

ANNUAL REPORT

JANUARY - DECEMBER 2007



**CUSTOMS AND EXCISE
DEPARTMENT**

NATIONAL REVENUE AUTHORITY

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MARCH, 2008

1.0 Introduction

Prior to the inception of NRA, all tax administration and collection exercises used to be carried out by various Departments independent of each other, although under the supervision of the Ministry of Finance. In 2003, through an Act of Parliament, Customs together with other revenue collecting Agencies metamorphosed to form the National Revenue Authority (NRA). NRA had the mandate to administratively coordinate all revenue collection activities by various Departments. Since then, revenue performance by NRA but Customs in particular had been quite impressive, owing to the institution of various reforms and a high degree of commitment of the working force.

CED administers customs duties, excise, and sales tax (totaling over 60 percent of NRA's revenue). We equally collect 3 percent withholding income tax on behalf of the Income Tax Department (ITD). The Commissioner is supported by a Deputy Commissioner and three Assistant Commissioners responsible for Operations, Excise/Sales tax, Preventive Services and Special Duties.

Our revenue collection strategy over the period spanned from a robust and responsive accounting and administrative support, restructuring of revenue collection procedures and human resource capacity building. Tax collection points virtually remained the same i.e. the Quay, Lungi International Airport and other strategic border crossing points. In the meantime, staff placed at strategic units or border posts use their operational guides to face the public and in the execution of their responsibilities. There had been limited or no formal professional training giving to these Officers in the area of public relations.

On the policy front, the Customs Department in its quest to enhance revenue collection and to foster trade facilitation, in conjunction with the Modernization Department, NRA, embarked on a number of initiatives: Amongst such initiatives is the implementation of the Short Term Revenue Improvement Programme during the review period. Also, the review of Customs processes and procedures in readiness for the smooth introduction of the ASYCUDA project had been a prime objective. Capacity building among other things remains paramount, with staff trained both locally and internationally in various Customs related courses. At present a 'Post Clearance Audit' based approach for the speedy clearance of goods is well in progress. In all these, technical assistance is sought from DFID, WCO and other Customs Administrations, who happened to be very instrumental in the pursuance of our objectives.

Of course, rates of duty and other import clearing charges are perceived to be quite high by the public, in spite of the fact that they have been previously reviewed downward. Accordingly, import duty rates now applicable to a greater percentage of imported goods range from (0% to 20%) compared with (0% to 30%) previously, while Sales tax remained at 15%. Persistent policy review however affected the Petroleum industry, with duty rates adjusted downwards in favour of Road User Charges (RUC). This led to an estimated revenue loss of Le1.9 billion in November and December alone.

When compared with duty rates of developed economies, our rates are still considered high, since government heavily relies on Customs to collect up to 60 percent of its domestic revenue. On account of this, we however anticipate further reductions on grounds that government can divert its reliance towards revenue from income taxes.

The last five years typified a new era in the revenue administration system of the Customs and Excise Department. Revenue collection grew quite impressively from an average monthly position of Le12 Billion in 2002 to a robust figure of Le25.7 Billion in 2007. Overall, revenue collection climaxed to hit at Le308 billion in 2007 compared to Le.... In 2002

The department's performance on a year-on-year basis in the past two years is perceived as impressive too. Although expected targets could not be achieved owing to: deficiencies in Macroeconomic performance, tax policy adjustments, unfair competition, low performance by domestic industries and the uncertain political tussle that eroded business confidence.

This report evaluates revenue collection by the Customs and Excise Department given credence to annual historical performance, quarterly performance and performance by category of revenue as well as by station. Efforts had been made to present a comparative trade statistics for both imports and exports. An attempt had also been made to provide explanations for deficiencies in revenue performance.

2.0 REVENUE PERFORMANCE BY CATEGORY & TARGET

Revenue collection by CED for the year 2007 amounted to Le308.44 billion. Of this collection, Import duty contributed Le225.59 billion (73.1%), Excise on Petroleum amounted to Le63.56 billion (20.6%), contribution from other Excises was Le6.72 billion (2.2%), while Domestic Sales Tax (DST) was in the region of Le12.57 billion (4.1%). Overall, there was a deviation from expected target by almost Le7.1 billion (2.2%). This divergence was mainly induced by deficiencies in import duty collections, which registered a short collection by 9

percent. All other revenue lines exceeded target by quite a significant margin, particularly DST (35%) and Excise on Petroleum (20%). The table below gives a breakdown of the above analysis.

