ANNUAL REPORT 2011

FORWARD

As Sierra Leone moves out of the depth of one of the greatest civil conflict in modern era, we have had our own fair share of mountains to climb. Our government has responded to these challenges by joining in the global fight to alleviate poverty by adopting the Millennium Development Goals (MDGs), developing its Poverty Reduction Strategy Paper (PRSP) and adapting it into an Agenda for Change that is expected to graduate into an Agenda for Prosperity.

In support of these programmes, the National Revenue Authority (NRA) has embarked on far-reaching reform measures and investment in capacity. That is why the Domestic Tax Department (DTD) has been established and there has been remarkable progress in the automation and computerization of management, tax and customs procedures. It has created the privilege for taxpayers to declare their own tax obligation, lodge their declaration using the Direct Trader Input (DTI) system at customs and jointly operating one-stop shop for the issuance of Taxpayer Identification Number (TIN) and business registration. The Authority has so far contributed immensely to the country's ease in doing business by reducing the number of taxes (through the consolidation of GST) and the time it takes to comply. Its role in trade facilitation are glaring; for which the Authority is championing moves towards efficiency in service delivery by all stakeholders at customs, while at the same time contributing to improving port security.

The collection of more than a trillion Leones (le1.43 trillion) for the first time in the history of Sierra Leone was by no means a magic. The Authority reviewed its domestic tax procedures in tandem with the integration processes to facilitate compliance. It also saw dramatic improvements in voluntary compliance as a result of effective debt enforcement measures and payment through the banks. Although there were reported delays (currently being addressed) in remitting collection to the Consolidated Revenue Fund (CRF), the move towards such payment method was clearly justified. The rolling out of the Automated System of Customs Data (ASYCUDA) to Lungi was completed in earnest to further ease the flow of people and aircrafts at the airport. As we continue to automate our custom systems, there has been substantial reduction in contact between customers and staff and a favourable decline in clearance time that is now on average two days for low risk importers. These compliance gains have been translated into increased flow of cargoes and merchandize at the port and a consequent boost in export.

Furthermore, NRA benefited immensely from the support of His Excellency, The President of the Republic of Sierra Leone, Ernest Bai Koroma and his Cabinet. There was undying support, financial and moral, from the Department for International Development (DFID) and the European Union (EU). It is with genuine sincerity that we register our profound gratitude to the President for his unparalleled support in the execution of Authority's mandate. We also remain forever grateful to DFID and EU for their resourceful contribution to our operation. We look forward to your continued support as we step into an electioneering era.

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ABBREVIATIONS

ACG	Acting Commissioner General
AfDB	African Development Bank
BSL	Bank of Sierra Leone
CED	Customs and Excise Department
CIT	Corporate Income Tax
CRF	Consolidated Revenue Fund
DfID	Department for International Development
DTD	Domestic Tax Department
(SL)EITI	(Sierra Leone) Extractive Industry Transparency Initiative
EU	European Union
GDP	Gross Domestic Product
GST	Goods and Services Tax
ICA	Internal Control and Audit
ICT	Information and Communications Technology
IMF	International Monetary Fund
ITD	Income Tax Department (former)
MDA	Ministries Departments and Agencies
MoFED	Ministry of Finance and Economic Development
MRP	Monitoring, Research and Planning
NGO	Non Governmental Organizations
NRA	National Revenue Authority
NTR	Non Tax Revenue
PATE	public Affairs and Tax Education
PIO	Public International Organization
PIT	Personal Income Tax
PLA	Policy and Legal Affairs
WDI	World Development Indicators

SYMBOLS

Le	Leones (currency denomination)
US$	United States Dollar
mn	Million
bn	Billion
tn	Trillion

NRA BOARD OF DIRECTORS

Board Chairman

Governor of BSL

Acting Commissioner-General

Legal Practitioner

Financial Secretary, MoFED

Tax Specialist

The Economist

Secretary to Board

NRA SENIOR MANAGEMENT

Acting Commissioner General	Madam Haja-Kallah Kamara
Commissioner DTD	Mr. Ibrahim Sorie Kamara
Director, Corporate Services	Mr. Bilal Kargbo
Director, Finance and Budget	
Director, ICT	
Deputy Commissioner DTD	Alfdred I. Akibo-betts
Ag Director AHRM	Mr. Alimamy O. Kamara
OIC Operations, CED	Mr. Said Conteh
Ag. Deputy Director, MRP	Mr. Idrissa E. Kanu
Deputy Commissioner NTR	Mr. Sylvester Clemence
OIC Modernization	Mr. Ibrahim Jalloh
Assistant Director, MRP	Mr. Issa Conteh
Assistant Director, RIIU	Mr. Sheku Kamara

THE NRA ORGANIZATIONAL STRUCTURE

HISTORICAL OVERVIEW OF TAX ADMINISTRATION IN SIERRA LEONE

Efficient and effective tax administration has ever since been a daunting challenge in Sierra Leone. From the notable resistance to compliance evident in the “Hut Tax War” of 1896 to a loose and fragile post-colonial tax structure, taxation in the country has come a long way. The tax administration system in Sierra Leone has undergone fundamental reforms since the mid-1980s in response to the need for economic and social development. During this period; the Sales Tax was introduced, the Income Tax Act redrafted, and the scope of the excise duties scaled back and simplified. Despite these reforms, the erstwhile collection system failed to generate sufficient tax revenue to finance the increasing budgetary deficits of the central government. The poor performance in tax and customs administrations could be attributed to lack in clearly defined procedures and processes, the manual handling of tax operations, lack of resources, poor training, and high operating costs in a fragmented administration system.

After three decades in its post independence struggle, a civil war broke out that halted the economic progress and wrecked development programmes of the country. Mining operations, agriculture, tourism and private sector reforms were brought to a standstill; resources were diverted to defence and security. The devastation of infrastructure and institutions left greater demand for revenue for post-war reconstruction. At the heart of the increased demand, there was a call for improved revenue mobilization; hence the idea for a semi-autonomous national revenue mobilization entity was born. The National Revenue Authority (NRA) was established by an Act of Parliament on 13th September, 2002 and commenced operation in January 2003. This Act mandated the Authority to collect and account for both direct and indirect taxes in Sierra Leone and strengthen the enforcement of provisions in various tax laws (Customs Tariff Act,1978, (Amended in 2011), Income Tax Act,2000, Payroll Tax Act,1972, Foreign Travel Ticket Tax Act,1975, Entertainment Tax Act,197, Restaurant Food Tax Act,1989, Sales Tax Act, 1995, Hotel Accommodation Tax Act and External Telecommunications Act,1995 (now embedded into the Goods and Services Tax Act 2009), Excise Act, 1982 and a number of tax codes.

The formation of NRA thus ushered a major reform in tax administration in Sierra Leone and prepared the stage for a number of subsequent reforms. First, the Income Tax and Customs Departments were merged and various support departments were established. The success of this merger propelled the formation of a Non-Tax Revenue (NTR) Department for effective delivery in the collection of royalties, fees, licenses, court fines and other charges. As a way of reinforcing the operations of the agencies, the Finance, Administration and Human Resources (FARM), Administration and Human Resource Management (FAHRM), Monitoring, Research and Planning (MRD), Modernization Programme, Internal Control and Audit (ICA), Public Affairs and Tax Education (PATE), the Corporate Secretariat and Information and Communication Technology (ICT) Departments were established. This move ensured the recruitment of technical and competent staff in the areas of management, administration, planning, monitoring, information technology and accountancy. It further ensured the decentralization of tax administration to cover the provinces (north, south and east) and all border posts across the country.

In pursuit of the mandate of the Authority, NRA focused on designing and implementing effective strategies and programs to maximize collection and ensure compliance while facilitating trade, investment and the movement of people across the borders. To date, the Authority has overseen the implementation of several reform measures and a Modernization Plan (2008-11) giving rise to the implementation of the Goods and Services Tax (GST), automation of customs operations, the integration of domestic tax operation and improvement in processes for an efficient, effective tax and customs administration that reflects modern trend in tax administration.

THE MACROECONOMIC ENVIRONMENT OF TAXATION IN 2011

The macroeconomic tax environment of Sierra Leone is simply complex. The private sector is dominated by small and micro enterprises, where more than 80 percent of registered business units are small and micro enterprises contributing about 20 percent of revenue collected by the Income Tax Department[1]. Apart from such a large shadow economy contributing about 45 percent to GDP (Schneider, 2009), there are several parallel regulations hindering the effective administration of tax laws. Put simply, the environment of tax administration in the country is anything but straightforward.

Sierra Leone has been rebuilding its economy on the platform of mining/exploration and foreign direct investment. The country realized US$ 36 million in foreign investment in 2011 as evidenced in the growing number of license holders in the oil and gas exploration. The economic atmosphere was also punctuated by frequent short-term shocks in prices and the value of domestic currency. Inflation rate at the end of 2011 was 13.7, easing slightly from …. in December 2010. Exchange rate depreciated by 6.7 percent from Le3,908.9/US$ in 2010 to Le4,114.5/US$ in 2011 (Bank of Sierra Leone, 2011). An interest rate of 25 percent on loans provided by banks is still massive burden on borrowers and a significant factor in the value of the domestic currency.

Annual growth in real GDP was 5.7 percent, from 5 percent in 2010. Exports of goods deteriorated slightly from 18.8 percent of GDP in 2010 to 18.1 percent in 2011; coupled with growing domestic import, the trade balance deteriorating by 40.9 percent of GDP in 2011). Government size (measured in budgeted expenditure) continues to expand reechoing public demand for investment in infrastructure, health, education and governance at both the national and sub-national levels.

Revenue uptake increased by 18.2 percent from 12.6 percent of GDP in 2010 to 14.9 percent in 2011. The extractive industry share of total collection was 21.2 percent, more than any year before. The agriculture sector in the country, still the fulcrum of growth, enjoys sweeping tax

[1] Source: National revenue Authority, Domestic Tax Department.

exemptions, but the growing expansion in the mineral and oil exploration sector appears have triggered a new economic landscape in the country since 2010. Despite the obvious realities, there are indications for great years ahead. The country could be preparing a solid basis for sustainable growth on the grounds that numerous large-scale plantation projects for export are now underway; coupled with the prospect of processing iron ore for export. Finally, the economy was projected to grow by 32.5 percent in 2012, revised downwards from 51.4 percent, influenced by the projected output of African Minerals. If this is anything to go by, the mining and extractive sector alone could be contributing more than half of total revenue in the years to come.

Reference

Schneider, F. 2009. Shadow Economy in Developing Countries.

CORPORATE GOVERNANCE

NRA has made tremendous strides in collecting revenue for public spending. The Authority's collection outreach continues to spread nationwide amid significant improvement in process and procedures. One major reason for such achievement has been the extent of improvement in governance over the years. The Authority maintains that effective corporate governance requires due diligence in rallying the support and commitment of the broad network of stakeholders, including the Board of Directors, employees, taxpayers and the general public. It governance structure has been built around its legal mandate and coverage and on the solid foundation of integrity and professionalism. The governance model currently in use is geared towards compliance on the side of employees and taxpayers.

The Board of Directors of NRA is made up of seven personalities directly appointed by the President. It is made up of the Chairman of the Board, Commissioner-General, the Governor of the bank of Sierra Leone, Financial Secretary, a legal practitioner, an Economist and a Tax Expert. Their role is to protect NRA rights and interests, high-level management of the Authority and creating long-term strategies for effective tax administration in the country. In furtherance of this objective, the Board of Directors has established four committees (Audit; Finance, Administration and Human Resources; Project Monitoring and Implementation committee and a committee on the whole) of directors. While the first three committees are specific to those areas, the latter committee looks at overall technical and high-level operational matters. There are also several committees at Senior Management Team to support and reinforce the role of the Directors. The Board of Directors and Senior Management Team (SMT) attended seminars on governance and management issues to enhance their delivery.

In order to upgrade standards, morale and staff welfare; consultants were employed to review the terms and conditions of services, human resource policies, procedures and standards and developing a retention strategy. On the other hand, conscious moves were made to combat integrity issues with emphasis on disciplinary measures and the establishment of an additional checks and balances unit, the Revenue Intelligence and Investigations Unit, in addition to the Internal Control and Audit Department and the Monitoring, Research and Planning Department. To further exemplify its commitment to zero tolerance on corruption, the Authority established an integrity committee to work closely with the Anti Corruption Commission (ACC) on such matters. As a matter of fact, all employees of the Authority must comply with its Codes of Conduct and abide by policies, procedures and standards. In its pursuit of good governance, there are clearer Terms and Conditions of Service with greater focus on employees and improved measures for management. Staff roles and responsibilities have been clearly defined to foster better engagement with customers and other stakeholders and more flexibility and transparency in the workplace. It new emphasis on human resources and capacity building is statement on its belief in knowledge as a fundamental for better performance. To promote the use of such knowledge-for-management dimension, the Authority has organized regular workshops and training for newly recruited as well as employees in managerial capacities to ensure the effective implementation, monitoring, and review of corporate governance codes. Our current governance arrangement borrows a lot from current international best practices in tax administration.

REVENUE PERFORMANCE REPORT

Historic Trend

From the consolidation of income tax and customs operations in 2003, establishment of a Non Tax Revenue (NTR) Department in 2004 and decentralization of tax administration to the implementation of GST, automation of customs operations and establishment of a Domestic Tax Department (DTD) in 2011, the National Revenue Authority has torn along sturdy reforms that have reflected on its performance over the years. The outcomes are, among others, a massive boost in domestic revenue collection and improved efficiency in tax and customs administration.

There has been growth in the country's tax to GDP ratio (tax level), an indicator of a country's domestic capacity since 2007. After domestic capacity stalled over a three years period from 2004 (see Appendix 1 for details), it reached its nadir in 2007 dropping to 10.1 percent. However, our tax level leaped from that depth (10.1 percent in 2007) to 14.9 percent in 2011, whereas nominal revenue collection more than doubled in the last two years (between 2009 and 2011).

Table 1: Comparing Tax-GDP Ratio (revenue excluding grants)

Tax level (tax-GDP ratio)	Percent (2011)
Sierra Leone	14.9
ECOWAS	16.1
Low income countries	18
Middle income countries	22.5

Source: World Development Indicators and International Monetary Fund Statistics (2011)

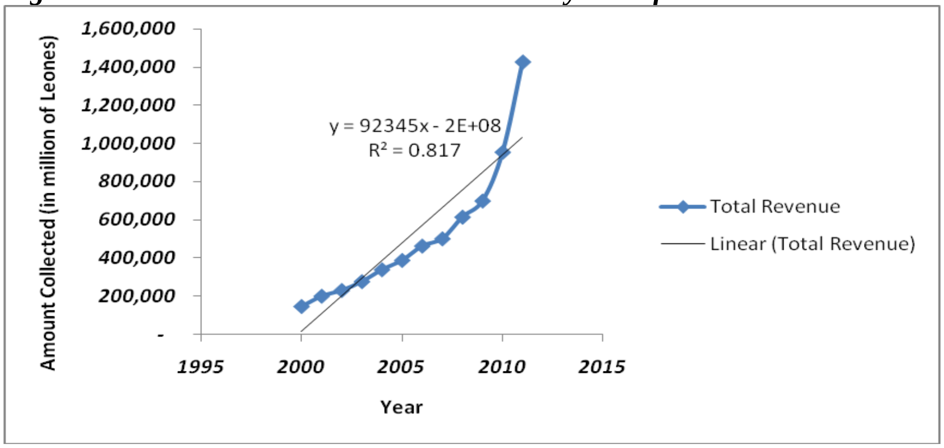
From 2010 to 2011 alone, it grew by 2.3 units from 12.6 percent in 2010 to 14.9 percent in 2011. The country's tax-to-GDP ratio was one of lowest among countries in the Economic Community of West African States (ECOWAS) in 2007 but has since recovered and at 14.9 percent in 2011 compares closely to tax-levels in the sub-region (16.1 percent) and among low income countries (18 percent)[2].

Sierra Leone revenue collection was adversely affected by the lack of a capable institution to mobilize national revenues and the eleven (11) years civil conflict. As illustrated in Table 1,

[2] Source:

revenue collection recovered immediately following the formation of the National Revenue Authority and the end of hostilities in the country in 2002.

