NATIONAL REVENUE AUTHORITY

ANNUAL REPORT 2017

BY:

Monitoring Research and Planning (MRP)

Department

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EXECUTIVE SUMMARY

The National Revenue Authority (NRA) was established by an Act of Parliament in 2002. Its core business function is to administer all laws relating to the assessment, collection and accounting of taxes, customs duties, royalties, fees, fines, etc to provide the government a fiscal space for the development of the country.

In order to efficiently and effectively perform this function, the NRA implemented an annual operational plan for 2017 (extracted from the 2013 - 2017 Strategic Plan), a performance contract signed with the office of the president, activity plans of donor funded projects and other emerging issues aiming to support the revenue mobilisation drive of the Authority. It also executed annual work plans for 2017 of the various departments and units. The implementation of these plans and the operations of the Authority was effectively monitored by the Monitoring, Research & Planning (MRP) Department and reported the findings below:

One of the findings made is the evaluation of the Strategic plan. In 2017, the Authority carried out a mid-term review of the 2013-2017 Strategic plan to determine the progress of achievement of its key performance indicators. The assessment was carried out by the NRA Senior Management with support from World Customs Organisation (WCO) and Adam Smith International (ASI). The outcome of the review fed into the drafting and approval of the 2018 - 2022 Strategic plan which was also supported by the same development partners.

On revenue collection, however, the NRA failed to meet the 2017 target. The actual revenue collection from January to December of 2017 amounted to Le3.199 trillion, falling 8% (Le291 billion) short of the April target of Le3.639 trillion. During the IMF Spring Meetings in April 2017, the revenue target was revised upwards from Le3.468 trillion to Le3.639 trillion taking into consideration the new Extended Credit Facility (ECF), increment in the mining sector, parastatal dividends and gains from stringent application of duty waiver restrictions.

The main operational departments, Domestic Tax Department (DTD) and the Custom Service Department (CSD), fell short of their target (by 9% and 8% respectively); except the Non-Tax Revenue (NTR) Department which exceeded its target by 11%, the Personal Income Tax (PIT) exceeded its target by 8% and other tax handles such as royalties on fisheries, freight levy and parastatal dividends together exceeded their target by 14%.

In addition, to the failure to meet revenue target, the NRA recorded significant revenue loss through duty-waiver. Although the number of duty waiver applications received and processed declined by 6% (from 2,438 in 2016 to 2,288 in 2017); the actual revenue waived jumped from Le336.3 billion in 2016 to Le403.1 billion in 2017 (almost 20% increment).

Despite the low revenue collection, the NRA succeeded in implementing many revenue enhancement projects. For example, the Authority completed the automation of the Non-Tax Revenue Payment System for revenues from fisheries and land permits, developed a Management Information System (MIS) database with support from the Department for International Development (DfID). This system will enhance the monitoring of domestic tax and customs operations and implemented a price reference database to aid customs valuation.

Also, the Authority signed contract with UNCTAD and made first instalment payment for the migration from ASYCUDA++ to ASYCUDA World. The personnel to implement the migration of the system were mobilized and a mission to review the current situation prior to migration was completed.

It also made significant progress in the procurement and implementation of an Integrated Tax Administration System (ITAS), a project supported by World Bank under the Public Financial Management Improvement and Consolidated Project (PFMICP) of the Ministry of Finance and Economic Development (MoFED). The NRA taxpayer call centre to respond to taxpayer concerns, improve compliance and tax education has also been launched.

In view of the numerous challenges faced during the collection of revenue and implementation of projects, the report makes the following recommendations:

- Even though chances are there for increased domestic resource mobilisation, these must be supported by tax policy. For example, tax exemptions and investment incentives should be reduced in the tax system with a view to improving the tax base. In other words, there is a need to strengthen tax administration and reduce revenue leakages and inefficiencies which exist during the collection.

- In addition to the major achievement of enacting the Fiscal Management and Control Act (FMCA) in the last quarter of 2017, MDAs should transfer their revenues to the Consolidated Revenue Fund (CRF) in accordance with the provisions of the Act to boost domestic revenue mobilisation.

- The NRA 3% commission on revenue collected should be disbursed on a timely manner to enhance budget planning and execution of revenue mobilisation operations and projects. This will allow the NRA to finance capacity building in specialized audit, staff motivation, enforcement, taxpayer sensitization, and recruit the needed staff strength to undertake more operational and revenue surveillance activities.

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SECTION ONE

1.0 INTRODUCTION

Since its inception in 2002, the National Revenue Authority (NRA) has undergone substantial transformation through the introduction of tax administration reforms. Although there are still some challenges, there has been significant improvement in the revenue collection drive. This report provides detailed analysis on the revenue collection and reforms implemented in 2017.

The report is divided into five sections:

- Section One deals with the NRA Corporate Statement which includes the mission, vision and values. It also includes the governance arrangement and corporate planning of the Authority.

- In Section Two, detailed analyses of revenue target, actual collection, duty free and concessions are provided for the period under review.

- Section Three presents non-revenue related achievement of the Authority in 2017 taking into consideration the reforms implemented and the engagement meetings held with stakeholders to enhance cooperation.

- Section Four presents analysis of special statistics such as import and export, taxpayer registration, LTO audits, etc.

- Section Five presents analysis of the revenue potential, the challenges and recommendation for further improvement in the delivery systems. The analysis includes the prospect of meeting revenue targets, the risks and the mitigation measures for meeting those targets.

1.1 NRA CORPORATE STATEMENT/STRATEGIC FRAMEWORK

The NRA's Corporate statement consists of the vision, mission, core values, and strategic goals and objectives of the Authority. It also provides insight into the governance arrangements by department.

1.2 NRA Corporate Statement

The core mandate of the NRA is to assess and collect taxes, customs duties and other revenues specified by law, as well as enforcing laws relating to the collection of those revenues.

The NRA performs four core functions:

- to assess and collect revenues on behalf of government
- to improve compliance (filings & payment on time)
- to improve trade facilitation
- to improve fiscal border security (i.e. to minimize physical smuggling)

1.2.1 Vision: *To have an equitable, effective, simple and transparent tax system.*

1.2.2 Mission**:** *To maximize revenue collection for national development and to buttress sustainable economic growth through:*

- Formulating and implementing policies and procedures which promote effective, efficient, transparent, and accountable tax systems.
- Designing simple and effective business processes.
- Developing and enhancing human capacity for improved service delivery.
- Understanding and enhancing the business environment by liaising and collaborating with relevant MDAs, local and international institutions, taxpayers and other relevant stakeholders.

1.2.3 NRA Core Values

Our activities (revenue collection processes and procedures) are guided by the following core values:

Integrity: We are committed to the highest standards of trust and honesty.

Transparency: We will act in accordance with the letter and spirit of the Law at all times and ensure full disclosure of information as and when required by Law.

Accountability: We will ensure that appropriate mechanisms exist for staff to be held accountable for their decisions and actions.

Equity: We value individual differences and treat customers with dignity and respect.

Discipline: We will ensure our staff conducts themselves in accordance with the NRA Code of Conduct and other established principles of good governance at all times.

Collaboration: We will work in collaboration with stakeholders and associated institutions to improve our service delivery and overall performance.

Staff Development: We will ensure a conducive working environment and create learning opportunities for our staff to enable them to achieve their full potential.

Service Excellence: We will provide quality services to taxpayers and other stakeholders in order to facilitate tax compliance and minimize its associated costs.

1.3 Economic Overview of 2017

In 2017 the Sierra Leone economy has seen a continuation of the recovery started in 2016, especially during the first half of the year, with an estimated growth rate of 5.6% (3.5% excluding iron ore), mostly due to the return to an almost normal level of activities in agriculture, construction, trade, manufacturing and service sector. However, the floods and the mudslide of the second half of the year had a tremendous human and economic cost.

