TAX EXEMPTIONS IN SIERRA LEONE’S INDUSTRY SECTOR:

WHO WINS, WHO LOSES?

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List of Acronyms

CMA	Capital Markets Authority
CIT	Corporate Income Tax
ICUMS	Customs Management System
OECD	Economic Cooperation and Development
EPZ	Export Processing Zones
EPZA	Export Processing Zones Authority
FDI	Foreign Direct Investment
GIPC	Ghana Investment Promotion Centre
GIPC	Ghana Investment Promotion Centre
GRA	Ghana Revenue Authority
GTED	Global Tax Expenditures Database
GST	Goods and Services Tax
GDP	Gross Domestic Product
ICT	Information Communication Technology
ITAS	Integrated Tax Administration System
IMF	International Monetary Fund
KRA	Kenya Revenue Authority
MTRS	Medium-Term Revenue Strategy
MoF	Ministry of Finance
NIB	National Investment Board
NRA	National Revenue Authority
PFM	Public Financial Management
R&D	Research and Development
RDB	Rwanda Development Board
RRA	Rwanda Revenue Authority
SLIEPA	Sierra Leone Investment and Export Promotion Agency
SME	Small and Medium Enterprise
SEZ	Special Economic Zones
VAT	Value-Added Tax

PREFACE

Tax policy plays a crucial role in shaping the economic landscape of any nation. In Sierra Leone, tax exemptions have been widely used as a tool to incentivize investment, promote industrial development, and stimulate economic growth. However, while these incentives offer potential benefits, they also come with fiscal trade-offs, often resulting in substantial revenue losses. Understanding the impact of these exemptions on the country's economic and fiscal landscape is essential for designing policies that balance investment promotion with sustainable revenue generation.

This study, provides a comprehensive analysis of tax incentives in Sierra Leone's industrial sector. It examines the effectiveness of these incentives, evaluates their implications for government revenue, and explores strategies for optimizing exemptions to maximize economic benefits. Drawing from both domestic and international experiences, the study offers policy recommendations to ensure that tax incentives contribute to sustainable industrial growth while maintaining fiscal discipline.

The findings of this study are intended to inform policymakers, government institutions, development partners, and other stakeholders involved in economic planning and tax policy. By fostering a deeper understanding of the relationship between tax incentives and economic growth, this report aims to contribute to the ongoing dialogue on fiscal policy reforms in Sierra Leone.

We hope that the recommendations contained in this report will support efforts to create a more transparent, efficient, and sustainable tax policy framework that benefits both investors and the people of Sierra Leone.

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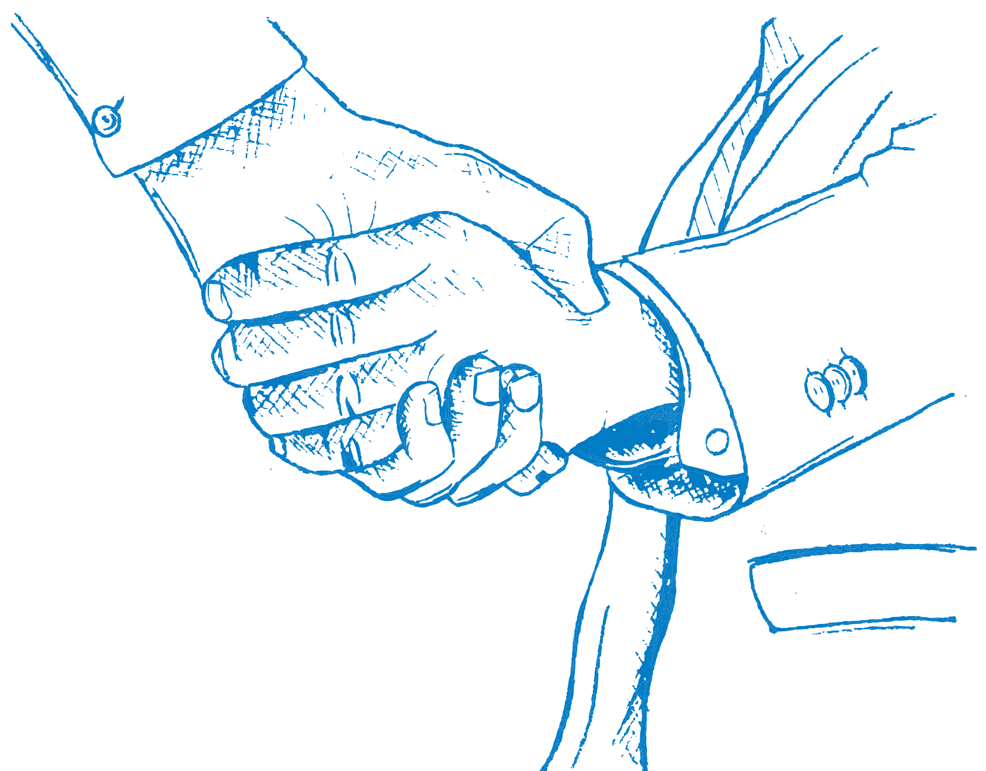
First and foremost, we extend our sincere gratitude to the invaluable contributions of the Ministry of Finance (MoF) and National Revenue Authority (NRA) for providing access to essential data and policy documents. Their cooperation and insights were crucial in ensuring the accuracy and reliability of our analysis.

Special appreciation goes to the research team of BAN headed by Abu Bakarr Kamara-Coordinator and other team members Abdulraman M. Sesay-Head of Programme, Abu Bakarr Tarawally- Policy Officer and Miriam Sammoh-Field Officer for working with other stakeholder in putting together his report. Their expertise and diligence in evaluating the impact of tax exemptions on Sierra Leone's industrial sector have been invaluable.

Finally, we express our appreciation to civil society organizations, and all stakeholders who provided feedback and shared their experiences regarding tax exemptions and industrial growth in Sierra Leone. Their perspectives enriched the analysis and ensured that the study reflected real-world challenges and opportunities.



EXECUTIVE SUMMARY

Overview

Tax exemptions are pivotal in shaping Sierra Leone's investment landscape by reducing operational costs and attracting foreign direct investment (FDI). The industrial sector—comprising mining, manufacturing, energy, and construction—has driven significant economic growth, especially after the 2018 rebasing of the national GDP. To sustain this growth, the government has introduced various tax incentives to stimulate production and attract investors.

However, these incentives pose fiscal challenges, including substantial revenue losses. A World Bank study estimated that tax exemptions reduced government revenue by 2.1% of GDP between 2009 and 2019. The dilemma for policymakers lies in balancing economic growth with fiscal sustainability. Poorly designed exemptions risk revenue leakages, administrative inefficiencies, and unequal treatment across industries.