Table 1.0 Revenue Analysis by Category & Target (in million Le), 2007

Category	Actual	Projection	Variance	% Variance
TOTAL REVENUE	308,441	315,510	(7,069)	-2.2
Import Duty	225,592	246,850	(21,258)	-9
Excise on Petroleum	63,555	53,055	10,500	20
Other Excises	6,721	6,242	479	8
DST	12,573	9,363	3,210	35

Sources: CED data base

2.1: ANNUAL COMPARATIVE REVENUE PERFORMANCE (2006 & 2007)

Total revenue collected by the CED for fiscal year 2007 amounted to Le308.4 billion, exceeding the Le280.9 billion collected in fiscal year 2006 by Le27.5 billion (9.8%). However, 98 percent of this growth level is attributable to growth in Import duties by an amount of Le26.9 billion (13.5%). Other lines of revenue exceeded 2006 figures by a narrow margin, while in fact, Excise on Petroleum fell slightly below the Le63.6 billion mark recorded in 2006 by almost 0.1 percent. What this indicates is that even though the revenue target of Le315.5 billion was underscored by 2.2 percent, the growth level of 9.8 percent is quite reasonable. Though the pace of this growth is observed to be at a

decreasing rate. Table 2 presents a breakdown of performance over the two periods.

**Table 2: Comparative Revenue Performance for 2006 & 2007
(in million Le)**

Rev. Category	2006 Actual	2007 Actual	Variance	% growth
Total Revenue	280,933	308,441	27,508	9.8
Import duty & S/tax	198,672	225,592	26,920	13.5
Excise on Petroleum	63,618	63,555	-63	-0.1
Other Excises	6,355	6,721	366	5.8
DST	12,287	12,573	286	2.3

Sources: CED data base

2.2: Quarterly Revenue Performance by Category

Quarterly statistics suggests that expected targets were achieved for (Q1 & Q2) of 2007, although, there were deviations from such during (Q3 & Q4) by almost 4.3 percent and 4.4 percent respectively. On the whole, aggregate performance by the department deviated from target by Le7.1 billion (2.2%), suggesting that the predicted revenue performance was close to being realistic. As a matter of fact, the shortfall stems from the unhealthy political tussle during (Q3 & Q4) that eroded business confidence, hence causing underperformance in macroeconomic variables. By the same period also, policy adjustments were made that affected the petroleum pricing formula, to the extent that we recorded an estimated loss of Le1.9 billion in Import and Excise duties during November and December alone. The statistics also indicate that there

was fluctuation in revenue performance from one quarter to the other. Overall, highest performances were recorded in Q2, with a collection of Le82.3 billion (26.7%) and Q4 when revenue was in the region of Le78.4 billion (25.4%). See table 3.0 below.

Table3.0 Quarterly Revenue Performance by Target (in million Le)

Quarter	Projection	Actual	Variance	% Var.
Q1	72,246	72,258	12	0
Q2	82,292	82,293	1	0
Q3	78,880	75,449	-3,431	-4.3
Q4	82,092	78,443	-3,649	-4.4
TOTAL	315,510	308,441	7,069	2.2

2.3: COMPARATIVE REVENUE ANALYSIS BY STATIONS

The available statistics on table 4.0 shows that almost 95 percent of total revenue collection by the Department is accounted for at the Freetown Port (i.e. Customs House). However, more than 3 percent of the remaining 5 percent figure is contributed by Lungi station, while the rest of the other stations generate less than 2 percent. See below for details.

Table 4.0 Comparative Revenue Analysis by Stations

Station	Actual (in millionLe)	% Contr.
Customs House	292,957	94.98
Outstations	15,484	5.02
Total	308,441	100.00

2.5: COMPARATIVE TRADE PERFORMANCE BY CATEGORY (in Million Le)

Table 5.0

CATEGORY	2006	2007	Growth	% Growth
Dutiable imports	713,564.95	921,940.11	208,375.16	29.2
Non-Dutiable Imports	202,671.88	231,097.18	28,425.30	14.0
Exports	125,665.40	61,254.21	-64,411.19	-51.3
Cargo Tonnage (Dutiable)	1.22M	1.31M	0.09M	7.4
Cargo Tonnage (Non Dutiable)	959K	985K	26K	2.7

*Note: M is million and K represents thousand.

The above table suggests that the volume of dutiable imports grew by 29 percent to Le921.94 billion in 2007. Of this figure, close to 74.8% is attributed to; importation of foods (17.8%), hydrocarbon oils (27.8%), machinery (19.4%) and building materials (9.8%). In both years, hydrocarbon oils is the highest imported item, followed by machinery and then foods – see appendix for details. This huge growth level could not be reflected in revenue turnout owing to the fact that a larger share is attributed to commodities attracting lower rates of duty (5%/10%) such as; hydrocarbon oils, medicaments, building materials and accessories etc. However, growth in cargo tonnage (7.4%) tended to be almost consistent and moderate as that in revenue performance.