Against 2016, in the first half of 2017 exports and imports increased by 49.7% and 31% respectively, the first driven by the growth of exports in the fisheries sector and the second by a rise in food and fuel imports. This impacted both the inflation rate, which peaked in March at 20.2% before stabilizing in September at 17.8%, , and the trade deficit, which increased to US$300 million. The exchange rate of the Leone to the US Dollar (US$) which came under pressure during 2015-2016, standing at LE7,239 in December 2016, remained relatively stable for the first 9 months of 2017, depreciating by approximately 3%.

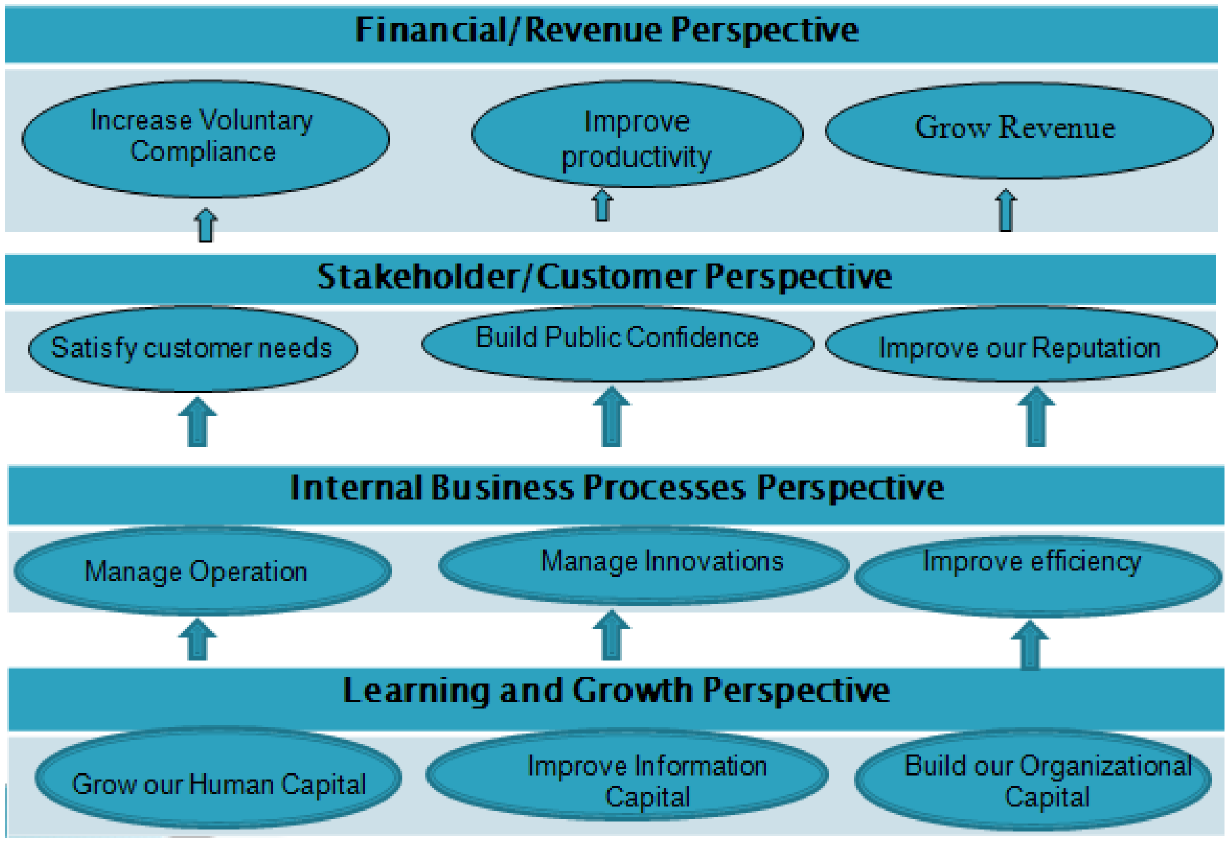
A positive development has also interested commercial lending to the private sector, especially to the construction, commerce and service sectors, which increased by 8% during the first half of 2017. There has been an increase in the stock of both external and domestic debt: the first increased to US$1.47 billion by June 2017 (from US$1.35 billion in December 2016) while the second increased to Le 3.87 trillion (from 3.62 trillion Le in December 2016).

Total Government expenditure for 2017 is estimated at 21.2% of GDP, down from 23.2% in 2016. For the first half of the year, total expenditure and net borrowing amounted to Le 2.95 trillion (against a budgeted amount of Le 3.17 trillion), with wages and salaries accounting for Le932 billion, capital expenditure for Le851 billion, interest payment for Le300.4 billion and non-salary, non-interest recurrent, expenditures amounting to Le863.1 billion. The overall budget deficit, Le .28 trillion as of June 2017, is estimated to be Le2.2 trillion for the whole year. Domestic financing of the budget deficit was estimated Le796.3 billion.

1.4 NRA Strategic plan 2013 -2017

Further to the mid-term review of the 2013-2017 Strategic plan led by the MRP and Internal Controls and Audit (ICA) Departments in 2016, a final assessment was carried out in 2017 to determine the progress of implementation and achievement of the key performance indicators contained in the Strategic plan. Concurrently, with the support of the WCO and DFID/ASI, a draft of the 2018-2022 Strategic plan was also developed by NRA Senior Management. The assessment of the 2013-2017 Strategic plan fed into the 2018-2022 strategic plan by way of establishing baselines and carrying over unaccomplished activities.

Figure 1. 1: The NRA Strategic Map Model (SMM)



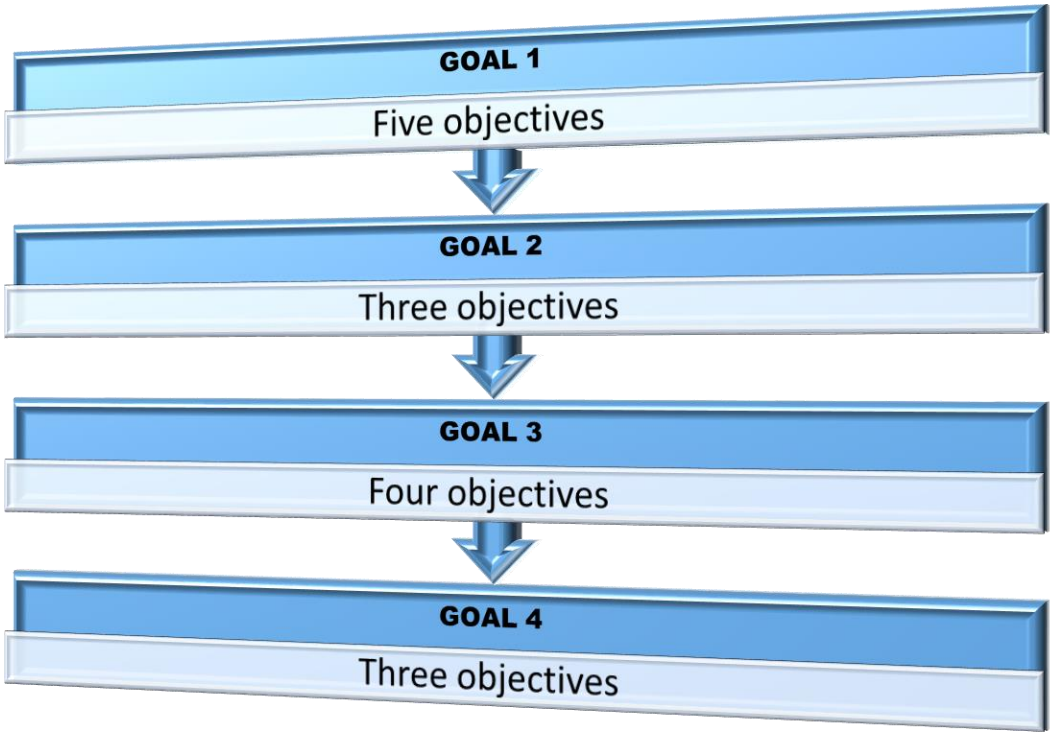
1.5 Strategic Goals and Objectives

The 2013-2017 Strategic plan has four strategic goals.