This study analyzes the impact of tax exemptions in Sierra Leone from 2018 to 2023. It evaluates their effectiveness in promoting sectoral growth, the associated fiscal costs, and best practices for streamlining incentives. Drawing lessons from other countries, the study suggests reforms such as performance-based incentives and consolidating exemptions under a unified framework.

Methodology

This study employed a mixed-methods approach, combining quantitative and qualitative analyses:

- **Quantitative Analysis:** Sectoral data were analyzed to estimate revenue losses and assess the contributions of different sectors to GDP and domestic revenue. Tools such as STATA, R, and Tableau were used for statistical and trend analysis.
- **Qualitative Analysis:** Content analysis of tax laws and international case studies provided contextual insights and supported the development of policy recommendations.
- **Data Sources:** Secondary data was drawn from the Ministry of Finance, National Revenue Authority, and Statistics Sierra Leone, supplemented by reports from the World Bank, IMF, and OECD.

This mixed-methods approach ensures a comprehensive understanding of the impact of tax incentives, despite some data limitations.

Key Findings and Economic Insights

Sectoral Growth and Transition

- Industrial sector GDP grew from NLe8.9 billion in 2018 to NLe35.6 billion in 2023, driven by mining and quarrying.
- There is a shift from agriculture to industry and services, but maintaining sectoral balance is essential to mitigate risks from external shocks.
- Agriculture's share of GDP declined from 34.99% in 2018 to 29.07% in 2023, underscoring the need for balanced growth.

Revenue Contributions and Exemptions

- Mining accounted for 82% of industrial sector revenue between 2021 and 2023, although disruptions from policy changes and COVID-19 affected performance.
- Manufacturing and construction show growth potential but contribute minimally to domestic revenue due to generous tax exemptions.
- Tax exemptions from the Industry Sector increased from NLe177 million in 2018 to NLe3.5 billion in 2023, with mining receiving the largest share, leading to fiscal inefficiencies.
- Forgone revenue from tax exemptions in the industry sector alone rose from 39% of domestic revenue in 2018 to 60% in 2023, posing significant fiscal risks.
- Revenue collection from the industry sector is not growing at the same pace as the GDP of the sector, implying that the increased activities or projects in the sector in recent years have either benefited from increased tax exemptions or have been less compliant in paying their due taxes.
- The contribution of the other subsectors of the industry sector (besides mining) to total domestic revenue is comparatively very low, even though their share of GDP is higher, implying that there has been less compliance and notable exemptions in the other subsectors.
- Over the period 2018-2023, the Industry Sector accounts for 61% of recorded total revenue foregone from tax exemptions, making it by far the most favored sector for tax exemptions.
- In some subsectors of the Industry sector, the revenue foregone is far higher than the actual revenues collected.

Challenges with the Incentive Framework

- **Lack of Transparency:** Non-transparent processes create opportunities for misuse.
- **Policy Inefficiencies and Sectoral Imbalances:** Tax incentives have promoted industrial growth, but inefficiencies and policy loopholes have emerged. The mining sector has benefited disproportionately, raising concerns about sustainability and overreliance on extractive industries.
- **Weak Monitoring:** Limited performance evaluations reduce the government's ability to align incentives with development priorities.

Best Practices and Policy Recommendations

- **Targeted Incentives:** Focus on high-growth sectors like manufacturing and construction and tie incentives to measurable outcomes such as job creation and technology transfer.
- **Transparency and Accountability:** Mandate public disclosure of beneficiaries and require periodic reporting on the impact of tax incentives.
- **Performance-Based Incentives:** Link exemptions to tangible economic contributions and ensure only impactful investments receive tax relief.
- **Periodic Assessments:** Introduce sunset clauses and conduct regular evaluations to phase out ineffective incentives and adapt policies to evolving needs.
- **Unified Legal Framework:** Place exemptions within tax legislation to enhance transparency and minimise discretionary exemptions that could lead to corruption.

Conclusion and Implementation Steps

This study emphasizes the importance of a targeted, transparent, and performance-driven incentive framework to foster sustainable industrial growth without compromising fiscal stability. Key implementation steps include engaging stakeholders, introducing sunset provisions, and conducting regular policy reviews. By aligning tax incentives with national priorities, Sierra Leone can attract sustainable investments, promote industrial growth, and safeguard public revenue.

CHAPTER

01

Introduction

1.1 Context

Tax exemptions play a pivotal role in shaping the investment landscape of emerging economies by offering financial relief that can attract foreign direct investment (FDI), drive industrial development, and spur economic growth. In Sierra Leone, the industrial sector—comprising mining, construction, energy, and manufacturing—has become the fastest-growing sector of the economy following the recent rebasing of the national Gross Domestic Product (GDP) to the base year of 2018. This sector's growth underscores its potential to transform Sierra Leone's economic structure, diversify its revenue sources, and generate sustainable employment opportunities. To support this drive, the Government of Sierra Leone introduced various tax incentives to reduce operational costs for businesses, stimulate production, and attract domestic and foreign investors.

However, while tax incentives can act as a catalyst for industrial expansion, they often come at the cost of substantial revenue loss for the government, thereby affecting fiscal sustainability. Recent estimates by the World Bank indicate that tax exemptions between 2009 and 2019 reduced the government's revenue by 2.1% of GDP.[1] This creates a policy dilemma: how to strike the right balance between promoting industrial growth and maintaining fiscal sustainability. If tax exemptions are not carefully targeted and monitored, they can lead to substantial revenue leakages, thereby undermining fiscal stability, and inadvertently favoring certain sectors or businesses at the expense of others.

As tax exemptions remain a double-edged sword—promoting investment on one hand and potentially reducing public revenue on the other—it is essential to strike a balance between these competing interests.

1.2 Background

Sierra Leone's economy has undergone significant transformations over the last decade, driven primarily by the agricultural and mining sectors. These two sectors have historically driven GDP growth and export revenues, contributing to an improving economic outlook. However, the recent rebasing of the country's GDP has revealed a structural shift: the industrial sector is now the fastest-growing sector of the economy, with the services sector having the largest share. This shift is consistent with the broader government strategy to diversify away from reliance on the extractive industry, particularly mining, and build a more resilient economic foundation.

The growth of the industrial sector has been supported by a series of tax exemptions aimed at attracting investment, creating jobs, and enhancing productivity. These exemptions include import duty waivers, excise concessions, GST exemptions, income tax holidays, and other incentives designed to reduce business operational costs. The rationale behind these tax incentives is that by providing such, the government can attract more investors, particularly in capital-intensive sectors critical for long-term industrialisation and growth.

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1 World Bank (2020) Sierra Leone Tax System Review.