Notwithstanding, the volume of non dutiable imports grew by 14 percent in 2007 to reach Le231.1 billion, owing to increased activities by mining Companies and investors who benefit from tax relief as well as those of Non Governmental Organizations and foreign missions.

In the area of exports, less than half the 2006 figure was achieved in 2007 suggesting a decline by 51.3 percent. This shortfall exclusively

relates to the downturn in economic activities from about the mid of 2007 to the end, as the electioneering process introduced violence, which undermined business confidence.

4.0 REASONS FOR REVENUE UNDERPERFORMANCE IN 2007

Revenue Performance in 2007 improved by a substantial proportion (9.8%) over that in 2006, only that the trend in progress is seen to be at a decreasing rate. Although revenue improved reasonably in 2007, the expected annual target was underscored by 3 percent. The reasons behind this situation are weak performance of some macroeconomic indicators, policy changes, which had negative implications for our operations, and other factors extraneous to the Authority.

4.1: The Weak Performance of some Macroeconomic Indicators

While revenue target for 2007 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. It was assumed that there would be a 15% growth in the value of dutiable imports, of which only about 5% was achieved.

4.2: Review of Policy

Enormous policy changes were made during the fiscal year 2007 and to a very large extent they affected the petroleum industry. Excise duty fees per metric ton of petroleum products was persistently adjusted downwards in favour of

RUC, while import duty too was reduced from (5% to 0%) but later reviewed to US\$20 for all petroleum products, except fuel oil (US\$10).

However, further explanations have been given along various revenue lines as follows:

4.3 OTHER EXCISE

This line of revenue emanates mainly from firms in the alcoholic industry. Given that there was economic recess during and after elections the performance of most industries declined. Business confidence eroded and the productivity of domestic firms in the alcoholic industry fell. In effect, this revenue line seems to have a positive link with economic performance of the country. There are also poor market opportunities for locally produced alcohol (ormolay), during recessionary periods, which stems from the fact that the key consumers are mainly poor people.

4.4: DOMESTIC SALES TAX (DST)

Revenue from the above is generated mainly from goods produced by domestic firms and consumed within the local economy. Given that there was economic down-turn after the presidential and parliamentary elections, productivity of most firms declined. Furthermore, of the 58 factories registered, only 29 remained active and above the stipulated threshold that makes them liable for the payment of DST. It was initially projected and assumed that a good majority of these firms would be above threshold by 2007. Other conditions that constrained revenue performance include:

- Unfair competition between foreign and domestic firms, like in the case of Gouji. While Gouji pays 3% and 10% as import duty and S/tax, all others pay 5% and 15% respectively.
- Scarcity of electricity and water supplies to industrial houses, which increases their running costs as they resort to alternative means of power supply (i.e. mainly generators). At the end they are forced out of business and close down.

4.5: EXCISE ON PETROLEUM PRODUCTS

Performance by this revenue line would have been over and above what was achieved but due to excise duty adjustment downwards in favour of RUC, our revenue potentials were largely undermined. In the month of November and December alone, estimated revenue loss along this line is in the region of Le1.3 billion.

4.6: IMPORT DUTY

As observed, this revenue line was largely underscored due to a plethora of reasons, including:

- Poor macroeconomic performance as already highlighted above.
- Reduction in tariff for frequently imported products as well as the granting of import duty waiver on petroleum in the last quarter of the year.
- The uncompetitiveness of our port charges when compared to charges in other neighbouring countries. This gives importers the urge to divert their consignments through Guinea or Liberia and find their way into Sierra Leone through porous border points.

5.0 PERFORMANCE OF SOME KEY UNITS WITHIN THE DEPARTMENT

5.1 The Excise Branch

Table 6.0 Matrix of Vital Statistics Related to Excise Branch

No.	Description	Response Code
1.	Factories Registered	56
2.	Active & Above Threshold	29
3.	Active & below Threshold	11
4.	Dormant/ceased Operation	16
5.	Excise Duty Contribution	Le6,721 bn
6.	DST	Le12,573 bn

Source: Excise Branch data base

From the above distribution, out of a total of 56 factories that registered, only 29 remained active throughout the review period. This suggests that only the 29 factories are liable for the payment of DST. Thus, the productivity of DST and Excise duty is clearly seen to have been undermined.

