

ANNUAL REPORT

JANUARY – DECEMBER 2006



**MONITORING, RESEARCH AND DEVELOPMENT
DEPARTMENT**

NATIONAL REVENUE AUTHORITY

19 WELLINGTON STREET, FREETOWN.

APRIL, 2007

EXECUTIVE SUMMARY

The National Revenue Authority (NRA) is a government agency mandated to collect and account for all tax and non-tax revenues. The prime objective for its establishment in 2003 is to maximize revenue mobilization by minimizing leakages derived from inefficiencies in previous revenue administration system.

Domestic revenue collection since the inception of NRA has been quite impressive following the implementation of various reforms and strategies spanning from a robust and responsive accounting and administrative supports, decentralization and physical restructuring of collection methods within revenue agencies to the recruitment of qualified and experienced workforce and public sensitization on the relevance of paying taxes.

Data and information for this report were obtained from the various revenue collecting agencies within the NRA, Accountant General's Office and Support Departments. The Target-Actual approach is used to evaluate revenue performance, which is done on a year-on-year basis. The report is cognizance of the weaknesses of this methodology (i.e. possibility of targets been over ambitious or under ambitious). The analysis is extended to cover quarterly performance by agencies and agency revenue sources.

Key issues worth noting in terms of revenue performance and policy implementation for the period under review include the following:

- ❖ Revenue collection by the National Revenue Authority for 2006 amounted to Le463.9bn as against a target of Le510.4bn, indicating a shortfall of Le46.5bn (i.e. 9.1%).
- ❖ Domestic revenue collection has always experienced a double digit growth rate since NRA took over in 2003. Total domestic revenue in 2002 was Le231.8bn, which increased by 19.8 percent to Le277.8bn in 2003. In 2004, the revenue

growth rate was 22.4 percent. Thereafter, growth rate reduced to 15.5 percent and 18 percents in 2005 and 2006 respectively.

- ❖ At Agency levels, the Income Tax Department collected Le138.9bn contributing 29.8 percent to the annual collection of NRA in 2006. Customs and Excise Department collected Le280.9bn while the Non Tax Revenue Department collected Le44.0 contributing 60.6 percent and 9.5 percent respectively to overall revenue collection for the period.
- ❖ All operational agencies within the Authority failed to meet their annual targets of Le152.6bn for ITD; Le306.8bn for CED and Le50.9bn for NTR. Given their actual collections, ITD was short of its target by Le13.6bn, CED by Le25.9bn and NTR by Le6.9bn.
- ❖ The inability of the Authority to perform based on set target for the period can be attributed to the decline in those economic indicators relevant to tax revenue. Overhead cost on several industries soared up as a result of poor electricity and water supply which affected productivity and profitability, hence impinging on both corporate and domestic sales tax collected during the year. In addition, there were problems with policy implementation as Parliament failed to enact the Finance Bill and the Statutory Instrument which contained new rates upon which the target for NTR was set. Other reasons include the accumulation of arrears especially by government institutions (parastatals) and the high cost of freight and other charges relative to neighbouring countries making Sierra Leone less competitive in the sub-region.
- ❖ In an attempt to further maximize revenue collection, and reduce leakages and smuggling the Authority undertook various reform measures through the operational departments and the entity as a whole among which include:

- ❖ Establishment of a rent assessment and capital gains tax unit. In the ITD assessment, collection and audit functions have been separated. The department has formed a committee for the recovery of arrears; and has targeted employees of donor-funded projects and foreign missions for PAYE. Sales tax on local calls has also been introduced.
- ❖ The NTR hand-picked tax payment of dividend by key parastatals, post assessment audit and a new rate for NGO registration and registration of works contractors as its major reform measures. Other measures undertaken include the formation of a task force to combat fraud, leakages and evasion; staff redeployment, tax education and the payment of dividends by key government parastatals.
- ❖ The CED instituted a one-off valuation system for importers; adopted presumptive taxes and duties for cross-border trade and transaction that compare with effective rates at the Port. The department collaborated with, and provided support and technical back stopping to, key peripheral agencies.
- ❖ As a broad reform measure, NRA launched a Modernization programme which is geared towards restructuring revenue administration and operations of the Support Departments. The modernization plan has transformed the 13 aims of the Authority into five major programmes each with a number of projects whose implementation will be geared to the overall programme objective such as expanding revenue base, minimizing leakages and administrative barriers to trade and ensuring that tax policies are implemented to enhance revenue goals.
- ❖ In order to provide a broad based system which ensures that tax revenue responds positively to growth in all sectors of the economy, the Authority has established a Goods and Services Tax or Value Added Tax (VAT) Unit. The preparatory work for the implementation of this tax is ongoing. Significant progress has been made in the areas of governance structure for design and implementation, structure and

job description of GST Coordination Unit, stakeholders' participation and sensitization, GST legislations and implementation strategies. This tax system will become fully operational by September 2008.

- ❖ The support departments within the NRA contributed in diverse ways to ensuring the implementation of the policy reform programmes mandated by the policy framework paper. Though revenue figures relative to target in 2006 are unfavourable, there are indications of better performance in years to come given the prospects open to each collection agency in the modernization programme combined with government policies.

On the policy front, the following are recommended as possible solutions that will lead to an improvement in the domestic revenue collection of the Authority.

- ❖ **Improve Competitiveness in trade:** it has now become obvious that Sierra Leone is becoming less competitive in trade when compared with the neighbouring countries. The major factor responsible for the trade diversion is the significant differences in transaction costs among the three countries (i.e Sierra Leone, Liberia and Guinea). To ameliorate this situation, we are recommending the following specific measures:
 - **Scanning Fee:** We are recommending harmonization in scanning fee with Guinea. i.e Reduce the fee from US\$ 100 to US\$ 50 per 20ft container and from US\$200 to US\$100 per 40ft container. There are no scanning fees charged in Liberia
 - **Pre-Shipment Inspection:** Immediate actions be taken to build capacity at CED for a complete Destination Inspection implementation. Additionally, it is recommended that a defined timeline be set for the eventual phasing out of the Pre-Shipment Inspection. INTERTEK should also not raise additional charges on uplift considering that an inspection fee is demanded prior to inspection.

- Ports Charges: A reduction in marine charges for vessels over 100 meters long from the current cost of US\$50 to US\$20 is recommended. The high marine charges if maintained will continue to make our port unattractive to ships.
- Shipping Charges: Fees charged both for container handling and container inspection be eliminated since the same services are provided by Ports Authority for which similar payments are made. Also reduce amendment (Manifest) fee from US\$200 to US\$ 50 consistent with what operates in other Ports in the sub region. In addition, we are recommending an increase in the demurrage period from five (5) to ten (10) days and weekends should be excluded.

By our estimation, if parties concerned are in agreement with these recommendations, additional revenue of Le6.0 billion will be generated.

- ❖ **Implementation of Outstanding policies:** there were certain policies measures that were approved either in the Finance Act 2006 or by the Authority which are yet to be fully implemented. These policies include
 - Introduction of Sales Tax on Local Calls which was to be retroactive from January 2005. Most companies are yet to honour the 2005 tax obligations in respect of the Local calls.
 - Though duty –concession is reducing but the Authority believes that with the firm commitment of Government duty waivers can be reduced further.
 - Conducting comprehensive Corporate and PAYE audits. The Authority failed to conduct effective audits in 2006 due to lack of capacity. As a way forward the Authority approached donors, specifically DFID for technical assistance in audit. This request has been granted and the Authority is currently doing Terms of Reference for Consultancy in Audit.

Full implementation of these strategies or policy is expected to generate additional revenue of Le10.4 billion.

Furthermore, the Ministry of Finance has laid before Parliament a Finance Bill which contains revenue enhancing measures to be implemented in FY 2007 which is yet to be enacted. An enactment of this bill will mandate the National Revenue Authority to collect all off budget revenue. These revenue items are expected to generate additional revenue of about Le11.5 billion for the consolidated fund. In addition, the statutory instrument which contains the new rate for Tran-shipment should be laid before Parliament for approval. This policy will generate Le189million in 2007.

- ❖ **Control Smuggling:** the Customs Department of the National Revenue Authority has a unit (Preventive Services and Special Duties-PSSD) charged with the responsibility to curb smuggling. Due to inadequate capacity, this unit has only been able to secure the land borders and thus smuggling has now been diverted to the coastline.

To remedy this problem, two specific measures are recommended:

- Harmonize rates with neighboring countries for frequently smuggled goods such as motor bikes.
- Strengthening of the PSSD Unit with logistics: the National Revenue Authority has approached one of its development partners - DFID for support in the purchase of speed boats and other logistics needed by the PSSD unit. In addition, the Authority is currently in the process of recruiting additional personnel for this unit.

- ❖ **Implementation of some Recommendations in Fiscal Affairs (FAD) report of 2004**

A study carried out by Muzondo and others of the FAD in 2004 on the Sierra Leone Tax reform made series of recommendations among which were:

- The review of Sierra Rutile agreement and all other bilateral agreements with MDAs.

- Goods imported for monetization should attract full duty and waivers to be treated as expenditure item.

The implementation of these recommendations will generate additional revenue for the Government in 2007.

- ❖ **Unilateral CET adjustment for certain goods:** the Authority has since 2005 started the implementation of rates in conformity with the ECOWAS Common External Tariff (CET), while the neighboring countries- Guinea and Liberia are yet to align their low tariffs with those of ECOWAS. The effect is that importers in their desire to maximize profit would smuggle rather than import such commodities through legitimate channels. The loss of revenue is not only in terms of Customs receipt but is inclusive of withholding Income Tax of 3% of the CIF value of goods imported which, otherwise could have been collected through approved channels.
- ❖ Temporarily suspend the implementation of the ECOWAS Trade Liberalization Scheme (ELTS) until issues relating to compensation and other weaknesses in the implementation of the protocol are adequately addressed.
- ❖ Suspend granting of duty-waiver to organizations on the basis of bilateral agreements until these agreements are enacted by parliament.
- ❖ Improve energy (electricity and water) supply to industries/firms in a bid to reduce their cost of production and hence promote profitability.
- ❖ ITD to be capacitated to be adequately involved in assessing the tax liability of companies and other large businesses to a level that is commensurate with their actual turnover. In 2006, there was only one qualified field audit of over 200 large tax payer cases.

- ❖ Ministry of Finance to consider recommendations (See reasons for 2006 revenue shortfall) made on remittance of arrears from sale of visa stickers by Foreign Missions.
- ❖ Arrears list of tax liabilities and non-tax revenues should be prepared and regularly updated and forwarded to the Ministry of Finance to deduct from such parastatals' subvention the amount owed and eventually remitted to the NRA as revenue in lieu of those arrears.
- ❖ The Board Secretariat and Legal Affairs (BSLA) Department of the NRA to take legal actions against the various businesses and institutions owing NRA including parastatals whose arrears could not be settled by the Ministry of Finance.

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1.0 Introduction

For the past four years (2003- 2006) there has been a significant improvement in the overall revenue administration in Sierra Leone; with domestic revenue collection since the inception of NRA in 2003 on the increase. Between 2002 and 2003 it increased from Le231.8 billion to Le277.8 billion. It further improved with the consolidation of the NRA's position and with the introduction of the Non-Tax Revenue Department to Le340.1 billion in 2004, Le392.9 billion in 2005 and Le463.9 billion in 2006.

The performance of NRA on a year-on-year basis can be seen as impressive. However, the Authority's performance relative to target for 2006 was deplorable recording the highest shortfall in its four years of revenue collection. Reform measures and strategies have been undertaken to revitalize and sustain collection. These reforms and strategies included the introduction and maintenance of a more robust and responsive accounting and administrative support system which ensures transparency in the receipt and use of funds; recruitment of qualified and experienced workforce; regular training and development of staff; maintaining an efficient procurement, disbursement and recording of transactions; physical restructuring of revenue collection within the Income Tax and Customs and Excise Departments; redeployment of staff from one department to another and within the same department to form an efficient workforce, transfer of duty waivers from the Ministry of finance to the Authority; sensitization and education of the public on the need to pay taxes.

