong hands and actual farmers do not get the input. So beyond the advocacy for budget increase, GoSL should focus on efficiency gains for investments in agriculture. At the very least, GoSL should make public some of the key targets/outputs citizens should expect at the end of 2022. Therefore, with such positive turn around in the agricultural sector, we will actually see the impact of diversification on the economy.

- ii. Fisheries and Marine Resources – GoSL has stated that it is committed to diversifying the national economy. The FY2022 allocation of Le29.5 billion is to support artisanal fisheries activities, the promotion of fish exports as well as the operations of the Competent Authority, which certifies fish exports. In 2021 government allocated Le30.5 billion to promote sustainable management of fisheries resources and value-addition.

Also, development partners have committed to disbursing Le91.6 billion for the construction of a Fish Harbour. The fish harbour project was identified in the FY2021 budget and stated that the “People’s Republic of China has committed Le100 billion for the construction of the Fish harbour through a public–private partnership agreement and Government is providing Le500 million as counter-part funding to the project in 2021.” To date however, nothing tangible has transpired.

- iii. Tourism and Culture –In 2022 the GoSL has increased its budgetary allocation to tourism and culture to Le23.4 billion from Le12.6 billion in 2021. This demonstrates government’s commitment to improving the sector and the development potential that it offers Sierra Leone.

It is noted that any surge of Covid-19 can easily disrupt all the achievements of this sector. The tourism sector is the most fragile and vulnerable when there is a pandemic. Government should continue to act proactively and put in place strategies to help mitigate the impact of Covid-19 on the sector.

- iv. Trade and Industry –Government has allocated Le64.7 billion to the Ministry of Trade and Industry, which is a significant increase compared to the 2021 allocation of Le16.2 billion. This is intended to support the Sierra Leone Investment and Export Promotion Agency (SLIEPA), the Sierra Leone Standards Bureau, the Produce Monitoring Board and the Produce Marketing Company. To provide capital for SMEs to boost the trade and industry sector, the government allocated Le18.0 billion to the MUNAFA (for prosper) fund for 2022, which is far below the 2021 allocation of Le50 billion.

### **C. Infrastructure and Economic Competitiveness**

Government’s allocation of Le339.8 billion from the domestic capital budget to the Sierra Leone Roads Authority is laudable. This will lead to the completion of township roads. Also, the Ministry of Works and Public Assets is being allocated Le12.3 billion from the recurrent budget for repairs and general maintenance of Government buildings. The Ministry will also be allocated Le11.9 billion from the domestic capital budget for the rehabilitation of the Presidential Lodge and other Government Administrative Buildings.

- i. **Energy** - Government is allocating Le169.5 billion to the Ministry of Energy for 2022, up from Le45.5 billion in 2021. This increase is welcome given that this sector plays a significant role in enhancing economic growth and economic development across the country.

Despite the increased spending it is recommended greater emphasis be placed on security measures that can help the sector avoid double spending on transformers and cables. It is noted that government needs to increase investment in the sector just to maintain stable electricity supply that will drive economic growth.

- ii. **Water** – The GoSL is allocating Le118.7 billion to the water sector, of which Le16.9 billion covers staff costs and salaries. This allocation will facilitate the completion of the construction of water supply facilities in six (6) districts, the construction of 45 industrial boreholes, the construction of water monitoring systems, the mapping of groundwater systems and the installation of bulk flow water meters. International development partners have agreed to provide Le121.5 billion for the implementation of donor-funded projects that will be coordinated by GUMA.

Even though Sierra Leone is making progress in the supply of drinking water nationwide, people are still suffering from lack of access to safe drinking water in the capital city and rural areas. This therefore requires government to put additional resources and monitoring mechanisms in place to ensure safe drinking for all across the country.

- iii. **Information and Communications Technology** – the Government allocated Le39.8 billion to this sector in FY 2022 budget and there was no budget line for 2021. This is to ensure feasible progress in the ICT sector including the implementation of several projects like the National Fibre Optic Backbone, operationalization and expansion of the e-Government platform and support to Community Radio Stations.

#### D. Governance

As it relates to governance issues, it is observed that the GoSL has increased its budgetary allocations.