1. To enhance revenue mobilisation to deliver on NRA's mandate and ensure sustainable fiscal revenue for government by improving voluntary compliance.
2. To improve customer satisfaction, public perception and trust in the Authority by delivering quality and consistent services, building professionalism and staff integrity.
3. To improve efficiency and effectiveness in business processes through modern technology
4. To develop our human capital and strengthen organisational and institutional capacity.

Each Strategic goal has several objectives as follow:

Figure 1. 2: ***NRA Strategic Goals & Objectives***

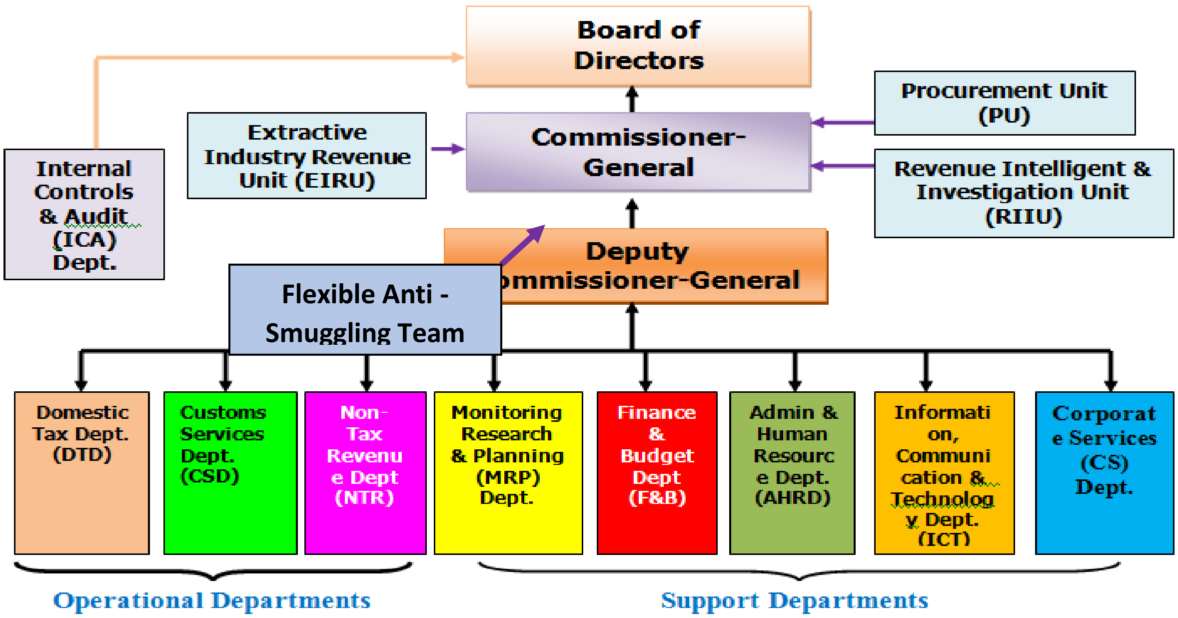


The objectives provide key performance indicators and outcomes which form the basis for monitoring and implementation of the plan.

1.6 NRA Governance Arrangements

The NRA is headed by a Commissioner-General (CG) who administers and manages the day-to-day operations of the Authority. Added to this, the NRA is supervised by the MoFED and has a Board of Directors who oversee operations. There are three operational departments, six support departments, and three units in the Authority. The Office of the CG consists of the Revenue Intelligence and Investigation Unit (RIIU), the Extractive Industry Revenue Unit (EIRU) and a Procurement Unit.

Figure 1. 3: NRA Organizational/ Current Management Structure



SECTION TWO

2.0 REVENUE AND DUTY-FREE ANALYSIS 2017

This section presents the revenue and duty-free analysis for 2017. It starts with an analysis of historical revenue performance over the period 2013-2017 and then move to a detailed cross-sectional analysis by department and tax-type. The section also includes a brief comparative analysis of duty-free concessions granted to key beneficiaries of the economy by category of exceptions.

2.1 Trend in revenue collection, 2013 – 2017.

Total revenue collected reached new highs in 2017 amounting to Le 3.199 trillion Leones (see Figure 2.1), representing an increase of 22.33% over the revenue collected in 2016 (see Figure 2.2). Moreover, all three operational departments experienced an increase: revenue from the DTD increased by 8.4%, that from the CED by 60.94% and that from the NTR by 31.07%. 2017 is the second year in a row in which all departments experienced growth in revenue collection, following two years, 2015-16, of negative growth in revenue mobilization caused by the Ebola Virus Disease epidemic and the fall in iron ore prices.