Despite these efforts, Sierra Leone's economy has faced considerable challenges. In 2020, the country's GDP contracted by 2% due to the adverse effects of the COVID-19 pandemic, which disrupted key sectors and sub-sectors such as mining, transportation, and tourism, as well as global demand for the country's exports.[2] The pandemic underscored the fragility of Sierra Leone's economic base and highlighted the urgent need for diversification. In response, the government intensified its focus on industrial development, leveraging tax incentives to revive the economy and stimulate growth in non-traditional sectors. The economy has since shown signs of recovery, with the domestic revenue-to-GDP ratio rising from 13.3% to 15.6% between 2020 and 2021.[3] While attribution may not be guaranteed, what is clear was that government introduced many tax and duty reliefs, tax deferment, and exemptions during this period to incentivise investment in non-mineral sectors, to foster economic recovery and long-term growth and resilience.

However, the use of tax exemptions as a growth tool has raised concerns about their efficiency and fiscal impact. A study by the World Bank (2020)[4] Found that tax exemptions between 2009 and 2019 led to significant revenue losses, which could otherwise have been invested in critical infrastructure, health, and education. As the industrial sector continues to expand, there is growing recognition of the need to reassess how exemptions are designed and implemented to ensure that they deliver maximum benefits without compromising government revenue.

1.3 Aim and Objectives of the Study

This study aims to assess the impact of tax exemptions on the industrial sector, evaluate their effectiveness, and recommend ways to optimise these incentives in a bid to influence policy change or review.

The objectives of the study are:

- To identify the trade-offs between incentivising growth and maintaining fiscal balance in tax policy design.
- To outline the various tax exemptions and incentives legislated in the Industry Sector.
- To quantify revenue loss due to tax exemptions in the industrial sector in a bid to guide the government in adjusting policies to maximise net benefits.

2 United Nations Sierra Leone (2022) Common Country Analysis: 2022 Update.

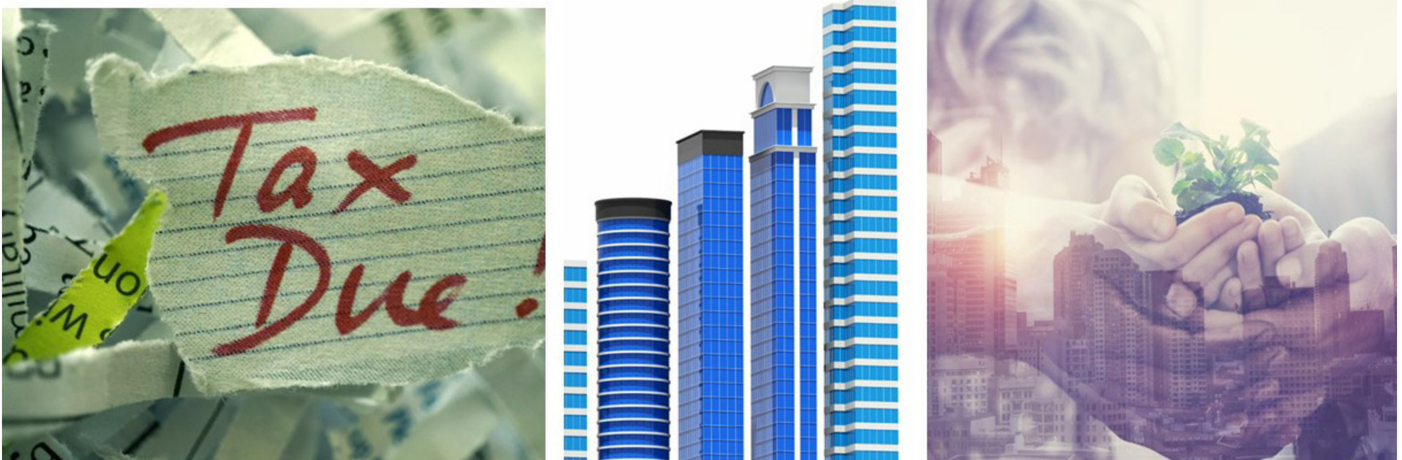
3 OECD (2023) Revenue Statistics in Africa

4 World Bank (2020) Sierra Leone Tax System Review

1.4 Rationale and Significance of the Study

The significant loss of revenue due to tax exemptions is a concern for the effectiveness of tax exemptions in achieving long-term fiscal sustainability and economic growth.

This study is relevant as it addresses these fiscal trade-offs by examining the impact of tax incentives in Sierra Leone's industrial sector from 2018 to 2023. The goal is to propose policy reforms that maximise the economic benefits of tax exemptions while safeguarding government revenue. The research will not only assess the effectiveness of these incentives in fostering industrial growth but will also quantify the associated revenue losses to enable policymakers to make data-driven decisions. By identifying areas where exemptions may be streamlined or better targeted, the study aims to guide policymakers in designing tax incentive policies that optimise the benefits associated with the industrial sector while at the same time minimizing fiscal drawbacks. Through an examination of Sierra Leone's tax incentive policies, the study will inform policy reforms that align tax incentives with the country's broader goals including economic diversification, revenue generation, and fiscal sustainability. Furthermore, by highlighting best practices from other countries and proffering recommendations, this study seeks to help Sierra Leone create a more balanced and effective tax incentive framework that aims at maximising the net benefits for the economy.



1.5 Scope of the Study

The study focuses on:

- Estimating the exemption granted in the industrial sector from 2018 to 2023.
- Estimating the contribution of the industrial sector to domestic revenue.
- Estimating the contribution of the industrial sector to the economy.
- Identifying and outlining the various tax exemptions and incentives as legislated in the general tax laws and special concessions agreements ratified by Parliament.
- Examining the effect of tax exemptions on government revenue, including direct and indirect revenue losses.
- Identifying and analysing the challenges and issues associated with the implementation and administration of tax exemptions for the industrial sector.
- Highlighting successful tax exemption models and practices from other countries or sectors.
- Proposing changes to enhance the effectiveness and efficiency of tax exemptions in Sierra Leone.
- Suggest practical steps for implementing recommended changes, including stakeholder engagement and policy adjustments.