Figure 1: Trend in Total Revenue Collection by NRA from 2000-11



It is clear from Figure 1 that revenue collection was slow between 2000 and 2008. Collection recorded strong growth in the last three years (2009, 2010 and 2011). It is safe to suggest that the expansionary trend in revenue collection would continue given the improvement in the tax administration systems, procedures and capacity.

Periodic Analysis of Collection

Table 2 was generated to present periodic comparison of key tax indicators and to provide a glimpse of revenue potency. The three (3) periods were: *post war (2002-2011)*, *NRA era (2003-2011)* and the *last five years (2007-2011)* and the estimates simple statistical measures (*mean and standard deviation*) as a way of comparing averages and deviations for nominal collection, tax-GDP ratio and annual revenue growth rate. The estimates revealed a mixed result. NRA has collected on average Le 630.4 billion over its nine (9) years of operation, more than the average collected in post war Sierra Leone (Le590.5 billion). However, average revenue growth rate was better in post war Sierra Leone (22.2%) than the NRA era (20.7%). Tax levels (tax-to-GDP ratio) hitherto remained the same over the two periods (11.6 percent). Over the last years though, NRA revenue performance has shown strong growth pattern. During this period, average collection was Le840.5 billion; average growth rate was 26.1 percent and the mean tax level was 11.8 percent. In fact it is the estimates in the last two years that provides all the signs optimism with average growth rate more than 30 percent and tax-GDP ratio at 13.7 percent.

Table 2: Descriptive statistics of revenue collection in three set of periods[3]

	Mean			Standard deviation		
	NRA	**Post war**	**Last 5 years**	**NRA**	**Post war**	**Last 5 years**
Revenue (in billion Leones)	630.4	590.5	840.5	363.9	365.5	368.8
Tax/GDP	11.6%	11.6%	11.8%	0.01	0.01	0.02
Revenue Growth	20.7%	22.2%	26.1%	0.15	0.12	0.30

The illustrations from Figure 1 and Table 2 underscored the existing potential for further growth in revenue collection. The upward revenue trend with high positive slope and coefficient of determination (R^2=0.817) as demonstrated in Figure 1, points to expansionary growth path in national revenue, all other things remaining the same. Similarly, the estimated high standard deviation for all parameters (See Table 2) in the last five years further indicates future revenue expansion.

In short, Sierra Leone revenue in recent years have garnered measured momentum, bolstered by the successful implementation of the Goods and Services Tax, internal business processes re-engineering, automation and a boom in the mining sector. These reforms have in a number of ways enabled the Authority perform consistently (based on its programme targets) following consecutive collection deficits in 2006, 2007, and 2008.

Revenue Outlook in the Last Five Years

Collection by department over the last five years revealed an interesting pattern. All departments reported gradual increase in collection until 2010 when the dynamics changed reflecting the direction of reforms. Figure 2 illustrated that CED collected more revenue than DTD and NTR before 2010, when the GST implementation commenced and the administration of import sales tax and domestic sales tax were transferred from Customs and Excise Department (CED) to Goods and Services Tax Department. The fact that non-tax revenue increased tremendously in 2011 is also a reflection of the boom in the extractive industry and payment for licenses, lease and royalty by operators in the sector.

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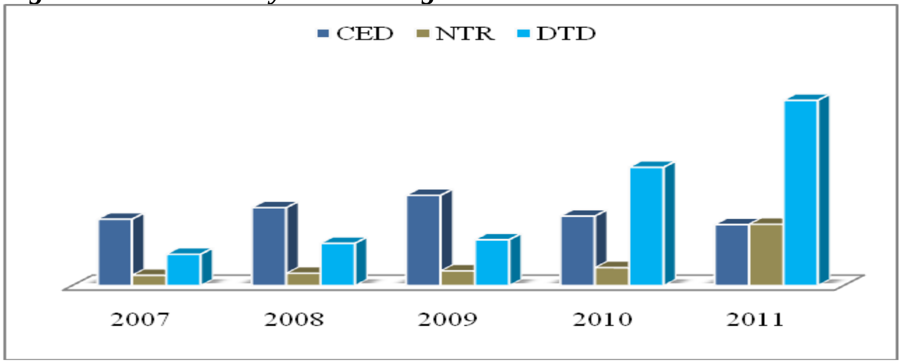
[3] The amounts in this report are stated in billion of Leones, unless otherwise indicated. Amount stated in brackets implies negative values.

Figure 2: Collection by Revenue Agencies 2007-11

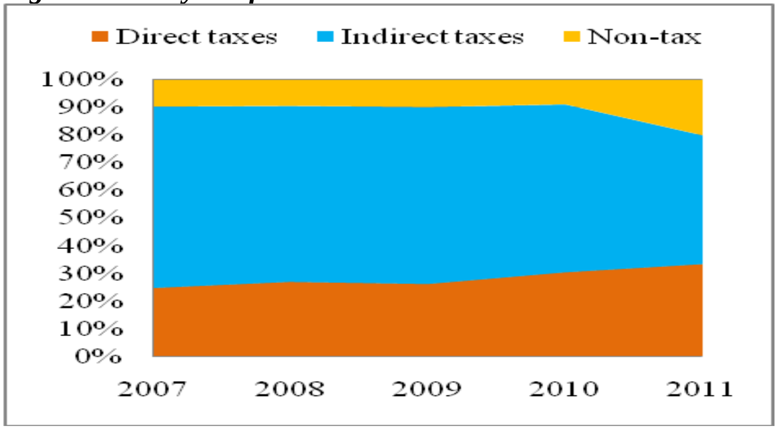


Between 2010 and 2011, DTD collection increased by more than half (56.6 percent) from Le549.4 billion to Le860.6 billion; while the non-tax uptake more than doubled (241.3 percent increase), boosted by natural resource license payment (49.8 percent of collection). However, CED performance slumped (12.2 percent) from Le322.8 billion (2010) to Le283.3 billion (2011) as a consequence of the expansionary trend in duty concession and the transfer of import and domestic sales tax to GST in 2010.

Composition of collection: Direct and Indirect Taxes

In Sierra Leone, consumption accounts for 40 percent of GDP in our national accounts. National income level has also increased in recent years to underscore the expansion in the real and service sectors. To NRA, these economic windfalls have been translated into increased consumption and income tax revenues. Indirect taxes or taxes on goods and services accounted for the bulk of total revenue collected in 2011. The evidence in Figure 3 revealed that that until 2011, such taxes comprised about two-thirds of total revenue collection, which is a testament to our reliance on consumption taxes. However, the narrowing gap between indirect and direct tax revenues is a prospect for sustainable revenue generation as income and capital are relatively stable revenue sources than goods and services.

Figure 3: Analysis of Direct and Indirect Taxes 2007-11

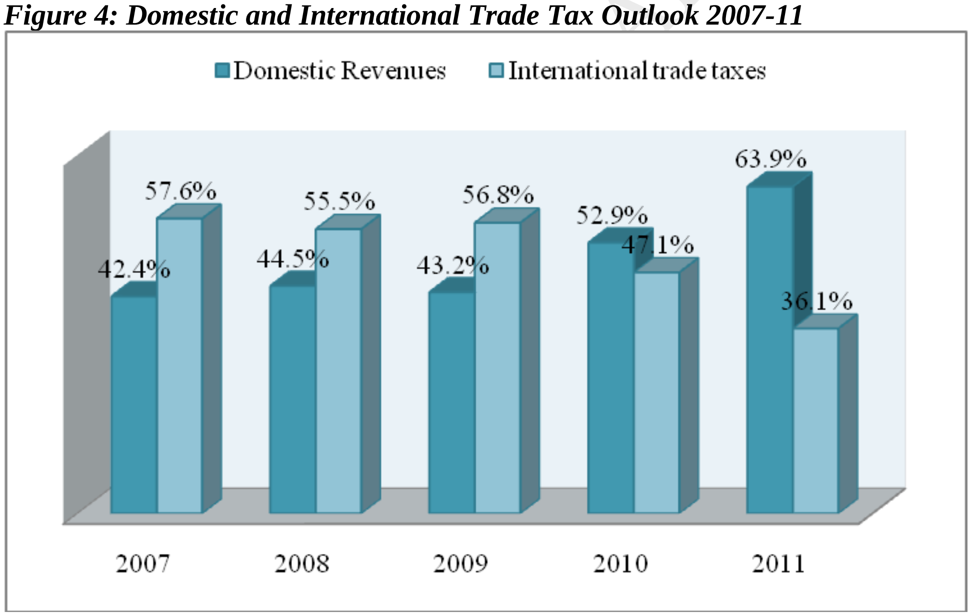


It could be noted from Figure 3 that direct taxes make up a third of revenue collection in 2011, from one-fourth in 2007 and 30 percent in 2010 (See Appendix III (a) for details). The rise in both direct tax and non-tax revenues in 2011 which trimmed the composition of consumption tax (to 47 percent) in domestic revenue revealed a gradual growth trend that defines a new beginning in domestic revenue collection that is in line with domestic revenue stability demands. It is also a cause for optimism as the extractive industry continues to expand with renewed hopes of greater contribution to domestic revenue at a time when the tax authority is far advanced in its modernization of systems and operations to promote voluntary compliance and maximize collection.

Domestic and International Trade Tax fraction in Sierra Leone

Until 2010, Sierra Leone revenue has been overly reliant (about 58 percent or more) on international trade taxes (import duties, import sales tax and import excise on petroleum). The sterling consequences of import volume fluctuations, exchange rate volatility and other forms of international shocks have urged the NRA to reform its systems in order to revamp domestic revenue sources and shift reliance to those sources. This move culminated in the implementation of GST in 2010 and the integration of the GST and Income Tax processes in 2011.

Figure 4: Domestic and International Trade Tax Outlook 2007-11



As illustrated in Figure 4, more than half of national tax revenue was collected from domestic sources[4] (corporate tax, personal income tax, domestic GST and domestic excise) in 2010. The proportion

[4] This amount does not include royalty payment by mining companies

increased to about 64 percent in 2011, following the integration of the GST and ITD business processes into a Domestic Tax Department (DTD). The declining trend in international trade taxes (see Appendix III-b for details) could be associated to the country's move towards global trade liberalization and gradual commitment to the vision of the World Trade Organization.

NRA REVENUE PERFOMANCE 2011

Where revenue collection topped Le1.4 trillion, grew by 49.5 percent and was almost the size of the country's GDP ten (10) years before (in 2001), the performance is virtually commendable. Since the Authority began mobilizing resources towards improving processes and procedures and systems automation, achieving the "trillion Leones collection" milestone that was once a myth is now a thing of the past. NRA has, in two years, doubled collection (from Le700 billion in 2009 to Le1.43 trillion in 2011; see Table 3 for details). The majority of revenue collected by NRA was accounted for by DTD (60.2 percent), where GST (26.3 percent) and personal income tax (PIT) (23.4 percent) accounted the most (see Table 3). The GST collection was enhanced by increase in domestic import, hence the collection of Import GST. PIT was bolstered by an advance P-A-Y-E payment of US$10 million by African Minerals. Although Royalties are accounted for under non-tax revenue, it was payments on Mining Licenses (49.8) and Mining Lease (16.6) that contributed the most (two-thirds) to total non-tax revenue collection in 2011. The bulk of these payments are signature bonuses and licenses payment from petroleum exploration companies for the right to operate in the country.

Table 3: Year-on-year Revenue Performance(in millions of Leones)

	2009	**Percent Contribution**	**2010**	**Percent Cont (Growth)**	**2011**	**Percent Cont (growth)**
Total NRA Collection	**700,327**	**100.0%**	**955,662**	**100(36.5)**	**1,428,781**	100(49.5)
DTD	**213,043**	**30.4%**	**549,388**	**57.5(157.9)**	**860,599**	60.2(56.6)
CIT	*63,473*	*9.1%*	*136,510*	*14.3(115.1)*	*144,433*	*10.1(5.8)*
PIT	*120,637*	*17.2%*	*155,237*	*16.2(28.7)*	*334,177*	*23.4(115.3)*
GST	-	*0.0%*	*246,362*	*25.8*	*375,275*	*26.3(52.3)*
Others	*28,934*	*4.1%*	*11,279*	*1.2(-61.0)*	*6,715*	*0.5(-40.5)*
CED	**419,191**	**59.9%**	**322,818**	**33.8(-23.0)**	**283,334**	19.8(-12.2)
Import duty	*169,721*	*24.2%*	*189,811*	*19.9(11.8)*	*237,452*	*16.6(25.1)*
Excise on Petroleum	*98,517*	*14.1%*	*123,439*	*12.9(25.3)*	*35,170*	*2.5(-71.5)*
Other Excise	*7,923*	*1.1%*	*9,568*	*1.0(20.8)*	*10,712*	*0.7(12.0)*
NTR	**68,094**	**9.7%**	**83,456**	**8.7(22.6)**	**284,848**	19.9(241.3)
Mines	*20,224*	*2.9%*	*24,190*	*2.5(19.6)*	*205,344*	*14.4(748.9)*

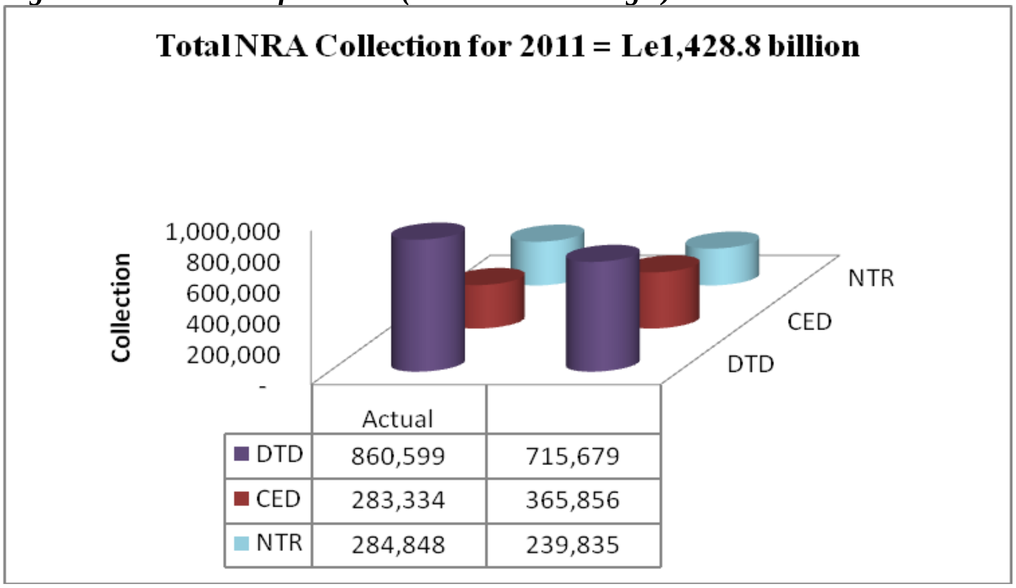
Other Departments	*47,870*	*6.8%*	*59,266*	*6.2(23.8)*	*79,505*	*5.6(34.1)*
Total NRA Collection	**700,327**	**100.0%**	**955,662**	**100(36.5)**	**1,428,781**	100(49.5)

The year-on-year analysis shown in Table 3 revealed an encouraging growth trend in collection and interesting shift in collection pattern. Revenue collection grew by 36.5 percent between 2009 and 2010 and further increased by almost half that amount in 2011. This boost could be attributed to the implementation of GST, which alone contributed a quarter of total collection in 2010 and about 0.5 percent more (26.3) in 2011. All major tax handles (PIT, GST, CIT and Import Duty) reported significant growth rates in 2011 (115.3, 52.3, 5.8 and 25.1 percents respectively). That notwithstanding, it is the evolving collection pattern that makes interesting reading: Customs and Excise Department (CED) that collected the most (about 60 percent of collection) in 2009, collected the least (19.8 percent) in 2011. This is the result of sustained reform measures geared towards enhanced collection from domestic sources, amendments in tariffs to match the changing market conditions and expanding duty-waiver and concessions.