Figure 2. 1: ***Yearly revenue collection 2013-2017, nominal figures.***

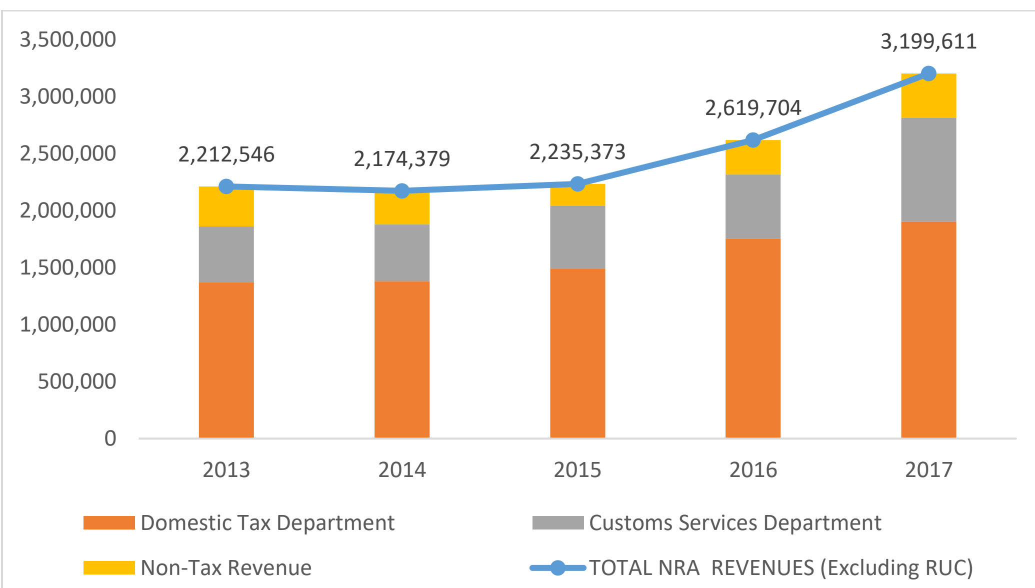
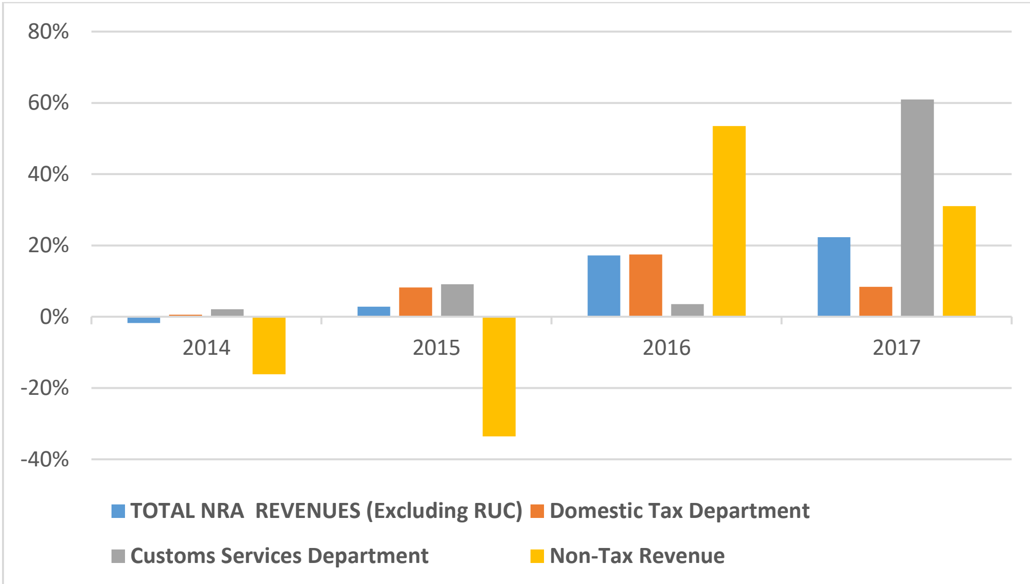
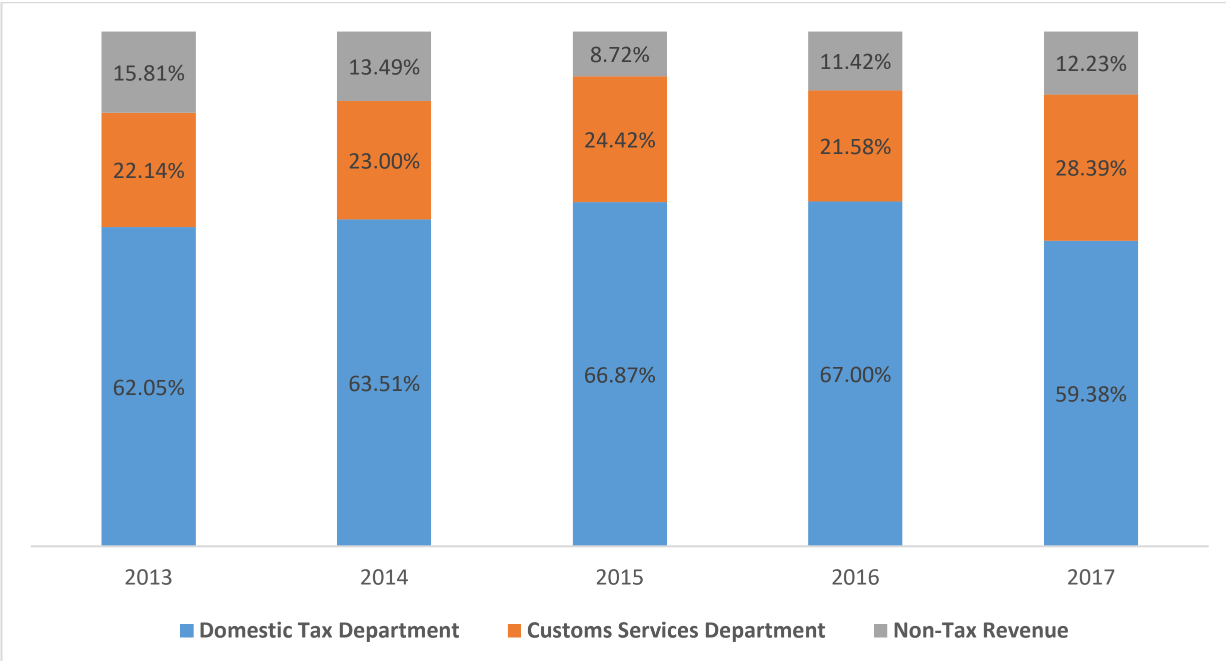


Figure 2. 2: ***DTD, CED and NTR Revenue, yearly growth rates.***



The contribution of different departments to overall collection changed noticeably between 2016 and 2017 (see Figure 2.2), with the DTD playing a less significant role in 2017, -7.62%, replaces largely by the CSD +6.81%. This was mostly due to a relatively weak performance of corporate tax collection and to a strong performance of both import duties and petroleum excise.

Figure 2. 3: ***Revenue composition by department.***



2.2 General Revenue Target, 2017.

The domestic revenue target for 2017 has been subject to several revisions over the course of the year, Table 2.1 summarises these changes. In November 2016, when the National Budget Speech was read in Parliament, the NRA was assigned a target of Le 3.468 trillion for 2017. During the IMF Mission of March 2017 and the Spring Meetings of April 2017, the revenue target was revised upwards to Le 3.639 trillion in preparation for the new ECF Programme but also to reflect additional revenues from the mining sector, parastatal dividends and gains from the stringent application of duty waiver restrictions. This target was maintained for the new ECF Programme, which was approved by the IMF Board in June 2017.

In September 2017, following the first review of the new ECF programme, the IMF proposed revising the NRA target to Le3.429 trillion following the realisation of minimal gains from the mining sector and the lower-than-expected gains from duty-waiver restrictions and parastatal dividends. The Review could not be concluded, as the Fund was of the view that tough revenue enhancing measures including those with socio-political implications should be immediately implemented, which the country authorities thought were untimely.

In October, the following month, the Sierra Leone Delegation to the Annual World Bank/IMF Meetings continued with the discussion on the First Review of the ECF programme in Washington. The NRA revenue target was again revised on the grounds of realistic expectations as well as the implementation of the FMCA which had just been enacted by Parliament and which made provision for consolidation of revenues previously retained by key Government Agencies. This resulted in the NRA target being revised to Le3.391. However, once again this review could not be concluded due to similar disagreements between the Fund and NRA as before.

Table 2. 1: ***NRA Revenue Targets in 2017 (Le Billion)***

No.	Detail	Annual Target	Actual (Jan-Dec)	Surplus – (Deficit)
1	National Budget Speech	3,468	3,205	(263)
2	April IMF Revised Target	3,639	3,205	(434)
3	September IMF Revised Target	3,429	3,205	(225)
4	October/Annual Meetings Revised Target	3,391	3,205	(186)

2.3 Actual Revenue Performance, 2017.

As the IMF Board did not discuss and approve last two revised targets (September and October) the NRA needs to be advised whether their performance could be assessed based on these targets. Meanwhile, 2017 revenue performance is analysed here relative to the April IMF target.

Revenue collected by the NRA from January to November of 2017 amounted to Le3.205 trillion, falling 12% short (Le434 billion) of the April target of Le3.639 trillion (see Table 2.1). All departments fell short of their target, although performances change amongst them, with the CED performing slightly better (90% of the overall target) and the NTR department performing slightly worse (78% of overall target met). The only two tax components for which the target was met and surpassed are the Personal Income Tax (PIT) (8% above target), royalties on Rutile (35% above target), royalties from fisheries (20% above target) and other revenues (59% above target).

Alternative if the September target is used.

Revenue collected by the NRA from January to December of 2017 amounted to Le3.205 trillion, falling 8% short (Le225 billion) of the September target of Le3.429 trillion (see Table B2). Both the DTD and the CED fell short of their target (of 9% and 8% respectively), although it must be noted that the revenue from PIT exceeded its target of approximately 8%. On the other hand, the NTR department exceeded its target of almost 11%, and similarly the revenue from other departments (such as royalties on fisheries, freight levy and parastatal dividends) also exceeded its target by 14%.

The main periods of underperformance were Q1 (Le785 billion of total collection) and Q3 (Le725 billion), while the highest quarterly collection was in Q4 (Le865 billion), slightly ahead of the collection of Q2 (Le825 billion). Q1's low collection was largely the result of reduced operational activities from the NRA due to financial constraints. During Q1, the Authority planned to continue with the enforcement measures implemented during the last quarter of the previous year in the hope of generating a higher revenue. However, delay in disbursement of our 'collection commission' from MoFED implied that the Authority could not continue its revenue enhancement drive and had to rely on taxpayer voluntary compliance. On the other hand, the lower collection in Q3 was not surprising as from experience, this is the quarter when the NRA always collects the least amount of revenue, largely as a result of lower economic and business activity due to rain intensity. Other reasons for underperformance are elaborated in section 5 of this report.