This Unit is however constrained in the following areas:

- Too many factories covered by a single staff which is likely to affect the efficiency and effectiveness of our working staff.
- Scarcity of electricity and water supply to manufacturers

- Items manufactured locally are as well imported and smuggled into the country, which poses significant problems in getting local factory owners to be fully compliant.
- Supervision is greatly hampered by the limited number of vehicles available for use by the Department, to the extent that we hardly get vehicle for revenue drive.

5.2 Training Unit

The Training unit has the responsibility of managing the training function of the CED in collaboration with the Central Training unit. This unit upholds the commitment of the Authority to capacity building through skills and knowledge development of staff for current and future challenges. The department was set up following the need to provide a solid foundation for the reform process recommended by the Crown Agents Human Resource Consultants. Below is a matrix of training activities undertaken during the reporting period.

Table 7.0 Matrix of Training Programmes for FY 2007

No.	Course	Staff Trained	Sponsors	Internal/ External
1.	- Risk Management - Post Clearance Audit - Warehousing oils audit	21	Crown Agents	internal
2.	- H.S. Tariff classification - WTO GATT Valuation meth - Risk management - Rules of Origin	17	Escrow Account	internal

3.	- Customs and Excise Taxation - VAT Taxation	1	NRA	external
4.	Practical audit training	2	Rwanda Revenue Authority	external
5.	Trade Facilitation	1	Common Wealth	External

Source: Training Unit CED

From above, it becomes evident that CED is to a very large extent committed to human resource development amidst the limited resource constraints. In all, while 4 staff members benefited from external training, at least 17 on two different occasions had internal training in various Customs related areas. In spite of these, some other officers benefited from various seminars and/or conferences organized both internally and externally and more often than not special attention was given to issues relating to integrity.

5.3 PREVENTIVE SERVICES AND SPECIAL DUTIES (PSSD)

The Preventive Services and Special Duties unit was established within the Customs and Excise Department to carry out the following:

- To design and implement strategies to control smuggling
- To prevent the inflow of prohibited goods and ensure that restricted and regulated goods imported into the country satisfy all legal requirements necessary for such importation.
- To conduct Land and Sea patrols and monitor the activities of any smuggling gang operating within.

- To monitor and provide escort of goods and vehicles on transit and for export to neighbouring Countries.
- To provide adequate inspection and monitoring of Warehouses, Factories and monitor clearance on Permits.
- To liaise with other security agencies and analyze any intelligence provided by them and submit same to the authorities for appropriate action to control smuggling.

Total staff strength of the PSSD unit is 48, coupled with some backup given to them by the mainstream Customs. From available evidence, the incidences of smuggling are more prevalent in the following areas within the Country:

- a. Queen Elizabeth II Quay (Freetown)
- b. the Kambia Axis (Gbalamuya, Bamoi Luma, Yumkelia, Kukuna etc)
- c. Kabala (Dogoloya, Gbentu, Gbindi, Koindu Kura etc)
- d. Bo/Kenema
- e. Zimmi
- f. Lungi Area
- g. Western Area (Waterloo, Tombo, Goderich, Moa Wharf, Susan's Bay, Government Wharf, etc)

PSSD Officers have been posted to Port Loko, Kabala, Bo/Kenema, Zimmi, Lungi Area, Waterloo, Goderich, and the Freetown Peninsula.

As a result of the strategic placement of these officers, stakeholders like the Sierra Leone Navy, Boat Owners Associations, District Council

leaders, and informants have been very cooperative in preventing vehicles and boats from off-loading in remote areas other than those approved by law.

In 2007 revenue contribution by this Unit is in the region of Le 871.14 million. Of this figure, 44 percent (Le383.11 million) is in the form of import duty and the rest Le488.03 million is in the form of penalty. Total arrears from uncustomed goods by 31st December 2007 is about Le340 million.

5.3.1 Resource Gap

In as much as the unit stands to be very instrumental in the overall Customs operations, it is faced with a host of resource constraints:

- Communication gadgets to facilitate flow of information in good time.
- Inadequate vehicles and motor bikes which will facilitate coverage of a large area of the Country's porous borders.
- Speed boats for sea patrols to cover illegal wharfs and mid sea trading activities within the shores of Sierra Leone.
- Streamlining for guidelines to the payment of compensation to informant.
- Capacity building: more training for PSSD officers on Investigations and Customs operations.
- Internet facilities to link the PSSD Unit to the World Customs activities

5.4 ADMIN AND HUMAN RESOURCE UNIT

Given below, is a matrix of key statistics on developments within the Admin Unit.