There is a programme under way for the replacement of some existing taxes with Goods and Services Tax (GST) by September, 2008; and a modernization programme with various projects for the management of the whole Authority by 2009 are major prospects for improved revenue performance.

This report evaluates among others, the macroeconomic environment of the country; taking into account the activities in the real sector, the external sector, and the movement in the macroeconomic variables within the monetary and fiscal policy framework. At the

micro/ institutional level, the report reviews the amount of revenue collected by the three revenue collecting agencies of the NRA which include the Income Tax Department, Customs and Excise Department and the Non-Tax Revenue Department; the proportion of taxpayers assessed; and the level of implementation of reforms outlined in the NRA Policy Framework Paper (PFP) by the individual Departments within the Authority and above all, provide policy recommendations.

Finally, this report was due end March 2007 but the delay in the production of this report was due mainly to late submission of contributions from the respective departments/unit, and it could be noted that one such department is the Internal Control and Audit (ICA) with no report submitted up to the point in time of the production of this report.

2.0 Overview of the Macroeconomic Performance - 2006

The restoration of security has facilitated economic recovery in Sierra Leone. Despite external shocks, the economy has been widely acclaimed for endeavoring to maintain stability and to achieve growth.

Performance in the real sector during the 2006 fiscal year was mixed. There was a considerable drop in agricultural sub-sector activities during the review period compared to the fiscal year of 2005. Production of the two major cash crops – Cocoa and Coffee – dropped significantly in 2006 compared to the corresponding period of 2005. While Cocoa production dropped to 2,500.64 metric tons in 2006 from 4,703.00 metric tons in 2005 (i.e. 46.8%), Coffee production dropped by 34.90 percent from 1,068.50 metric tons in 2005 to 695.29 metric tons in 2006. Hence, export of these goods reduced considerably during the review period compared to the same period in 2005.

There were some improvements in the manufacturing sub-sector as there were increases in production of soft drink by 7.1 percent, cement by 34.8 percent and confectionary by 11.3 percent in 2006. This trend reflected an increase in the collection of domestic sales tax by 39.4 percent in 2006.

On the other hand, production of Beer, Stout and Maltina dropped in 2006 by 3.7 percent (992.62 thousand cartons compared to 1,012.47 thousand cartons for the corresponding period in 2005). This negatively affected the overall excise duty collected in 2006.

Performance in the manufacturing sub-sector would have been much more impressive had it not been the drastic reduction in electricity generation from 53.24 GW/hr in 2005 to 32.00 GW/hr (dropped by 40 percent) in 2006. Similarly, water supply also dropped by 16 percent during 2006. Given the fact that this sub-sector relies heavily on electricity and water supply for its production, the poor performance in electricity generation not only affected its volume of production but also its cost of production thereby affecting the share of tax revenue generated from this sub-sector.

In the mining sub-sector, the economy relied heavily on diamond production and export. However, diamond production of 646.51 thousand carats in 2005 dropped to 582.34 thousand carats during the review period, (a decrease of 9.9%). This trend was maintained for diamond export which recorded a total export of US\$135.8 million in 2005 compared to US\$125.0 million in 2006 (a decrease of 7.93%). Production of Rutile and Bauxite commenced after the first quarter in 2006 and production statistics showed that, a total of 73.58 thousand metric tons and 1,041.38 thousand metric tons of Rutile and Bauxite respectively were produced during this period. This recorded an export of US\$28.5 million for Rutile and US\$23.6 million for Bauxite.

During the reporting period, the rate of inflation was estimated using the consumer price indices. The year-on-year inflation at the end of 2006 stood at about 8.3 percent compared to 13.1 percent at the end of 2005.

Comparative analysis of the external sector during 2006 and 2005 revealed some improvement during the review period. Merchandise export in 2006 increased tremendously to US\$220.8 million compared to US\$151.4 million in 2005. This significant increase in merchandise export was mainly due to a large volume of re-exports in March 2006 valued at US\$4.7 million by UNAMSIL following the end of its mandate in the country, compared to about US\$0.7 million in the corresponding period of 2005. This implies that actual export (ignoring the UNAMSIL re-exports) for the period under review was US\$216.1 million compared to US\$150.7 million (less UNAMSIL re-exports) in 2005 (an increase of 43.4%). The huge volume of export as a result of re-export by UNAMSIL improved the trade deficit from US\$191.3 million in 2005 to US\$174.0 million in 2006.

The value of merchandise imported significantly increased by 15.2 percent from US\$342.6 million in 2005 to US\$394.8 million in 2006. The increase in merchandise import eventually increased the import duty by 11.5 percent.

The nominal exchange rate for the period under review was relatively stable for both official and Commercial Banks' rates. Records showed that the official exchange rate (mid-rate) stood at Le2,961.9 per US Dollar in 2006 compared to Le2,889.7 in 2005. The exchange rate (mid-rate) for Commercial Banks on the other hand stood at Le2,955.9 in 2006 compared to Le2,872.2 in 2005.

Broad money supply on a year-on-year basis registered a decrease from Le31.3 billion in 2005 to Le21.6 billion 2006 (30.9%). Reserve money on the other hand, increased from Le303.9 billion in 2005 to Le333.4 billion in 2006. The increase in reserve money may be closely linked with the positive change in domestic export from US\$151.8 million in 2005 to US\$ 202.6 million in 2006.

Fiscal performance for the period depicted favourable patterns. While budget deficit excluding grants reduced by 6.2 percent in 2006 compared to 2005, government spending was on the high side by 13.4 percent in 2006. The decline in budget deficit resulted from the relatively improved performance in domestic revenue generation in 2006.

A snap shot of revenue collected by the Authority for 2006 increased by Le71 billion to Le463.9 billion (18.1 percent) from 2005. In terms of US Dollar, domestic revenue was US\$ 156.6 million in 2006, showing an increase of about US\$20.6 million (15.1 percent growth) from US\$136 million in 2005.

Detailed analysis of the 2006 domestic revenue performance (excluding road user charges –not accounted for by the NRA) is presented in the other sections below.

3.0: REVENUE PERFORMANCE – 2006

Domestic revenue collection by the National Revenue Authority for the year 2006 amounted to Le463.9 billion. Of this collection, the Income Tax Department (ITD) contributed Le138.9 billion (29.9%), the Customs and Excise Department (CED) contributed Le280.9 billion (60.6%), the ‘Mines’ and ‘Other Departments’ components of the Non-Tax Revenue Department (NTRD) contributed Le14.7 billion (3.2%) and Le29.3 billion (6.3%) respectively. NRA revenue target for 2006 was Le510.4 billion. The Authority thus collected in total Le463.9 billion (i.e. 90.9 percent of the annual target). This implies that the Authority’s annual collection was less than the annual target by Le46.4 billion (9.2%).

In terms of the individual Agency’s collection against targets are showed in (Table 1) as following:

- CED’s annual collection of Le280.9 billion was less than its target of Le306.8 billion by Le25.9 billion (8.4%);
- ITD’s annual collection of Le138.9bn was also less than its annual target of Le152.6 billion by Le13.6 billion (8.9%);
- Mines¹ annual collection of Le14.7 billion was below its target of Le17.8 billion by Le3.1 billion (17.3%); and
- Revenue collected by the Other Departments (under the NTR) amounted to Le29.3 billion which was also less than its annual target of Le33.2 billion by Le3.8 billion (11.6%).

The contributions to the total domestic revenue of Le463.9 billion in 2006 by the collecting agencies-CED, ITD and NTR were 60.6%, 29.9% and 9.5% respectively. On the other hand, CED contributed about 60.3%, ITD contributed 29.3%, and NTR contributed 10.6% to the total domestic revenue of Le392.9 billion in 2005.

On the whole, the agencies total contribution to domestic revenue in 2006 exceeded that of 2005 by about Le71.0bn (18.1%).

¹ Collections by both Mines and Other Departments constitute NTR Collection for the period.

Table 1: Total Revenue Collection by Agency (Leone million), 2006

NRA Agency	Actual	Projection	Variance	% Variance	% Contr. To Dom. Rev. by Agency
Domestic Revenue*	463,930	510,352	(46,422)	-9.1	100.0
ITD	138,957	152,578	(13,621)	-8.9	29.9
CED	280,932	306,818	(25,886)	-8.4	60.6
NTR:	44,031	50,956	(6,925)	-13.6	9.5
o/w MINES	14,712	17,774	(3,062)	-17.2	3.2
OTHER DEPTS.	29,319	33,182	(3,863)	-11.6	6.3

Sources: ITD, CED and NTR

*-Exclude Road User Charges

3.1: ANNUAL COMPARATIVE REVENUE PERFORMANCE (2006 & 2005)

3.2: Comparison between 2006 and 2005

Total domestic revenue collected by the National Revenue Authority for fiscal year 2006 amounted to Le463.9 billion, exceeding the Le392.9 billion collected in fiscal year 2005 by Le71.0 billion (18.1%). This performance resulted from the fact that collection by all the agencies during 2006 was greater than revenue collected in 2005. As shown in Table 2, while the Income Tax Department's annual collection of Le139.0 billion for 2006 exceeded its collection in 2005 by Le24.2 billion (20.9%), collection by Customs and Excise Department in 2006 of Le280.9 billion exceeded the Le236.8 billion 2005 collection by Le44.2 billion (18.7%), Mines and Other Departments of NTR collected Le14.7 billion and Le29.3 billion respectively in 2006, indicating an excess in their

collections of Le13.6 billion and Le27.9 billion by Le1.1 billion (8.3%) and Le1.5 billion (5.3%) respectively in 2005. This is an indication that even though domestic revenue generated by the Authority in 2006 was less than the annual target, the Authority performed reasonably better when compared to its domestic revenue collection in the previous year. Table 2 below shows the comparative revenue performance by collection agencies for 2006 and 2005 fiscal year.

Table 2: Comparative Revenue Performance by Agency (Leones million)

Dept/Rev Source	2006 Actual	2005 Actual	Variance	% growth in revenue
Total Domestic Revenue (Excl. Road User Charges)	463,920	392,939	70,981	18.1
Income Tax	138,957	114,762	24,195	21.1
Customs & Excise	280,932	236,753	44,179	18.7
Mines	14,712	13,569	1,143	8.4
Other Depts.	29,319	27,855	1,464	5.3

Sources: ITD, CED and NTR

Table 2 shows that domestic revenue collection by NRA improved in 2006 by recording a growth in domestic revenue of 18.1 percent over the previous year. The same pattern can be observed for all collection agencies of the Authority during the fiscal year 2006 over 2005.

3.3: Revenue Performance Growth

Since the inception of the National Revenue Authority in 2002, there has been an increase in domestic revenue collection. Available statistics show that domestic revenue of US\$118.46 million generated in 2003 (with NRA) was higher than domestic revenue collected in 2002 (pre-NRA collection of US\$110.41 million) by US\$8.05 million (i.e. 7.3 percent). With the consolidation of the Authority's position, domestic revenue improved by US\$8.43 million to US\$126.89 million in 2004 (i.e. 7.1 percent). This trend continued in the ensuing years during which the domestic revenue increased to

US\$135.99 million in 2005 and 156.63 million in 2006 giving rise to the highest year-on-year increase and growth in revenue of US\$20.64 million and 15.2 percent respectively (See Table 3A below).