Table 2.2: ***NRA Revenue Performance 2017 (Amount in Million Leones)***

Details		**Jan- Dec Actual**	**Jan-Dec Target**	**Surplus/ Decrease**
Total NRA Revenue		**3,204,610**	**3,639,037**	**(434,427)**
Domestic Tax Department		**1,902,782**	**2,129,311**	**(226,529)**
Income Tax Revenue o/w		**1,188,596**	**1,280,164**	**(91,568)**
Corporate Tax o/w		*222,197*	*379,115*	(156,918)
Personal Income Tax o/w		*960,890*	*889,004*	71,886
Other Taxes (FTT)		*5,510*	*12,045*	(6,535)
Goods and Services Tax o/w		**714,186**	**849,147**	**(134,961)**
Import GST		*411,921*	*461,023*	(49,102)
Domestic GST		*302,265*	*388,124*	(85,859)
Customs Service Depart. o/w		**909,767**	**1,009,224**	**(99,457)**
Import Duty		*485,727*	*514,022*	(28,295)
Petroleum Excise		*407,005*	*447,202*	(40,197)
Other Excise (Import Excise)		*17,035*	*48,000*	(30,965)
Non-Tax Revenue o/w		**392,061**	**500,502**	**(108,441)**
Mines Dept.		**154,916**	**255,353**	**(100,437)**
Royalties on Iron ore		*25,568*	*101,025*	(75,457)
Royalties on Rutile		*48,733*	*36,103*	12,630
Royalties on Bauxite		*9,148*	*10,004*	(856)
Royalties on Diamond and Others		*20,603*	*52,104*	(31,501)
Licenses		*50,864*	*56,117*	(5,253)
Other Depts.		***237,145***	***245,149***	**(8,004)**
Royalties etc. on Fisheries		*74,730*	*62,108*	12,622
Parastatal Dividend		*29,500*	*83,924*	(54,424)
Freight Levy		*901*	*16,011*	(15,110)
Other Revenues		*132,013*	*83,106*	48,907

Table 2. 3: ***NRA Revenue Performance 2017 (Amount in Million Leones)***

Details	**Jan- Dec Actual**	**Jan-Dec Target**	**Surplus/ Decrease**
Total NRA Revenue	**3,204,610**	**3,429,292**	**-224,682**
Domestic Tax Department	**1,902,782**	**2,088,053**	**-185,271**
Income Tax Revenue o/w	**1,188,596**	**1,261,704**	**-73,108**
Corporate Tax o/w	*222,197*	*367,700*	*-145,503*
Personal Income Tax o/w	*960,890*	*889,004*	*71,886*
Other Taxes (FTT)	*5,510*	*5,000*	*510*
Goods and Services Tax o/w	**714,186**	**826,349**	**-112,163**
Import GST	*411,921*	*438,049*	*-26,128*
Domestic GST	*302,265*	*388,300*	*-86,035*
Customs Service Depart. o/w	**909,767**	**987,002**	**-77,235**
Non-Tax Revenue o/w	**392,061**	**354,237**	**37,824**
Mines Dept.	**154,916**	**146,426**	**8,490**
Royalties on Iron ore	*25,568*	*22,300*	*3,268*
Royalties on Rutile	*48,733*	*35,600*	*13,133*
Royalties on Bauxite	*9,148*	*12,400*	*-3,252*
Royalties on Diamond and Others	*20,603*	*31,126*	*-10,523*
Licences	*50,864*	*45,000*	*5,864*
Other Depts.	**237,145**	**207,811**	**29,334**

2.4 Reasons for Underperformance

As previously reported, even though the Authority collected more in 2017 relative to same period in 2016, yet we underperformed relative to set target. The under mentioned is a summary of the key reasons for such under performance:

- Delay in enacting and implementing the Finance Act 2017, which has several revenue enhancing measures. It must be noted that the 2017 revenue targets were partly based on the revenue measures in the Finance Act 2017.
- Non-continuation of the STRIP in the first half of 2017 as expected due to financial challenges experienced during the period. This implies the originally skewed quarterly projection towards the first half of the year was unrealistic; and so, the quarterly projections were revised and skewed towards the second half of the year, a period closer to national elections and when compliance is expected to be low.
- Non-implementation by mining companies of the best available market price in the valuation of exports. This had adverse implications on the royalties projected from the sector. The case of SISG is typical as it was projected that a further Le40 billion would be raised if SISG could use the best available market price in valuing their exports. Eventually, the NMA revealed that the company was in fact using the best available market price for their products which were largely of low grade. This meant that the Le40 billion targeted was never going to be realised.
- Lower than expected returns from underground mining by Koidu Holdings. It was anticipated that Koidu Holding will resume full underground mining in April 2017 and soon the NRA could realize a significant increase in diamond royalties. Only as recent as November that full underground mining at the Koidu mines commenced.

2.5 Duty Free Analysis, 2017.

As shown by the comparative analysis in Table 2.5, a total of 2,288 duty waiver applications were received and processed in 2017. Compared with that processed in 2016 (2,438), the analysis shows a slight decline (6%) in duty waiver application since the previous year.

Regarding the amount of tax/duty waived, the total waiver granted increased from Le336.3 billion in 2016 to Le403.1 billion in 2017 (roughly 20%). The key drivers of the 2017 increase in duty waiver value were those granted to the Government and to private entities, followed by those to Public International Organization (PIO) and Non-Governmental Organization (NGO) as shown in Table D.

Table 2. 5: Duty Waiver Granted in 2016 and 2017 Compared Amount in Million Leones

Beneficiary	**2016**	**2017**	**Variance**	**% Variance**
Embassy	13,897	13,817	(80)	-1%
Government	57,723	107,930	50,207	87%
Mining	12,194	20,906	8,712	71%
NGO	28,247	25,217	(3,030)	-11%
PIO	86,446	59,168	(27,277)	-32%
Private	137,794	176,085	38,290	28%
Total	**336,301**	**403,123**	**66,822**	**20%**
No of Applications	***2,438***	***2,288***	***(150)***	***-6%***

Specifically, duty concession granted to government sharply increased by 89% moving from Le57.7 billion in 2016 to Le107.9 billion in 2017. In a similar vein, duty concessions granted to mining/exploration companies and private entities also increased by 71% and 28% respectively between 2016 and 2017.

SECTION THREE

3.0 Taxpayer Sensitization and Education

In 2017, the NRA held regular media sensitization programs with taxpayers and the public to educate and engage them in its operations. Such engagements were done through the media, newspaper publications, radio and television programs. Several publications were also made on the NRA web site and social media such as face book. Continuous engagement of taxpayers through the media has improved information sharing among taxpayers fostered collaboration with key stakeholders.

3.1 Update on 2017 Corporate Social Responsibility (CSR)

In 2017, NRA continued performing its corporate social responsibilities to serve the needs of its future taxpayers. This was achieved by the implementation of the following activities:

- donation of a 24-seater bus to the University of Makeni (Unimak)
- construction of one water well & one public convenience (toilet) facility at the Barmoi Lumor market in Kambia district.

Performing of corporate social responsibilities has helped to bring NRA closer to the taxpayers and has contributed to improve tax compliance and public image of the institution.

3.2 Update on 2017 ICT Tax/Revenue Reforms implemented

Despite not meeting revenue target, the NRA realised growth and improvement in business operations through the automation of key processes under the following ICT projects:

a) Completed the automation of the Non-Tax Revenue Payment System for revenues from fisheries and land permits.

b) Developed a Management Information System (MIS) database with support from the Department for International Development (DfID) for monitoring domestic tax and customs operations including registration and compliance.

c) Developed and implemented a price reference database to aid customs valuation.

d) The process of migrating from ASYCUDA++ to ASYCUDA World is at an advanced stage as contract with UNCTAD, the sole provider of the software, was signed with MoFED and first instalment payment made. The personnel to implement the migration of the system have been mobilized and a mission to review the current situation prior to migration was completed.

e) Made significant progress in the procurement and implementation of an ITAS, a project supported by World Bank under the Public Financial Management Improvement and Consolidated Project (PFMICP) of MoFED. However, due to procurement compliance challenges, the Tender has been re-launched early this year, 2018.

f) Launched the NRA taxpayer call centre to respond to taxpayer concerns, improve compliance and tax education.