Agriculture, Mining and Manufacturing

CHAPTER

02

Methodology

The study uses a mixed-methods approach, combining both qualitative and quantitative methods to gain a comprehensive understanding of tax exemptions in the industrial sector. It adopts a secondary data-based approach, relying on existing documents, reports, and datasets to evaluate the impact of tax exemptions in Sierra Leone's industrial sector between 2018 and 2023. Given the focus on leveraging available data without primary data collection (such as interviews or surveys), the methodology involves a comprehensive review and analysis of relevant literature, government documents, tax legislation and policies, and international databases and reports. The methodology is structured as follows:

2.1 Data Collection

The study primarily employs desk-based research techniques to gather secondary data on tax exemptions in Sierra Leone's industrial sector. This involves reviewing the following materials:

- **Government Reports and Publications:** These include tax expenditure reports, budget statements, tax exemption legislative provisions, and policy documents from relevant institutions such as the Ministry of Finance, National Revenue Authority (NRA), and Parliament of Sierra Leone.
- **Studies and Reports:** Studies and reports from international organisations like the World Bank, the International Monetary Fund (IMF), the Organisation for Economic Cooperation and Development (OECD), and other organisations are used, particularly regarding global best practices in tax exemptions and revenue management.
- **Industry-specific Reports:** Publications and reports from the mining, construction, energy, and manufacturing industries are reviewed to identify trends in sectoral growth and assess the contribution of tax incentives to this growth.
- **Legislative and Regulatory Documents:** These include tax laws, and special concession agreements ratified by Parliament that outline the scope and scale of tax exemptions granted to various industrial sectors.
- **Academic and Policy Research:** Existing research papers and studies related to tax policy, industrial growth, and the fiscal implications of tax exemptions are evaluated to provide theoretical and contextual insights into the study.

2.2 Data Sources

The main data sources for the study include:

- **Ministry of Finance (MoF):** Tax incentives policies and laws, and budget statements.
- **National Revenue Authority (NRA):** Revenue data, tax exemptions data, and reports on import duty and tax exemptions granted.
- **Statistics Sierra Leone:** GDP and other relevant macroeconomic data.
- **International organisations such as the World Bank, IMF, and OECD:** Analytical data on revenue losses due to tax exemptions and their macroeconomic impact, and comparative data on Sierra Leone's tax exemptions relative to other African countries.
- **Academic Research:** Studies on tax incentives, industrial sector growth, and revenue optimization in Sierra Leone and other developing economies.

2.3 Data Analysis and Presentation

The analysis involves both quantitative and qualitative techniques to understand the extent to which tax exemptions have impacted revenue collection and industrial growth:

- **Quantitative Analysis:**

  Statistical tools are employed to estimate the revenue loss associated with tax exemptions in the industrial sector. The analysis uses tax expenditure data and reports to quantify the fiscal impact, and data from sources such as the Ministry of Finance, the NRA, and Statistics Sierra Leone are analysed to assess changes in sectoral contribution to GDP, trends in tax exemptions, and the contribution of the industrial sector to domestic revenue. Analytical software such as STATA, R, and Tableau is used to process, clean, analyse, and visualised the data and findings.

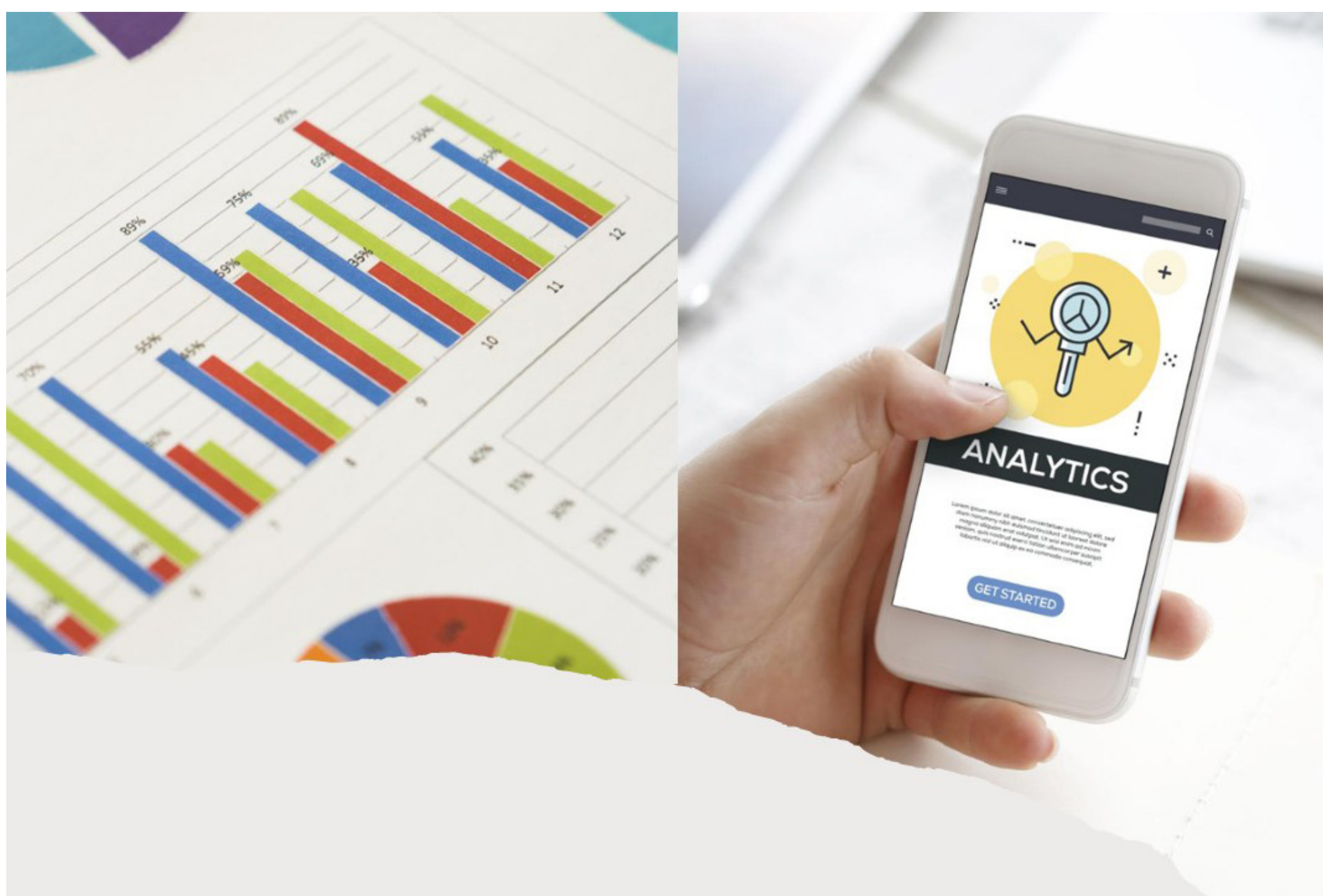
  - **Revenue Loss Estimation:** The study estimates the total revenue forgone due to tax exemptions in mining, construction, energy, and manufacturing over the 2018-2023 period.
  - **Sectoral Growth Comparisons:** Analyses are conducted to determine the correlation between the growth in the industrial sector and the level of tax incentives provided.

- **Qualitative Analysis:**

  The qualitative aspect involves content analysis of legislative documents, government policies, legislative agreements, and international reports to examine the nature, scope, and objectives of the tax exemptions granted. The review identifies patterns and trends in the use of exemptions and any associated challenges, such as inefficiencies or loopholes in tax policy implementation.