Revenue Performance (Variance Analysis)

Tax collection is monitored and evaluated at the end of every quarter, half year and annum using the annual programme target for the period. The target is the minimum the Authority is expected to collect and should do so for all tax handles and collection agency over the same period. In 2011, NRA was expected to collect Le1.32 trillion. DTD was to collect Le715.7 billion; Le105.9 on CIT, Le265.5 on PIT and Le335.3 on GST and about Le9 billion on Foreign Travel Ticket (FTT). Simil arly, the projected collection by CED was estimated at Le365.8 billion (Le282.9 on import duties, 78.7 on excise on petroleum and Le3.3 on other excise). The target for non-tax revenue was also estimated at Le239.8 billion (Le7.4 billion on Royalties, Le145 billion on Mining Licenses, Le1.1 billion on Mining Lease and Le86.3 billion on fines, fees and other charges). Figure 5 illustrated the actual collection (left) and projected collection (right) for each revenue agency in 2011.

Figure 5: Revenue Performance (Actual versus Target) 2011



Overall, it was a celebrated spectacle for NRA as it collected a total of Le1.428 trillion, Le107.4 billion (8.1 percent) more than the expected collection in 2011. It could also be seen from Figure 5 and Table 4 that only two departments (DTD) and NTR met and/or exceeded their targets in 2011. The estimated target is an amount agreed computed and agreed upon by all stakeholders (NRA, Minitry of Finance and the International Monetray Fund).

Table 4: NRA Revenue Performance 2011(amount in billion of Leones)

Detail	Revenue 2011	Target 2011	Variance	Percent of target	% of total revenue	% of GDP
TOTAL NRA REVENUES (Excluding RUC)	**1,428.8**	**1,321.4**	**107.4**	**8.1%**	**100.0%**	**14.9%**
DOMESTIC TAX DEPARTMENT (DTD)	**860.6**	**715.7**	**144.9**	**20.2%**	**60.2%**	**9.0%**
INCOME TAX DEPARTMENT (ITD)	**485.3**	**380.3**	**105.0**	**27.6%**	**34.0%**	**5.1%**
Corporate Tax	*144.4*	*105.9*	*38.6*	**36.4%**	*10.1%*	*1.5%*
Personal Income Tax - incl. Govt. PAYE	*334.2*	*265.5*	*68.7*	**25.9%**	*23.4%*	*3.5%*
Other Taxes (Foreign Travel Tax & penalty)	*6.7*	*9.0*	*(2.3)*	**-25.2%**	*0.5%*	*0.1%*
GOODS AND SERVICES TAX (GST)	**375.3**	**335.4**	**39,935**	**11.9%**	**26.3%**	**3.9%**
Import GST	*243.6*	*179.8*	*63.8*	**35.5%**	*17.1%*	*2.5%*

Domestic GST	*131.7*	*155.5*	*(23.8)*	**-15.3%**	*9.2%*	*1.4%*
CUSTOMS AND EXCISE DEPARTMENT (CED)	**283.3**	**365.9**	**(82.6)**	**-22.6%**	**19.8%**	**3.0%**
Import Duties	*237.4*	*282.9*	*(45.5)*	**-16.1%**	*16.6%*	*2.5%*
Excise on Petroleum	*35.2*	*79.7*	*(44.5)*	**-55.9%**	*2.5%*	*0.4%*
Other Excise	*10.7*	*3.3*	*7.4*	**229.5%**	*0.7%*	*0.1%*
NON TAX REVENUE DEPARTMENT (NTR)	**284.8**	**239.8**	**45.0**	**18.8%**	**19.9%**	**3.0%**
Mines Revenue	*205.3*	*153.5*	*51.8*	**33.8%**	*14.4%*	*2.1%*
Other Departments	*79.5*	*86.3*	*(6.8)*	**-7.9%**	*5.6%*	*0.8%*
	Gross Domestic Product (GDP)					**9,578.6**

Source: National Revenue Authority, Moniotirng, Research and Planning Department Database

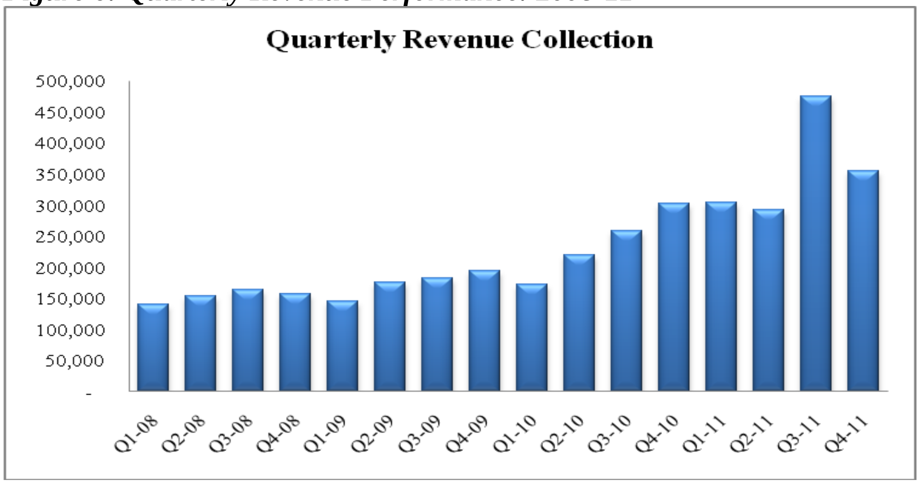
As illustrated above, DTD exceeded its target by a mammoth Le144.9 billion (20.2 percent) and NTR by Le45 billion (18.8 percent) compensating for the Le82.5 billion shortfall reported by CED. Major tax handles such as PIT, CIT and GST also surpassed their target by a considerable amount (Le68.7 billion, Le38.5 billion and Le39.9 billion respectively). Import duty and Excise on Petroleum fell short by Le45.5 billion and Le44.5 billion respectively. The Mines section under NTR also performed reasonably well (reporting a surplus of Le51.8 billion) but projection on fees, fines and other related charges from related Ministries, Departments and Agencies (MDAs) fell short of target by Le6.8 billion.

It has been shown that collection in 2011 was a significant leap (49.5 percent) from 2010 collection (see Table 3) and growth in revenue could not cease at least in the short-run. Despite these measured improvement in tax collection and operational procedures that ranks among the elite in the sub-region (West Africa), there is significant room for expansion more so in its capacity to handle small and micro enterprises, tax evasion, systems automation, natural resources and electronic taxation and transfer pricing.

Quarterly Revenue Performance 2011

The quarterly revenue data for NRA is illustrated in Figure 6. The figure showed that collection in the third quarter of 2011 recorded a dramatic rise than the other quarter (Le475.6 billion) since the start of 2008. The amount represented significant one-off payments on signature bonuses and exploration mining licenses. From the figure, it could also be observed that, barring Q3 of 2011, NRA quarterly revenue collection showed a gradual stepwise growth pattern since the first quarter of 2009. Average quarterly revenue collection was estimated at Le357.2 billion in 2011 from Le238.9 billion (Le118.3 billion increase) in 2010.

Figure 6: Quarterly Revenue Performance: 2008-11

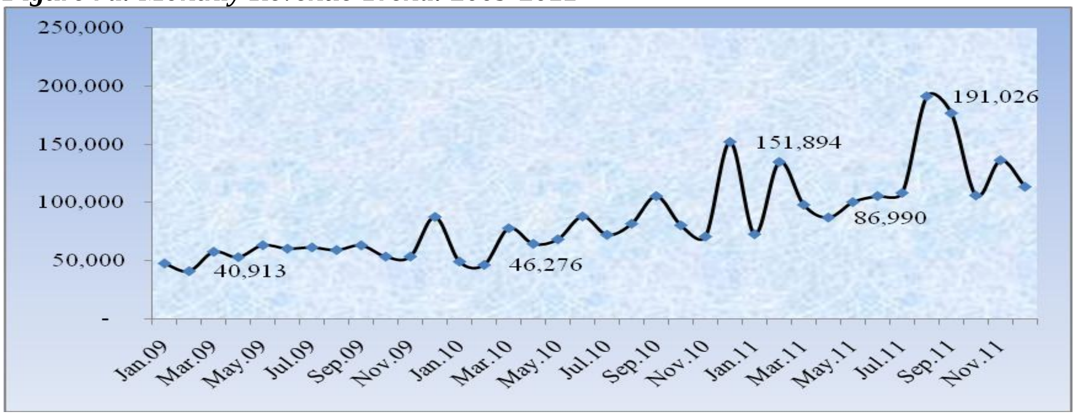


Compared to quarterly targets, NRA revenue performance revealed a mixed outlook over the last three but has consistently reported excess over its quarterly targets in 2010 and 2011. Individual operational department's analysis is done under topic Revenue Performance 2011 to give a detail picture on this subject.

Monthly Distribution of Collection

The trend in monthly revenue is akin to the quarterly revenue trend but there are virulent fluctuations in the former. It has been noted that December is the peak month for revenue collection in Sierra Leone, but this propensity was defied in 2011, when August was the peak month (see Figure 7a). The reason is the same: large one-off payments by mining and exploration companies in respect of signature bonuses and Mining and Exploration Licenses.

Figure 7a: Monthly Revenue Trend: 2009-2011



Monthly revenue flow over the years has been observed to peak towards the end of every quarter (March, June, September and December) and tail-off at the start. This is because large corporate tax payments are usually made during this period in addition to regular monthly payments of PIT and GST. However, the pattern was rarely altered in 2011 when February, August, September and November reported more collections. Average monthly collection for the period under review was estimated at Le119.1 billion, compared to Le79.6 billion in 2010 (an increase of Le39.4 or 49.5 percent). Daily collection average was Le5.7 billion in 2011 and Le3.8 billion in 2010. The facts so far provide modest evidence that the much-vaunted reform measures are propelling the Authority to the right direction.

Figure 7b: Monthly Revenue Trend by Revenue Agency

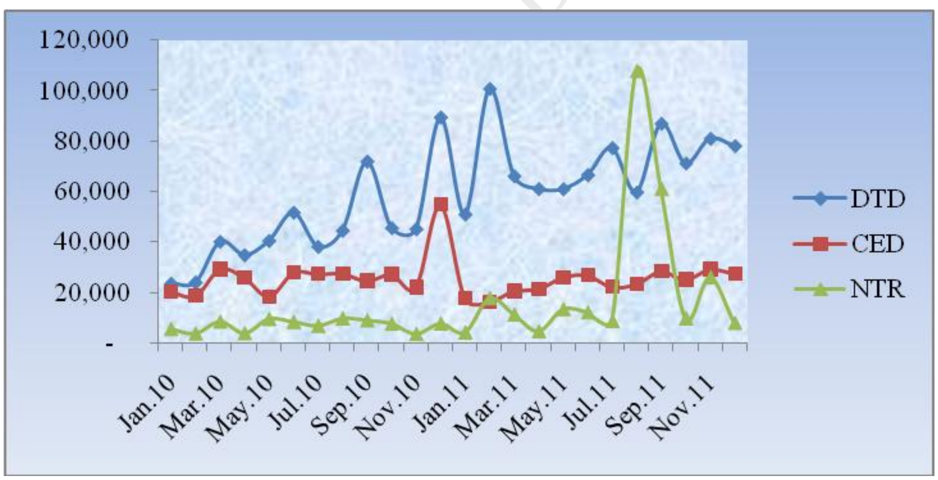


Figure 7b represents monthly collection by revenue agency. The line graphs depicted the overall pattern of collection and further suggested those periods and agencies responsible for the greatest fluctuation in collection. Monthly collection by CED remained relatively stable since 2010 before it reached its highest since the implementation of GST (Le54.9 billion in December 2010). The average monthly collection in

2011 was Le23.6, a drop of about Le3.3 billion from Le26.9 in 2010. NTR emerged from its moderate average monthly collection close to Le7 billion in 2010 to register a Le23.7 billion average in 2011. Apart from bulk payments in August (le108.1 billion) and September (Le61.2 billion), and a reported Le26 billion in November, all other monthly collection (9) fell short of its average. The evidence in Figure 7b supported the claim that DTD is the current driving force of revenue collection, taking over from CED since 2010. Its average monthly collection was Le71.7 billion in 2011 and Le 45.8 billion in 2010. In addition to the integration in Income Tax and GST processes, the payment of US$20 million in advance tax in respect of PIT by African Minerals was another major factor for that achievement.

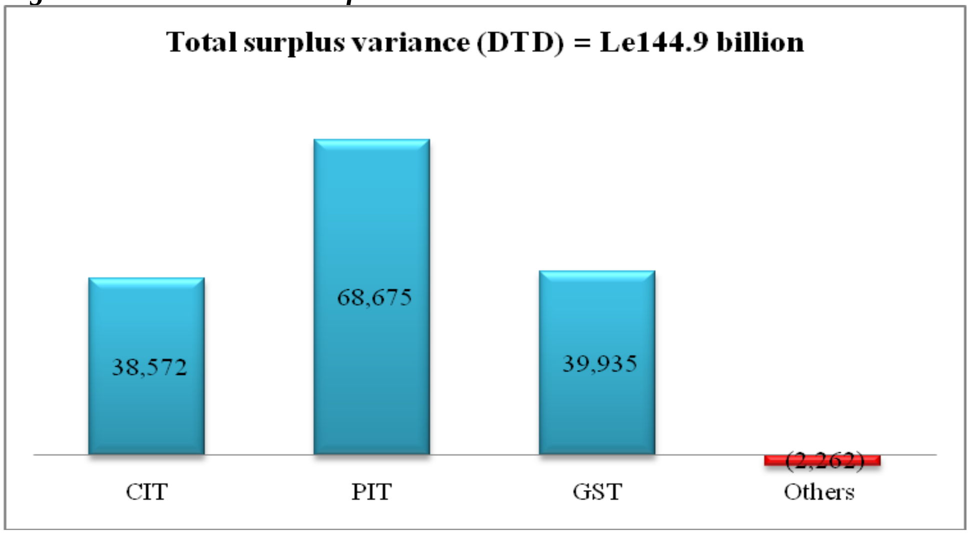
REVENUE PERFORMANCE BY OPERATION DEPARTMENT

Domestic Tax Department (DTD)

The Domestic Tax Department (DTD) collects three broad tax categories: Corporate Income Tax (CIT), Personal Income Tax (PIT) and Goods and Services Tax (GST). The department was established in 2011 as a result of the integration of the Income Tax (ITD) and Goods and Services Tax (GST) business processes and operations. Revenue collected by DTD was reported at Le860.6 billion, growing by 56.6 percent and contributing the most to 2011 revenue mobilization (60% or about 9.4% of GDP).

For the period under review, it was receipts from GST (Le375.3 billion) that contributed the most to DTD as well as NRA collection. PIT also reported Le344.2 billion, a substantial increase (115.3 percent) from last year's collection (Le155.2 billion). CIT ranked fourth (behind GST, Import Duty and PIT) in contribution to overall performance in 2010 but dropped a place behind Mines to fifth in 2011. Figure 8 presented a variance analysis based on annual projection for all the taxes collected by DTD. The chart reported a total surplus variance of Le144.9 billion by DTD and also illustrated favourable variance for all major tax handles (PIT, GST and CIT).

Figure 8: DTD Revenue Performance: Variance

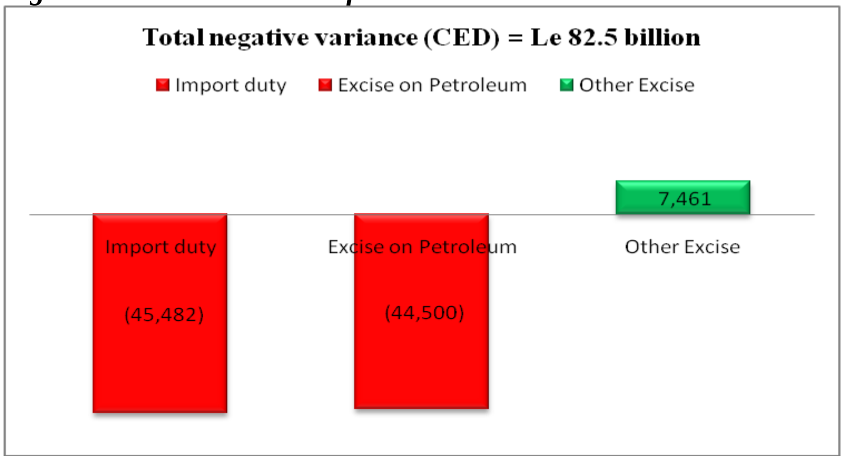


From the illustration, PIT reported the highest collection surplus (le68.7 billion) followed by GST (Le39.9 billion) and CIT (Le38.6 billion). While DTD contributed 9.4 percent to GDP, its major tax handles contributed 4.2% (GST), 3.5% (PIT) and 1.5% (CIT). The department only collection deficit (Le2.3 billion) was reported on "Others" which largely constituted Foreign Travel Ticket (FTT).