3.3 Human Resource Management including relevant indicators

With respect to improving the NRA's organizational growth and staff competency, the following activities were completed in 2017:

- Development of Business Continuity Plan (BCP) to make provision for sustainability of our revenue administration systems and planning.
- With respect to staff competency development, the Authority undertook the following in 2017:
    - ✓ Development of the HR Strategy.
    - ✓ Development of a Competency Development Plan based on training needs analysis and an employee skills audit.
    - ✓ Provided both local and international training for 77% of NRA technical and managerial staff.

- ✓ Built the capacity of the research department in revenue forecasting and monitoring of tax exemptions.
- ✓ Undertook in-house training of staff and replicating external trainings within the NRA.

3.4 Collaboration with Key Stakeholders (e.g. status of MOUs)

Given the limited government resources, the design and implementation of some revenue administrative reforms cannot be fully achieved without the support or intervention of donor partners. The Authority has over the years gained tremendous cooperation from our development partners – the World Bank, DFID and the IMF. For instance, the funding of the ASYCUDA World, Revenue Reconciliation and ITAS projects is being provided by the World Bank under the PFMICP, coordinated by the Ministry of Finance and Economic Development (MoFED). DFID has also been supporting the NRA in its Revenue for Prosperity (R4P) Programme from July 2015 to end December 2017 specifically targeting technical assistance in domestic taxes modernisation, customs and revenue administration governance.

Similarly, the IMF through its regional AFRITAC West 2 Programme has offered high quality technical assistance in domestic taxes and customs related subjects. In 2017, the GIZ approved technical assistance for a period of one year to build the capacity of the newly established Extractive Industry Revenue Unit at the NRA. The African Development Bank and IMF are also interested in supporting the Unit.

Open Society Initiative for West Africa (OSIWA) is another new entrant targeting tax justice campaigns and sensitization and in 2017, approved a tax education project for the NRA.

3.5 Update on Doing Business

This section provides an update on NRA/World Bank's Doing Business Report for 2017. The update includes Trading across Borders' and 'Paying Taxes' as can be seen from this update:

- NRA worked with relevant stakeholders involved in goods clearance at the port and produced a New Import Clearance Map that reduces process steps from 24 to 18.

- A revised all fees and charges few years ago for all legislated and non-legislated import duties and tax charges

- Concluded a scoping mission with support from WCO to conduct a Time Release Study that will estimate the time required for pre-customs, customs and post customs

- Completed 65% of the construction of a cargo inspection facility at the seaport in order to make cargo examination safer, coordinated and effective.

- Signed contract with UNCTAD for the migration from the ASYCUDA++ to ASYCUDA World and implement a Customs Single Window funded by the World Bank.

- Amended the customs legislation for the Introduction of a pre-arrival processing of goods declaration before the arrival of the cargo (vessel):

  - Section 8(4)(c) of the Customs Act 2011 has been amended to ensure shipping agent register manifest at least 48 hours before arrival of vessel.
  - Pre-Arrival Clearance Process Map has been developed (See Attachment).
  - Next step is for the NRA to popularise and implement the scheme.

- Completed first phase of a pilot project for six large taxpayers for the introduction of e-filing for tax returns. The second phase has almost been finalised as testing has been done already. Roll out of the pilot is contingent on completion of the second phase of the pilot phase.

3.6 Update on ASU Activities

As in recent years, the Authority continued in 2017 to reduce physical and technical smuggling from our seaport and land borders through coordinated operations of the Anti-Smuggling Unit in collaboration with the Republic of Sierra Leone Armed Forces (RSLAF), Sierra Leone Police (SLP), the Office of National Security (ONS) and the Anti-Corruption Commission (ACC).

3.7 Update on Risk Management Activities

The introduction of the ASYCUDA++ heralded the automation of all customs operations replacing the manual system of operations. As a result, there was need for the creation of a Risk Management Unit to provide support to the ASYCUDA system. The Risk Management Unit (RMU) started operations on the 8th of June 2011. The Unit has the following paramount functions:

- Profiling of Importers and Brokers - here the unit seeks to create profiles for importers and brokers based on their historical records.
- Categorization of Importers and brokers into the Red, Yellow, Blue and Green lanes - this is done after identifying them from the most compliant to the least compliant, the most compliant going to Blue lane subject to PCA verification and the least compliant going to the Red lane, whilst the moderate compliant traders are sent to the Yellow lane. The Green lane is reserved for statutory mandatory duty free such as High Commissions, Embassies and international UN organs e.g. UNCEF, UNHCR and the like.
- Enhancing compliance by promptly bringing to the attention of management and relevant officers along the processing path any noticeable infringement in the daily review of SADs.
- Witness controversial physical examinations jointly with ASU personnel to ensure clarity and additional duty recovery where applicable.
- Develop and implement the RMU Framework for CSD.
- Develop, implement and monitor the pilot phase of the Gold Card Scheme being implemented for CSD.
- Develop and consolidate an annual Risk Register for CSD.
- Calculation of the percentages of the various lanes in the ASYCUDA++ System.
- Provide advice to CSD management on best practice as regards to customs operations under a risk-based customs controls.

- ❖ Design, develop and recommend to the Commissioner General an annual External Audit plan for the NRA for joint audits by both the Customs and Domestic Taxes Department.
- ❖ Undertake any special assignment that may be directed to the unit by management.

3.8 Public Recognition and Trust (Including Awards)

Although no award ceremony was organised in the entire country in 2017 due to the March 2012 election campaign, NRA's achievement in past years has been climaxed by its recognition in the form of awards of merits from reputable institutions.

Among the awards received by the Authority in recent years are**:**

- Anti-Corruption Commission's Most Compliant Institution 2016 Award
- Government Performance Excellence Gold Award, 2015 for meeting set revenue targets
- Government Performance Excellence Silver Awards in 2013 & 2014.
- Best Parastatal, 2014 by Kids Advocacy Network
- Best Parastatal Award, 2012 by All Works of Life (AWOL]
- Parastatal of the Year, 2011 Award by Sierra Leone Excellence Award

SECTION FOUR

4.0 Tax Compliance (filing analysis) & enforcement (DTD & CSD)

Table 4.1 shows a comparative analysis of the compliance on taxpayer filing expressed in percentages for 2016 and 2017. Generally, the Table shows a decline in tax and customs compliance in 2017. The proportion of GST taxpayers filing their monthly tax returns on time has proved to be lower than the 2016 average. Similarly, the proportion of post-clearance audits completed at Customs, though reasonably high at 80%, emerged to be lower than they were in 2016. This trend is also observed in relation to fraudulent tax cases investigated, which stood at 34% and lower than they were in 2016.

*Table 4. 1: **Tax and Customs Compliance***

Compliance Indicator	**2016**	**2017**
Proportion of GST taxpayers filing on time	69%	55%
Proportion of post-clearance audits completed	82%	80%
Number of SME businesses registered	1,775	2,085
Proportion of fraudulent tax cases investigated	36%	34%

4.1 Update on Tax /Revenue Arrears

Table 4.2 represents a comparative analysis of total revenue arrears for 2016 vs 2017 expressed in billions of Leones. Overall, the Table shows a significant increase (91%) of revenue arrears in 2017 compared to 2016 for the whole Authority. This big difference is due to a huge increase of tax revenue which were not collected in 2017.