- **Best Practice Analysis:** A comparison of international best practices in tax exemptions from other developing economies and sectors is conducted to identify lessons for Sierra Leone. This qualitative review highlights strategies used by other countries to streamline tax exemptions while maintaining fiscal balance.

The findings from the analysis are presented using tables and charts to provide a clear and visual representation of the key data points, trends, and correlations. Tools such as Tableau and Excel are used to create dynamic visualisations that allow for easy interpretation by stakeholders and readers.



CHAPTER

03

Overview of Sierra Leone's Industry Sector

The analyses from Tables 1 and 2 provided in this section offer an overview of Sierra Leone's GDP across different sectors using data from Statistics Sierra Leone, highlighting growth rates, the changing contributions of each sector to the overall GDP, and the dynamics within the industrial sector. This includes insights into how sectors like agriculture, industry, and services have evolved over the years from 2018 to 2023, focusing on growth, sectoral contributions, and key trends, particularly in the mining, construction, energy, and manufacturing sub-sectors that formed the industrial sector.

3.1 Sectoral Contributions and Growth: Key Trends in the Mining, Construction, energy, and Manufacturing Sectors

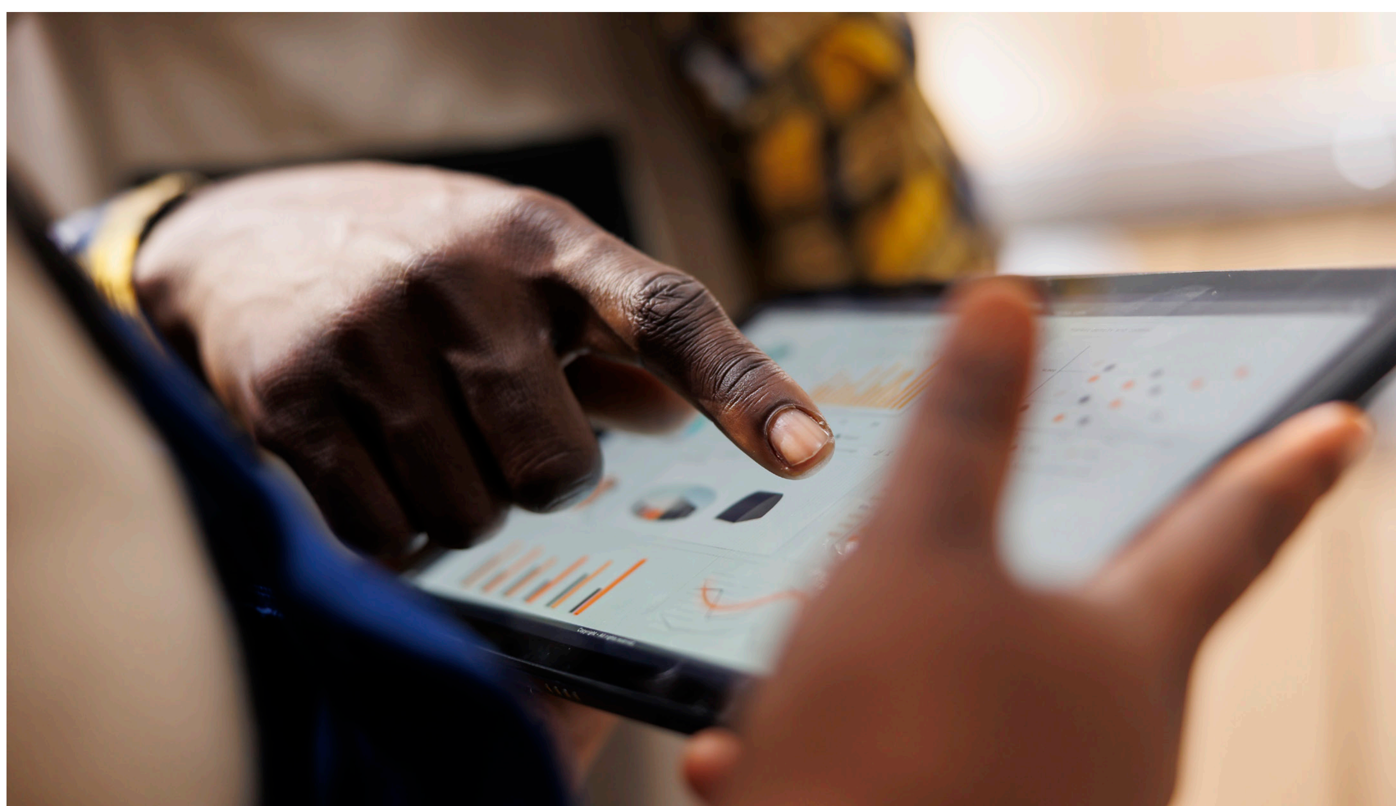
The overall nominal GDP of Sierra Leone nearly tripled from NLe50.7 billion in 2018 to NLe136.6 billion in 2023, reflecting robust economic growth, but also high inflationary growth. The analysis of Sierra Leone's GDP growth rates, sectoral GDP shares, and the industrial sector's sub-sectoral contributions provides insights into the economy's dynamics over the period 2018 to 2023 as shown in Table 1 and described below:

Table 1: Gross Domestic Product At Current Prices By Sector

TABLE 1: GROSS DOMESTIC PRODUCT AT CURRENT PRICES (IN THOUSANDS LEONES) BY SECTOR						
	2018	**2019**	**2020**	**2021**	**2022**	**2023**
1. Agriculture, Forestry and Fishing	**17,733,040**	**20,306,445**	**23,096,017**	**25,172,241**	**33,768,693**	**39,711,719**
2. Industry	**8,875,679**	**10,539,319**	**11,598,719**	**14,335,039**	**20,735,744**	**35,562,367**
2.1. Mining and Quarrying	**1,754,989**	**2,191,546**	**1,849,527**	**3,041,710**	**5,487,298**	**13,842,364**
2.1.1. Diamond	679,258	833,995	839,067	1,027,850	1,127,279	1,920,625
2.1.2. Iron Ore	149,959	228,735	353	689,890	2,001,285	8,973,607
2.1.3. Other minerals (rutile, bauxite, Gold, etc)	895,033	1,092,492	970,099	1,284,009	2,312,504	2,884,186
2.1.4. Quarrying	30,739	36,324	40,007	39,962	46,229	63,946
2.2. Manufacturing	**3,562,043**	**4,113,042**	**4,622,727**	**5,503,157**	**7,006,148**	**10,477,693**