Table 3A: Comparative Revenue Analysis (In Millions of US\$)

Agency	2002	2003	2004	2005	2006	2005/06 var	%Var
Domestic Revenue(Excl. Road User Charges)	110.41	118.46	126.89	135.99	156.63	20.64	15.2
Income Tax Dept	29.96	32.22	36.15	39.72	46.91	7.19	18.1
Customs & Excise Dept	76.50	82.02	82.03	81.93	94.85	12.92	15.8
NTR	3.95	4.20	7.72	14.34	14.87	0.53	3.7
Exchange Rate (Le/US\$)	2,099.2	2,345.4	2,701.3	2,889.6	2,961.9		

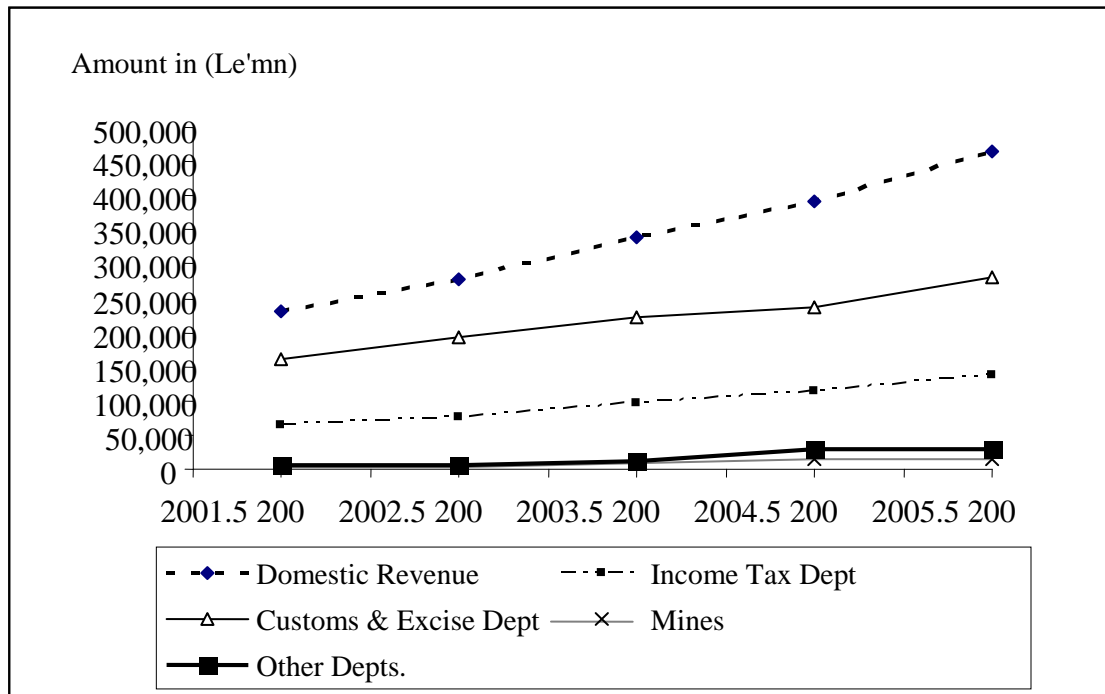
Table 3B: Comparative Revenue Analysis (In Million Leones)

Agency	2002	2003	2004	2005	2006	2005/06 var	%Var
Domestic Revenue(Excl. Road User Charges)	231,766	277,811	340,116	392,939	463,920	70,981	18.1
Income Tax Dept	62,881	75,581	97,679	114,762	138,957	24,195	21.1
Customs & Excise Dept	160,589	192,378	221,591	236,753	280,932	44,179	18.7
Mines	2,034	3,040	7,721	13,569	14,712	1,143	8.4
Other Depts.	6,262	6,811	13,125	27,855	29,319	1,464	5.3

Table 3B shows an outstanding performance by Mines and Other Departments in both 2005 and 2006. Such performance was mainly due to the collection of non-tax revenue which became the sole responsibility of the National Revenue Authority since 2004. Non-Tax Revenue generated by the Authority in 2005 and 2006 far exceeded collection

in the previous years. For instance, at Le13.6 billion in 2005 revenue collection by Mines was more than the total collection in the three previous years (Le12.8 billion) for 2002, 2003, and 2004. A similar pattern was obtained for collection by Other Departments in 2005. Figure 1 below clearly illustrates the outstanding growth in domestic revenue since the inception of the Authority.

Figure 1: Trend in Domestic Revenue (excluding RUC) 2002-2006



Although Table 3 shows that there has been a significant increase in revenue collection from the pre-NRA period (2001) to the period of the NRA existence (2003 to date), year on year marginal revenue growth rate has been irregular and in some cases increasing at a decreasing rate. Growth in tax revenue, which accounts for more than 80 percent of domestic revenue was quite impressive up to 2004, but dropped sharply thereafter to 10.1 percent in 2005. This was reflected by the performance in domestic revenue which also grew steadily to 22.4 percent in 2004 from 15.0 percent in 2002, but dropped sharply to 15.5 percent in 2005 though resumed in 2006 (18.1%). This is partly reflective of the trend in the GDP growth rate across these periods (see Table 3).

According to Table 4, domestic revenue collection steadily increased from 2002 through 2005. However, this trend did not hold for the tax effort (ratio of tax revenue to Gross Domestic Product) as it continuously declined from 11.6 percent in 2003 to 11 percent in 2004, 10 percent in 2005 and 9.8 percent in 2006. Similar pattern was exhibited by domestic revenue to GDP and Non-Tax Revenue to GDP respectively.

Table 4: Revenue Productivity Before and During NRA (Leone million)

	2002	2003	2004	2005	2006
Nominal GDP	1,964,627	2,310,767	2,894,123	3,518,200	4,294,759
Tax Revenue	223,470	267,960	319,267	351,515	419,515
Non-Tax Revenue	8,296	9,851	20,846	41,424	44,041
Total Domestic Revenue*	231,766	277,811	340,113	392,939	463,930
Tax Revenue/GDP	11.4	11.6	11	10	9.8
Non-Tax Revenue/GDP	0.4	0.4	0.7	1.2	1.0
Domestic Revenue*/GDP	11.8	12	11.8	11.2	10.8
Growth in Domestic Revenue* (%)	15	19.9	22.4	15.5	18
Growth in Tax Revenue (%)	16	19.9	19.1	10.1	19.3
Growth in Non-Tax Revenue (%)	-7.2	18.7	111.6	98.7	6.3
Growth in Nominal GDP (%)	22.8	17.6	25.2	21.6	22.1

Source: ITD, CED, NTR & MOF

*- Excluding Road User Charges

3.4: Quarterly Revenue Performance by NRA - 2006

Quarterly revenue performance by the Authority showed a mixed performance for 2006. Of the total Le463.9 billion collected, Le111.4 billion was collected in quarter one, Le131.7bn in quarter two, Le114.2 billion in quarter three and Le106.6 billion in quarter four. While collections in quarters one, three and four were below their targets of Le113.9bn, Le123.8 billion and Le150.3 billion by Le2.5 billion, Le9.6 billion and Le43.7 billion respectively; collection in the second quarter exceeded its target of Le122.4 billion by Le9.3 billion. This indicated that the authority performed remarkably well in quarter two but, under performed in the other quarters especially quarter four (See Table 5).

Table 5: Quarterly Revenue Performance By NRA, (Million Leones) 2006

Quarter	Actual	Projection	Variance	% Variance
Q1	111,411	113,932	(2,521)	-2.2
Q2	131,709	122,388	9,321	7.6
Q3	114,173	123,776	(9,603)	-7.8
Q4	106,623	150,256	(43,633)	-29.0
Total (Q1-Q4)	463,920	510,352	(46,432)	-9.1

Sources: ITD, CED and NTR

3.5: Quarterly Revenue Performance by Agency and Agency Revenue Source

Total revenue collected by the Income Tax Department amounted to Le138.9 billion compared to a target of Le152.6 billion for the same period (i.e. a negative variance of Le13.6 billion). Quarterly collections gradually increased from Le34.0 billion in quarter one to Le35.5 billion in quarter two, to Le36.2 billion in quarter three but slumped down to Le33.0 billion in quarter four. Quarterly revenue performance was generally poor when compared to the respective targets as only the second quarter collection was above target.

CED collected a total of Le280.9 billion for the year 2006. When compared to the target of Le306.8 billion for the year, it emerges that this department fell short of its yearly target by Le25.9 billion (8.4%). The highest CED collection was seen in the second Quarter with a collection of Le 73.8 billion (26.3% of agency collection) and exceeding its target by Le5.0 billion (7.3%). The first quarter collection of Le 70.2 billion was also worth noting contributing 25 percent to the annual agency collection. The situation however reversed during the third and fourth quarters when collection was Le68.8 billion and Le68.1 billion respectively.

Collection by NTR is categorized in terms of collection from Mines and Other Departments. The amount collected by Mines during the 2006 financial year totaled

Le14.7 billion falling below a target of Le17.8 billion by Le3.1 billion (17.2%). Out of this collection, Le2.5 billion (16.8%) was collected in the first quarter, Le6.6 billion (44.6%) collected in the second quarter; Le3.2 billion (21.5%) in the third quarter; and Le2.5 billion (17%) in the fourth quarter. Performance by Mines in the second quarter was seen to be very much impressive as the second quarter collection of Le6.6bn was not only above its target by 77.6 percent but also contributed as high as 44.6 percent to the overall Mines collection. Mines collection was least in the first quarter falling short of its target by Le2.9 billion and contributing only 16.8 percent to total annual collection.

Other Departments of NTR collected a total of Le29.3 billion compared to its target of Le33.2bn for 2006 showing a shortfall of Le3.9 billion (11.6%). Of this 2006 collection, Quarter 1 accounted for Le4.8 billion (16.4%); Le15.8 billion (54.1%) was collected in quarter 2; quarter 3 mobilized Le6.0 billion (20.4%); and quarter 4 accounted for Le2.7 billion (9.2%). The performance of the Other Departments was seen to be outstanding in the second quarter raising a revenue of Le15.8 billion, a collection which accounted for over half (54.1%) of the department's annual collection as well as exceeding its quarterly target of Le14.0 billion by Le1.9 billion (i.e. 13.1%) (See Table 6).

Table 6: Quarterly Revenue Collection by Agency Revenue Source 2006

(In Million Leones)

Department and Revenue Source	Q1	Q2	Q3	Q4	Annual	% Annual Cont
Revenue Collected by NRA	111,411.4	131,709.2	114,173.6	106,626.3	463,920.6	100.0
Income Tax Department	33,976.4	35,503.2	36,181.6	33,295.7	138,956.9	29.9
Company Tax	12,544.2	15,124.8	17,806.4	13,955.5	59,430.9	42.8
Personal Income Tax	16,588.5	15,657.9	14,510.9	14,835.9	61,593.2	44.3
Other Taxes	4,843.7	4,720.5	3,864.3	4,504.3	17,932.8	12.9
Customs and Excise Department	70,164.0	73,794.0	68,849.0	68,125.6	280,932.7	60.6
Import Duties	51,040.2	50,299.4	50,565.8	46,766.4	198,671.8	70.7
Excise Duties on Petroleum	14,219.1	18,278.6	14,714.9	16,405.6	63,618.1	22.6
Other Excise Duties	1,678.2	1,727.5	1,317.2	1,632.6	6,355.4	2.3
Domestic Sales Tax	3,226.6	3,488.6	2,251.2	3,321.0	12,287.4	4.4
Non Tax Revenue Department	7,271.0	22,412.0	9,143.0	5,205.0	44,031.0	9.5
Mines	2,476.0	6,565.0	3,170.0	2,501.0	14,712.0	33.4
Other Depts.	4,795.0	15,847.0	5,973.0	2,704.0	29,319.0	66.6

4.0 REASONS FOR DOMESTIC REVENUE SHORTFALL IN 2006

Revenue Performance in 2006 improved by a substantial proportion (18%) over that in 2005 and even registered the highest year-on-year revenue variance (over Le70 billion) since the inception of the NRA in 2003. Although revenue performance improved significantly in 2006 when compared with the previous year, revenue generated fell short of its annual target by Le46.8 billion (i.e. 9.2%). The reasons behind this situation are weak performance of some macroeconomic indicators, poor policy implementation, weak arrears collection drive, and other factors extraneous to the Authority.

4.1: The weak performance of some Macroeconomic Indicators

While domestic revenue target for 2006 was set on the premise that macroeconomic performance would improve on a significant scale, this appeared not to have been the case following the actual performance of the economy within this period.