Table 4. 2: **Comparative Analysis of Total Revenue Arrears 2016 Vs 2017**

CATEGORY	**2016 Arrears**	**2017 Arrears**	**Amount Deficit/surplus**	**% Deficit surplus**
TAX	7,389,543,025	149,908,885,774	142,519,342,749	95%
CUSTOMS	6,184,468,855	7,239,515,436	1,055,046,581	15%
TOTAL	**13,574,011,880**	**157,148,401,210**	**143,574,389,330**	91%

Specifically, Tax arrears in 2016 were moderately higher (15%) than Customs arrears. However, in 2017, tax arrears increased by approximately six times (95%) more than Customs arrears. The Tax arrears also jumped by the same magnitude (95%) from 2016 to 2017, compared to the Customs arrears which increased moderately (15%) from 2016 to 2017.

4.2 Tax Audit 2016 vs. 2017 (plan vs. completed)

Table 4.3 presents a comparative analysis of the number of completed and ongoing audits for the large taxpayers between 2016 and 2017. It also compares the tax liability recovered from the audits.

Overall, there is a slight improvement in LTO audit in 2017. The total number of audits increased from 40 in 2016 to 46 in 2017. Specifically, the number of audits doubled in Q1 (from 6 to 12) and in Q3 (from 8 to 16). Also, there is a moderate increase in the tax liability raised of 1% (from Le17.06 bn in 2016 to Le17.27bn in 2017). However, there was a drop in the number of audit cases in Q2 from 16 to 14, and in Q4 from 10 to 1. In addition, there are more working in progress audit cases in 2017 (34) than in 2016 (9).

Table 4. 3: **Comparative Analysis of Annual Audit 2016 Vs 2017**

	Annual Audit 2016			Annual Audit 2017		
	Nr. of cases completed	**Work in progress**	**Tax liability raised (Le)**	**Nr. of cases completed**	**Work in progress**	**Tax liability raised (Le)**
Jan to Apr	6	0		12	0	
May - June	16	0		14	0	
July -Sep	8	9		16	0	
Oct to Dec	10	0		1	34	
Total to date	40	9	17,062,699,803.08	46	34	17,271,389,970.44

4.3 Import and Export Statistics (2016 vs. 2017)

The figures generated from the Asycuda Clearance System for both Lungi International Airport and Customs Headquarters (Freetown Port) shows gradual increase in trading activities, for the fiscal year 2017, though revenue collection was a daunting and challenging task.

The volume/value of imports for 2017 shows a decrease of 22.2% compared to 2016. The situation is, however, different for export. The volume/value of export for 2017 was 3.3 trillion Leones; an increase of 51.5% when compared to figures (1.6 trillion Leones) in 2017.

4.4 Declaration Statistics–by lanes basis (2016 vs. 2017)

Table 4.4 below compares the percentage of four declaration selectivity lanes (**Green**, **Yellow**, **Blue** & **Red**) in the Customs ASYCUDA++ system between 2016 and 2017. The Table illustrates that out of the total number (23,244) of declarations in 2016, the number of Red lane declarations (18,390) is the highest representing 79.1% of the total declarations. It is 28 times greater than the number (647) of Blue Lane declarations which represents 2.8% of the total number of declarations. Compared to the Green lane declarations, the number of

Red Lane declarations is about 211 times greater than the number (87) of Green lane declarations which represents 0.4% of the total number of declarations.

In 2017, the situation is even worse as the expectation of trade facilitation never improves. The percentage of Green Lane declarations decreases from 0.4% in 2016 to 0.3% in 2017. The percentage of Blue lane declarations also declines from 2.8% in 2016 to 2.6% in 2017. To make matters worse, the percentage of Red lane declarations increases from 79.1% in 2016 to 79.9% in 2017.

Table 4. 4: **% of declarations selectivity lane (2016 vs. 2017)**

No.	**Lane**	**Number of Declaration**			
		2016	2017	**variance**	**variance**
1	GREEN	87	92	5	5.4%
2	BLUE	647	817	170	20.8%
3	YELLOW	4,120	5,376	1256	23.4%
4	RED	18,390	25,055	6,665	26.6%
	TOTAL	23,244	31,340	8,096	25.8%

Furthermore, a cursory glance of the percentages is enough to make it clear that all the genre increased between 2016 and 2017. Specifically, the Red Lane declarations increased by 26.5% (6,665 declarations) from 18,390 in 2016 to 25,055 in 2017. This is followed by the Yellow Lane which increased by 23.4% (1,256 declarations) from 4,120 in 2016 to 5,376 in 2017. However, the Green lane records the smallest increment (5%) from 87 in 2016 to 92 in 2017. The Blue Lane, which increased by 20.8% (170) from 647 in 2016 to 817 in 2017 follows the Green lane.

4.5 Container Statistics in 2017 (by types)

Table 4.5 below shows the number of scanned containers by types (20ft and 40ft) which were imported and exported in 2017.

Overall, the Table shows that the scanning process of both import and export containers was 100% satisfactory. This should have aided trade facilitation by increasing the % of Green and Blue lane declarations, not to see an increase in the number of Red lane declarations shown in Table 4.4 above.

Furthermore, the number of import containers (35,934) is 4 times greater than the number (8,418) of export containers thereby suggesting a trade deficit for Sierra Leone in 2017. Out of the total number of import containers, 69% (24,792) are 20ft containers whilst the remaining 31% (11,142) are 40ft.

Table 4. 5: COMPOSITION OF CONTAINERS SCANNED

DESCRIPTION		20FT	40FT
IMPORTS	Satisfactory	24,792	11,142
	Unsatisfactory		
EXPORTS	Satisfactory	7,734	684
	Unsatisfactory	-	-

4.6 Vessel statistics 2017 (dutiable and non-dutiable)

Table 4.6 shows data on the importation of dutiable and nondutiable vehicles, motorcycles and other machinery (e.g. boats) for 2017. Overall, the total importation of the genre is high (28,876). In addition, a significant number 10,985 (94%) were dutiable vehicles, compared to 461 (4%) which were nondutiable.

However, out of the number of duty-free vehicles, 336 (73%) are brand new while 125 (27%) are used vehicles. More so, out of the total number of new vehicles exempted from the payment of customs duty, 187 (41%) are jeeps, i.e. vehicles which are widely used as private. This number of new duty-free Jeeps is higher than that of the dutiable (137) jeeps. This implies that a high amount of revenue was lost through the importation of duty-free vehicles especially jeeps.

Table 4. 6**: Composition of Vehicles Inspected and Cleared**

Description	Total Decl.	Dutiable		Duty Free		TOTAL
		New	**Used**	**New**	**Used**	
Jeep		137	3556	187	70	3950
Car		19	3779	3	5	3806
Van		100	2272	72	6	2450
Bus		4	80	7	1	92
Truck		139	899	67	43	1148
Motor Bike & Tricycles		16490	86	543	15	17134
Others (Machines & Boats)		69	128	24	75	296
TOTAL	**11433**	**16958**	**10800**	**903**	**215**	**28876**

SECTION FIVE

5.0 Proposed Revenue reforms slated for 2018

Following the end of the previous Strategic Plan in 2017, the Authority has developed a new Strategic plan. The latter spans from 2018 to 2022 and describes how the Authority will deliver on its mandate of administering tax and customs laws in the context of supporting the development agenda of Sierra Leone as described in the 'Agenda for Prosperity' and the Sierra Leone Vision for 2013-2035**.**

The strategic plan sets out five strategic goals that will guide the NRA. These are:

- ✓ Effective and efficient revenue mobilization to support government fiscal space
- ✓ Developed human capital and institutional capacity
- ✓ Enhanced trade facilitation
- ✓ Automated and integrated modernised business processes and procedures
- ✓ Improved Public Trust and Credibility

Priority initiatives relating to the five strategic goals would build upon the progress made over the period of the previous strategic plan of 2013 - 2017.

1. Central to revenue mobilisation efforts is a strong emphasis on voluntary compliance underpinned by effective risk analysis, effective communication and engagement with taxpayers and service delivery whilst at the same time strengthening audit and enforcement capacity.