Customs and Excise Department (CED)

Customs and Excise Department (CED) was the largest collection agency in NRA in size (personnel) and performance (revenue collection) until 2010. Although it remains the largest in size , there has been considerable boost in domestic revenue mobilization and expansion in operation which has changed NRA's collection landscape perhaps forever. This new direction led to transfers in tax handles, automation, strengthening of cross-border operations and increased focus on customs administration. Figure 9 below revealed vivid image of the dynamics. CED reported an overall shortfall of Le82 billion in 2011, with both Import Duty and Excise on Petroleum failing to meet the projected revenue. These tow tax handles are the major collection streams for the Department.

Figure 9: CED Revenue Performance: Variance

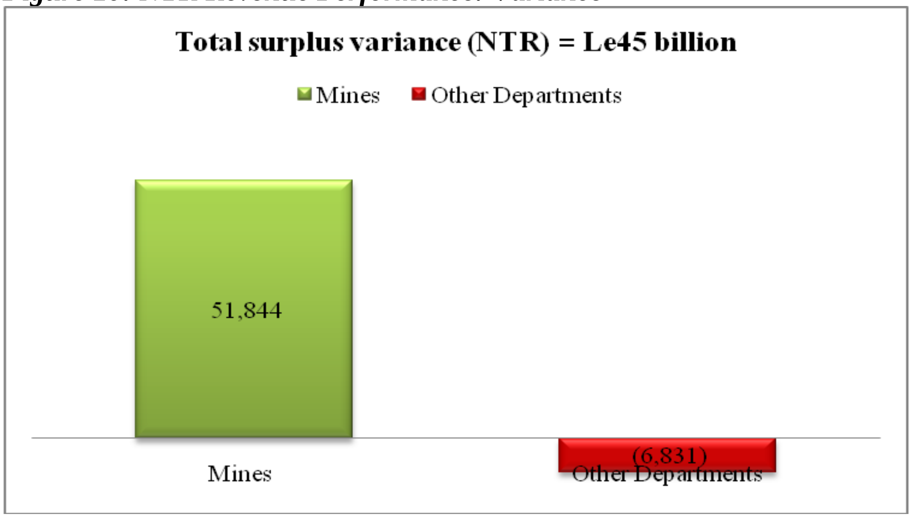


Projected revenue for Customs and Excise Department (CED) was Le 365.8billion; where Le282.9 billion was expected to have been collected on Import Duty, Le 79.7 billion on Excise on Petroleum and Le 3.3 billion on Other Excise before the end of 2011. It turned out only Other Excise met the expected collection at the end of the reporting period. The enormous deficit reported on Import Duty (Le45.5 billion) and Excise on Petroleum (Le44.5 billion) conformed largely to policy pronouncements that resulted to revenue loss in respect of fuel subsidy. The Le283.3 billion collected by CED for this period was about 20.2% of total NRA collection and 3.1% of GDP.

Non-Tax Revenue Department (NTR)

The Non Tax Revenue (NTR) Department collects and accounts for all Royalties, licenses, fees, fines and other non-tax charges. The department's collection is broadly grouped into Mines (for all mining related revenues) and Other Departments comprising Immigration, Law Court, National Registration Secretariat, Telecommunication Commission, Maritime, Ministries and other Departments and Agencies. Overall, the department collected Le282.5 billion, of which Mines accounted for Le203.9 billion and 'Other Departments' recorded a total of Le76.9 billion (See Table 5 for details).

Figure 10: NTR Revenue Performance: Variance



The variance analysis shown in Figure 10 revealed a surplus of Le45 billion, about 19 percent more than its projected revenue. It is worthy to note that that performance was driven by excess collection on mines revenue handles. In detail, NTR collected half of its revenues on Mining Licenses and 16.6 percent on Mining Lease; which means Royalties but all other fees, fines and charges accounted for only one-third of non-tax revenues (see Table 5 below).

Table 5: Non Tax Revenue (NTR) Performance : 2011 (amount in Million Leones)

Detail	**Revised Annual Target 2011**	**Actual Collection 2011**	**Deficit/ Surplus**	**% of Target collected**
TOTAL NTR COLLECTION (A+B)	**239,835**	**284,848**	**45,013**	**118.8%**
Mines Revenue (A)	153,500	205,344	51,844	133.8%
Royalties on Rutile	*309*	*685*	376	221.6%
Royalties on Bauxite	*1,423*	-	(1,423)	0.0%
Royalties on Diamond	*3,265*	*12,659*	9,394	387.7%
Royalties on Gold	*2,391*	*2,777*	386	116.1%
Mining Lease	*1,142*	*47,418*	46,276	4152.2%
Licenses (including petroleum revenue)	*144,970*	*141,805*	(3,165)	97.8%
Other Departments(B)	86,336	79,505	(6,831)	92.1%

The remarkable achievement in 2011 was a culmination of a number of factors. NRA has made tremendous efforts to improve its effectiveness in collecting revenue to meet government fiscal target. The move from tax hunting to revenue mobilization through business processes re-engineering, integration, system automatic and effectiveness in service delivery, has significantly reduced enforcement and compliance burdens. From the standpoint of the leadership of the Authority, strengthening institutional capacity, integration, expansion and improvement in operations are the cornerstone to sustained productivity and success in the tax and customs operations of Sierra Leone.

COMPOSITION OF REVENUE

Revenues collected in Sierra Leone could be grouped into three (3) broad categories: Domestic tax, (ii) International trade taxes and (iii) Non-tax revenue. Domestic taxes are those imposed on domestic sourced income and capital and locally traded goods and services. Taxes imposed on cross-border activities are classified as International Trade Taxes and non-tax revenues comprise all payments for mining licenses, leases, and other fees, fines and charges. From the evidence in Figure 11 (left), national taxes percent in total revenue (45) was 9 percent more than the taxes on international trade (36) and more than twice the non-tax revenues (19 percent). All International Trade Taxes are collected by the customs and Excise Department.

Figure11: Domestic and International Trade Taxes

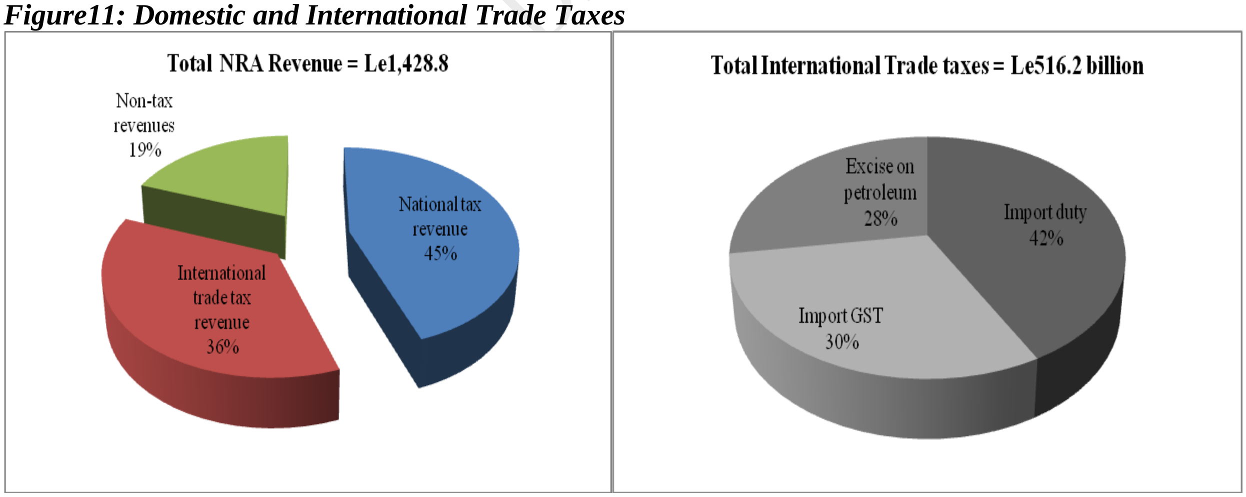
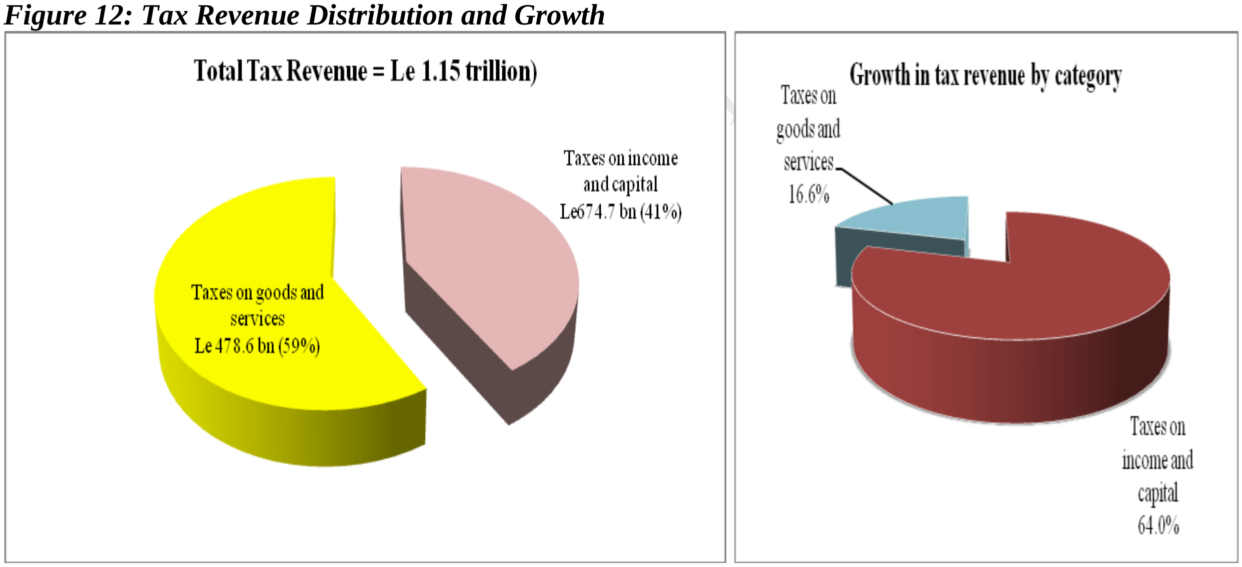


Figure 11 (right) disclosed that Import duties (42 percent) accounted for the greatest share of collection on International Trade Taxes (Le516.2 billion). Import GST replaced Import Sales Tax in 2010 and was 30 percent of International Trade Taxes in 2011 and Excise on Petroleum was 28 percent. The decreasing share of international trade taxes in total revenue in Sierra Leone is a pointer to the Authority's steps towards enhancing domestic revenue collection and sustainability.

Distribution of Tax Revenue

Taxes are collected from income and capital, goods and services, trade and cross border activities. This section looks at various classifications of tax revenue to present a detailed and explicit picture of the collection in 2011. Taxes on goods and services comprise all indirect taxes paid on GST, Import duty, Excise on Petroleum, Royalties, Foreign Travel Ticket and Domestic Excise. Taxes on income and capital embrace direct taxes such as PIT, CIT, and Payroll tax. More than half (59 percent) of the tax revenues generated in Sierra Leone in 2011 was on goods and services (Figure 12, left). This fact reflects the prevailing economic reality in a country where consumption share of income is the largest in the measure of economic performance (GDP).

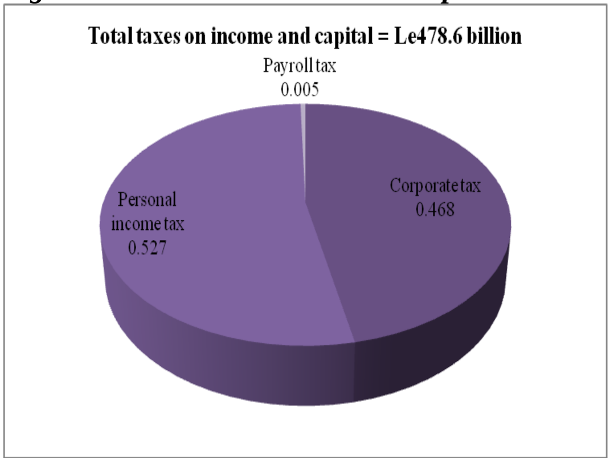
Figure 12: Tax Revenue Distribution and Growth

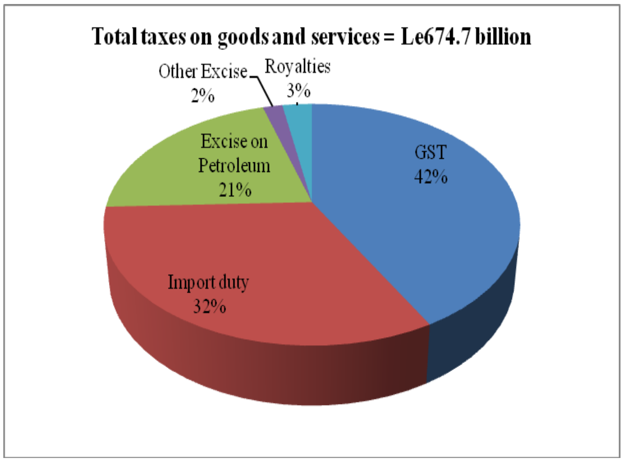


Estimated growth rate (Figure 12, right) showed that taxes on income and capital grew more than taxes on goods and services (64 and 16.6 percents respectively) in 2011.

Personal Income Tax (PIT) share of total taxes on income and capital (52.7 percent) exceeded Corporate Income Taxes (46.8 percent) with Payroll tax representing a negligible (0.5 percent) proportion in 2011. The magnitude of PIT share to total collection on direct taxes in 2011 was consistent with reported figures in previous years. The level of Payroll tax, paid by non-citizens and non-ECOWAS employees in Sierra Leone, in direct and domestic taxes has been relatively constant over the last couple of years.

Figure 13: Taxes on Income and Capital and Goods and Services





The composition of taxes on goods and services was depicted in Figure 13 (left). GST (domestic and import) alone accounted for 42 percent of tax revenues collected on goods and services and 26.3 percent of overall revenue collected by NRA in 2011. Other major contributors to collection on goods and services inlcude Import Duty (32 percent) and Excise on Petroleum (21 percent). Royalties, imposed mostly on the volume of minerals produced (diamond, iron ore, rutile, bauxite and gold) for export, accounted for only 3 percent of total collection on goods and services and 1.1 percent share of total revenue (Table 6).

Table 6 it further revealed that national revenue take from goods and services (47.3 percent) outweighs collection on income and capital (33.5 percent) in both 2010 and 2011. There is also evidence that revenue from domestic sources (collected on income and capital and domestic consumption related taxes) represented a greater fraction than those on International Trade but the reverse was true until 2009. This is a clear indication of our domestic tax effort and drive towards effectiveness in tax administration.