Manufacturing industries/factories are usually capital intensive using much of electricity and water. Electricity supply in Sierra Leone has been awful over the years, but became particularly worse in 2006. Electricity generated by the National Power Authority (NPA) for Freetown in 2006 (32 megawatts) is estimated to have dropped by 40 percent relative to 2005 (53.3 megawatts). Similarly, water supply in the city fell from 8,395 million gallons in 2005 to 7,049 million gallons in 2006 (i.e. by 16%). This implies that industries/factories had to incur increased costs in procuring electrical plants, fuel and lubricants to support their operations. With this high cost of production, profitability of manufacturing industries/factories is reduced. This can be observed in the reduced aggregate profitability of the country's top 20 companies from Le102.8 billion in 2005 to Le91.6 billion in 2006. This consequently implies that expected corporate tax revenue dropped likewise (by 10.9% in 2006 over 2005). Typical drop in corporate profits in 2006 relative to 2005 had been observed in the petroleum industry, financial sector, wholesale and retail trade and other services sectors of the top 20 companies in Sierra Leone. In

addition, a good number of industries (registered for payment of Domestic sales tax) closed in 2006 due to reported lack of electricity, water and high labour charges. Out of a total of 58 industries previously registered by the Customs and Excise department for payment of Domestic Sales Tax, 24 have ceased operation while 8 have gone below the threshold of Le200 million to be liable to pay Domestic Sales Tax. Even profits of the telecommunications sector almost stagnated in 2006 (Le31.6 billion) relative to 2005 (Le30.2 billion) with Celtel, the biggest of the cell companies registering a drop in profits by 5.2 percent. Celtel and Sierra Leone Commercial Bank (some of the main drivers of corporate tax revenue) revisited their tax liability for the last two quarters of 2006 due to reported bad business. This resulted in the Income Tax Department losing about Le5.0 billion from what was supposed to have been collected from these companies.

Added to the above is the poor performance of the diamond industry (which is one of the main sources of non-tax revenue in Sierra Leone) in 2006 relative to 2005. Diamond exports dropped from US\$141.9 million in 2005 to US\$125.3 million (11.7%) in 2006. Fluctuations in the world market price of diamonds among other things, coupled with the drop in export volume from 668.7 thousand carats in 2005 to 603.6 thousand carats in 2006 (i.e. by 9.7%) partly explain the drop in foreign exchange earnings arising from diamond exports.

Given the above analysis, it is clear that even if the forecasted 2006 nominal GDP grew as expected, the sectors/indicators relevant to tax revenue generally declined relative to the previous year.

4.2: Policy Implementation

In addition to the aforementioned reason, the delay in implementation of policies proposed to mobilize domestic revenue also accounted partly for the underperformance relative to target. In 2006, there was a proposed Statutory Instrument with new rates or charges for non-tax revenue streams and whose implementation was taken into consideration in the 2006 target setting process. Generally, the target set for 2006 was based on the new rates for Mines, Marine Resources, Labour (Factory Inspectorate Division) and Immigration but the Finance Bill was never approved by Parliament until late April. Therefore, the old rates (which were generally lower than the unapplied proposed new rates) were used by the agency to collect revenue during 2006. This contributed significantly to the inability of the NTR department to meet their 2006 target.

One of the recommendations suggested by the Non-Tax Revenue department of the NRA to the Honorable Minister of Finance with regards Foreign Missions' non-remittance of visa sticker returns was that the Ministries of Finance and Foreign Affairs take stringent measures against those Foreign Missions which are non-compliant with the remittance procedures prescribed in the policy guidelines of visa sticker implementation. It was further recommended that all fourth quarter allocations of Foreign missions withholding monies from visa sticker sales be withheld (as deduction for visa stickers monies they withhold) and be remitted to the consolidated account at the Bank of Sierra Leone as revenue collected on behalf of the NTR. These recommendations were not and in fact have still not been implemented. Evidence shows that the value of visa stickers sent to Sierra Leone Foreign missions for the year 2006 amounted to US\$1.8million of which only US\$0.2 million has been remitted. An outstanding amount of US\$1.6million is yet to be accounted for and which if remitted into the consolidated fund as revenue collected by the NTR, would have increased the agency's collection to about Le48.7 billion² instead of the Le44.0 billion reported.

² Based on annual exchange rate (Le2,961.91/US\$) for 2006 – Bank of Sierra Leone

4.3: Accumulation of Arrears

Accumulation of arrears by government institutions and parastatals is still on the increase and this has amounted to billions of Leones. Arrears from Parastatals for instance amounted to Le44.5 billion of which Le 42.5 billion has been the outstanding tax up to 2005 and Le2.1 billion has been outstanding installments not paid by companies in 2006. Even though distress actions were instituted on some parastatals owing arrears to the Authority, those were not effective enough to significantly cut down the huge volume of arrears owed.

4.4 High cost of Freight and other import charges relative to Neighbouring Countries

Due to higher costs of freight and other charges in Sierra Leone relative to Guinea some importers diverted their imports to the Republic of Guinea and eventually entered Sierra Leone through the porous land borders and other smuggling routes. Likewise, some business enterprises have scaled down their operations in Sierra Leone for relocation in Liberia. This is confirmed in a recent study undertaken by FIAS which reported of an increase in trade diversion from Sierra Leone to neighbouring countries. Further, visits undertaken by NRA officials to Guinea and Liberia in November 2006 revealed that our rates and other charges are higher relative to our neighbours. Sierra Leone's rates of duty which are consistent with the ECOWAS Common External Tariff are found to be high because Guinea and Liberia are yet to implement the ECOWAS protocol on Common External Tariff which would in variable occasion contribute to an increase in their respective corresponding tariffs.

5.0 RECOMMENDATIONS

On the basis of the aforementioned reasons for the shortfall in the 2006 domestic revenue relative to target, the following are recommended as possible solutions for the future:

❖ **Improve Competitiveness in trade:** it has now become obvious that Sierra Leone is becoming less competitive in trade when compared with the neighbouring countries. The major factor responsible for the trade diversion is the significant differences in transaction costs among the three countries (i.e Sierra Leone, Liberia and Guinea). To ameliorate this situation, we are recommending the following specific measures:

- **Scanning Fee:** We are recommending harmonization in scanning fee with Guinea. i.e Reduce the fee from US\$ 100 to US\$ 50 per 20ft container and from US\$200 to US\$100 per 40ft container. There are no scanning fees charged in Liberia
- **Pre-Shipment Inspection:** Immediate actions be taken to build capacity at CED for a complete Destination Inspection implementation. Additionally, it is recommended that a defined timeline be set for the eventual phasing out of the Pre-Shipment Inspection. INTERTEK should also not raise additional charges on uplift considering that an inspection fee is demanded prior to inspection.
- **Ports Charges:** A reduction in marine charges for vessels over 100 meters long from the current cost of US\$50 to US\$20 is recommended. The high marine charges if maintained will continue to make our port unattractive to ships.
- **Shipping Charges:** Fees charged both for container handling and container inspection be eliminated since the same services are provided by Ports Authority for which similar payments are made. Also reduce amendment (Manifest) fee from US\$200 to US\$ 50 consistent with what operates in other Ports in the sub region. In addition, we are recommending an increase in the

demurrage period from five (5) to ten (10) days and weekends should be excluded.

By our estimation, if parties concerned are in agreement with these recommendations, additional revenue of Le6.0 billion will be generated.

- ❖ **Implementation of Outstanding policies:** there were certain policies measures that were approved either in the Finance Act 2006 or by the Authority which are yet to be fully implemented. These policies include
- Introduction of Sales Tax on Local Calls which was to be retroactive from January 2005. Most companies are yet to honour the 2005 tax obligations in respect of the Local calls.
 - Though duty –concession is reducing but the Authority believes that with the firm commitment of Government duty waivers can be reduced further.
 - Conducting comprehensive Corporate and PAYE audits. The Authority failed to conduct effective audits in 2006 due to lack of capacity. As a way forward the Authority approached donors, specifically DFID for technical assistance in audit. This request has been granted and the Authority is currently doing Terms of Reference for Consultancy in Audit.

Full implementation of these strategies or policy is expected to generate additional revenue of Le10.4 billion Leones.

Furthermore, the Ministry of Finance has laid before Parliament a Finance Bill which contains revenue enhancing measures to be implemented in FY 2007 which is yet to be enacted. An enactment of this bill will mandate the National Revenue Authority to collect all off budget revenue. These revenue items are expected to generate additional revenue of about Le11.5 billion for the consolidated fund. In addition, the statutory instrument which contains the new rate for Tran-shipment should be laid before Parliament for approval. This policy will generate Le189million in 2007.

- ❖ **Control Smuggling:** the Customs Department of the National Revenue Authority has a unit (Preventive Services and Special Duties-PSSD) charged with the responsibility to curb smuggling. Due to inadequate capacity, this unit has only been able to secure the land borders and thus smuggling has now been diverted to the coastline.

To remedy this problem, two specific measures are recommended:

- Harmonize rates with neighboring countries for frequently smuggled goods such as motor bikes.
- Strengthening of the PSSD Unit with logistics: the National Revenue Authority has approached one of its development partners - DFID for support in the purchase of speed boats and other logistics needed by the PSSD unit. In addition, the Authority is currently in the process of recruiting additional personnel for this unit.

- ❖ **Implementation of some Recommendations in Fiscal Affairs (FAD) report of 2004**

A study carried out by Muzondo and others of the FAD in 2004 on the Sierra Leone Tax reform made series of recommendations among which were:

- The review of Sierra Rutile agreement
- Goods imported for monetization should attract full duty and waivers to be treated as expenditure item.

The implementation of these recommendations will generate additional revenue for the Government in 2007.

- ❖ **Unilateral CET adjustment for certain goods:** the Authority has since 2005 started the implementation of rates in conformity with the ECOWAS Common External Tariff (CET), while the neighboring countries- Guinea and Liberia are yet to align their low tariffs with those of ECOWAS. The effect is that importers in

their desire to maximize profit would smuggle rather than import such commodities through legitimate channels. The loss of revenue is not only in terms of Customs receipt but is inclusive of withholding Income Tax of 3% of the CIF value of goods imported which, otherwise could have been collected through approved channels.

- ❖ Temporarily suspend the implementation of the ECOWAS Trade Liberalization Scheme (ELTS) until issues relating to compensation and other weaknesses in the implementation of the protocol are adequately addressed.
- ❖ Suspend granting of duty-waiver to organizations on the basis of bilateral agreements until these agreements are enacted by parliament.
- ❖ Improve energy (electricity and water) supply to industries/firms in a bid to reduce their cost of production and hence promote profitability.
- ❖ ITD to be capacitated to be adequately involved in assessing the tax liability of companies and other large businesses to a level that is commensurate with their actual turnover. In 2006, there was only one qualified field audit of over 200 large tax payer cases.
- ❖ Ministry of Finance to consider recommendations (See reasons for 2006 revenue shortfall) made on remittance of arrears from sale of visa stickers by Foreign Missions.
- ❖ Arrears list of tax liabilities and non-tax revenues should be prepared and regularly updated and forwarded to the Ministry of Finance to deduct from such parastatals' subvention the amount owed and eventually remitted to the NRA as revenue in lieu of those arrears.

- ❖ The Board Secretariat and Legal Affairs (BSLA) Department of the NRA to take legal actions against the various businesses and institutions owing NRA including parastatals whose arrears could not be settled by the Ministry of Finance.

6.0 NATIONAL REVENUE POLICY REFORM

6.1: Reforms Undertaken by the Income Tax Department

In an attempt to expand the revenue base by tapping into new sectors of taxpayers and reducing exemptions, deductions and incentives, the Income Tax Department, like the other Departments within the NRA, undertook various reforms measures in 2006 including the following:

- ❖ Establishment of Rent Assessment and Capital Gains Tax Unit;
- ❖ Separation of Assessment, collection and Audit Functions
- ❖ Targeting PAYE form employees of donor-funded projects and foreign missions
- ❖ Formation of a committee for the recovery of arrears
- ❖ Introduction of sales tax on local calls
- ❖ Staffing and capacity building

A Rent Assessment and Capital Gains Tax Unit Technical Committee were formed in February 2006 under the chairmanship of the Deputy Commissioner of the Income Tax Department. The main responsibility of the committee was to prepare modalities for the establishment of the Rent assessment and Capital gains Tax Unit.

