



# STUDY ON TAXATION OF THE INFORMAL SECTOR IN SIERRA LEONE

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The Monitoring Research & Planning (MRP) Department  
with the Budget Advocacy Network (BAN)



## INTRODUCTION

*Sierra Leone's revenue-to-GDP ratio has remained below the ECOWAS average of 16%, rising from 12.3% in 2017 to 14.6% in 2019 but falling in 2020 due to COVID-19. The informal sector is a significant economic component but contributes minimally to revenue. The 2018 Sierra Leone Integrated Household Survey reported 86% of the workforce in the informal sector, and a 2013 NRA survey showed 63% of businesses were not registered taxpayers, limiting targeted policies. Formalizing businesses does not only increase revenue, it can improve tax morale, governance, and state-society relationships while boosting employee protections and business productivity. The NRA has introduced measures such as ITAS, ECRs, the Block Management System, the Domestic Tax Preparers Scheme and Small and Micro Taxpayer Regime to facilitate compliance, however, the informal economy remains significant. This study evaluates informality, identifies barriers to formalization, and recommends services to help integrate informal businesses.*

## **THE OBJECTIVE**

The aim of this study is to obtain a clear picture of the economic activities of micro, small and medium-sized informal enterprises in Sierra Leone to assess their potential contribution to revenue mobilisation. Specific objectives include:

- Gather information on the characteristics of informal domestic businesses
- Establish their registration status and knowledge of formalisation
- Understand the factors associated with the non-compliance of the informal sector
- Assess the revenue potential of formalising the informal sector
- Determine how informal businesses can be integrated into the tax net
- Assess the willingness of informal businesses to integrate into the formal economy and comply with tax regulations

The report also serves as a foundation for the NRA and the Ministry of Finance in conceptualising a new fiscal policy to incentivise the formalisation of businesses. The findings of the report will be shared with all relevant stakeholders - including MDAs, the SME's Development Agency, the Chamber of Commerce, Agriculture and Industry, and development partners.

## **METHODOLOGY**

For the purposes of this study, informal businesses are defined as those that are not registered with the NRA. Three complementary methodologies were used during this study to achieve the stated objectives:

1. A desk review of the most recent literature on the topic, current fiscal legislation applied to SMEs, and other preparatory activities;
2. A field survey and data analysis to inform the writing of the report; and
3. Stakeholder consultations.

The survey covered businesses across all sectors in Western Area Urban and Rural, the provincial capitals (Bo, Makeni, and Kenema), Koidu in Kono District, and the border communities of Kambia and Jendema. A total of 4,322 informal micro, small, and medium-sized enterprises were surveyed, making the data broadly representative of such enterprises. A representative sample was derived to reflect the general population.

The survey employed Computer-Assisted Personal Interviews (CAPI), with a semi-structured questionnaire on the KoBo Collect App installed on smartphones. Data collection was conducted over three weeks in June and July 2021 by a team of 60 field staff.

## **KEY INSIGHTS FROM THE SURVEY**

### **CHARACTERISTICS OF BUSINESSES AND REGISTRATION STATUS**

Approximately 60% of businesses surveyed were owned by men and 40% by women, highlighting gender inequality and the need for targeted programs. Over 70% of respondents had at least secondary education, exceeding the national average of 12%, supporting NRA's taxpayer education initiatives.

Most businesses (84%) were sole proprietorships, with 15% as partnerships, and 52% operated in wholesale and retail trade. The majority held government-issued IDs, required for the Integrated Tax Administration System (ITAS).

Over 50% of business owners were under 40, underscoring the need for policies supporting young entrepreneurs. Most businesses (55%) did not keep formal accounts, and handwritten records were more common than computerized ones, complicating accurate tax assessments.

While over two-thirds lacked bank accounts, nearly 30% had one, and mobile money usage was higher, aligning with NRA's push for mobile tax payment platforms. Less than 10% of businesses had internet access, limiting digital engagement for education and compliance efforts.

### **KNOWLEDGE & OTHER FACTORS THAT CAUSE BUSINESSES TO REMAIN INFORMAL/NON-COMPLIANT**

Most businesses surveyed remained unregistered due to a lack of information and the perceived cost of registration with the NRA. This highlights the need for effective taxpayer education, one-stop registration, and better accessibility to tax administration to promote business formalization. However, 82% of these businesses have never attempted registration, indicating a general disinterest in paying national taxes. This underscores the importance of NRA initiatives like the Block Management System and Domestic Tax Preparers Scheme.