TABLE 1: GROSS DOMESTIC PRODUCT AT CURRENT PRICES (IN THOUSANDS LEONES) BY SECTOR						
2.3. Electricity and Water Supply	**327,516**	**372,734**	**385,295**	**416,653**	**643,808**	**806,720**
2.31 Electricity	99,554	86,193	89,073	103,602	280,134	376,757
2.32 Water	227,962	286,540	296,222	313,051	363,674	429,964
2.4 Construction	**3,231,131**	**3,861,997**	**4,741,170**	**5,373,520**	**7,598,490**	**10,435,590**
3. Services	**22,262,972**	**25,911,567**	**28,529,536**	**32,516,899**	**42,140,354**	**57,631,399**
Total Gross Value Added	**48,871,691**	**56,757,331**	**63,224,272**	**72,024,179**	**96,644,791**	**132,905,485**
Taxes less subsidies on products	1,815,521	2,021,545	2,524,126	2,776,539	3,362,358	3,698,594
GDP at current prices	**50,687,212**	**58,778,876**	**65,748,398**	**74,800,718**	**100,007,149**	**136,604,079**

Source: Statistics Sierra Leone- Report on the Rebased GDP at 2018 Prices



1. Agriculture, Forestry, and Fishing

This sector has shown a consistent increase in its GDP contribution, growing from NLe17.7 billion in 2018 to NLe39.7 million in 2023. It represents a substantial portion of the economy, indicating the country's reliance on agriculture and related industries. This sector has generally shown strong growth, especially in 2022 and 2023 with growth rates of 34.15% and 17.60% respectively (Table 2).

2. Services

The services sector has also seen robust growth, increasing from NLe22.3 billion in 2018 to NLe57.6 billion in 2023. This sector encompasses a wide range of economic activities and remains a major part of the economy. The services sector has shown consistent growth, peaking in 2023 at 36.76%, indicating ongoing expansion in areas such as wholesale and retail, finance, real estate, and transport and storage.

3. Industry

The industry sector has more than quadrupled its GDP contribution from NLe8.9 billion Leones in 2018 to NLe35.6 billion in 2023. Significant growth in this sector is primarily driven by substantial increases in the mining and quarrying subsector. The substantial growth in sub-sectors like mining and construction signals a shifting economic landscape, moving towards more industrial and infrastructural development. The industry sector displayed the highest growth rates across all sectors, particularly in 2023 with an impressive growth rate of 71.50%. Such growth has been propelled mainly by the mining and quarrying subsector.

- **Mining and Quarrying**

  This subsector experienced explosive growth, particularly from 2020 onwards, with total mining and quarrying values soaring from NLe1.8 billion in 2018 to NLe13.8 billion in 2023. Iron ore has shown remarkable growth from nearly negligible amounts in 2020 to about NLe9 billion in 2023, driven by increased global demand and investments in mining infrastructure. Diamond mining has steadily grown, indicating sustained production and possibly improved market conditions.

- **Manufacturing**

  The manufacturing subsector almost tripled its GDP output from NLe3.6 billion in 2018 to NLe10.5 billion in 2023. This growth reflects broader industrial development and increased domestic production capabilities and export potential.

- **Construction**

  Construction has seen a steady increase, nearly tripling from NLe3.2 billion in 2018 to NLe10.4 billion in 2023. This growth is indicative of ongoing infrastructure development and urbanisation trends within the country.

The rapid growth in industry, particularly mining, suggests significant foreign investment and potential shifts in labour markets from traditional agriculture to more industrial and service-oriented roles. For policymakers and investors, understanding these trends is important for strategic planning and investment. In addition, the increase in manufacturing and construction points to a diversifying

economy, which may reduce dependence on external shocks such as commodity price fluctuations in the agriculture and mining sectors.

Table 2: GDP Growth Rates (Current Price)

TABLE 2: GDP GROWTH RATES (CURRENT PRICE)					
	2019	**2020**	**2021**	**2022**	**2023**
1. Agriculture, Forestry and Fishing	14.51%	13.74%	8.99%	34.15%	17.60%
2. Industry	18.74%	10.05%	23.59%	44.65%	71.50%
2.1. Mining and Quarrying	24.88%	-15.61%	64.46%	80.40%	152.26%
2.1.1. Diamond	22.78%	0.61%	22.50%	9.67%	70.38%
2.1.2. Iron Ore	52.53%	-99.85%	195336.26%	190.09%	348.39%
2.1.3. Other minerals (rutile, bauxite, Gold, etc.)	22.06%	-11.20%	32.36%	80.10%	24.72%
2.1.4. Quarrying	18.17%	10.14%	-0.11%	15.68%	38.32%
2.2. Manufacturing	15.47%	12.39%	19.05%	27.31%	49.55%
2.3. Electricity and Water Supply	13.81%	3.37%	8.14%	54.52%	25.30%
2.3.1. Electricity	-13.42%	3.34%	16.31%	170.39%	34.49%
2.3.2. Water	25.70%	3.38%	5.68%	16.17%	18.23%
2.4. Construction	19.52%	22.76%	13.34%	41.41%	37.34%
Services	16.39%	10.10%	13.98%	29.60%	36.76%
GDP at current prices	**15.96%**	**11.86%**	**13.77%**	**33.70%**	**36.59%**

Source: Statistics Sierra Leone- Report on the Rebased GDP at 2018 Prices

3.2 Sectoral Contribution to GDP and Sub-sector Contributions to the Industrial Sector

Despite growth in the agriculture sector, its percentage contribution to total GDP has decreased from 34.99% in 2018 to 29.07% in 2023, likely due to the faster growth of other sectors. Maintaining a stable contribution, the services sector constituted around 43% of GDP throughout the period, indicating its fundamental role in the economy. The industry sector has increased its share of GDP from 17.51% in 2018 to 26.03% in 2023, driven by explosive growth in mining and construction.

