

# THE ECONOMIC POTENTIAL OF THE TOURISM SECTOR IN SIERRA LEONE

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The Monitoring Research & Planning (MRP) Department  
with the Ministry of Finance and Ministry of Tourism



## EXECUTIVE SUMMARY

*Tourism is a key source of foreign earnings and fosters trade and investment linkages. As one of the world's largest industries, it contributes over USD 8.9 trillion (10.3% of global GDP) and supports 230 million jobs while generating over \$800 billion in tax revenue. Studies from countries like Barbados, Kenya, and Turkey show a positive link between tourism and economic growth. In Sierra Leone, tourism holds significant potential for inclusive growth and economic diversification. Tourist arrivals grew by 90% from 2016 to mid-2017, reaching 202,965 in 2018/2019, with 14.1% visiting for leisure.*

*The Ministries of Finance and Tourism, with the NRA, studied the economic potential of tourism using data from the National Tourism Board, NRA, Ministry of Environment, EPA, NPAA, Chamber of Commerce, Immigration Service, and international sources, including a recent tourism census. The study identified priority investments to enhance attractions, revenue potential, strategies for growth, and key constraints. It also offered policy recommendations to attract more domestic and international tourists.*



# THE PROBLEM

In many countries, not least developing countries, the tourism sector is a fundamental driver of economic growth and development, a key source of government revenue and has the power to directly improve the livelihoods of a significant portion of a society. Recent data from Sierra Leone has shown that the past few years have been host to a significant tourism boom with a resurgence of new arrivals in the country following the lows of 2013-2016. Nevertheless, investment in the industry has been slow to respond and the revenue raised from this influx of tourists remains low relative to other government sources of revenue.

## OVERVIEW OF THE STUDY

### **Objective of the Study:**

The general objective of this study is to assess the economic and revenue potential of the tourism industry. The specific objectives are as follows:

- To provide a clear picture of current and projected economic activity and revenue generation within the tourism industry;
- To identify priority investment areas within the tourism sector for enhanced tourist attraction;
- To review the tax system applicable to the tourism sector and estimate the potential revenue from different revenue sources;
- To propose policy recommendations or strategies aimed at realizing the full potential of Sierra Leone's tourism sector and improving revenue mobilization.

### **Methodology:**

The study relies on a desk review of tourism-related reports, legislation, literature, and data from various sources both domestic and international. These include the Ministry of Tourism, the National Tourism Board, the National Revenue Authority, and the Chamber of Commerce. In addition, several in-depth interviews were conducted with key stakeholders in the tourism sector to gather additional evidence and information.

# FINDINGS

<b>Overview of the Tax System Applicable to the Tourism Sector</b>	Reduced tax rates and exemptions are granted during the construction, extension, restoration, or renovation of tourism facilities. A five-year loss carry-forward applies post-construction. Capital expenditure on plant, machinery, and equipment is deductible at 25% in the first year and 10% in following years.
<b>Current Collection of GST from the Tourism Sector</b>	Approximately 39% of establishments are registered with the NRA, and 42% of these registered entities submitted tax returns between 2016 and 2019. In 2019, a total of Le11.8 billion was collected in GST from this sector.
<b>Income Tax (PAYE and Corporate Tax)</b>	In 2019, a total of Le2.47 billion was collected for PAYE, and it is projected that Le54 billion could be collected annually under similar conditions. For corporate tax, Le778 million was collected in 2019, with an expected annual collection of Le13.2 billion.
<b>Import-Related Duties and Taxes</b>	<i>In 2019, Le1.521 billion was collected as import duties, and under similar conditions, the expected annual collection could be Le33.245 billion.</i>
<b>Duty Waivers and Tax Exemptions for the Tourism Sector</b>	<i>The tourism industry benefited from duty waivers and tax exemptions totaling around Le31.8 billion in 2016, but this amount decreased to Le402 million in 2018.</i>
<b>Revenue Generation from Lease Rent</b>	<i>Only the New Brookfields Hotel and Bintumani Hotel have paid their lease rent, totaling Le5.2 billion collected from 2014 to 2019. If all government-owned hotel facilities complied, the collected revenue would be estimated at Le8.4 billion.</i>
<b>Visa on Arrival Revenue</b>	<i>Of the 63,090 passengers arriving in 2019, 447 used the ‘visa on arrival’ system, generating total revenue of \$30,615. It is estimated that the visa on arrival program could generate approximately Le1.7 billion annually.</i>
<b>National Tourist Board (NTB) License Fees in 2019</b>	<i>The highest license fees are for Class 1 hotels (Le7,560,000 per year), while the lowest is for a snack bar or Class 5 restaurant (Le270,000 per year). A total of Le602 million was collected from various tourism establishments nationwide, with the Western Area accounting for about Le485 million. The total annual revenue expected from licenses is estimated at Le1.403 billion.</i>
<b>Estimates of Potential GST in the Tourism Sector</b>	In 2019, tourists spent around \$65.6 million during their stay in Sierra Leone. Applying the 15% GST rate to this total expenditure would yield approximately \$9.8 million, suggesting that the tourism sector could contribute about 9.5% of all GST revenue in Sierra Leone.

# POLICY RECCOMENDATIONS

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## For Realizing the Full Potential of the Tourism Sector

1. **Training Programs:** *With the increasing use of information technology in the sector, there is a need for more training programs to enhance personnel capacity and raise awareness about the profession, while also creating opportunities for skilled workers within the industry.*
  2. **Regional Tourism Development:** *Tourism development should not be limited to Freetown. The provinces offer many untapped tourist sites that, if developed, could significantly increase revenue.*
  3. **Environmental Enforcement:** *Ensure strict enforcement of environmental policies or laws related to environmental management and the safety of the country.*
  4. **Environmental Impact Assessments:** *The government should conduct environmental impact assessments to ensure successful and sustainable management of natural environments for tourism.*
  5. **Private Sector Investment:** *The government should incentivize private sector investment in tourism through targeted financing and support.*
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## For Taxing the Tourism Sector

1. **Electronic Cash Registers:** *The NRA should continue the roll-out of electronic cash registers in the tourism sector.*
  2. **Review Tax Incentives:** *The tax incentives regime should be reviewed, and a consolidated version of the tax act, including all amendments since 1990, should be published to increase accessibility for stakeholders.*
  3. **Tourism License Renewal:** *There should be greater efforts to ensure the annual renewal of tourism licenses. The National Tourism Board (NTB) and its partners should collaborate to inform operators of their legal obligations.*
  4. **Visa on Arrival System:** *The visa on arrival program should continue and be made available online to encourage more visitors to use this system.*
  5. **Competitive Travel Costs:** *Sierra Leone should consider benchmarking travel costs against neighbouring destinations to remain competitive. The cost of visiting Sierra Leone should not exceed that of other West African beach destinations.*
  6. **Verify Hotel-Related Businesses:** *It is important to verify whether restaurants, nightclubs, and casinos integral to hotels are operated under the same company registration or with separate Tax Identification Numbers.*
  7. **Register Unregistered Tourism Facilities:** *The government should develop a strategy for registering unregistered tourism facilities, as data from the 2020 National Tourism Census and the NTB suggests that many hospitality sector facilities are operating clandestinely.*
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