Approximately 66% of informal businesses didn't know where to register with the NRA, likely due to limited awareness of registration locations.

However, there was better awareness of local council registration processes, possibly due to the more complex and costly nature of national tax registration. The NRA may have historically focused less on SME taxation due to the higher administrative costs involved.

## **ASSESSING THE POTENTIAL TO PAY TAXES IF FORMALISED**

The study revealed that the majority (87.5%) of businesses believe they would be more willing to pay taxes if the government used the revenue correctly. However, only 25% of informal businesses are clearly convinced that the government is using its revenue in the right way.

Among the businesses surveyed, approximately 7% of respondents claimed they were paying taxes to the NRA despite not being formally registered or having a TIN. This suggests that there is already a willingness to pay taxes among informal businesses, and we could infer that this willingness might increase if businesses became formal.

For businesses unwilling to pay taxes, approximately 28% believe taxes are too high, 13% complained about having to pay multiple different taxes, and nearly as many cited a lack of adequate public services in return for paying taxes.

## **DETERMINING HOW CURRENTLY INFORMAL BUSINESSES CAN BE BROUGHT INTO THE TAX NET**

Incentivizing tax-compliant businesses is seen as key to formalization, though many respondents were unsure. The majority (92.8%) would have registered and/or paid taxes if they had seen more government and city council services. Key incentives suggested by businesses include increased public services, lower tax rates, a loan scheme for small businesses, and more tax education.

About half of businesses rated the risk of being caught for non-registration as 'high,' showing that the NRA is viewed as a strong enforcement body. However, most informal businesses are unaware of new penalties for noncompliance.

Around 23.5% of businesses are members of business associations, making them a potential partner for the NRA to spread information and boost registration rates.

## **ASSESSING THE REVENUE POTENTIAL OF FORMALISING INFORMAL BUSINESSES**

*(figures in old leones)*

Respondents provided weekly turnover estimates for a 'good,' 'average,' and 'bad' week, with lower and upper bounds for each.

In a good week, businesses under the Small Taxpayer Regime are estimated to pay between Le 17.4 billion and Le 56.6 billion in turnover taxes. If taxed under the regular income tax regime, estimated payments range from Le 23.0 billion to Le 64.1 billion. In a bad week, estimated turnover tax payments drop to Le 5.2 billion to Le 28.9 billion.

For rental income, only transactions exceeding Le 7.2 million annually are taxed at 10%. However, just 8.7% to 23.8% of rental transactions surpass this threshold, while about 67% fall well below it. As a result, even full compliance by informal landlords would likely yield only modest increases in income tax revenue.

## **POLICY RECOMMENDATIONS**

***1. Consolidate viable current reforms by the NRA in formalizing currently informal businesses, including the Block Management System, Domestic Tax Preparers Scheme, business dialogues, and dialogues with heads of groups of informal businesses.***

***2. Develop a strategy/plan of action on how to incentivize businesses to formalize their operations, taking into consideration important findings such as:***

- *Lack of information necessary to register with the NRA*
- *High cost of registration*
- *Limited access to the internet or a bank account, and not keeping written books of account*
- *Higher education levels of informal business owners than the general population*
- *Informal businesses paying taxes to the local council and being members of trade associations*
- *Public service delivery being an important factor for the formalization of businesses*
- *Young people forming a significant proportion of informal business owners*

**3. Collaborate with organizations involved in formalizing informal businesses, including SMEDA, the Chamber of Commerce, Industry, and Agriculture.**

**4. Conduct research to estimate the cost of formalizing currently informal businesses, allowing the NRA to more accurately evaluate the financial gains of formalization.**

**5. Collaborate with MDAs involved in the registration of businesses, including OARG, CAC, and NCRA.**

**6. Develop a monitoring framework to track the implementation of formalization measures and evaluate the impact of these measures.**

**7. Support the BoSL in encouraging financial inclusion of micro, small, and medium-sized businesses, including simplifying the banking system and conditions for financial inclusion.**

**8. Support government efforts to build the capacity of business owners in book- and record-keeping.**

**9. Improve tax education nationwide.**