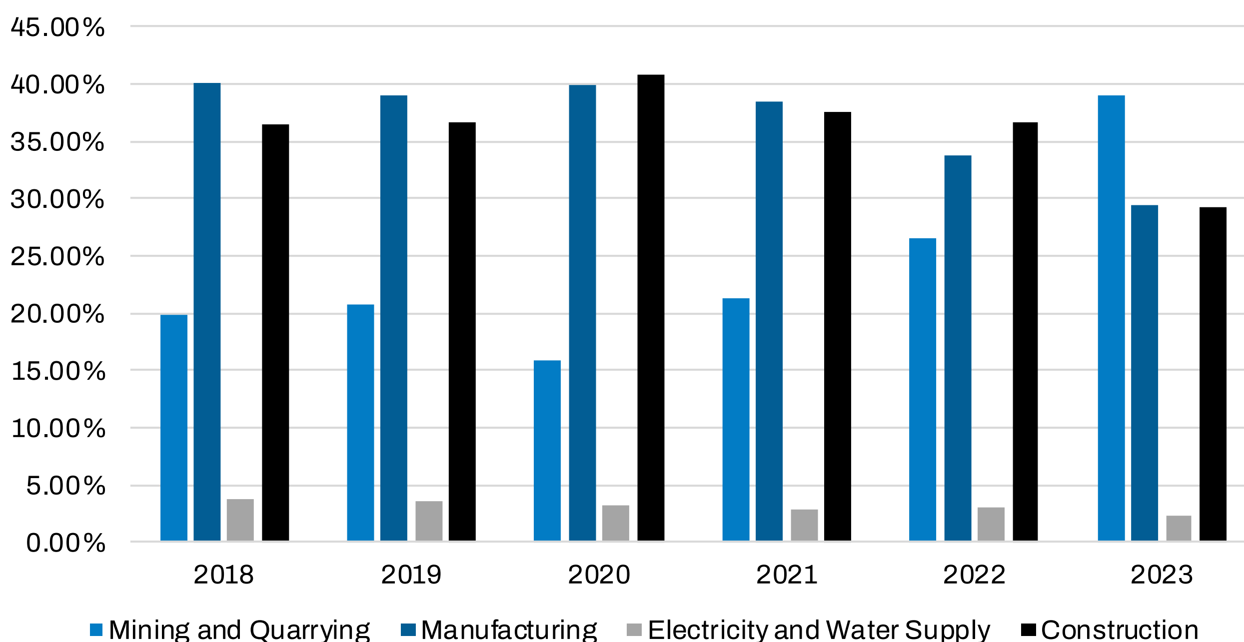
Table 3: Percentages of GDP at Current Prices by Sector

TABLE 3: PERCENTAGES OF GDP AT CURRENT PRICES BY SECTOR						
	2018	**2019**	**2020**	**2021**	**2022**	**2023**
1. Agriculture, Forestry and Fishing	**34.99%**	**34.55%**	**35.13%**	**33.65%**	**33.77%**	**29.07%**
2. Industry	**17.51%**	**17.93%**	**17.64%**	**19.16%**	**20.73%**	**26.03%**
2.1. Mining and Quarrying	3.46%	3.73%	2.81%	4.07%	5.49%	10.13%
2.1.1. Diamond	1.34%	1.42%	1.28%	1.37%	1.13%	1.41%
2.1.2. Iron Ore	0.30%	0.39%	0.00%	0.92%	2.00%	6.57%
2.1.3. Other minerals (rutile, bauxite, Gold, etc)	1.77%	1.86%	1.48%	1.72%	2.31%	2.11%
2.1.4. Quarrying	0.06%	0.06%	0.06%	0.05%	0.05%	0.05%
2.2. Manufacturing	7.03%	7.00%	7.03%	7.36%	7.01%	7.67%
2.3. Electricity and Water Supply	0.65%	0.63%	0.59%	0.56%	0.64%	0.59%
2.3.1. Electricity	0.20%	0.15%	0.14%	0.14%	0.28%	0.28%
2.3.2. Water	0.45%	0.49%	0.45%	0.42%	0.36%	0.31%
2.4. Construction	6.37%	6.57%	7.21%	7.18%	7.60%	7.64%
3. Services	**43.92%**	**44.08%**	**43.39%**	**43.47%**	**42.14%**	**42.19%**

Source: Statistics Sierra Leone- Report on the Rebased GDP at 2018 Prices

The contribution of the mining and quarrying subsector to the industrial sector has grown exceptionally from 19.77% in 2018 to 38.92% in 2023, highlighting significant expansion and investment in this area, especially in iron ore and diamond mining. Manufacturing contribution decreased from 40.13% in 2018 to 29.46% in 2023, suggesting that while this subsector is growing in absolute terms, it is outpaced by other subsectors. There is a slight decrease in electricity and water supply contribution, from 3.69% in 2018 to 2.27% in 2023, which could reflect ongoing challenges in these utilities. Although construction saw a peak contribution in 2020 (40.88%), it decreased to 29.34% by 2023, possibly due to higher prices of building materials and a reduction in funding for public construction initiatives.

Figure 1: Contribution of the Sub-sectors to the Industrial Sector



Source: Statistics Sierra Leone- Report on the Rebased GDP at 2018 Prices

3.3 Key Economic Insights and Policy Initiatives for Sectoral Growth

The following can be deduced from the foregoing analyses:

- The exceptional growth in the mining sector, particularly iron ore, which showed a mind-boggling growth rate of 195,336.26 in 2021 due to a rebound from a near-zero base in 2020, signals substantial investment and export potential. This sector's expansion is crucial for economic diversification and resilience against global economic shocks.
- The gradual shift from agriculture to services and industry, as a GDP contributor, reflects a transitional phase in the economy towards a more diversified economy.

- High growth rates in construction until 2021 highlight ongoing infrastructural developments, which support the industrial expansion and urbanisation needs of the country.

The observed growth in the industrial sector can be attributed to a variety of factors including the following:

Mining and Quarrying

- **There is a High Global Demand for Minerals,** especially iron ore and diamonds, which has led to increased mining activities.
- **Foreign Direct Investment (FDI):** Significant investments from foreign companies in the mining sector, driven by favorable mining policies and incentives.
- **Improved Mining Technologies:** Adoption of improved mining technologies that enhance extraction and processing capabilities.

Manufacturing

- **Government Incentives:** Policies aimed at promoting local manufacturing, including tax incentives.
- **Growing Demand:** Growing domestic and international markets provide an outlet for manufactured goods.
- **Diversification Efforts:** Efforts to diversify the economy have led to a focus on strengthening the manufacturing base to reduce dependency on imports.

Construction

- **Infrastructure Projects:** Government-led infrastructure projects, including roads, bridges, and public buildings.
- **Urbanisation:** Increasing urbanisation leads to higher demand for residential and commercial construction.
- **Investment in Real Estate:** Growth in real estate investment driven by economic growth and urban development.

CHAPTER

04

Tax Incentives and Exemptions in Sierra Leone:

Review of Prevailing Tax Incentives

4.1 Definition and purpose of tax incentive

Tax incentives are preferential tax treatments provided to a specific group of taxpayers providing a wide range of benefits to taxpayers.[5] They are special tax provisions designed to favor certain types of investments, investors, or products.[6] These incentives are granted by governments through legislative provisions to stimulate economic activities, encourage social welfare, or promote certain sectors. They reduce the tax burden for entities or activities that serve the public interest, enhance productivity, or support economic policy objectives.

Tax incentives can come in various forms, including:

- **Tax Exemptions:** Full or partial exemption from certain taxes for a specified period or activity (e.g., income tax holidays).
- **Tax Deductions:** Reduction in taxable income for certain expenses (e.g., R&D expenses, depreciation).
- **Tax Credits:** Direct reduction in tax liability (e.g., investment tax credits or credits for renewable energy projects).
- **Reduced Tax Rates:** Preferential lower tax rates for specific industries, sectors, or geographic areas.
- **Tax Deferrals:** Postponement of tax payments to a later date, such as through accelerated depreciation.
- **Customs Duty Relief:** Reduction or elimination of customs duties on imports or exports (e.g., in free trade zones, machinery and equipment).
- **Investment Allowances:** Extra tax deductions for investments in certain sectors, beyond the actual cost of the investment.
- **Capital Gains Tax Exemptions:** Full or partial exemption from taxes on profits made from the sale of assets.
- **Employment Incentives:** Tax credits or deductions for companies that create jobs or provide employee training programmes.