**Table 1. Governance allocations**

Institution	Budgetary Allocation 2021 (Le)	Budgetary Allocation 2022 (Le)	Comments
<b>Ministry of Defence</b>	Le108.9 billion	Le341.3 billion	Increased by 213.4 percent
<b>Sierra Leone Police</b>	Le96.3 billion	Le396.3 billion	Increased by 311.5 percent
<b>Correctional Services</b>	Le58.7 billion	Le102.6 billion	Increased by 74.8 percent
<b>National Fire Force</b>	Le5.9 billion	Le14.8 billion	Increased by 150.8 percent

From the table above, we noticed significant increase in government allocations from 2021 to 2022. **Sierra Leone Police** budget is tripled (311.5%) while **defence** spending is expected to double in 2022. There is also an increase in the Correctional Services of 74.8 percent and 150.8 percent increase on allocation to National Fire Force.

This budgetary allocation is expected to enable Sierra Leone to put in place a better governance system for the country. However, government needs to improve on its allocations to a number of institutions such as:

- ✓ Central Intelligence and Security Unit;
- ✓ Immigration Department, Judiciary;
- ✓ Audit Service Sierra Leone;
- ✓ Statistics Sierra Leone;
- ✓ National Public Procurement Authority (NPPA);
- ✓ National Monitoring and Evaluation Department (NAMED);
- ✓ Anti-Corruption Commission;
- ✓ Parliamentary Service Commission, and

- ✓ National Electoral Commission.

All of these institutions are currently understaffed and need more operational equipment for effective and efficient service delivery. However, we also note that inefficiency and ineffectiveness of our oversight and accountability institutions is more of a lack of political will to embrace scrutiny than understaffing of institutions.

## **E. Empowering Women, Children and Persons Living with Disability**

The GoSL is committed to the allocation of Le10.7 billion to the Ministry of Gender and Children's Affairs to support gender and children's programmes. Other institutions include the Children's Commission and the Women's Economic Empowerment Fund, which seeks to both prevent as well as respond to Gender Based Violence and the re-integration of Street Children.

In 2021, Government allocated Le9.0 billion from the recurrent budget to the Ministry of Gender and Children Affairs. This shows an increase of 18.89 percent from 2021 to 2022.

This allocation is relatively a good start but insufficient if GoSL seeks better outcomes from the sector. We therefore urge government to increase its allocation going forward.

The Ministry of Social Welfare is being allocated Le27.1 billion to support social protection programmes, including Diets to Approved Schools and Remand Homes. Additional institutions and programme support includes: the National Commission for Persons with Disabilities, grants to welfare institutions, livelihood support for people living with disabilities and the rehabilitation of Remand Homes.

In 2021 the budgetary allocation for this sector was 3.43 billion far below 2022 allocation. This shows an increase of 690 percent from 2021 to 2022.

The government has made commendable commitments to improve the lives of women and girls. This includes the creation of dedicated courts to address SGBV, provision of free health care to SGBV survivors, as well as extensive provisions under the Gender Equality and Women's Empowerment Policy. However, such commitments will require substantive financial allocations if they are to be realized, particularly in the context of COVID-19 which has further increased vulnerabilities, especially among women who overwhelmingly make up the informal sector

We say kudos to the government for this exponential increase in budgetary allocation. However, this should be the beginning of a long journey in making the lives of all Sierra Leoneans better off in the country.

## **F. Youth Employment and Sports**

The FY2022 budget shows that Government has allocated Le31.3 billion to the Ministry of Youth Affairs. Youth affairs is of great importance for a steady state growth rate. The National Youth Commission is making progress in the National Youth Service project even though there is need to increase the number of participants on an annual basis to cater for the steady increase of graduates.

The formation of the Youth Empowerment Fund is also a good idea but it needs proper monitoring of the inflow and outflow of funds. The following projects: Youth in Agro-Processing, Youth in Car Wash and Youth in Fisheries will continue to help engage the youths and steer them towards meaningful activities.

Also, Le10.6 billion is being allocated to the Ministry of Sports to facilitate sporting activities in the country. Such expenditure is often a lifeline of support for talented youths who wish to pursue a professional sporting career. Government should increase budgetary allocation to the sports sector significantly in order to create better opportunities for Sierra Leone's talented youths across the country, not just in football, but other sports as well.

