Taxation and Development in a Post Conflict Sierra Leone

SAMUEL S. JIBAO;
Deputy Director, Research Monitoring and Planning Department
National Revenue Authority
Sierra Leone
Outline

- Introduction
- Country Background
- Taxation and Development
- Taxation and Governance since Independence
- Central Government Taxation Since 1999
  - Tax Revenue and Tax Reform since 1999
- Recommendations
Country Background

- Location: West Africa
- Land area of 71,740 square kilometers
- Bordered by Guinea to the north and northeast, Liberia to the south and southeast, and the Atlantic Ocean to the west.
- Official language: English
- Capital City: Freetown.
- Estimated population is 5 million people with annual average growth rate of 2.6 percent.
- GDP per capital: US$342
- Economic activity - Agriculture, accounting for 45% of GDP; extractive industries. Mining production comprised 14.7% of GDP and 87% of exports by value.
Taxation and Development

- Building an effective tax system is among the most pressing challenges facing any state, as taxation provides the resources necessary to finance government activities and has equally important implications for economic growth, inequality and governance.

- Sierra Leone faces particularly acute challenges in pursuing this goal. Not only were the economy and tax administration devastated by the civil war during the 1990s, but even prior to the civil war the system in Sierra Leone was among the weakest in the World.
Case of Sierra Leone - Revenue Function

- Current Exp-GDP
- Domestic Rev-GDP
Sierra Leone case

- Tax collection is frequently arbitrary and coercive; (especially at local government levels);

- Corruption is common and elites receive widespread formal and informal privileges and exemptions;

- Most fundamentally, citizens have little confidence that the taxes they have paid are consistently translated into public services from government (i.e. Both central and local governments);

- Citizens prefer to evade taxation and view tax collection as exploitation rather than a contribution to national development (Prichard and Jibao 2010).
Challenges

The challenge for Revenue Authority, civil society organizations and other democratic institutions is not to push for more taxation, but rather to push for better taxation; i.e. the country should be interested in pushing for a tax system that meets three basic criteria (Prichard and Jibao 2010):

- Fairness
- Transparency
- Inclusiveness
Taxation and Governance

- During the first two decades after independence the role of patronage politics became ever more pronounced, as political power came to rely on the ability of those in power to dispense privileges to their most powerful supporters;

- The gradual process of political and economic decline grew into a full-blown crisis beginning at the beginning of the 1980s, as the basic functions of the state began to be eroded following the economic shocks of the late 1970s (Kpundeh 1994, Reno 1995);

- The extent of the decline during the 1980s is starkly reflected in the state of government revenue.
Taxation and Governance

- Until 1981 tax revenue hovered consistently around 15% of GDP, which was entirely comparable to levels elsewhere in the region. However, the years that followed witnessed a dramatic decline in revenue to 10% of GDP in 1982, 7.5% in 1983 and less than 5% by 1986;

- Such low levels of revenue were not nearly sufficient to operate a modern state, and by the late 1980s the government found itself unable even to meet the salaries of civil servants and the military;

- Whilst economic crisis played an important role in precipitating this fall in revenue, such a dramatic decline can only be fully explained by the increasing politicization of tax collection, as exemptions were granted to political allies, corruption expanded and the state lost its ability to monitor and regulate activities within its borders.
Taxation and Governance

- While this is vastly simplified picture of developments over four decades, it provides three important messages that may be relevant to us;

  - First, taxation provides a valuable lens through which to understand broader political developments (Prichard and Jibao 2010). When tax revenue declines significantly, and without a clear economic explanation, this is likely to reflect broader political developments, and particularly the spread of politically motivated exemptions and corruption;

  - Second, the politicization of the tax system can have dramatic consequences for governance;

  - Third, there has been a long and damaging history of ineffective and politicized taxation in Sierra Leone
Central Government Taxation Since 1999

The graph illustrates the percentage of GDP contributed by various forms of taxation over the years from 1996 to 2009. Key observations include:

- **Tax Revenue**: Generally showing a decline from 1999 to 2009.
- **Income Tax**: Fluctuating, with a noticeable peak around 2001.
- **Goods and Services Tax**: Consistently low, with slight variations.
- **Taxes on International Trade**: Show a steady trend with minor fluctuations.

The data highlights the evolving tax structure and its impact on GDP over the two-decade period.
Duty waived  2004-2009

% of GDP

2004 2005 2006 2007 2008 2009
Tax Modernisation/Reforms

- The modernisation programme of the Authority is now redesigned, reducing and focusing on the number of projects from 18 to 6. The newly redesigned projects include:
  - Customs Modernisation;
  - GST consolidation;
  - Income Tax modernisation (Introduction of DTD, Support Audits and improve collection); taxpayer segmentation- yet a challenge
  - IT development;
  - HR processes and procedure upgrading, and financial management and accounting system
Way-Forward

i. Reduce generous mining exemptions and address the problem of transfer pricing: Sierra Leone is yet to have capital gains tax provisions in her tax laws for external transfers of assets; further, even where these provisions are made in our laws, the capacity to monitor and access information on these Multinational Companies remains a challenge. Therefore a need for technical assistance in mining negotiations and information gathering on MNC.
Way-Forward

- Government and development partners to support more research into the political dynamics of taxation, which can serve as an entering point for public advocacy campaign on tax issues (formation of Think Tanks).

- Finally, Much as public advocacy has often been organized around the concept of human rights, there is need to organize democratic institutions around taxpayer rights and responsibilities.