2. Focus will continue on the large and medium taxpayer segments as the primary revenue sources and efforts will be extended to assist small taxpayers and those in the informal sector to meet their obligations.

3. Much emphasis will be placed on developing human and institutional capacity. The former will include developing effective recruitment, learning, development and appraisal systems. In the area of staff development, we will focus on strengthening technical and managerial skills. Facilities and infrastructure will be upgraded to provide a modern and professional working environment. Efforts to consolidate accommodation and move revenue staff to a single building will also be pursued.

4. Trade facilitation will be enhanced through systems upgrade to ASYCUDA World, process simplification and data sharing with relevant stakeholders in the country and with other customs authorities within the sub-region through electronic interfaces. In addition to trade facilitation, another critical role the NRA will focus on will be the protection of society through targeting entry of contra-band goods and physical smuggling across the country's porous borders.

5. Major initiatives will be put in place to replace obsolete IT systems, automate manual processes and improve the quality of our data by implementing an effective management information system.

6. Plans are underway to deliver an Integrated Tax Administration and an advanced Accounting and Reconciliation systems to support tax processes and revenue accounting respectively. Cash registers/machines will also be introduced to improve compliance in GST collection. When accomplished, these will represent a landmark for accounting and domestic revenue mobilisation.

7. Finally, the NRA will focus on further entrenching the principles of good governance and build on its relationships with stakeholders in order to improve public trust and credibility and strengthen its position to meet its strategic goals.

8. This new strategy will be delivered through projects and operational activities and monitored using strategic indicators, operational plans and assessment meetings. Approximately 12 projects have been identified to be implemented in the course of the Plan. These include:

    a. Introduction of ITAS for domestic taxes
    b. Migration from ASYCUDA++ to ASYCUDA World for customs clearance
    c. Implementation of Revenue Receipting and Reconciliation System
    d. Tax Register Expansion and Enhancement project
    e. Change Management project
    f. Construction of a Bespoke Revenue House
    g. Introduction of Electronic Cash Registers for GST Administration
    h. Introduction of Corporate Risk Management
    i. Implementation of an SMEs regime Preparer Scheme
    j. Integrated Border Management Project

k. Data Matching Project
l. Specialised Audit Project

In addition to the aforementioned projects, numerous activities outlined in the operational plans will be implemented in the course of the delivery of the Strategic Plan.

Congruent to the project and activities to be implemented in the Plan, the NRA has jointly worked with MoFED and the IMF to develop a Medium-Term Revenue Mobilisation Strategy (RMS) encompassing tax policy and revenue administration measures geared to raise domestic revenue to 16% of GDP in 2021 and 17% by 2022. The RMS has already been endorsed by Cabinet and ready for implementation together with the Strategic Plan of the Authority. With political will, improved staff capacity and stable economy, the future remains bright for revenue mobilisation and trade facilitation as we envision service excellence, performance and regional integration in the medium term**.**

5.1 Possible key challenges and Mitigation measures

It is a priority for the GoSL to strengthen the tax administration and block any leakages and inefficiencies, which may exist in tax collection. Some of these challenges are administrative and others are macroeconomic in nature. For instance, whilst opportunities are there for increased domestic resource mobilisation, these must be supported by tax policy. Tax exemptions and investment incentives have derailed the tax system in the country and consequently eroding the tax base. Duty waiver exemptions in 2017 alone amounted to Le403 billion, being 20% higher than that in the previous year.

Furthermore, despite the major achievement of enacting the FMCA in the last quarter of 2017, MDAs expected to transfer their revenues to the Consolidated Revenue Fund (CRF) did not fully comply with the law. They only transferred funds upon request. In 2017, preparation and campaigns for the March 2018 general elections created uncertainties among taxpayers and adversely affected compliance and hence revenue collection levels.

Perhaps the most prominent challenge faced by the NRA in 2017 relates to the Authority's access to its statutory collection commission, which is used to finance its operations, as well as capital and staff expenses. The higher the investment in Revenue Authorities, the more revenues they collect.

In recent years, the NRA has been constrained by MoFED to receive its 3% commission on revenue collected and this treatment was worse in 2017. Not only did MoFED deny the Authority its full 3% collection commission, but also disbursed payment in bits and untimely manner, thus constraining budget planning and execution of revenue mobilisation operations and projects. This has its associated adverse effect on the inability of the NRA to finance capacity building in specialized audit areas, staff motivation, financing of enforcement activities, financing of taxpayer sensitization programmes, and the ability of the NRA to recruit the needed staff strength to undertake more operational and revenue surveillance activities.

A further challenge that had impeded collection efforts of the NRA relates to the slow recovery of the Sierra Leone mineral sector, especially iron ore and industrial diamonds. The commodity boom that was experienced in 2012 and 2013 was expected to last for at least a few years and generate substantial revenues to support Government expenditure programmes. This did not materialise as projected mineral revenues depend largely on movements in the international prices of these commodities.

In 2017, the price for iron ore remained low to attract reinvestment and resumption of the collapsed Timis Iron Ore Company and this has resulted to a decline in realized revenue. The IMF, in an earlier appraisal of the mining sector projected that 70% of domestic revenue could be realised from the mining sector by 2016. Whilst mining revenues averaged 21% over 2012-2014, the situation has rather worsened in 2015 on to 2017 where mining revenues have only contributed 10% on average to total NRA collection. This underperformance in this sector has complicated budgetary management, as expenditures would have to be adjusted accordingly.

Another challenge to revenue mobilisation relates to the structure of the Sierra Leone economy and the large size of the informal sector, an attribute which is not unique to the country. However, whilst in impressively progressing countries like Rwanda the services sector represents their economy's largest sector, this is not the case in Sierra Leone where the non-taxable and mostly subsistent agricultural sector happens to be the largest. For improved revenue generation, diversification of the economy should therefore focus on strengthening the services sector and industrializing the agricultural sector to the extent that it produces processed products that can attract some form of taxation and increase in exportation.

The consequence of the challenges is a relatively low revenue to GDP ratio, which is lower by regional standards, even for post conflict countries. The effect is that such revenue levels cannot adequately support expanded government fiscal space and further disadvantage the country to increased International Development Association (IDA) resource envelop.

APPENDICES

Abridged Version of the 2017 Audited Financial Statement of the NRA

STATEMENT OF COMPREHENSIVE INCOME

	2017 Le.'000
INCOME	
REVENUE	78,742,560
OTHER OPERATING INCOME	3,746,337
TOTAL INCOME	82,488,897
EXPENDITURE	
ADMINISTRATIVE EXPENSES	43,740,017
STAFF COSTS	55,136,195
GOVERNANCE COSTS	
DEPRECIATION	4,985,611
TOTAL EXPENDITURE	103,861,823
FINANCE COSTS	2, 632,978
RESULT FOR THE YEAR	(24,005,904)

STATEMENT OF FINANCIAL POSITION

	2017 Le.'000
ASSETS	
TANGIBLE NON-CURRENT ASSETS	
PROPERTY, PLANT & EQUIPMENT	26,646,427
TOTAL NON-CURRENT ASSETS	26,646,427
CURRENT ASSETS	
RECEIVABLES & PREPAYMENT	14,122,181
CASH & CASH EQUIVALENT	14,302,766
TOTAL CURRENT ASSETS	28,424,947
TOTAL ASSETS	**55,071,374**
FUNDING & LIABILITIES	
ACCUMULATED FUND	9,220,035
NON-CURRENT LIABILITIES	
CAPITAL FUNDS	1,212,709
EMPLOYEE BENEFIT PROVISION	22,809,826
TOTAL NON-CURRENT LIABILITIES	24,022,535
CURRENT LIABILITIES	
INCOME TAX LIABILITIES	1,304,637
OTHER PAYABLES	20,524,167
TOTAL CURRENT LIABILITIES	21,828,804
TOTAL FUNDING & LIABILITIES	**55,071,374**