In another development, a Principal Collector was appointed to be in-charge of collections and a Collector to head the Assessment section in the Large Taxpayers Unit. With that move, the functions of Assessing and Collection were effectively separated. That arrangement was replicated in the Tax Districts including the Provincial stations.

Following the dissolution of the Compliance, Field Audit and Investigation Unit, staff members of that defunct unit were transferred to the Large Taxpayers Unit to form the core staff of the Tax field Audit whose functions were kept separate from those of assessing and collection.

In view of the barrage of criticisms the department came under for persistent underperformance, the management decided to explore avenues to enhance revenue collection. In this vein, the department forwarded a proposal to bring into the tax net the income of donor-funded projects and foreign missions. It is expected that this revenue source will generate approximately annual revenue of Le3.5 billion by the assessment of the Income Tax Department.

Also, in 2006, the department benefited from DFID Project to support the NRA through the provision of tax experts who produced manuals on tax assessments, tax audit, PAYE and collection enforcement. In addition, senior staff of the department benefited from a two-week training programme organised and conducted by a Consultant. Furthermore, upon the recommendation of the 'Cost Benefit Analysis' study of NRA Personnel conducted by the MRP, the department was capacitated with the transfer of staff from NTR to support especially the Compliance, Field Audit and Investigation Unit.

The ITD in 2006 also implemented a 10 percent sales tax on local telephone calls. This new tax accounted for more than 50 percent of the taxes collected under taxes classified as 'other taxes' in the department.

6.1.1: Constraints at the Income Tax Department

Although frantic efforts were made by the department to expand the revenue base of the Authority, arrears collection posed a big challenge. Most of the aforementioned arrears are owed by parastatals who are in turn owed by government. Enforcement machinery is somehow weak to retrieve monies owed to the Authority. In this regard, a distress action was organized against one of these parastatals, the Sierra Leone State Lottery Limited but the outcomes was never fruitful

Though the Field Audit unit was staffed towards the end of the year, most of these staff lack the practical experience to effectively conduct field audit. There is therefore the need to divert resources to effective auditing.

Other constraints during the year were related to logistics, office space and enforcement of legal proceedings against tax defaulters. The fleet of vehicles and power supply within the department are not sufficient to effectively execute the duties of the department in lieu of revenue mobilization. The department has recommended that the Tax District 3 office be relocated as the present house is no longer suitable for office use. Also, the Authority is yet to institute legal action against tax defaulters. At the same time the Authority is yet to collaborate with law officers and the Registrar General's Department, and the Board of Appellate Commissioners set to look into tax cases is yet to start operation. At the same time the operation of the revenue collecting agencies is yet to be computerized.

6.1.2 Prospects for Meeting Target For 2007

In order to ensure that the set target for 2007 is met, the Income Tax Department intends to broaden the tax base by tapping additional revenue sources for PAYE, increasing compliance, reducing both private and parastatals arrears and taking the necessary action against defaulters. The following steps will be taken:

- ❖ ***Taxation of Income of Employees of Donor-Funded Projects and Foreign Missions:*** The department intends to broaden its tax base by dragging into the net the income of Sierra Leonean employees in donor funded projects and foreign missions operating in the country. The expected quarterly revenue from this source is estimated at Le1.5 billion.
- ❖ ***The Introduction of a Withholding Tax Regime*** for dealers in diamond and gold is expected to make a significant contribution to the total tax revenue generated by the mining sector. The total revenue accounted for by this sector during 2006 was Le499.4 million. With this new measure the revenue yield will increase to about Le3.5 billion.

- ❖ ***Realistic Assessment:*** Through realistic assessment plans and implementation corporate tax is expected to meet the quarterly targets of 14.9, 15.2, 15.2 and 15.3 billion Leones respectively.
- ❖ ***Enforcement Procedures:*** The Department intends to ‘Name and Shame’ tax defaulters by evoking section 106 subsection 2 of the Income Tax Act 2000.
- ❖ ***Rent Assessment in 2007:*** A high percentage of taxes collected from rent assessment in 2006 tax year was based on the 10% of withholding tax system. Therefore, there will be effective monitoring of withholding taxes paid by institutional tenants.
- ❖ Regular visits will be made to the Registrar Generals office in a bid to update our records with respect to all lease agreements registered so as to increase on our assessment. ITD intends to continuously liaise with the Intelligence Unit to widen the tax net.
- ❖ ***Capital Gains Tax:*** The finance Bill 2007 provides for the taxing of capital gains through the Withholding Tax systems. The total tax revenue that will be collected from this source will amount to about 60% of the total tax collected from rent assessment.
- ❖ ***Tax Audit:*** There will be a focus on tax audit of selected cases that yield high revenue.

6.1.2.1: Major Risk:

The enactment of the Financial Bill 2007 if delayed will seriously hold back tax collection efforts.

6.1.3: Other Activities/ Achievements

- ❖ Contributed to the Finance Bill 2007 in the area of tax administration suggesting some fiscal policy measures such as the introduction of a withholding tax regime for operators in the mining sector
- ❖ ITD cooperated with the NTR, MRD and ICA in the formation of a task force charged with the responsibility of preparing a programme to enhance revenue collection.

- ❖ Staff of the Income Tax actively participated in PATE organised workshops and other sensitisation programmes notably Money Line.

6.1.4 Recommendations

- ❖ **Relocation of TD3:** The building housing Tax District 3 is no longer suitable for office use; we recommend its relocation into the Income Tax head office.
- ❖ **Additional Tax Intelligent Officers:** The department recommends the recruitment of additional tax intelligent officers (mostly women) to help combat tax evasion.
- ❖ **Retain Task Force:** The formation of this force during the last quarter of 2006 as a quick win strategy made some impact. We however recommend its retention in order to establish collectible tax from the total arrears of 44billion Leone's

6.2 Reform Measures at the Non Tax Revenue Department

During the past year, the Non-Tax revenue Department like the other departments initiated reform programmes that were geared towards the implementation of measures agreed on the PFP. Some of those programmes included the following:

- New rates for NGO registration and registration of Works contractors
- payment of dividends by key government parastatals

As a measure to reduce tax fraud, leakages and evasion, the department initiated action by recommending to Management of NRA for a task force comprising officials from NRA, Ministry of Finance, and the Police and Naval wing of the Military to be set up to conduct spot checks at transshipment and discharge sites of fishing vessels. In addition, the department demonstrated a zero tolerance towards staff involved in financial malpractices

In the first half of the year the department carried out post assessment audit in four key MDAs i.e. Ministries of Mineral Resources, Marine Resources, Transport and Communication, and Lands.

In 2006, new rates for NGO registration were put into effect. Also, six government parastatals were slated to pay dividend based on their activities and four of which succeeded in paying at least partly. All of these policies contributed in raising domestic revenue through the expansion of the revenue base.

6.2.1 Constraints at the NTR

Targets set for this department in 2006 were based on the assumption that the Finance Bill 2006 would be passed into law, which contains new rates for Mines, Marine Resources, Labour (factory Inspection Division) and Immigration. Late enactment of this Bill translated into poor performance by the said MDAs; hence an overall under performance.

- ❖ The department was also unable to collect revenue amounting to US\$2.5 million in arrears from mineral right holders, Sierra Leone Foreign Missions, VSAT operators and Datatel GSM (SL) Limited.
- ❖ The department used the old rates to collect revenue during the year 2006 because the Statutory Instruments that were supposed to effect these changes in the respective MDAs are yet to be ratified by Parliament.
- ❖ The enforcement provisions for defaulters especially in the case of some MDAs are very weak and inadequate.
- ❖ Low cooperation from some MDA's which retained revenue without any legal authority, such as the Sierra Leone Broadcasting Service.
- ❖ A considerable drop in the number of fishing vessels applying for licences from an average of 80 vessels in 2005 to 56 vessels in 2006.
- ❖ The non compliance of Sierra Leone Foreign Missions in remitting monies from the sale of visa stickers into the Consolidated Revenue Fund.

6.2.2: Major Achievements of the Department

- ❖ Four acting positions were confirmed by the Board through Management. They included the Commissioner and the three senior collectors.
- ❖ International training courses and a study tour for the Commissioner and two Senior Collectors.
- ❖ Local training courses at IPAM for one Collector and two Assistant Collectors.
- ❖ The implementation of the visa stickers by the Sierra Leone Foreign Missions generated US\$200,000 in 2006; this unit has a brighter prospect in 2007 if relevant punitive measures recommended by this department are taken into consideration.
- ❖ A tax Payer's education workshop was organised in the provincial headquarter towns of Bo, Kenema and Makeni and in Freetown for all stakeholders.

6.2.3 Challenges of NTR in 2007

To meet challenges in revenue collection, the department seeks to undertake the following measures:

1. Pursue in collaboration with the Ministry of Finance, the ratification of the Statutory Instrument 2007 by Parliament
2. Ensuring that Sierra Leone foreign missions comply with the implementation procedures for Visa Stickers by remitting all monies from the sale of Visa Stickers to the Bank of Sierra Leone Treasury account of the Immigration department.
3. Enhance our revenue collection efforts in the provinces; so that we can sustain or even improve on the department's performance.

6.3 Reform Measures Implemented by the Customs and Excise Department

With the aim of minimizing leakages and other revenue losses by reducing discretion, curbing smuggling and instituting system controls, CED like the other revenue agencies implemented certain reform measures prescribed in the policy framework paper (PFP), which included:

- ❖ Institution of a one-off valuation system for importers;
- ❖ Collaboration with and the provision of support and technical back stopping to Key peripheral agencies;
- ❖ Adoption of presumptive taxes and duties for cross- border trade and transaction that compares with effective rates at Quay;
- ❖ Review of Customs Act;
- ❖ Launching of destination inspection (DI);
- ❖ Trade Facilitation Committee
- ❖ Capacity Building
- ❖ Strengthening the anti-smuggling unit of the Authority

During the past half year of 2006 Customs succeeded in impressing on INTERTEK to update values from Import Delivery Report (IDR) and INTERTEK. Subsequently, INTERTEK disseminated values to Customs on weekly basis. In addition, INTERTEK produced monthly reports on their activities for the Commissioner-General's office and Customs and Excise department. Importers on their part were admonished to provide true commercial invoice, packing list, stating detailed description, specification, and composition of goods for clarity and facilitation of valuation process.

During the last two quarters the Preventive Service and Special Duties (PSSD) unit of Customs and Excise department embarked on robust Anti-smuggling activities. They raided wharfs and other porous borders to minimize smuggling. Efforts were also made to minimize technical smuggling. To ensure that the PSSD was able to perform its function efficiently, the Assistant Commissioner now actively participated in the transfer, promotion and recruitment of staff in the unit.

The establishment of a Trade Facilitation or Ports Users Committee comprising Customs, INTERTEK, Shipping Agencies, Sierra Leone Port Authority, Sierra Leone Standards Bureau, Importers Association and Association of Clearing and Forwarding Agencies (ACFA) has led to the exchange of information among stakeholders which helped to improve trade facilitation by reducing clearing time of imported goods at the Q.E II Quay. That stakeholder committee met every three months during past half year. Meetings were frequently held with ACFA to clear bottlenecks in the clearing process. It should be noted that a full automation would considerably improve the clearing time at the Quay.

For first half of 2006 Customs authorities ensured that taxes paid at the borders were the same as those paid at the Queen Elizabeth Quay for similar goods.

NRA and INTERTEK signed the Destination Inspection (DI) agreement. Meetings to ensure a smooth change from Pre-shipment Inspection (PSI) to Destination Inspection (DI) were held several times. Destination Inspection on goods outside the positive list

started from the 1st June 2006. There was however need for an examination shed to be constructed by NRA and INTERTEK for DI to be effective during the rainy season.

During 2006, the capacity of the department was reasonably built. CED completed a well designed training programme for the first set of intermediate and junior staff of the department. The training provided review of the processes, regulations and tariff classification. The department further benefited with the graduation of 6 officers with Masters Degree and 3 officers with Bachelors degree. Also, the department benefited from overseas training of 6 officers in various courses in Customs Administration and Trade.