Table 8.0 Matrix of Vital Statistics on Admin Unit

No.	Description	Response Code
1.	No. of staff employed during the year	Nil
2.	Total staff strength	219
3.	No. of promotions	Nil
4.	No. of staff that resigned/AWOL	2
5.	Staff that were dismissed/terminated	Nil
6.	No. of Deceased Persons	7
7.	No. of Degree holders	46
8.	No. with Post- grad. Diploma	2
9.	No. with Masters	11
10.	Non- Graduates	114
11.	Non- Certificate Holders	45

*Note: AWOL means 'Absence without Leave'

As at end of December 2007, Customs had a total of 219 staff members. Of this number, 11 are holders of a master degree, 2 have a post-graduate diploma and 46 have a bachelor's degree, giving a total of 59

persons with at least a University degree. This contrast with the pre NRA era, where there was hardly more than 5 graduates. Though non-graduates, 114 staff members are holders of at least a teacher certificate, while 45 have absolutely no certificate.

The records also reveal that no additional staff was employed during the review period, no promotions were made, nor were there cases of dismissal or termination of the services of staff. However, 7 personnel died during 2007 and 2 abandoned their jobs (AWOL) to seek for greener pastures elsewhere. It thus suggests the need for a replacement of about nine staff members who are no longer with us.

5.5 Reform Measures Implemented by the CED

In trying to minimize leakages, curb smuggling and institute system controls, CED implemented wide ranging reform measures during the reporting period including:

- ❖ Implementation of revenue enhancement programme under STRIP as agreed upon with IMF and the Government. Key issues addressed under STRIP include:
 - Reduction in discretionary Duty-free
 - Reduction in the issuance of dutiable permits
 - Temporary suspension of ECOWAS Trade Liberalization Scheme (ETLS)
 - Downward review of administrative charges on imports by SLPA and other stakeholders to attract competitiveness, when compared to other neighbouring countries.

- ❖ 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;
- ❖ Maintaining the practice of destination inspection (DI) in the absence of preshipment inspection.
- ❖ Adoption of Processes and Procedures to foster Trade Facilitation
- ❖ Capacity Building
- ❖ Strengthening the PSSD unit of the department

During the reporting year, Customs implored INTERTEK to update values from Import Delivery Report and submit such to Customs on a 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.

NRA and INTERTEK signed the Destination Inspection (DI) agreement since 2006 and this had been in use for goods outside the positive list and for which preshipment inspection was not done.

The existence of a 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 Quay.

5.6 Constraints Faced by CED in 2007

- ❖ Insufficient PSSD staff to cover identified smuggling points
- ❖ Unavailability of communication sets and speed boats for use by the PSSD
- ❖ Inadequate networking and internet connection for the department
- ❖ Insufficient manpower in the department.
- ❖ Too many gaps in the laws guiding our operations
- ❖ Facilities at outstations are deplorable.
- ❖ Inconsistencies in tariff

5.7 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
- ❖ Embark on initiatives that will foster trade facilitation such as the phasing out of rigorous checks in favour of post clearance audit.
- ❖ Implementation of modernization plans in conjunction with the Central Department. More specifically, computerizing and automating the entire system.

5.8 Recommendations

- ❖ Control administrative charges within reasonable limits
- ❖ Clearing & Forwarding agencies to publish their service fees
- ❖ Ensure that fair competition prevails amongst all importers and investors
- ❖ Provide additional logistics to the PSSD

- ❖ Computerize the CED's operation
- ❖ Additional staff be employed to ease work load on over burdened staff.
- ❖ A review of laws governing our operations to make amends for existing gaps.
- ❖ Review of the HS tariff classification to rectify various inconsistencies.

5.9 Prospect for 2008 Target

With dust settling down within the political system, there is enormous prospect that the national economy would grow within the shortest possible time. We anticipate growth in both foreign direct investment and import volumes, while reflecting on the efforts government is making to review Sierra Leone's investment code to encourage investors. And since much of what we consume is imported, coupled with the fact that the price and supply of locally produced In actual fact, this would have positive implications for revenue performance.

Furthermore, as we face the fiscal year 2008, our strategic plan focuses on issues relating to; trade facilitation, automation, capacity building, compliance and enforcement measures, and effective collaboration with stakeholders both internal and external. At the moment the current modernization thrust about to be implemented caters for most of our strategic plans.

We are expecting that our entire processes and procedures would soon be transformed from an overwhelmed manual system to a fully automated system (ASYCUDA++).