Table 6: Distribution of Tax Revenue (2010 and 2011)

Category	2010	2011	% of 2011
Total Collection	**955,662**	**1,428,781**	***100.0***
Total	**877,842**	**1,154,013**	***80.8***
Taxes on income and capital	**291,747**	**478,610**	***33.5***
Corporate tax	*136,510*	*144,433*	***10.1***
Personal income tax	*153,887*	*332,849*	***23.3***
Payroll tax	*1,350*	*1,328*	***0.1***
			0.0
Taxes on goods and services	**578,708**	**675,403**	***47.3***
Domestic	***136,140***	***159,168***	***11.1***
Domestic GST	*109,657*	*131,662*	***9.2***
Domestic excise	*9,568*	*10,712*	***0.7***
Tourism	*278*	*673*	***0.0***

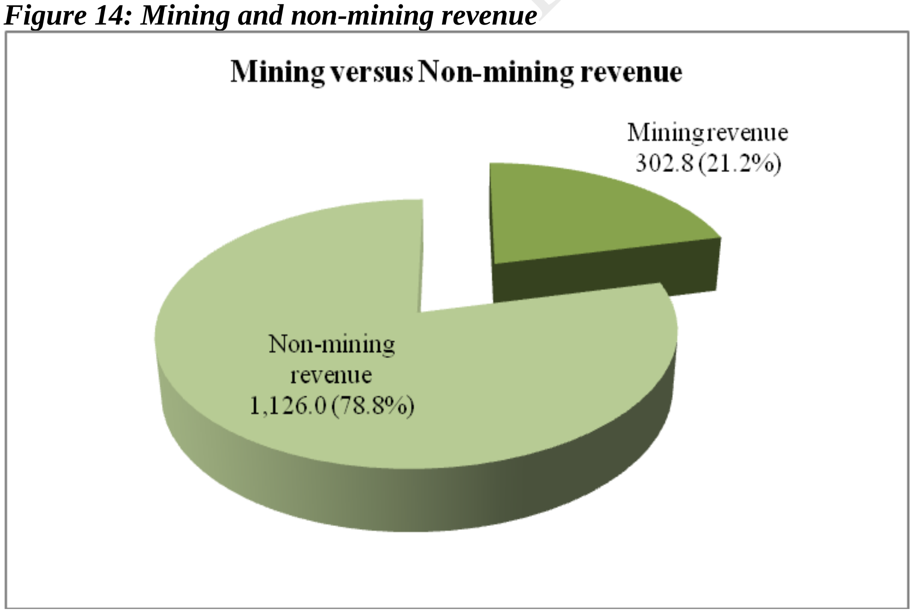
Royalties	*9,527*	*16,121*	***1.1***
International trade	***449,955***	***516,235***	***36.1***
Import duty	*189,811*	*237,452*	***16.6***
Import GST	*136,705*	*243,613*	***17.1***
Excise on petroleum	*123,439*	*35,170*	***2.5***
Total	877,842	1,154,013	***80.8***
Total Collection in the year	**955,662**	**1,428,781**	***100.0***

Table 6 further revealed that import duties (16.6) and import GST (17.1) are significant contributors to domestic revenue but PIT (23.3), Corporate Tax (10.1) and Domestic GST (9.2) are the major drivers of revenue collection. Despite the above, the Authority recognizes the fact that the current tax and compliance levels are low to support Government spending; hence there is room for improvement in tax and customs administration. This underscored the need to tackle tax evasion, minimize revenue leakages, expand revenue base and diversify operations.

Mining and Non-mining Related revenue

Sierra Leone's mining sector contributed Le302.8 billion in revenue in 2011, the highest the country has ever reported for the sector. Figure 14 illustrated that mining related revenues constituted 21.2 percent of revenue collected by NRA in 2011; which means a whopping 78.8 percent was collected on income and capital, goods and services and cross border merchandizing and trade.

Figure 14: Mining and non-mining revenue



The reported revenue for mines and mineral could signify the dawn of a new era in Sierra Leone as the mines and minerals sector contrinue to attract intense international interest for proper planning to avert the well documented resource curse amid the influx of large scale foreign investment in the sector.

OPERATIONAL REPORT: TAX AND CUSTOMS

This section of the report covers tax and customs operational activities on taxpayer records, compliance, audit, debt and enforcement and risk management. Both the operations of DTD and CED have been duly enhanced to ensure better taxpayer, compliance and risk management.

NRA Taxpayer Register

The taxpayer register of NRA showed an expansion in taxpayers by 15.4 percent from 4,224 in 2010 to 4,874 taxpayers in 2011. This measured increased in tax base was as a result of improved taxpayer record and effort to widen domestic tax net. NRA taxpayer register has been dominated by GST registered businesses (47.9 percent in 2010 and 50.3 percent in 2011), most of whom are mandatory registrations as provided by the GST Act, 2009 (Table 7). Withholders of Personal Income Tax (PIT) constitute about a third of taxpayers in the NRA register in 2011, with 6.7 percent increase in employers and 714 (2.6 percent) rise in the number of salaried employees.

Table 7: Number of Active Taxpayers by Tax Type

	2010	Percent of total	2011	Percent of total	Growth rate
Income tax - corporate entities	**673**	**15.9%**	**789**	**16.2%**	**17.2%**
P-A-Y-E Withholders (Employers)	**1,479**	**35.0%**	**1,578**	**32.4%**	**6.7%**
o/w: Income tax - Salaried employees	*27,277*		*27,991*		*2.6%*
GST Registered Businesses	**2,022**	**47.9%**	**2,454**	**50.3%**	**21.4%**
o/w: *Mandatory registration*	2,007	47.5%	2,426	49.8%	20.9%
Voluntary registration	15	0.4%	28	0.6%	86.7%
Domestic Excise	**50**	**1.2%**	**53**	**1.1%**	**6.0%**
Total	**4,224**	**100.0%**	**4,874**	**100.0%**	**15.4%**

Source: National Revenue Authority Taxpayer Register 2011 (LTO and SMTO)

Table 7 also revealed the proportion of corporate entities in 2010 and 2011. Although it's a smaller fraction (15.9 and 16.2 respectively), there was a 17.2 percent growth in the number in 2011, which accompanied with the expansionary trend in number of all taxpayers in 2011 is reason for optimism. This is an indication of the Authority's move to expand the domestic tax net and enhance revenue generation.

Taxpayer Compliance and Enforcement

Taxpayer compliance could be assessed on the basis of their return filing, payment and reporting. Table 8 below illustrated returns filed by registered for GST and those classified as companies or Trades for the purpose of payment of corporate taxes[5]. The table does not include PAYE tax returns, which was not available at the time of this report. Returns filed were classified into four: (i) total expected (ii) on time filing (iii) late filing and (iv) non filing. The table illustrated that at least half of the expected returns were filed on time for all categories of filers. Although this represented an encouraging fraction of voluntary compliance, it is the proportion of non-filers (at least a third of expected returns for all categories) that raised concern. Non-filers could be less or non-compliant, which is a threat to revenue collection and require immediate enforcement measures to reverse the situation

Table 8: Return Filing by Major Tax Streams in 2011

	GST	Companies	Trades
Returns expected	27,535	239	63
Returns filed on time	16,530	120	35
Percent of total	60%	50%	56%
Returns filed late	294	40	7
Percent of total	1%	17%	11%
Total returns filed	16,824	160	42
Percent of total	61%	67%	67%
Returns not filed	10,711	79	21
Percent of total	39%	33%	33%

Source: LTO and SMTO (NRA)

The fact that about two-thirds of returns were filed, with fewer late filers means the situation could be improved when taxpayers are fully aware of the sanctions associated with late filing and non-filing.

[5] GST returns are expected monthly, whereas corporate taxes are quarterly payments for both large companies and medium enterprises (formerly trades)

Tax Audit

The data provided in Table 9 below was based on only completed audit cases in 2010 and 2011 i.e. more audits were initiated in each than were completed. From the table below it could be observed that audit yielded more returns in 2011 (Le43.7 billion) than 2010 (le19.8 billion including interest and penalties), with yield-per-audit averaging Le672 million in 2011 compared to Le414 million in 2010. The reason for this could be the outcome of joint or integrated audits as a result of the consolidation of the business processes of the Income Tax and GST in 2011.

Table 9: Audited cases and amount recovered in 2011

	2010	**2011**
LTO		
Total Number of taxpayers (in respect of all taxes)	**301**	**150**
Number of taxpayers audited	39	28
Amount of additional taxes assessed (in billion of Leones)	16.8	29.9
Amount of interest and penalties (in billion of Leones)	13	
SMTO		
Number of taxpayers (in respect of all taxes)	**3,368**	
Number of taxpayers audited	9	37
Amount of additional taxes assessed (in billion of Leones)		13.8
Amount of interest and penalties (in billion of Leones)	NA	NA

Source: LTO and SMTO (NRA)

Since 2010, total amount collected on interest and penalties as a result of audit was le13 billion, all of which was collected on LTO cases in 2010. SMTO audit report also showed a significant increase in the number of completed audit at the end of 2011 (37 cases from 9 in 2010).

CED Compliance Measures

The CED compliance model is built on strengthening controls, enhancing customs border protection ability to respond to specific security concerns and detect and respond to high risk cargoes. The implementation of the Automated Systems for Customs Data (ASYCUDA++) has prompted significant change in compliance and risk management at customs. It has led to rationalized customs clearance process and reduced time for all importers. Its compliance improvement strategy is meant to deliver security assistance and revenue collection. The strategy aims to maximize voluntary compliance and reduce delays. It is based on the general self-assessment move of the Authority which shifts the risk of under-declaration to clients and minimizes the need for scrutinizing every declaration or transaction.

Establishment of ASYCUDA Support Unit

The implementation of ASYCUDA has resulted to the speeding up of customs clearance through the introduction of computerization and simplification of procedures, thus minimizing compliance cost to businesses and administrative costs to NRA. It establishment also brought about four units meant to support the automated system. These units include: the risk management unit, Post clearance audit unit, tariff unit and the valuation unit. The risk management unit worked on the profiling importers and brokers and that analysis has been completed and updated in the ASYCUDA system. The post Clearance Audit unit completed several audits and their report was submitted for management attention and action. The HS Tariff and Rules of Origin Unit has reviewed the 2007 HS Tariff and addressed the defects that existed. Members of staff in the valuation unit and other stakeholders were trained on the World Trade Organization (WTO) Agreement on Customs Valuation (ACV) which is currently being applied.

Trade Facilitation and Cross Border Operations

Trade reforms in Sierra Leone have grown recently, thanks in part to the progressive institutional and regulatory reforms, improved customs and ports efficiency resulting to better ease in cross border activities and reduced restriction to merchandize trade. As part of its contribution to doing business and in line with internal best practice, customs operations in recent years have also embodied efficient border processes to influence trade, investment and merchandize flows. The notable achievement in this direction has been the reduction in clearance time for all categories of importers (See Figure 15 left). For instance, sea and land clearance time for importers reduced from 6 days and 6 hours in 2009 to an average of 2 days and 2 hours respectively in 2011; it could be much lower for low risk importers. Figure 15 right showed the criteria for physical inspection at customs.

Figure 15: Clearance time for sea, air and land importation and criteria for physical inspection

2011	**SEA**	**AIR**	**LAND**
Physical examination	2 days	6 hours	2 hour
No physical examination	2 days	2 hours	2 hours
2010			
Physical examination	6 days	5 hours	1 day
No physical examination	3 days	3 hours	3 days
2009			
Physical examination	7 days	2 days	2 days
No physical examination	6 days	5 hours	6 hours

Tax Waiver and Duty concessions

Tax waiver and duty concessions are among the measures used by our government to promote investment and economic growth in a bid to rebuild a war ravaged country. This has brought about significant investment in education, agriculture, energy, mining, etc. The administration and granting of duty exemptions and waivers is under the authority of the Ministry of Finance and Economic Development (MoFED) to which Parliament delegated the responsibility. Hence, the role of the NRA has been limited to processing duty exemptions granted and in very rare cases requests for NRA to proffer some advice on duty exemptions.

Table 10a presents the total amount of duty-free granted by category of exemption in 2011. Total duty-free granted for 2011 was Le586 billion more than double (Le317.4 billion increase) the amount granted in 2010 (Le268.6 billion). Mineral Mining/Exploration companies were the greatest beneficiaries of duty waiver (Le342.0 billion) granted in 2011. The classification includes the group “Others” that constitute discretionary waivers[6]. The category benefited 26 percent or Le155.0 billion in duty waived. The irony in the duty –free jigsaw was that first-choice beneficiaries (Embassies and High Commissions, Public International Organizations and Non Governmental Organizations) received far less than those on weaker policy pronouncements or legal backing (see Tables 10a and b below).

Table 10a: 201 1 Duty Waiver/Concession

Beneficiaries	Amount Granted	% Contribution
2011	**586.0**	**100**
Embassies/High Commissions	13.2	2
PIO	53.0	9
NGOs	22.8	4
Mining/Exploration Companies	342.0	58
Others	155.0	26

Table 10b: Year-on-year Analysis (2009-11)

Beneficiary	2009	2010	2011
Total	**60.0**	**268.6**	**586.0**
Embassies/High Commissions	6.5	13.9	13.2
PIO	16.5	53.5	53.0
NGO	6.6	15.3	22.8
Mining/Exploration Companies	6.2	80.8	342.0
Others	24.2	105.0	155.0

Table 10b illustrates duty-free granted between 2009 and 11. The illustration showed surging trend in duty-free over the last three years, which was influence squarely by the amount granted to Mining/Exploration companies and those on discretionary waivers. The computed nominal increase (Le200.6 billion in 2010 and Le317.6 billion in 2011) if anything to go by represent huge revenue losses that could finance a number of projects and even cushion budgetary pressures.

[6] They are so called because

Discretionary Duty Waivers

Duty waiver or concession granted should be supported by either an international convention, domestic law and in specific cases by bilateral agreements and protocols. However, a number of duty-waiver granted over the years fall outside any legal scope and are deemed as "Discretionary Waivers". Table 11 provides the amount of discretionary waiver granted from 2009 to 2011.

Table 11: Discretionary and Non-discretionary waivers since 2009 (in billions of Leones)

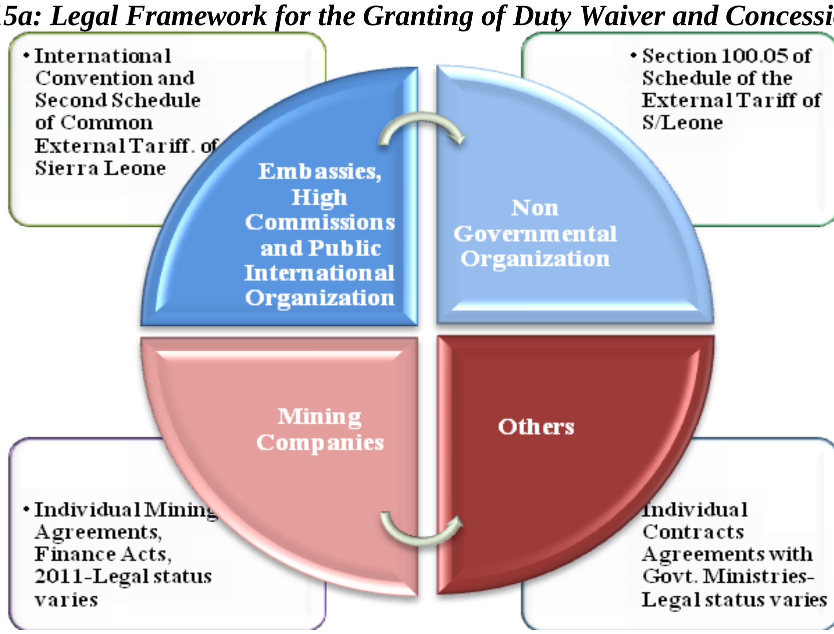
Period	Discretionary	Non-discretionary	Total
2009	1.6	58.3	59.9
2010	19.6	249.0	268.6
2011	76.4	509.6	586.0

Total discretionary waiver has been increasing sporadically since 2009 (by . Revenue loss associated with tax incentives to encourage investment is prudent and acceptable but increased profligacy without legal and policy support is a threat to the revenue potential of the country and could render our continued appeal for donor assistance laughable.

Framework and Procedure for Granting Duty Waiver

Understanding the legal framework and procedures in the granting of duty-waiver would assist in its granting to the rightful beneficiaries and in understanding the process so as to reduce delays and possible accumulation of demurrage and port charges. Figure 15(a) categorizes all beneficiaries of duty-waiver and concession into four groups based on their legal stronghold. It also summarizes the legal instrument and reference therein that provides for such benefits.