## G. Addressing Vulnerabilities and Building Resilience

To address vulnerabilities to climate change GoSL has allocated Le71.4 billion. It is noted that the IMF has provided US\$283 million to Sierra Leone as part of the general Special Drawing Rights [SDR] allocation to help address the long-term need for foreign exchange reserves, foster resilience and maintain the general stability of the global economy. The reserves will also help the country to cope with the impact of the Covid-19 Pandemic.

The good news is that while the SDR allocation will be used largely to boost foreign reserves, an amount of Le450 billion will be lent to the Government to provide additional fiscal space in 2022 for spending on poverty-related areas. This will also include transfers to NaCOVERC, school feeding programmes, hygiene packages for school going girls, and national tree planting among others. Government is committed to reporting on a quarterly basis on the financing and execution of these SDR funded expenditures.

This will help significantly to address vulnerabilities and build resilience across the economy.

### Budget Deficit and Financing for 2022

Table 2. Budget Deficits

Year	Description	2022 Amount (Le)	2021 Amount (Le)	Percentage
2022/1	The overall budget deficit, excluding grants	Le4.17 trillion	3.85 trillion	8.2% of GDP
2022/1	The overall budget deficit, including grants	Le1.89 trillion	2.14 trillion	3.7% of GDP

From the table above, we noticed an increase in government grants from 2021 to 2022. There is also an increase in the overall budget deficit, excluding grants from 8.1 percent of GDP in 2021 to 8.2 percent of GDP in 2022 and a decrease in the deficit, including grants from 4.5 percent of GDP in 2021 to 3.7 percent of GDP in 2022.

Note that the 2022 budget deficit including grants will be financed through government borrowing. The deficit will be partly financed through foreign borrowing of Le1.14 trillion. Principal loan repayments will amount to Le740 billion. Net domestic financing of the deficit will amount to Le1.6 trillion, comprising net SDR on-lending of Le642 billion and borrowing from the domestic banking system of Le1.17 billion. Borrowing from commercial banks will amount to Le645.7 billion. Government will repay the non-bank sector the sum of Le187.0 billion in 2022 through the redemption of bonds issued to contractors in lieu of arrears.

In summary, the 2022 deficit budget financing is relatively better than the 2021 situation of deficit budget financing. Hence more need for revenue mobilization by broadening the tax base.

### Conclusion and Recommendations

The overall assessment of the FY2022 budget for Sierra Leone demonstrates a number of improvements, however, a number of political and social challenges can impede the implementation of the budget. If these challenges materialize, they will pose a difficulty to the attainment of the revenue targets and expenditure allocations and possibly derail the implementation of the 2022 budget. For example, a surge in Covid-19 cases could pose a significant threat to the budget implementation. However, an increase in administration of Covid-19 vaccines (*maklate*) could help mitigate the threat of a potential third wave of Covid-19 on the economy.

Another major threat to implementation is the incremental increase in the global prices of fuel and other goods and services. Since Sierra Leone is an import driven economy, any negative shock in international markets can easily distort

the implementation plans of the 2022 budget. It is recommended that government starts to introduce import substitution strategies to reduce over reliance on international markets.

Also, a delay in quarterly disbursements could also serve as a threat in the implementation of the 2022 budget. Timeliness is of essence in the fiscal year. Another concern is oftentimes, budgeted figures do not match actual disbursements. It is therefore recommended that timely disbursements should begin with the implementation of the 2022 budget.

The reduction in the price level of iron ore could also significantly impact revenue mobilization to the point of impeding the implementation of the 2022 budget. The way forward could be focusing on three to four sectors so that when one sector is disturbed, others could absorb the pressure and neutralize it.

A delay or default of Development partners' budgetary support can also greatly impede budget implementation. This can be addressed by engaging in more domestic or foreign borrowing, although this will have implications on the country's debt to GDP burden.

Natural disasters are also factors that change the narratives of budget implementation as this can shift priority expenditure lines.

Finally, we want to recommend that parliamentary committees be very proactive in monitoring the 2022 budget so as to be able to evaluate whether implementation is going according to plan, hence achieving "Building Resilience for Inclusive Green Recovery".

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