Consistent actions were taken and substantial progress made towards minimizing cross border smuggling activities. The Preventive Services and Special Duty (PSSD) unit – the anti-smuggling wing of the NRA – recruited twenty (20) officers of whom 20% are senior ex-military officers. Most of the recruited officers were deployed in strategic border crossing points following recommendation from the Border Permeability Study conducted by the MRD department. Border patrols intensified and smuggling cut down thus raising outstation collection. Of importance also is that the maximum penalty applicable was, on several instances judiciously applied. The PSSD unit was also relocated to a separate and more conducive building. Motor bikes were procured for these officers, though communication and other logistics to support the work of the unit are still pending. The Unit also needs more training, especially in the area of customs intelligence and (tax) fraud, for it to be more effective and efficient.

6.3.1 Constraints Faced by CED in 2006

- ❖ Insufficient PSSD staff to cover identified smuggling points
- ❖ Unavailability of communication sets and speed boat for use by the PSSD
- ❖ Lack of networking and internet connection for the department
- ❖ Lack of boats to man coast lines

6.3.2 Achievements In 2006

- ❖ Establishment of a centralized Vehicle Clearance Unit.
- ❖ Formation of a Port Users Committee
- ❖ Formation of a Valuation Committee with INTERTEK
- ❖ Capacity building with regard to in-house training of 40 customs officers, the graduation of 6 officers with Masters degree and 3 with Bachelor degrees. Overseas training of 6 officers in various Courses in customs administration and trade
- ❖ Relocation of the PSSD into a separate and more conducive building
- ❖ Provision of the PSSD with more motor bikes
- ❖ Deployment of PSSD personnel in strategic locations in the country, all of which now bear positive impact on revenue collection

6.3.3 Strategies for Meeting the 2007 Revenue Target

- ❖ Minimize smuggling by reducing tariff to regionally competitive level and a reduction in some administrative charges collected by other stakeholders
- ❖ Increase export volume by promoting trade through the granting of incentives by the Ministry of Finance and Ministry of Trade to agro-based & haulage industries
- ❖ Ministry of Mines to revisit mining agreements

6.3.4 Recommendations

- ❖ Recommending the extension of the demurrage period from 5-10 days
- ❖ Preventing INTERTEK from raising additional charges on uplifts
- ❖ Clearing & Forwarding agencies to publish their service fees
- ❖ Ensure Guoji pays full duty on all imports
- ❖ Provide additional logistics to the PSSD
- ❖ Computerize the CED's operation

6.4: NRA Modernization

The NRA modernization is geared towards reforming the authority such that its revenue mobilization goal will be enhanced through restructuring revenue administration operations and support services. During 2006, a modernization plan was being prepared following the drafting of the corporate strategy with inputs from Crown Agents consultant, the MRD and the departments concerned. A substantive draft modernization plan was completed on the 28th February 2007 and is in the process of being externally quality assured by a DFID adviser.

The preparation of the modernization plan saw a number of workshops and consultation being conducted by Crown Agent consultants with the Assistance of the MRD department with inputs and participation of the operational agencies and the concerned supporting departments. At the end of all these consultations and workshops, the 13 aims of the authority were translated in to five major thrusts of the Authority. Each of these thrust was in turn translated in to a programme thus forming the five programmes of the modernization plan. It includes:

- ❖ The Integrated Revenue Management Programme
- ❖ Human Resource and Institutional Management programme
- ❖ Tax Payers Information and Education Programme
- ❖ Infrastructure Programme
- ❖ Senior Management Development Programme

Each programme has a number of projects whose implementation is geared towards the programme attainment. Governance arrangements for the modernization programme have already been designed with the formation of a Modernization Programme Office, programme and project boards, programme and project managers, and project teams.

A coordinator has been appointed to head the modernization programme with an office space in the office of the Commissioner –General. This office will be responsible for the

preparation of a phased modernization plan, develop terms of reference, scope and critical success factors for each component project, and develop risk mitigation as well as communications strategy. The modernization Office is central to the modernization plan through coordination and monitoring of the five major programmes. Also, programme and project managers have already been appointed and trained in programme and project management.

6.5: GST Implementation

The Value Added Tax (VAT)/Goods and Services Tax (GST) is designed to provide a broad based system which ensures that revenue responds positively to growth in all sectors of the economy. It is by no means an additional tax; rather it is a replacement for existing taxes initially collected by the Income Tax and Customs and Excise Departments. Hence, it consolidates and administers in a uniform way existing domestic consumption taxes. The following are the taxes under the VAT/GST system:

- ❖ Import Sales Tax
- ❖ Domestic Sales Tax
- ❖ Restaurant Tax
- ❖ Message Tax and
- ❖ Entertainment Tax

However, the introduction of VAT/GST will not affect the liability to pay other taxes and non-tax revenue. Therefore, with VAT/GST tax payers are still going to pay:

- ❖ All non-tax charges
- ❖ Direct taxes (Corporate, PAYE, etc)
- ❖ Other Indirect taxes (i.e. Import duty, excise and export duties)

Significant progress has been made in the areas of governance structure for design and implementation, structure and job description of GST Coordination Unit, stakeholders'

participation and sensitization, GST legislations and implementation strategies. This tax system will become fully operational by September 2008.

6.5.1 Policy Goals

The NRA started preparations for the introduction of GST (equivalent to VAT elsewhere) The policy goals in the design and implementation of the GST in Sierra Leone include the following:

- ❖ Enhanced revenue mobilisation requiring:
 - A broad based GST which ensures that revenue responds positively to growth in all sectors of the economy.
 - An effective and efficient GST.
- ❖ Consolidate and administer in a uniform way at least 4 of the current domestic consumption taxes
- ❖ Design a simple tax that is easy to comply with, easy to administer and capable of further development.
- ❖ A pure consumption tax that is neutral on production and investment i.e. removes biases in incentive structure for investment.

6.5.2 Summary of Challenges, Risks and Opportunities (1) Risk

- ❖ Uncertainty surrounding sourcing and timing of funding for IT Infrastructure and GST Publicity and Tax Education.
- ❖ Possibility of Social Backlash and public rejection.
- ❖ Time and political will for passing GST Law
- ❖ Difficulty and cumbersome procedures for identifying and acquiring IT Infrastructure (i.e. Hardware and Software)
- ❖ Goodwill amongst International Agencies for funding tax reform efforts in Sierra Leone.
- ❖ Commitment of NRA and its Board to modernisation and reform of tax system.

- ❖ Desire of the political establishment to see enhancement in revenue collection.
- ❖ A few large businesses particularly in the manufacturing sector appreciate the superiority of GST's input tax recovery mechanism over the current Sales Tax.

7.0 SUPPORT DEPARTMENTS

7.1: FINANCE AND BUDGET DEPARTMENT

See appendixes attached for detailed financial statements of the Authority for the period under review.

7.2: ADMINISTRATION AND HUMAN RESOURCE DEPARTMENT

7.2.1 Activities Undertaken

1) Recruitment

In 2006, a total of 57 staff was recruited with the department playing the lead role in the recruitment process. The table below shows the recruitment distribution by department and post.

Table7: Staff Recruitment in 2006

	Principal Collector	Senior Collector	Collector	Assistant Collector	Coll. Asst.	JCA	Total
MRD	1	3	4	-	-	-	8
ICA	-	2	9	-	-	-	11
PSSD	-	1	2	3	9	-	15
AHRM	1		5	-	-	10	16
Finance	-	1	-	-	-	-	1
ITD	-	-	-	-	-	2	2
IT	1	-	2	1	-	-	4
TOTAL	3	7	22	4	9	12	57

From Table 12, a total of 57 people were employed, of which 32 were recruited in the middle level cadre (Collector, Senior Collector and Principal Collector), and 25 junior staff. Furthermore, thirteen (13) intelligence officers were given a six (6) month

employment contract to assist the PSSD unit in intelligence and information gathering on smugglers, and smuggling related activities.

2) Confirmation of Acting Positions

Five members of staff in both the MRD and NTR Departments were confirmed in the positions which they had been acting. These included the Acting Commissioner NTR, Acting Assistant Commissioner MRD, and three Acting Senior Collectors at the NTR.

3) Upgrading of Graduate Staff in Junior Level Positions

Following the order of the Board of Directors that graduates who were recruited in junior level positions (Junior Collection Assistant and Collection Assistant) be upgraded, all fourteen (14) graduates were upgraded to Assistant Collector.

4) Absorption of Casual Staff

By order of the Board of Directors, ten (10) junior staff who were non-substantive employees in the Authority for over two (2) years had their employment formalized.

5) Promotion

Thirty (30) members of staff were promoted as follows:

Old Position	New Position	Total Number
Asst. Commissioner	Commissioner	1
Principal Collector	Asst. Commissioner	1
Senior Collector	Principal Collector	6
Collector	Senior Collector	10
Asst. Collector	Collector	8
Collection Assistant	Asst. Collector	1
Junior Collection Asst.	Collection Asst.	3
Total		30

6) Separation

Ten (10) employees were separated from the Authority in the following manner: three staff resigned, three dismissed, one vacated his post, one retired and two died.

7) Administrative reorganization

The Assistant Commissioner AHRM was appointed to act as Commissioner AHRM Department; the PC AHRM became Acting Assistant Commissioner AHRM whilst the Senior Collector AHRM at Customs was upgraded to Principal Collector to head the HR and Training unit within the department. Also, a Collector AHRM was recruited and deployed at GDD in charge of Admin/HR function in the department, reporting to the Assistant Commissioner AHRM.

7.2.2: Capacity Building

The scope of the Capacity building scheme championed by this department includes the identification of skills gap and the development of staff capacity of the Authority, staff performance appraisal, and staff salary revision.

7.2.2.1: Identification of Skills Gap and the Development of Staff Capacity

(i). Training Needs Analysis (TNA):

Through the assistance of Crown Agents HR Consultants, a TNA was conducted. The main training needs identified include: Change Management, Management Training (Senior, Middle and Supervisory levels), Trainer Training, Induction Training, Basic Customs Skills, Basic Preventive Skills, Basic Income Tax , Handling Difficult Traders and their Representatives, Auditing Techniques for medium-to-large traders, Revenue Control Auditing for Large Traders, On-the-Job Training (OJT) at all levels, IT Training for IT Section (after acquisition of hardware), Basic IT Training (after acquisition of hardware), Customs Valuation (Transfer to World Trade Organization System of valuation and Conversion from Pre-shipment Inspection to Destination Inspection) and Basic VAT training (prior to implementation).

The needs are not in order of priority and are not exhaustive in terms of the Authority's training needs. This formed the basis of the Training Plan which was implemented during the year and its implementation will continue in 2007.

(ii) Training Unit:

The Training unit has the responsibility of managing the training function of the Authority. This unit upholds the commitment of the Authority to capacity building through skills and knowledge development of its staff for current and future needs. The department was set up following the need to provide a solid foundation for the reform process recommendation by the Crown Agents HR Consultants.

(iii) Internal/Local Training

A Crown Agents HR Consultant and the head of the training unit initially conducted an intensive two-week training of trainers' course for twelve (12) staff. Thereafter, several training programmes were conducted using the expertise of the trained staff in various work related areas such as Management and Enforcement of Customs Procedures, Effective Objective Setting in Performance Appraisal, Basic Income Tax Administration, Managing Change through Effective Communication, Delegation-Empowering you and your staff, etc. Other forms of local training outside the unit covered Procurement Management, Tax Policy, and WTO Customs Valuation System etc. A total of two hundred and ten (210) staff benefited from these training programmes. With the assistance of the Authority, two (2) members of staff pursuing ACCA course successfully completed the programme and another has commenced a Masters programme in Public Policy and Administration at IPAM.