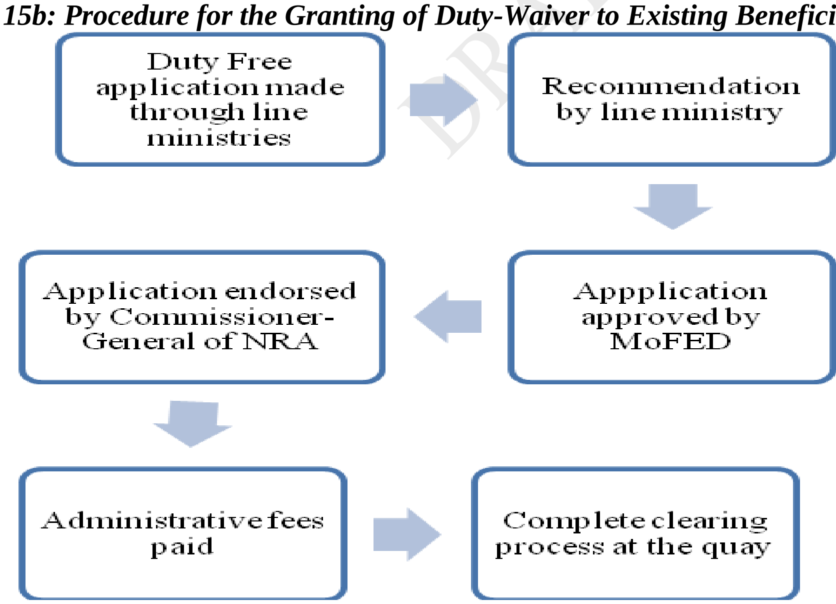
Figure 15a: Legal Framework for the Granting of Duty Waiver and Concession



The first segment of circle relates to Embassies, High Commissions and Public International orgainzation. The granting of duty waiver to this group has been based on International Conventions (Vienna) and the Second Schedule of the Common External Tariff of Sierra Leone. The second segment relates to Non Governmental Orgainzation also provided for by the Schedule of External Tariff of Sierra Leone. The lower segments relates to Mining/Extractive Companies whose legal status is largely supported by individual mining agreements and/or the Finace Act 2011; and those with or without individual agreements with government (Others). While the upper half of the circle is supported by clear laws based on international best practice, the lower half is based on specific regulations often time-bound that are sources of unhelathy competition and considerable inefficencies in the private sector.

Figure 15b demostrates the step-by-step procedure in granting of duty waiver. The whole process commences after the legal status of the business has been estbalished and asceratined. To clear goods on duty-free, the applicant must forward their request to the line ministry or department it is directly dealing with. For instance, a health registered orgainzations must apply through the Health Ministry. Upon the recommendation by the line Minsitry, the applicant proceeds to seek approval from the Ministry of Finance, before it is forwarded to the NRA for endorsement by the Commissioner-General. There after, an administrative fee of five hundred thousandLeones (Le500, 000) is paid to the Finance department of NRA before the permission to clear is granted and the clearing process begins at the designated customs office.

Figure 15b: Procedure for the Granting of Duty-Waiver to Existing Beneficiaries



EVALUATING THE SHORT-TERM IMPACT OF GST IN SIERRA LEONE

Goods and Services Tax (GST) or Value Added Tax (VAT) is the most common form of consumption tax system used around the world. A total of 145 different countries, including 40 in Africa now administer the tax (PricewaterhouseCoopers, 2010)[7]. In Africa, for instance, it now accounts for 30 percent of total revenue collected on average and about *one-fourth* in Sierra Leone. The tax is levied on the supply and importation of goods and services. While it has been generally viewed as a major driver of government revenue around world, it effects on household consumption and impact on the economy has been widely discussed. The issues range from whether GST (VAT) will fulfill its potential as major source of government revenue without triggering inflationary pressure and how regressive it would be especially in the context of low income countries.

GST was implemented in Sierra Leone in 2010 following four years of thorough and careful planning. Based on the fragile profile of the country's political, economic and social ranks, there was a consensus that the tax exemplifies the innate characteristics of our nation state. It was first clarified that the GST was no new tax; rather a replacement of seven existing taxes[1] and the agreed rate was within the existing tax rates (15 percent). Proper planning, extensive training and robust sensitization led to the successful implementation in January 2010. This success story was the outcome of a balance in three rounds: proper planning, management and adaptation. Although the tax received rave condemnation from the outset, it was its adaptation module which reflected the economy realities of Sierra Leone that eased tension and prompted nationwide acceptance.

Five (5) facts about GST in Sierra Leone:

- It was a replacement tax, not a new tax and the rate is 15%
- It makes provision for input tax claims and refunds when input tax exceeds output tax
- Collectible by only GST registered businesses
- Not imposed on rice (uncooked), agricultural inputs, text books, educational and medical services, etc and exports are zero rated
- Contributed more revenue than any tax handle in Sierra Leone since its implementation

In its two years of administration so far, domestic revenue collection has doubled with GST contributing more than any revenue stream in 2011 (26.3 percent) following from the same feat in 2010 (25.8 percent). Domestic tax capacity measured in tax-GDP ratio also improved by about 2 points to 12.6 percent from 10.7 percent in 2009. The increase in 2011 was even greater, by 2.3 points, from 12.6 percent in 2010 to 14.9 percent. GST has consistently contributed more than 3 percent of GDP to revenue collected since 2010. It is easy to understand why GST has been viewed as a major source of government revenue around the world. Nevertheless, it is its inflationary effect on final consumption and regressive nature in income that has been largely questioned.

GST (or VAT) is generally a consumption tax paid by consumers at the final point of production. While the effect on final consumption especially where the tax is broad-based would be a one-off jump in prices that would lower real income, the price increase is stable, permanent and non-persistent. The price effect is rarely inflationary. In Sierra Leone, the inflationary concerns were taken care of by the adoption of a

[7] PricewaterhouseCoopers. 2010. The Impact of VAT Compliance on Business.

single rate and regulating the possibility of future changes.[8] To producers and suppliers, the effect is mitigated by the allowable deduction of taxes incurred on purchases (input tax credit) and a refund mechanism when taxes on input exceed output. This way the tax does not stick with the producer or the retailer, thus nullifying price increases along the distribution channel except at the point of consumption.

The administrative and compliance cost associated with GST administration have also been a cause for concern. Effective and efficient GST administration requires proper record keeping and thorough accountability. Record is conceivably the biggest challenge to taxation especially in developing countries. But GST (VAT) is self-policing and self-administrating. All GST (VAT) taxable persons (i.e., GST-registered businesses) deduct from the output tax what they have paid to other taxable persons on purchases for their business activities. This mechanism ensures that the tax is neutral and minimizes evasion. The fact that deductions are allowed only on those items for which there are records ensures fraudulent taxpayers stick with paid input taxes where there is no evidence of transaction. GST administration in Sierra Leone is integrated with income tax processes which elude fears that taxpayers could take longer time and spend more than usual to comply where indirect taxes are administered differently from corporate income tax (PricewaterhouseCoopers, 2010).

Our GST system was adapted to the national status quo by exempting basic items on which people in the low income bracket spend the bulk of their income (rice, medical facility, education, etc) [9]. Although it is by nature a consumption tax and regressive in income, exempting uncooked rice, un-bottled water, agricultural inputs, textbooks, education and medical services and pharmaceuticals went the length to addressing its regressive nature. The biggest winners in this scheme are the businesses. Business are mandated to collect the taxes at the intermediate level as well as from consumers but they only remit the tax to the Authority at the end of the following month i.e. a tax collected in January is not due for payment until end of February. This could be seen as short-term credit to businesses which could be reinvested into the business.

In brief, GST (or VAT) in Sierra Leone, like in many countries, is a major source of revenue. Where there is a single but fixed tax rate, the tax is rarely inflationary. The burden of the tax rests squarely on the consumers, but the extent of the effect has been softened with generous exemptions on essential commodities. The tax has not only contributed immensely to government fiscal needs but provided cash leverage to businesses that could expand their operations.

[8] See Section 14 (1-7) of the Goods and Services Tax Act, 2009

[9] See GST Act, 2009 for details on supplies that attract the full tax rate (standard rated supplies), and Schedules I, II, III and IV for those that are zero-rated, exempt, relief supplies and outside the scope.

ACHIEVEMENTS OF NRA IN 2011

Although revenue generation is the utmost task of the NRA, its responsibility extends to providing an enabling tax environment, promoting trade, investment and facilitating cross border activities. In these directions, the Authority made significant investment in capacity, governance and human resources in 2011. The list below provides areas of investments and key achievements associated therein.

Collection in trillion Leones

The Authority reported a milestone collection in 2011, reaching a trillion for the first time in its 9 years of operation. Total revenue collected in 2011 amounted to Le1.43 trillion, 49.5 percent more than 2010 and 14.9 percent of GDP; the highest ever tax-GDP ratio and nominal collection

Completion of the Tax Identification Number (TIN) Project

This project commenced in November 2008 and the objective was to embark on a comprehensive haphazard file numbering system and manual handling of taxpayer files. The number issued is a global identification that can be used by our taxpayers for all of their tax activities with NRA including issuance of tax clearance certificates, assessment and audit and clearing at customs etc.

At the end of 2011, a total of ***17,220*** TIN has so far been issued to taxpayers as follows: ***61*** TIN were issued in 2008, ***1,925*** in 2009, ***6,894*** in 2010, ***8,340*** in 2011. TIN today is widely accepted in the Sierra Leone tax system and is a requirement for registering a new business as well as clearing goods/consignment at customs.

Customs Modernization (ASYCUDA++) Project

After the successful installation of the Automated System for Customs Data plus-plus (ASYCUDA++) at the Customs House in Cline the Authority completed rolling out to the international airport, Lungi. To further deepen the gains of this system and bring customs operations in line with modern trend, NRA has established four (4) main revenue maximization units at customs: the valuation, risk management, post clearance audit, and HS classified and 'Rules of Origin' units. The purpose of these developments was to address revenue leakages and creates an enabling environment for importers and thus enhances compliance and revenue generation.

During the same period, the Customs Tariff Act 2011 was ratified by Parliament and assented by the President. This document is considered as one of the best customs legislation around the world that will bring NRA customs operations in line with modern trend in response to the demands of the market.

Creation of Domestic Tax Department (DTD)

The creation of a Domestic Tax department was borne out of the need for the integration of the business processes the manual and semi-automated operations of the Income Tax Department and Goods and Services Tax (GST) Department or VAT respectively. The result has been the classification of taxpayers by size (large, medium and small) and the consolidation of all taxes paid by theses taxpayers into a Large

Taxpayer Office (large), Small and medium Taxpayer office and a robust policy and business processes monitoring unit known as Design and Monitoring. This operation will be extended to incorporate the Non Tax Revenue (NTR) Department and the Excise Unit of CED for a comprehensive domestic tax and non-tax department. The achievement under this tax arrangement so far is that all processes and procedures are now coherently and functionally streamlined. Another major output of this project is a vibrant micro taxpayer regime that will be target the informal sector (hard-to-tax) and further expand revenue base.

With the relentless support from the NRA Senior Management Team (SMT), Board of Directors and the Government, the recruitment of the DTD Management team and the entire staff of the department have been successfully completed and Department became fully operational at the start of the fourth quarter 2011

Information and Communication Technology (ICT) Project

The ICT project is focused on expanding internal connectivity, support for Information Technology (IT) capacity building, the wider use of IT skills in the Authority and ICT sustainability in NRA. This project has ensured NRA ICT members of staff are at the forefront in the implementation of ASYCUDA++, working closely with consultants.

Payment of tax revenues through Commercial Banks

Under the modernization of the Finance and Budget Department of the Authority, NRA has established agreements with 13 commercial banks to serve as revenue collection agents. So far, over 95% of the payments in 2011 were through the banks. If not for operations in towns without access to banks (Dogoliy, Sanya, Jendema, etc) it would have been 100%. However, that would be achieved once automation and computerization of systems are completed. This reform aimed at tightening up potential revenue leakages, reducing taxpayer-collector contact and eliminating direct cash transactions with employees of the Authority.

Human Resource Management (HRM) Project

In an effort to move the Authority to a level where it can thrive on professionalism and international standards by upholding the values of equity, transparency and integrity, a Human Resource (HR) consultant was hired in 2008 in order to upgrade the HR processes and procedures of the NRA, reviewing human resources policies and implementing a computerized human resource management system. The review of HRM structure, staffing, competencies, and HR policies has been completed. A total of sixty-four (640 recommendation were forwarded for implementation and the a good number of them have been implemented. As a result, a new Human Resource Management Manual has been approved by Board of Directors and Senior Management of NRA.

With the support of the HR consultant and Board of Directors, the Authority has again reviewed its Code of Conduct, which together with the Terms and Conditions of Service set out clearly the need for staff to demonstrate professionalism of the highest standard in the execution of their duties. The development of staff appraisal system that allows members of staff to identify their targets and objectives on a periodic basis in order to track performance and development have been completed and in operation. This appraisal system will help identify capacity gaps and training needs of staff in order to increase performance. The objectives of these instruments are to institutionalize professionalism, integrity and sound management practice.

Governance and Management Development Project

Another crucial project is the Governance and Management Development, which focuses on the governance of NRA and the performance of the NRA Management and Board of Directors. There has been management and functional reviews, including HR policies and procedures, and the Authority is far advanced in implementing recommendations from these reviews. The Authority has been closely working with the Department for International Development (DFID) on these areas, and seminars on governance and management issues have been recently conducted for NRA Board of Directors and Senior Management. The review has further strengthened the need for regular reporting, monitoring and internal controls.

These reform measures and projects served as potent forces for revenue generation and have raised the administrative and management profile and ensured readiness for unforeseen contingencies in the macro and policy atmosphere of the country.

Projects and Programme Review - Modernization

The achievements highlighted in the preceding section are the results of a detail Modernization Programme approved by cabinet and Parliament in the first quarter of 2008. The programme has seen successful implementation of GST, Taxpayer Identification programme among others as a result of supports and funding from DFID and the government of Sierra Leone (GoSL). The result Chain or cause-effect relationship of each project is shown on Table 12.

Table 12: NRA Modernization Projects Result Chain

	Implementation		**Result**		
Projects	**Input**	**Activities**	**Output**	**Outcome**	**Impact**
Implementation of a Unique Taxpayer Identification Number (TIN)	• Office space • Computers and accessories • TIN software • Staff training • Technical support service • Funds	• Acquire software and train staff • Set-up and test run the system • Launch and commence the issuance of TIN	• 17,226 TIN issued as at end of December 2011 • Unique taxpayer identification for all tax types	• Comprehensive taxpayer register • Improved records and taxpayer information management • Improved monitoring of taxpayer activity • Reduced enforcement cost (audit, debt management, education)	• Expanded taxpayer base and increased revenue collection

SUPPORT DEPARTMENT REPORTS

This section looks at reports from departments that are not directly involved in revenue collection.

Administration and Human Resources (AHRM) Department

The number of employees at the Authority is shown in Table 13 below. At the end of 2011, there were 573employees in NRA, reducing by 39 from 612 at the start of the year. The bulk of the workers in the Authority (385 out of 573 or 67.1 percent) are in operation departments (CED, DTD and NTR), with AHRM also accounting for 23 percent. It could also be observed that the staff strength of Monitoring, Research and Planning (MRP) and office of the Commissioner-General suffered high level reductions (8 and 4). While the reduction from the office of the Commissioner-General was to realign staff to their respective skills, the reduction in MRP was the result of retirements that has significantly affected the department.

Table 13: NRA Total Staff strength

Department	Number at Jan. 2011	No. at Dec. 2011	Variance
Total	**612**	**573**	**-39**
Commissioner General's office	8	4	-4
AHRM	132	132	0
Corporate Services	4	6	+2
Customs and Excise	206	192	-14
Domestic Tax Department	185	170	-15
Finance and Budget	12	13	+1
Information and Communication Technology	15	13	-2
Internal Controls and Audit	9	11	+2
Monitoring, Research and Planning (including Modernization Office)	17	9	-8
Non-Tax Revenue	24	23	-1
Total	**612**	**573**	**-39**

The department completed its regular recruitment (25 in various departments), verification exercise and staff performance appraisal. It also moved towards ensuring a corporate identity for Authority by issuing all employees with ID cards and working on uniforms for all employees below the rank for supervisors. In an effort to centralize staff personal files, the Department integrated and classified sequentially all employees by Personal File (PF) number which ranges between 001 and 999. The report also listed asset identified for disposal (15 vehicles, 20 motorbikes and 7 generators), which hit a snag following the retirement of the former Senior Logistics Officer. In the area of procurement, a total of twenty-three (230 contracts were awarded valued at sixty one million, one hundred and sixty thousand Leones. A number of other procurements were delayed as a result dearth in manpower to manage in the procurement business.

Staff Separation

In fact, detail figures showed that a total 50 employees left the Authority in 2011 as shown in Table 13(a). It could be observed that resignation was more than half (27) of total separations, with retirement (8) and termination (6) also taking their toll. The computed staff turnover rate revealed that eight (8) out of any 100 employees are likely to leave the Authority in a given year. This occurrence is a genuine cause for concern given the scarcity of ready-made replacements in the labour market and the training required to deliver on the job.

AHRM Restructuring

As part of its modernization project, the Administration and Human resources Department was also restructured to ensure the separation of Administration from Human Resources management functions and further delineation of each Department along functional lines. The entire restructuring process was completed but the separation has been held back awaiting appointment of the Directors and Deputy Directors of the two Departments.

Training and Capacity Building

Training and capacity building was part of the sixty-four (64) recommendations of the Human Resources consultant. As one of the corner stone of the reform agenda and retention strategy, all departments should submit an annual training and capacity building plan, which is critically reviewed before approval by the Senior Management Team (SMT) and Board of Directors.

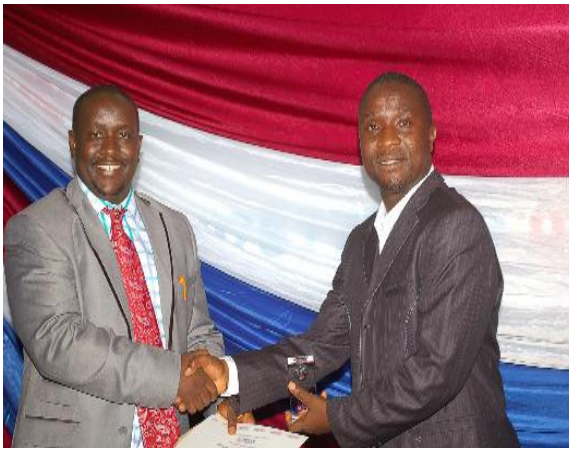
In 2011, nine (9) external and ten 910) internal trainings were concluded that benefited nine(9) and about eighty (80) employees respectively.

Staff Welfare

The emphasis on improving and efficiently delivering on staff welfare, a separate staff welfare unit has been established within Human Resources Department, headed by a Manager. The unit handles workplace issues that affect employee welfare and wellbeing such as remunerations, medical facility, financial constraints, severance and discipline. There was obvious need to further improve medical facility and address issues of bureaucracy in accessing “medicare” and facilities at work. This led to works on workman’s compensation and health insurance schemes. Both schemes were approved and in 2011but adopted in January, 2012.

Annual Awards

Recognizing and awarding high performing staff and taxpayers is a novelty in NRA, thanks to the astute management initiatives and creativities of the Acting Commissioner-General (Madam Haja Kallah-Kamara). In December, 2011, the Authority recognized the performance of its employees in a grand occasion held at the Family Kingdom, Aberdeen. There were even positions (seven internal and seven external) for awards to employees (Pioneer of the Year, Secretary, Driver, Office Assistant, Best Operation Department, Best Support Department and the Employee of the Year) and our business counterparts (Consultant of the Year, Outstanding Support to NRA and Most Compliant Large Taxpayer, Small and Medium Taxpayer, GST Business, Importer and Clearing and Forwarding Agency of the year).



Employee of the Year: ***Mr. Idrissa Kanu***

Pioneer Staff: ***Mr. Bilal Kargbo***

Operation Department of the Year: ***DTD***

Support Department of the Year: ***AHRM***

Most Compliant GST Taxpayer

Amadu Sow

Outstanding Consultant of the Year

Haja Hajaratu Mahdi

Monitoring, Research, Planning and Modernization

The Monitoring Research and Planning (MRP) Department is charged with the responsibility of conducting revenue enhancement researches, monitoring of all reform projects, revenue collection processes and procedures as well as planning the operations of the Authority. The Department also advises the central Government on key revenue related policies viewed to be counterproductive in the pursuit of its mandate and direction of the country.

Over the years, the Department has experienced a very high staff turnover. From 2009 to date about eleven (11) staff (a Deputy Director, two Principal Economists, three Senior Economists, and five Economists) officially resigned from the Authority. In addition, one senior Economist also left to pursue further international education.

During the period under review the Department undertook two (2) outstation monitoring trips – one to the North-East and the other to the South East. The draft outstation monitoring report was completed and forwarded to the office of the Acting Deputy Director MRP for his action. However internal monitoring on revenue collection processes and procedures were derailed by limited staffing which has been the key constrain of the department over the past three (3) years.

On the research front, it is unfortunate to report that the Department did not undertake any field research for the whole of 2011. Two research proposals – one on Business and Rental Survey and the other on the potential of domestic taxes in selected bigger towns of Sierra Leone were developed; but lack of available funds prevented the department from conducting those researches.

Although the actual granting of duty free concession is done by the Ministry of Finance and Economic Development (MoFED), the Department partakes in the processing, compiling and updating data relating to duty free concessions. This task is currently performed by an Economist assisted by an Office Assistant.

The Department also responded to all data requests made by the International Monetary Fund (IMF) and the World Bank. In early July 2011, the Department made available to the Fiscal Affairs Division (FAD) Mission a range of mining data such as royalty payments by mining companies and duty foregone in lieu of mining and exploration activities for the period 2005 – 2010. MRP often updates statistics database and make them available to relevant end users, notably MoFED. Revenue/collection data and other related information (on quarterly and yearly basis) were also made available to a number of technical assistants and research scholars from Crown Agents, universities and authorized persons.

However, the role of the department has been extended to incorporate modernization as a result of a merger of the Modernization Programme Office and the Monitoring Research and Planning Department.

Information and Communication Technology

The Information and Communications (ICT) Department has grown leaner with many employees taking other jobs but that has not stopped the Department from contributing the core functions of NRA. The following are highlights of the achievements of the Department:

It was at the helm of the rolling out of ASYCUDA++ to Lungi International Airport, which has made it possible for declarations to be processed at the airport at the arrival of flights. The Department also succeeded in linking the Office of the Administrator & Registrar General (OARG) and NRA to create a one-stop shop for business registration and save ttaxpayers from coming to NRA for a Taxpayer Identification Numbers (TIN) after registering their businesses at the Office of the Administrator & Registrar General (OARG). The connectivity was also enhanced internally by deploying a corporate email system for all staff from the level of managers & above in order to ensure effective and secured internal communication.

The Department further reviewed the Business Processes of the Domestic Tax Department (DTD) and commenced the development of an Interim Application to automate the basic operations of the Income Tax aspect of DTD which are at the moment largely manual. This system would greatly improve the efficiency in handling tax returns and collection transactions.

Staff training and ICT capacity enhancement was also part of its achievements in 2011. The Department alongside the training unit of HRM implemented IT training for non-IT staff. This training is in line with the International Computer Driving License (ICDL) curriculum.

The department undertook the development of ICT policies, procedures and guidelines in line with international best practice, with the technical assistance of Crown Agents through DFID funding. These policies, procedures and guidelines will help create an ICT environment that is stable, flexible and adaptive and this will in turn help mitigate some of the risks outlined in the ICT sustainability plan. The implementation of these has commenced.

With the ever increasing cyber threats and considering the number of critical systems the authority is implementing, it is but important for us to put in place security measures that will protect our data from hackers & malwares. The need for improved security system was also underscored and the Authority security system is currently being reinforced.

Perhaps the most important piece of work by the Department in 2011 was the study conducted for ICT sustainability in NRA. With the support from DFID, the Department produced an ICT sustainability report outlining possible risks and strategies to be implemented for sustaining our ICT implementations. The study was heralded as the great move towards ensuring ICT remains a key priority in the Authority.

Corporate Secretariat

On account of restructuring and modernization efforts, the Corporate Secretariat responsible principally for Board and Management administration was expanded to include the Policy and Legal Affairs (PLA) and Public Affairs and Tax Education (PATE) units respectively. Despite the challenge of ensuring a balance in all these function and producing tangible results, the Department reported the following as achievements above all:

The Department forwarded to the Ministry of Finance and Economic Development (MoFED) all outstanding annual reports for financial years 2005, 2006, and 2007 for onward transmission to parliament. It also oversaw the completion of Audit Reports for financial years 2008, 2009 and 2010.

With the support of DTD, CED and NTR the Department through the Legal Unit played a critical role in the preparation of the Finance Act 2011/12 and the Memorandum of Understanding (MoU) between NRA and the Banks.

As always, the Department was crucial in organizing Board and Management meetings and in the transmission of decisions arrived at such meetings to heads of Departments and Managers for follow up actions to ensure compliance with Board and Management decisions. The department was also a vital player in organizing meetings between the Presidency and of Directors; Management and Parliament and with Ministries, Departments and Agencies (MDAs). The Department further assisted the Acting Commissioner- General in the day-to-day management of the Authority.

All these achievement came at the back of a number of challenges from staffing, logistics, delay in feedback on Board and Management decisions and inherent lapses in holding Board and Management Retreats. However, the Management system of the Department ensured all these challenges were managed such that they did not impinge on its performance and delivery.

Revenue Intelligence and Investigation Unit (RIIU)

The Revenue Intelligence and Investigation Unit (RIIU) was born out of the wisdom and experience of the Acting Commissioner General-Madam Haja Kallah Kamara. Planning and preparation for its inception was completed in 2011 and the Unit, directly supervised by the Office of the Commissioner-General, commenced operation in January 2012. Prior to its installation, the unit benefited from a number of trainings and workshops organized by Crown Agents through funding from the Department for International Development (DfID). This is meant to empower the unit to achieve its purpose.

The purpose of the RIIU is to help increase compliance which in turn will maximize revenue collection (the overall mission of the NRA).The role of this unit is primarily information gathering, intelligence processing and investigations. The intelligence reports and results of investigations will be used as basis for revenue discovery and recovery, disciplinary actions and possibly, prosecution. The RIIU also has the role of integrity management and general fraud detection and investigation both within and outside the NRA, a critical role that had been absent for a long time.

The unit is seen as primus inter pares in ensuring high standards of integrity and transparency in revenue collection. It is the bride between the Office of the Commissioner-General, the taxpaying public and all other offices of the Authority. It engagements with both internal and external players would prove significant in maintaining the Codes of Conduct of the tax Authority and compliance with the tax laws of Sierra Leone . It is expected that the RIIU would contribute substantial amounts to the revenue collection through the furtherance of compliance and transparency in revenue collection.

International Control and Audit (ICA)

REPORT ON ANCILLARY ACTIVITIES

National Revenue Authority is central to the short-term and long-term development plans of the government of Sierra Leone. Its revenue drive occupies the pinnacle of the Government's Agenda for Change and Agenda for Prosperity. The Authority has also been working closely with the International Monetary fund (IMF), the World Bank, Department for International Development (DFID), the European Union, and other donor partners. Its role in several domestic reform programmes geared towards enhancing the public sector capacity has been underscored.

Alignment with the Government's Agenda for Change (The PTT)

The work of the Authority was closely aligned with government's Agenda for Change which defined priorities areas for government spending. On the basis of this, the Authority signed a performance contract with His Excellency, The President, Ernest Bai Koroma. The contract set out key deliverables for the Authority based on its routine operations that are measurable means of assessment. The progress on these deliverables was monitored and reviewed using a Performance Tracking Table (PTT). NRA provides periodic reporting (quarterly) to state house to ensure it is on course to achieve its targets at the end of the year.

The deliverables were grouped into six(6) broad outcomes: (i) revenue collection (ii) Modernization of Customs Administration (iii) Establishment and strengthening of a domestic Tax Department (iv) Payment through the Banks (v) Developed Human resource processes (vi) Presentation of Mining Revenue Statement. These outcomes will disintegrated into twenty (22) output areas. The Authority succeeded in meeting more than 95 percent of its targets in 2011

Extractive Industry Transparency Initiative (EITI) Commitment

The Extractive Industries Transparency Initiative (EITI) was launched in 2002 at the World Summit for Sustainable Development in Johannesburg, South Africa, which Sierra Leone acceded to in 2006. It is a transparency initiative that is being implemented by over thirty countries and supported by governments, international organizations, companies and civil society. The primary objective of the EITI is to enhance transparency around the generation and spending of revenues from the extractive sector so as to improve development outcomes, reduce the potential for corruption or large scale embezzlement of funds by hosts' governments, and to stimulate debate about the uses to which these revenues are put.

The NRA, being the revenue collection agency of Sierra Leone has been working closely with the Ministry of Mines and Mineral resources, Sierra Leone Extractive Industry and Transparency initiative (SLEITI) by participation in workshops and providing relevant data to facilitate the setting up of the online database and regular update of information therein.

Natural Resources

The mining sector of Sierra Leone is the fastest growing sector attracting large scale investment in iron ore, diamond and recently oil and gas exploration. Sierra Leone diamond export generated US$124.2 million in foreign earning, by far the largest contribution to domestic foreign earnings in 2011. Diamond export volume dropped slightly in 2011 (from 437.5 thousand carats to 357.2 thousand carats), but the value of export increased by US$10.3 million in the same year. Sierra Leone diamond production was only 0.3 percent of total world production volume in 2011 (or 0.24 percent in value). The world's largest diamond producers in 2011 were Russia (28 percent) and Botswana (18 percent).

Table 14: Mineral Export in Sierra Leone

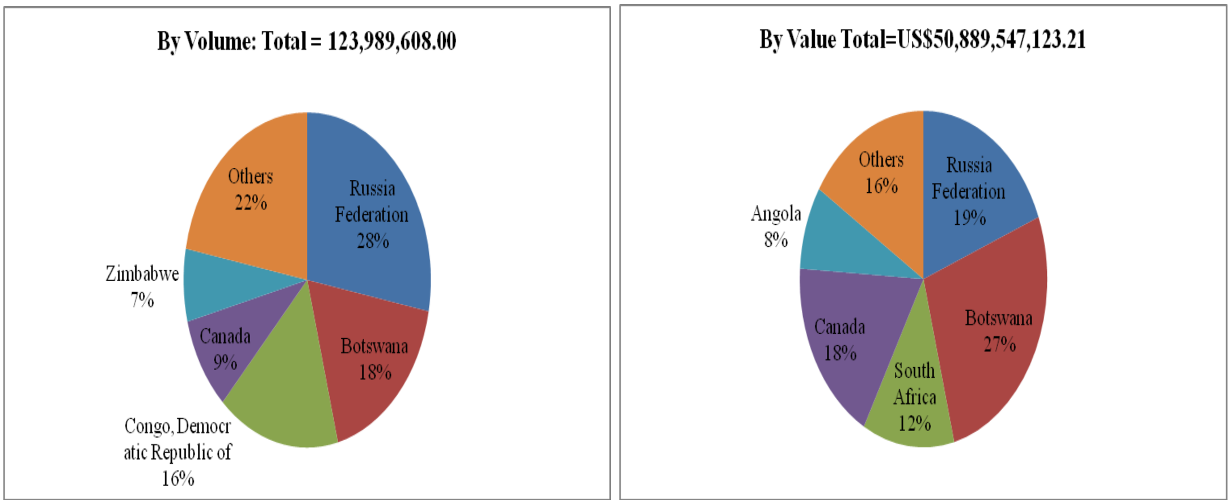
VALUE (in millions of US$)	**2009**	**2010**	**2011**
Diamond	78.4	113.5	124.2
Rutile	35.9	40.6	34.4
Ilmonite	0.9	2.7	4.4
Zircon	-	-	10.4
Bauxite	18.7	31.1	39.0
Gold	4.8	9.3	6.4
Iron ore	-	-	-
VOLUME (thousand of carats)			
Diamond	400.5	437.5	357.2
Rutile	66.7	70.1	50.3
Ilmonite	10.2	21.2	19.1
Zircon	-	-	12.9
Bauxite	680.2	1254.7	1,421.7
Gold	5.4	9.4	5.4
Iron Ore	-	-	-

Note: Figures for 2008-2010 provided by MoFED to IMF Tax Policy Mission September, 2011

Recent trends and projection of output have clearly revealed a swivel in Sierra Leone reliance towards iron ore as opposed to the long standing dependence on diamond production and export. The following paragraphs discuss the current mineral outlook in Sierra Leone and review our standing in the international world market.