(iv) External / Overseas Training

Thirty (30) staff benefited from various overseas courses, seminars and workshops in diverse fields. WAIFEM courses included Balance of Payments Statistics, Government Finance Statistics, Budgeting, Public Expenditure Programming and Management. Southern African Tax Institute (SATI) provided training for staff in Legal Drafting, Property Taxation, International Taxation, Tax Policy and Administration, Advanced Tax

Analysis and Revenue Forecasting, Business Taxation and VAT. Our staff also benefited from Crown Agents training courses in the UK in Internal Audit Intensive and Effective Training and Development Skills. Staff attended training provided by WTO, RIPA (UK), Commonwealth Association of Tax Administrators (CATA) and the Japanese Customs in Regional Trade Policy (Namibia), Modernizing the Human Resource Function, Management Development (Jamaica) and Trade Facilitation for African Countries (Japan) respectively. A member of staff participated in a one week Train-the-Trainers workshop organized by the World Bank and Government of Nigeria in Abuja on Anti-Money Laundering and Combating the Financing of Terrorism. Two staff are currently pursuing the Chartered Tax Advisers (CTA) course. A Study tour was taken by staff to Ghana Non-Tax Revenue Agency Board.

7.2.3: Revised Performance Appraisal System

Due to multiple problems encountered with the previous appraisal system such as inconsistent scoring, unrealistic objective setting, wrong interpretation of key concepts etc. leading to poor faith in the system thus leading to low response rate, we revised the appraisal system in collaboration with Crown Agents HR Consultants, making it practical and simple for the entire staff. Series of workshops were conducted by the Training Unit raising awareness on and the use of the revised system. Staffs were appraised for the second half of the year using the revised system.

7.2.4: Revised Salary Structure

A new salary structure came into effect in February, 2006. This helped a lot in motivating and retaining staff. The Authority became very competitive in the labour market and we were able to attract and retain highly skilled personnel.

7.2.5: Procurement and Logistics

7.2.5.1 Procurement plan

A comprehensive procurement plan was prepared and approved. A procurement specialist was recruited as Principal Collector Procurement and it is expected that his engagement will enhance efficiency in our operations.

7.2.5.2 *New vehicles and motor bikes*

In 2006, the Authority acquired a reasonable number of vehicles and motor bikes to facilitate revenue administration. These numbers include seven new vehicles bought through the UNDP and 37 motor bikes.

7.2.5.3 *Office space and land acquisition*

Two new office buildings were rented at 19 Wellington Street Freetown (Gladvic House) and former BIVAC building at Cline town, Freetown respectively. The need was as a result of the increase in staff strength following the reorganization of the Authority after the February 2006 retreat, and the inception of VAT Coordination Unit/Secretariat.

- ❖ The 19 Wellington Street annex now accommodates the following departments/units:
 - Information Technology (IT) Unit
 - Internal Controls and Audit (ICA) Department
 - Monitoring, Research and Planning (MRP) Department
 - VAT Coordination Unit
 - Training Unit
 - Board Room
- ❖ The former BIVAC building at Cline Street now accommodates staff of the PSSD Unit.
- ❖ The Authority also purchased a twenty- three (23) acre land in Lungi for the purpose of constructing a training Academy.

7.3: MONITORING, RESEARCH AND PLANNING DEPARTMENT

This department comprises of three units-Research, Monitoring and Tax Waiver and Concession units

7.3.1. Research Unit

During the year the Research Unit of MRD (now MRP) developed appropriate research studies for expansion of tax or dutiable base and coordinated research into tax related issues and also coordinated the preparation of revenue estimates/forecast; established effective revenue performance monitoring system, and coordinated the review of tax assessment methods, revenue collection and reporting procedures.

7.3.1.1 Activities undertaken by the Research Unit

- ❖ **Land Border Permeability Study** – This study extensively guided the anti-smuggling unit of Customs (PSSD) in the deployment of their staff in a bid to fight against smuggling.
- ❖ **Half yearly Cost –Benefit Analysis of Revenue Collection Agencies of NRA** – Recommendations of this study resulted to the redeployment of 10 NTR staff to ITD in order to make them more efficient.
- ❖ **Review of Tax Burden on key sectors of the Sierra Leone Economy** – Proposal for this study was submitted to CG’s office but was deferred to 2008 financial year.

7.3.1.2: Proposed Research Activities In 2007

1. ***Business Survey:*** This study aims at updating the Sierra Leone business register with accurate list of businesses in the major cities of the country and ascertain the number, location, legal status, turnover, demographic features, business prospect

and tax compliance nature businesses. This assists in broadening revenue base and enhancing revenue collection.

2 *Cost-Benefit Analysis* of revenue collection agencies and other support departments (Half yearly and Annual)

3. *Survey on the Perception of Tax Payers in Sierra Leone.* This has to do with the implications of Pending Reform Measures. The pending reform measures include;

- ❖ Reduction in sales tax from 17.5% to 15%
- ❖ Adjustment in tariff rates in compliance with ECOWAS CET
- ❖ Excise duty on cigarettes and tobacco products (30%)
- ❖ Service levy on phone calls (10%)
- ❖ Professional fee (10%)
- ❖ Survey on Perception of Tax payers in Sierra Leone

7.3.2 Monitoring Unit

The function of this Unit in the MRD includes a robust monitoring of processes, outputs and outcomes at both unit and overall organizational levels.

7.3.2.1: Activities Undertaken by the Monitoring Unit.

The monitoring unit of the MRD department undertook the following under mentioned monitoring activities of the collection agencies during the 2006 calendar year. Details of the results for all departments were submitted to management on a result framework based on the NRA strategic framework.

7.3.2.1.1: Customs & Excise Department

At the Customs and Excise Department, the clearing procedures, permits, CED statistics and factory monitoring were monitored.

(i) Clearing Procedures

Under this, physical examination of goods (personal effect Vs containerized), destination inspection, Baggage and valuation unit, full implementation of one-stop-shop and transit were monitored.

(ii) Permits

At the shipping section of CED, on fortnight basis, the following documents were cross checked - Request for payment plan, Payment plan, Evidence of payment and Perfecting of entries (both dutiable and non- dutiable). Findings at this unit revealed that a total debt of Le 31.64 billion was issued from January 2006 to December 2006 from which Le 29.27 was collected, accounting for 92.5% of total debt issued.

(iii) CED Statistics

The statistics unit of the CED was regularly visited. Unlike the two units stated above, the prime purpose of visiting this unit was to collect relevant data pertaining to the general customs operations.

(iv) Factory monitoring

Factory monitoring was carried out in collaboration with CED officers assigned to the various factories in the Western area. The exercise was very successful as various issues affecting factories were looked into by the team, including input/output matrix.

It was also observed that out of the 58 factories registered for GST, 24 have ceased operations while 8 were below the threshold of Le200M. Only 26 factories were active. Reasons for the drop in factory operation included lack of electricity, water supply and unfair competition from Gouji Investment Corporation.

7.3.2.1.2 Income Tax Department (ITD)

At ITD, monitoring was done on tax streams such as Foreign Travel Ticket, Entertainment, and Restaurant. Checks were also made on the Clearance Certificate/ Arrear List and various business files.

(i) Foreign Travel Ticket Tax

A team of two monitoring officers visited the Lungi international Airport for a week to carry out on the spot monitoring of Foreign Travel Tax. 585 (hundred and eight five) passengers departed from Freetown for various destinations during the period of the study on six (6) Airlines; Namely; Paramount Airline, Belleview Airline, Slok Airline, S. N. Brussels, Astraeus and Kenya Airways.

(ii) Entertainment Tax

Various entertainment programs were attended by Monitoring unit officers to monitor show promoters and the tax officers concerned. Such entertainments included; The ‘Bingo man show’; ‘Weijah 2000’, Celtel Premier Award 2006, and Comium/Cassette Sellers Association Award 2006.

Findings from these shows revealed that show promoters were under declaring tickets to the Income Tax department for tax purposes. Furthermore, most tickets sold during these shows were not stamped.

(iii) Restaurant Tax

The Monitoring Section of the MRP Department embarked on a one-month intensive monitoring exercise of Restaurant Tax., from 13th, November, 2006 to 13th December, 2006. It was observed that majority of the restaurant owners are either ignorant or are making deliberate efforts not to pay the 10% tax on their food sales. Furthermore, a good portion of our sample, issue receipts only upon request whilst 10% do not issue receipts at all. Findings also revealed that some restaurants pay the same fixed amount of tax to NRA throughout the period under review, which indicates that the same number of customers visit these restaurants time in time out.

7.3.2.1.3: Non- Tax Revenue Department

Here, the officers assigned to the various Ministries, Departments and Agencies (MDAs) were visited to check their collection efforts and constrains. This was done both in Freetown and at the various outstations.

In addition to the above, the monitoring team undertook four (4) outstation monitoring exercises in the provinces on general revenue agency operations and Duty Free concession activities.

Furthermore, the following emergency monitoring exercises were also undertaken as part of our routine mandates. These were in the form of investigation viz:

- a. An investigation on a Cherokee Jeep gazzeted for auction at Queen Elizabeth Quay.
- b. An investigation into the true origin of Boss Cigarettes imported by Jagiko Enterprise claimed to have been imported from an ECOWAS Country (Senegal).
- c. Participated in the Task Force set up by the Deputy Commissioner General to look into certain issue like; broadening the Tax base, (i.e. incorporating revenues outside the NRA revenue net, such as monies generated by Marine Time, The National Tourist Board and The Pharmacy Board as well as The Standard Bureau of Sierra Leone).
- d. Departmental monitoring to ascertain whether the departments have achieved the targets set.

7.3.3 Tax Waiver and Concession Unit

7.3.3.1 Duty-free Granted on Goods in 2006

Duty-free granted for the year 2006 amounted to Le 61.54 billion of which, only Le 46.14 billion was actually made use of by the duty-free beneficiaries. Stated differently, beneficiaries of duty free were granted duty concession up to le 61.54 billion, nonetheless the total duty waiver on goods cleared at Customs for the year 2006 amounted to Le 46.14 billion. The difference however implies that beneficiaries were granted duty-free concessions but were yet to clear the goods from the Customs and Excise Department.

Major beneficiaries of duty free concession include the World Food Programme (WFP), United Nations High Commission for Refugees (UNHCR), World Health Organisation

(WHO), United Nations International Children Emergency Fund (UNICEF), US Embassy, etc.

During the year under review, NRA collected a total of Le463.6 billion, whilst duty waived amounted to Le46.1 billion. Thus, the duty waived was about 10% of the actual revenue collected by NRA.

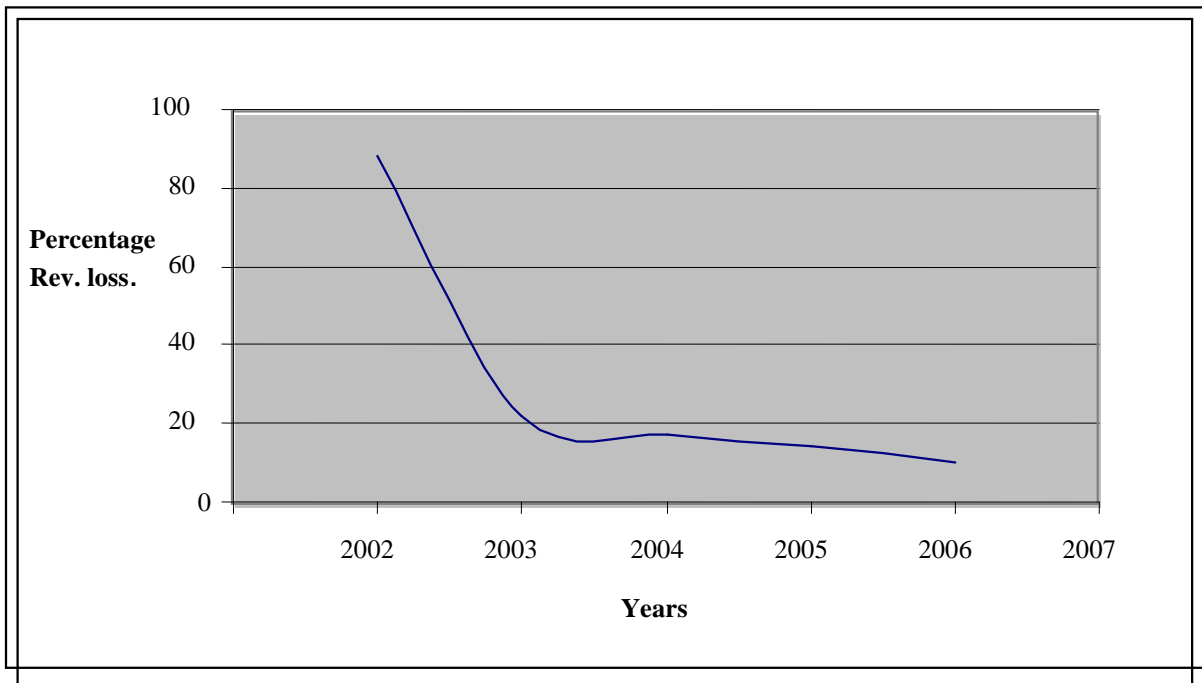
7.3.3.2 Comparison between 2005 and 2006 Duty-free Figures

The value of duty on goods cleared on duty-free basis at the Customs and Excise Department for the 2006 financial year amounted to Le 46.14 billion (i.e. 10% of the actual revenue collected by the NRA) compared to Le 55.3 billion (i.e. 14% of actual domestic revenue collected by NRA) in 2005. This reduction in the amount of duty waiver can be attributed to the extent to which discretionary waivers have been discouraged, and the lessening of Clearances on Permit coupled with the thorough review of applications for duty waiver.

7.3.3.3 Trend in the Duty-free Figures from 2002 through 2006

Although the figures for duty-free concessions still seem high, it is at a decreasing rate. The line graph below compares the three different eras of duty-free administration, namely prior to NRA (2002), during NRA but with the Ministry of Finance (2003-2005); and the period when administration of duty waivers was transferred to NRA from the Ministry of Finance (2006).

Figure 2: Revenue Loss as a percentage of total revenue collected 2002-2006



As indicated in the graph above, there was a huge loss of revenue prior to 2003 (period preceding NRA regime). The line graph however shows rapid fall in revenue loss during the Authority's regime. Between 2005 and 2006 there was a further reduction brought about by the transfer of the mandate for duty free administration from Ministry of Finance to the NRA.

7.3.3.4 The 1.25% Service Fee on Duty-free goods

The NRA was authorized to impose and collect service fee of 1.25% of the CIF value of goods cleared on duty-free basis beginning January 2006. However the collection of the fees did not commence until 19th April 2006.

For the rest of 2006 (19th April -31st December) the total amount of service fee charged amounted to Le 2.88 billion. The amount collected for that period was Le1.19 billion (or 41.3% of the total service fee charged). The amount of service fee pending stood at Le1.69 billion (or 58.7% of the total service fee charged). Some Government Ministries like Energy & Power (National Power Authority/Bo-Kenema Power Service), Defence,

Transport & Communications and Health & Sanitation formed the greater component of those organizations whose service fee was deferred to First Quarter, 2007.

From April through September 2006, the collection of the 1.25% service fee was applicable to all duty-free beneficiaries, although some organizations were paying under protest. However, from October 20th through December 2006 most organizations with the exception of local NGOs and mineral exploration companies had the payment of their service fees put on hold by the Honourable Minister of Finance. This decision witnessed a huge reduction in the amount of service fee paid from October, 2006 to date.

7.3.3.5. Monitoring of Duty-free Beneficiaries

During the 2006 financial year, the Tax Waiver and Concession (TWC) Unit in collaboration with the Monitoring Unit within the MRD Department undertook two monitoring tours to Ten (10) Districts in the country. For each of these tours the intended purpose was to verify the claims made by selected duty-free beneficiaries as to the use to which items cleared on duty-free basis were put.

The organizations visited were selected international NGOs, Sierra Minerals Holdings Ltd., Sierra Rutile Ltd. and Sierra Leone Diamond Exploration Company. Most of the entities provided reasonable accounts of the use of the goods they had cleared on duty-free basis, except Oxfam-GB Sierra Leone, whose staff members failed to comply with the demands of the monitoring team. The team in their *Back to Office Report* therefore, recommended that a formal explanation for their refusal to be monitored by NRA be sent to the Commissioner General, NRA. Furthermore, it was proposed in the Report that if they are to benefit from duty-free concessions in the future, they must first allow a team from MRD to thoroughly investigate their operations vis-à-vis imports they have cleared on duty-free basis and their current tax position, at their own expense. The major constraint here was time.

7.3.3.6 Conclusion, Constraints and the Prospect for 2007

The rationale for transferring duty-free concession to NRA was to reduce the revenue loss as a result of duty waiver, and to increase the revenue collection capacity of the NRA. During the 2006 fiscal year, there was a cut in revenue loss resulting from the granting of duty waivers. Given the prevailing circumstances, the duty-free figure for 2007 is expected to further reduce.

During the year, the TWC Unit experienced some logistical problems, ranging from lack of direct telephone line and/or mobile top-up cards to carry out investigative tasks, down to the problem of having only one working computer in the Unit. Given adequate support in terms of logistics and morale, the TWC Unit has the potential to further improve on its current performance in 2007.

7.3.4.1 Support to other Departments within the Authority and other Government Agencies

- ❖ The department assisted the PSSD in developing a format for efficient reporting and accountability.
- ❖ Contribution to budget proposals
- ❖ Visit of MRD and CED staff to Guinea and Liberia to observe customs operations in these countries and compare them to customs operations in Sierra Leone

7.3.4.2 Capacity Building

- ❖ Eight members of staff (4 collectors, 3 senior collectors and 1 principal collector) were recruited into the department.
- ❖ One staff trained in Tax policy, Fiscal analysis and Forecasting
- ❖ In house training of all MRD staff on Tax policy and Forecasting by Assistant Commissioner – MRD

7.3.5 Constraints of the MRP Department in 2006

The Department was constrained by:

- ❖ Non approval of the proposal for the study on “Review of Tax Burden on Key sectors in the Sierra Leone Economy”
- ❖ Lapses in obtaining information both from the internet and other departments.
- ❖ Logistics especially transportation
- ❖ Training (Local & International)

7.3.6 Recommendations

- ❖ Develop the revenue estimation and forecasting capability of the department
- ❖ Training of staff in tax administration and VAT

7.4 BOARD SECRETARIAT AND LEGAL AFFAIRS DEPARTMENT

This department comprises of three units: Board Secretariat, Legal Affairs, Special Investigation and Intelligence Units.

7.4.1 Activities Undertaken

- ❖ The department coordinated the taking of distress proceeding against one default parastatals
- ❖ It further coordinated the drafting of the Finance Bill 2007 by the Law Officers’ department
- ❖ The Special Investigation and Intelligence Unit established functional linkages with Anti Corruption Commission (ACC), Office of the National Security (ONS) and Sierra Leone Police (SLP). A draft memorandum of understanding was sent to the commissioner of Anti Corruption Commission for his signature.
- ❖ Also, this concluded the investigations on Kassim M. Basma, the second biggest diamond exporter in Sierra Leone.

7.4.2 Capacity Building

Two staff of the department benefited from external training in 2006. The Deputy Commissioner went to South Africa for training in legal drafting during the year under review. The Assistant Commissioner of Special Investigations and Intelligence Unit attended the Common Wealth Management Development Programme in Kingston-Jamaica.

7.4.3 Constraints Faced by the Department

The department was constrained in the execution of its functions within the year particularly in the areas of insufficient number of staff to cover most of its functions; logistics (especially transportation) and training (both local and external) for most of the staff.

7.5 INFORMATION TECHNOLOGY UNIT

The department continued to play a critical role in the operations of revenue collecting agencies and rendered general support to the Authority as a whole.

7.5.1 Activities of the Department

In the year under review, the Unit undertook the following major activities in addition to its normal routine duties.

7.5.1.1 Preventive Maintenance.

Preventive Maintenance in the form of hardware maintenance, software repairs and anti-virus updates were carried out on all of the Authority's IT equipment. This should help in prolonging the life span of the machines and enhancing their efficiency.

7.5.1.2 Software Development

In order to enhance the operations of various Departments within the Authority, the IT Department embarked on converting various spreadsheets used by Operational agencies to store critical data into Relational Database Application systems. This enables analysis

of data to be handled at a more complex level and generation of information more effective and accurate.

Realising the need for maintaining accurate data on personnel and general assets, the Department also saw the need to create various Database Application for the Support Services. The aim here is to create readily available data and information on both personnel and asset for better and efficient control of the Authority's Resources. To this end the following Database Application are under development:

- ❖ *Revenue Collection Monitoring Database for NTR*
- ❖ *Fixed Asset Management System for NRA*
- ❖ *Human Resource Management System for NRA and*
- ❖ *Fuel Consumption Database for NRA*

7.5.1.3 Installation and Configuration of New Machines.

In the year 2006 the Department installed and configured new computers and printers that were procured by the Authority as follows:

Table 8: Computer Installation by Department, 2006.

Department	No. of Desktops	No. of Laptops	No. of Printers
Customs and Excise	12	5	11
Income Tax	2	-	3
Non Tax Revenue	3	1	3
Internal Control and Audit	4	-	4
Monitoring and Research	4	-	4
Finance	4	-	1
Information Technology	5	-	5
Goods and Services (GST)	3	1	4
Administration and Human Resource	4	-	2
Deputy Comm. General	1	-	-
Total	42	7	37

These were installed in Freetown, Bo, Kenema and Makeni. In addition, a PABX system was installed at the Head Office Annex, 19 Wellington Street, to enhance communication within the various support service staff and with the outside world

7.5.1.4 HF and VHF Radio Communication

In its drive to combat smuggling and further enhance the operations of the preventive services, the authority procured the following HF/VHF equipment:

HF Base (fix and mobile)	-	5
VHF Base (Fix and mobile)	-	5
VHF Repeaters	-	3
VHF Hand Held	-	20

The use of the VHF radios can not be effective and efficient without the aid of the VHF repeater. For this reason the distribution and installation of the radios have been delayed because of the difficulties in finding a willing vendor to host the VHF repeaters. Both Celtel and the SLBS were approached for the purpose and each expressed their willingness. However, Celtel was preferred to SLBS because of access to electrical power. Installation of the system will commence as soon as the Celtel Legal Adviser completes the preparation of all legal papers for co-location.

7.5.2 Website

The structural design of the NRA website is now completed; update and changes in content and design are continuous processes determined by management. Completion of the site was delayed mainly as a result the absence of comprehensive information from various departments. The enhancement of the website is an ongoing process and will be updated as and when information is available. Follow the link to view the website: <http://www.nationalrevenuesl.org>

7.5.3 Challenges and Modernization in the IT Unit

The drive towards modernisation brought with it new challenges. With the help of the DFID supported crown agent IS/IT consultant, the department undertook the following projects:

(i) Software development Policy

This document sets out the need for urgent consideration of a draft “software development” policy for the National Revenue Authority to identify and discuss three options and make recommendations for the future way ahead. The three options presented were:

Option 1 In-house / Outsourced Software development

Option 2 Acquisition and integration of separate commercial software packages

Option 3 Acquisition of a single integrated commercial software package

The Authority decided on option 3, acquisition of a single integrated commercial software package.

(ii) IS/IT Strategy Plan

NRA is currently developing a “business driven” IS/IT Strategy to support its Strategic Planning Framework Paper. After the completion of its first phase (Scoping Phase), the strategy is currently in Phase 2 (Current Situation Analysis). The third phase will identify the future strategic direction for IS/IT and the fourth phase will formulate plans and policies for implementation of the Strategy.

(iii) Integrated Revenue Information System (IRIS) Project Plan

This project seeks to specify, procure, modify and deliver a commercially viable integrated revenue management software package which will meet the Authority’s current and future likely needs.

(iv) IT Infrastructure Project (IIP) Plan

This project focuses on providing the basic network linking users within the Authority (Freetown and across Sierra Leone) and with the outside World through the intranet, web and Internet. This project is the fundamental requirement for the implementation of all other NRA computer based systems.