Production volumes of all minerals, save Bauxite, dropped in 2011 and that was followed by a reduction the foreign earnings of a few (Rutile, and Gold). That is to say, the drop in the volume of production for diamond, Illmonite in Sierra Leone did not pull down the traded value of the minerals. Figure 16 shows World's largest producer of diamonds in volume (left) and in value (right) and Figure 17 is the World Diamond Index depicting the world market trend in diamond value.

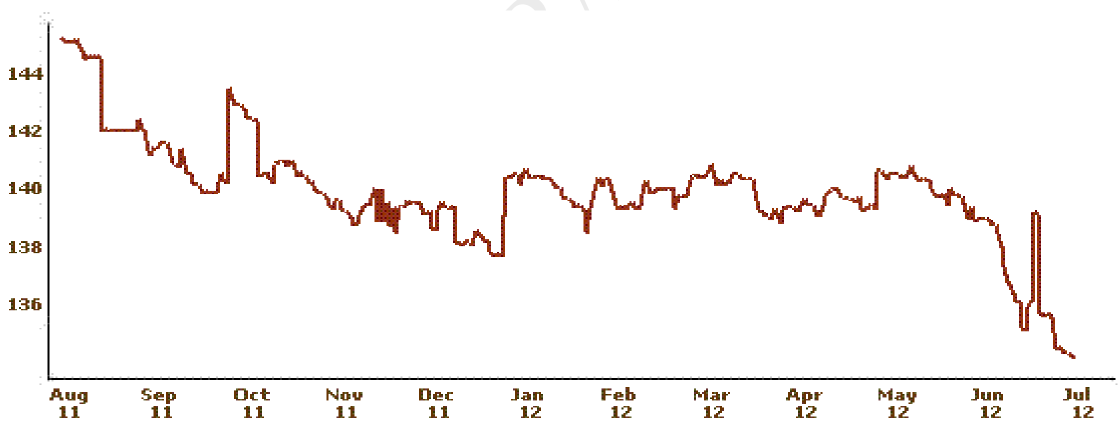
Figure 16: World Diamond Production 2011 in volumes (left) and Values (right)



Note: This source reported 357,160.97 carats (0.3% of total world volume) and US$124,150,581.01 (0.24% of total value) of world diamond produced by Sierra Leone in 2011.

Source: Kimberley Process Certification Scheme (KPCS) Statistics

Figure 17: World Diamond Index 2011

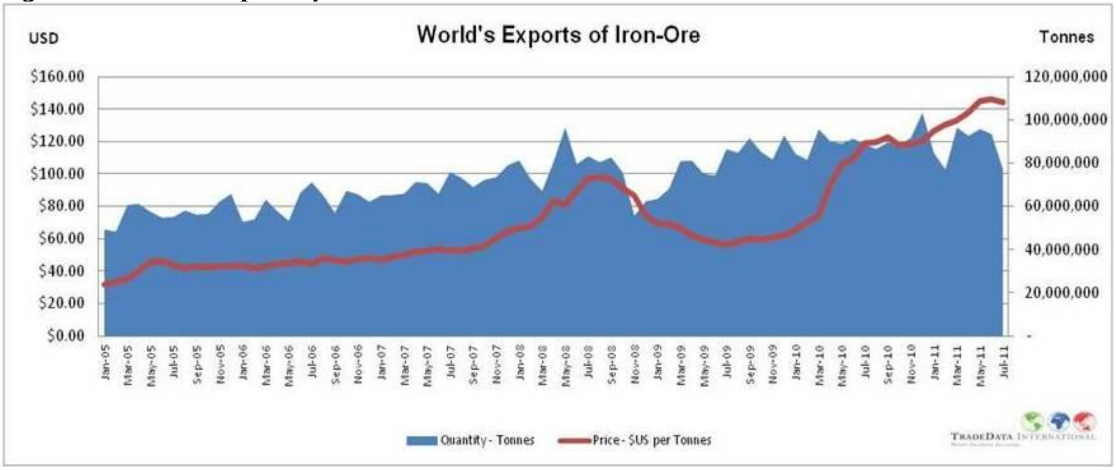


Source: IDEX Online: http://www.idexonline.com/Diamond_Index_Drivers.aspv

It could be observed from Figure 17 that there were periodic shocks in August and October when diamond prices hit it annual peak at the world market. However, the index appeared relatively stable in other periods ranging between 138 and 142.

Reports from Trade Data International, an international database for all commercial trading activities revealed that World Iron Ore Exports increased from 966 million tonnes in 2009 to 1,081 million tonnes in 2010, an increase of 12%. In the previous two years export growth was between 5-8%. In the first half of 2011, exports of Iron Ore were 540 million tonnes, which is about 2% more than the exports in the first 6 months of 2010. Most of the growth in exports was driven by China, the largest importing country. The major exporters were Australia, Brazil and India.

Figure18: World Export of Iron Ore



Source: Trade Data International Pty Ltd.

Sierra Leone is projected to be a major player in the iron ore business. The fact that the country is working closely with China, a major producer and exporter of iron ore and crude steel shows the partnership will result to mutual gains for both nations.

Doing Business Initiative

Ease in doing business is vital for an enabling and healthy tax environment. In Sierra Leone, obstacles to doing business are declining considerably. There has been remarkable achievement in easing business start-ups and protecting investors; the establishment of a one-stop shop to ease business start-up for business registration is a one case. Second, the most recent Company Act enacted makes provisions for reorganization and administration to support disadvantaged businesses to first try to reorganize instead of going straight into liquidation. The act also makes it easier for companies to get credit by providing for fixed and floating charges over company asset. In facilitating trade and commerce, the revenue authority is pushing on all fronts to automate systems in all customs posts for speed and efficiency. The progresses made in these directions elevated Sierra Leone to being among the top ten (10) reformers in 2011.

The New Strategic Direction of NRA

NRA strategies direction has been based on: (i) Revenue mobilization (ii) Developing an improved taxpaying culture, (iii) Improving infrastructure (iv) Enhancing institutional capacity and (V) Ensuring an effective and efficient management of strategies. To ensure the goals are achieved the Authority translated these into programmes and projects in a Modernization Plan. The plan is a framework that was built on a result-based approach to delivering real, quantifiable and measurable outputs. Customs modernization has propelled efficiency in operations and reduced cost. The formation Domestic Tax Department further strengthened the operations of the Large Taxpayer Office (LTO) and Small and

Medium Taxpayer Office (SMTO) and streamlined processes and procedures. Support operations such as Administration, Human Resources and Finance have been capacitated with delineated functions and clearer policies, employee management and performance evaluation mechanisms. Governance structure has been reviewed with renewed emphasis on professionalism through effective evaluation, monitoring, appraisals, reporting and internal controls. The Authority could draw on experiences from the implementation of these projects to foster its “Vision for a Brighter Future”.

Our next direction represents a shift in focus from inputs to outputs, from enforced compliance to voluntary compliance, automation and computerization of systems and improved governance. The strategic goals are grouped into five:

- **Maximising Revenue Mobilisation** to deliver on NRA’s mandate and ensure sustainable fiscal revenue for government
- Driving productivity, quality service and cost efficiency to **optimising service delivery**
- **Strengthening Organisational and Institutional Capacity** to increasingly operationalize and further strengthen leadership and governance
- **Fostering institutional collaboration and information sharing** to deepen key external relationships and ensure we manage a tax administration that can compete in fairness and equitability
- **Improving Professionalism** to build Confidence, Trust and Integrity in all NRA staff

Risk Assessment and Management

NRA is exposed to a host of risks as it occupies the heart of public finance in Sierra Leone. While the risks are numerous, they could be grouped into economic, political, financial, administrative and technological. Economic shocks that could alter its growth pattern pose significant risk to revenue generation in the country. The need to grant an enabling tax environment for investors and attract foreign investment could as well erode tax base and frustrate the efficiency and fairness drive of the tax system. The lingering political situation as a result of the impending presidential, parliamentary and local council elections in 2012 represents potential instability and security threats that could impinge on the further achievements by the Authority in 2012.

The availability of required funds from its 3 percent commission and from donors and directing these resources to the defined areas are crucial in the strategic goal of the Authority. A number of administrative and structural concerns should also be flagged for consideration. The provision and allocation of necessary logistics to critical operations and support areas, staff welfare and in the area of outsourcing resourceful persons to provide inputs in its operations also contain some element of risks. On the sharp end, internal tensions culminating to leadership change in areas directly involved in the reform process would result to a stalemate which will jeopardize the focus and direction of NRA.

Technological risks pose the greatest threat to the modernization process and revenue collection. As the Authority moves towards full automation, any inefficiency or breakdown in programmes (ASYCUDA++, VIPS, D-Tax solution or any related software) would undermine the entire programme and hamper revenue collection. Given these risks, the Authority has devised competent approach to manage these risks through regular reviews, actions and report.

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APPENDICES

APPENDIX I: Tax-GDP ratio and revenue collection 2004-2011

Department/category	Collection	Target	Variance	Contribution to total Revenue (%)	Annual GDP (Nominal)	Percent (%) of GDP
Total NRA Revenue (2004)	**319,231**	**314,896**	**4,335**		**2,894,123**	**11.0%**
Income Tax Department(ITD)	97,643	95,032	2,611	30.6		
Customs & Excise Department (CED)	221,588	219,864	1,724	69.4		
Total NRA Revenue (2005)	**392,903**	**405,223**	**(12,320)**		**3,518,200**	**11.2%**
Income Tax Department(ITD)	114726	122,000	(7,274)	29.2		
Customs & Excise Department (CED)	236,753	243,023	(6,270)	60.3		
Non Tax Revenue (NTR)	41,424	40,200	1,224	10.5		
Total NRA Revenue (2006)	**463,920**	**510,352**	**(46,432)**		**4,206,600**	**11.0%**
Income Tax Department(ITD)	138,958	152,578	(13,620)	30.0		
Customs & Excise Department (CED)	280,935	306,818	(25,883)	60.6		
Non Tax Revenue (NTR)	44,027	50,956	(6,929)	9.5		
Total NRA Revenue (2007)	**501,922**	**514,042**	**(12,120)**		**4,966,200**	**10.1%**
Income Tax Department(ITD)	145,463	150,827	(5,364)	29.0		
Customs & Excise Department (CED)	308,440	312,090	(3,650)	61.5		
Non Tax Revenue (NTR)	48,019	51,125	(3,106)	9.6		
Total NRA Revenue (2008)	**615,645**	**638,868**	**(23,223)**		**5,873,400**	**10.5%**
Income Tax Department(ITD)	196,374	196,737	(363)	31.9		
Customs & Excise Department (CED)	362,117	370,905	(8,788)	58.8		
Non Tax Revenue (NTR)	57,154	71,226	(14,072)	9.3		
Total NRA Revenue (2009)	**700,327**	**668,343**	**31,984**		**6,537,051**	**10.7%**
Income Tax Department(ITD)	213,043	209,483	3,560	30.4		
Customs & Excise Department (CED)	419,191	401,951	17,240	59.9		
Non Tax Revenue (NTR)	68,094	56,909	11,185	9.7		
Total NRA Revenue (2010)	**955,662**	**930,495**	**25,168**		**7,605,300**	**12.6%**
Income Tax Department(ITD)	303,026	236,434	66,591	31.7		
Customs & Excise Department (CED)	322,819	341,349	(18,530)	33.8		

Non Tax Revenue (NTR)	*83,456*	102,719	*(19,263)*	8.7		
Goods & Services Tax (GST)	*246,362*	249,992	*(3,630)*	25.8		
Total NRA Revenue (2011)	***1,428,759***	***1,321,371***	***107,388***		***9,578,600***	***14.9%***
Income Tax Department(ITD)	*485,302*	*380,340*	*87,314*	34.0		
Customs & Excise Department (CED)	*283334*	*365,856*	*(82,522)*	19.8		
Non Tax Revenue (NTR)	*284,848*	*239,836*	*42,455*	19.9		
Goods & Services Tax (GST)	*375,275*	*335,339*	*40,898*	26.3		

Appendix II: NRA Revenue Performance 2010-2011 (in millions of Leones)

Category	Actual	Target	Variance	Actual	Target	Variance
Total Collection	**955,662**	**930,494**	**25,169**	**1,428,781**	**1,321,370**	**107,411**
Domestic Tax Department	**549,388**	**486,426**	62,962	**860,599**	**715,679**	144,920
CIT	136,510	76,140	60,370	144,433	105,861	38,572
PIT	155,237	147,473	7,764	334,177	265,502	68,675
GST	246,362	249,992	(3,630)	375,275	335,339	39,935
Others	11,279	12,821	(1,542)	6,715	8,977	(2,262)
CED	**322,818**	**341,349**	(18,531)	**283,334**	**365,856**	(82,521)
Import duty	189,811	204,017	(14,206)	237,452	282,934	(45,482)
Excise on Petroleum	123,439	126,584	(3,145)	35,170	79,670	(44,500)
Other Excise	9,568	10,748	(1,180)	10,712	3,251	7,461
NTR	**83,456**	**102,719**	(19,263)	**284,848**	**239,835**	45,013
Mines	24,190	31,152	(6,963)	205,344	153,500	51,844
Other Departments	59,266	71,567	(12,300)	79,505	86,336	(6,831)
Total NRA Collection	**955,662**	**930,494**	**25,169**	**1,428,781**	**1,321,370**	**107,411**

Appendix III(a): Analysis of Direct and Indirect Taxes 2007-11 (in millions of Leones)

Year	Total	Direct taxes	Indirect taxes	Non-tax	Total
2007	501,922	124,601	329,302	48,019	501,922
2008	615,645	166,582	391,909	57,154	615,645
2009	700,327	184,109	448,125	68,094	700,327
2010	955,662	291,747	580,460	83,456	955,662
2011	1,428,781	478,610	665,324	284,848	1,428,781
Percent (%) of Total					
2007	100%	25%	66%	10%	100%
2008	100%	27%	64%	9%	100%
2009	100%	26%	64%	10%	100%
2010	100%	31%	61%	9%	100%
2011	100%	33%	47%	20%	100%

Appendix III (b): Analysis of Domestic and International Trade Taxes 2007-11 (in millions of Leones)

Year	Total	Domestic Revenues	International trade taxes	Total
2007	501,922	212,777	289,145	501,922
2008	615,645	273,673	341,972	615,645
2009	700,327	302,687	397,640	700,327
2010	955,662	505,707	449,955	955,662
2011	1,428,781	912,547	516,235	1,428,781
Percent (%) of total				
2007	100%	42.4%	57.6%	100%
2008	100%	44.5%	55.5%	100%
2009	100%	43.2%	56.8%	100%
2010	100%	52.9%	47.1%	100%
2011	100%	63.9%	36.1%	100%

Appendix IV: Monthly Duty Waiver/Concession granted in 2011 (in millions of Leones)

Period	Embassies	PIO	NGO	Mining/Exploration Companies	Others	Total
2011	**13,157**	**53,030**	**22,837**	**341,964**	**154,998**	585,987
Jan-11	1,590	1,446	1,404	18,402	6,820	29,664
Feb-11	113	998	1,539	9,281	11,410	23,342
Mar-11	524	750	1,215	23,392	13,621	39,503
Apr-11	1,740	1,921	1,124	6,348	18,623	29,756

May-11	57	7,710	1,537	48,258	22,550	80,112
Jun-11	2,901	3,898	1,637	34,186	9,726	52,347
Jul-11	243	24,768	1,923	25,059	7,332	59,325
Aug-11	84	1,389	3,234	87,181	13,809	105,698
Sep-11	386	2,832	1,448	24,632	16,889	46,188
Oct-11	1,931	619	733	31,159	5,775	40,217
Nov-11	2,565	4,601	5,958	22,744	20,589	56,456
Dec-11	1,022	2,098	1,084	11,322	7,853	23,379