5 United Nations (2018) Design and assessment of tax incentives in developing countries: selected issues and a country experience. New York: United Nations.

6 Stotsky, J. (2024) Tax incentives and investment. The Governance Brief, Issue 54.

4.2 Roles of Tax Incentives in Industrial Sector Development and Economic Growth

Tax incentives play important roles in stimulating industrial development and broader economic growth, especially in developing countries like Sierra Leone. These incentives are used to achieve several key economic objectives including:

1. Attract FDI:

Tax incentives make a country more attractive to foreign investors by reducing the overall cost of investment, thereby enhancing returns on investment (Stotsky, 2024). This is particularly important for capital-intensive industries such as manufacturing and mining.

2. Encourage Local Entrepreneurship:

By offering tax breaks to local startups and small and medium enterprises (SMEs), governments can encourage entrepreneurial activities and domestic investment in the economy.[7]

3. Job Creation:

By stimulating investment and business activities through tax incentives, industries expand, leading to job creation and a reduction in unemployment rates (Stotsky, 2024).

4. Technology Transfer and Skills Development:

Foreign investments encouraged by tax incentives often bring advanced technologies and expertise to local industries which facilitate technology transfer and skill development among the local workforce.[8][9]

5. Economic Diversification:

Tax incentives can be targeted at specific sectors to promote diversification (Columbia Center on Sustainable Investment, 2022), especially important in countries relying heavily on a limited number of sectors such as agriculture and/or mining.

6. Export Promotion:

Incentives such as exemptions from export duties can increase the competitiveness of local products in the international markets, thereby promoting export-led growth (Stotsky, 2024).

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7 Klemm, A. and Van Parys, S. (2009) Empirical evidence on the effects of tax incentives. IMF Working Paper WP/09/136. Washington, D.C.: International Monetary Fund.

8 Stausholm, S. N. (2017) Rise of ineffective incentives: New empirical evidence on tax holidays in developing countries.

Stotsky, J. (2024) Tax incentives and investment. The Governance Brief, Issue 54.

9 Columbia Center on Sustainable Investment (2022) Investment incentives: a survey of policies and approaches for sustainable investment. New York: Columbia Center on Sustainable Investment.

Stotsky (2024) highlights that while tax incentives can stimulate investment, they come with several drawbacks. These include significant tax base erosion, which limits government revenue from economic growth. The complexity and widespread nature of tax incentives can also lead to high administrative costs. Furthermore, they may distort investment decisions, especially when incentives favour investments lacking social benefits. Additionally, tax incentives can foster corruption and rent-seeking, particularly when they are awarded non-transparently or through discretionary processes, leading to reduced effective tax rates. Sebele-Mpofua et al. (2022)[10] support this view, arguing that tax exemptions create loopholes for tax evasion, result in revenue losses, and promote unequal tax treatment across sectors.

The use of tax incentives to attract investment can lead to tax competition between countries, leading to a "race to the bottom".

> Countries may continuously grant more tax incentives than their neighbors, thus eroding the tax base and resulting in a worse outcome for all countries involved.[11] Tax exemptions can also add to the complexity of the tax system, making it more difficult to administer as tax exemptions are associated with specific objectives that require certain expertise.

Most often than not, this expertise is often lacking among tax officials, which creates opportunities for abuse and revenue loss.[12]

Sotsky (2024) outlines several ways businesses exploit tax incentives without making genuine investments. One common tactic is altering their organisational structure to qualify for incentives they wouldn't otherwise receive. This includes shutting down existing businesses to start new ones or using fake investors to access incentives meant for new investors.

> Domestic businesses may also misrepresent themselves as foreign investors to gain benefits. Thus, tax incentives often attract businesses that are motivated by temporary benefits, leading to investments that may not be sustainable in the long run. Other abuses involve misreporting expenses, transfer pricing manipulation to shift profits to low-tax areas, and exploiting jurisdictional differences. Additionally, businesses may manipulate asset transactions to influence depreciation schedules or inflate the value of investments to maximise tax benefits.

10 Sebele-Mpofua, F.Y., Gomerab, D. and Sibanda, B. (2022) 'Tax incentives: A panacea or problem to enhancing economic growth in developing countries', Journal of Accounting, Finance and Auditing

11 TJN-Africa and ActionAid International (2012) Tax competition in East Africa: A race to the bottom? Tax Justice Network-Africa and ActionAid International.

12 Swift, Z.L. (2006) Managing the effects of tax expenditures on the national budget. World Bank Policy Research Working Paper No. 3927. Available at: https://ssrn.com/abstract=917498 [Accessed 28 Oct. 2024].

In many instances, tax incentives often do not stimulate new investment and merely benefit investments that would have been undertaken regardless.[13] (Evidence suggests that tax incentives may have a limited impact on investment decisions, as businesses often consider other factors like infrastructure, political stability, uncertainty and market access more important.

4.3 Historical Context of Tax Incentives in Sierra Leone

Tracing Sierra Leone's history of tax incentives before the civil war presents a challenge due to the limited availability of reading materials and historical records. Much of the documented focus of tax policy, particularly tax incentives, centers on the post-war period when the government actively sought to facilitate reconstruction, attract investment and promote industrial growth for economic recovery.

Pre-war tax policies, while likely shaped by colonial and early post-independence economic conditions, are less accessible or formally documented in widely available resources. As a result, understanding the full scope of tax incentives before the 1990s requires further research, which is often hindered by resource constraints of historical records from that period. Provided in Annex 1 is a summary of the historical development and context of tax incentives in post-war Sierra Leone.

4.4 Post-War Reconstruction and Economic Recovery

The civil war that erupted in 1991 had a devastating impact on Sierra Leone's economy, leading to widespread destruction of infrastructure and businesses. In response, the government introduced generous tax incentives in the early 2000s to attract foreign capital for post-war reconstruction. These incentives were a vital component of the broader strategy to rebuild the economy, with a focus on attracting FDI. By revitalising key industries, the government sought to rebuild infrastructure, create jobs, and stimulate economic growth. The restoration of these industries was anticipated to have a multiplier effect, which can benefit other sectors of the economy and contribute to long-term economic stability.

To support this strategy, the Income Tax Act of 2000 introduced several key tax incentive provisions that targeted both foreign and domestic businesses. These included tax holidays, deductions for export promotion, business investment relief, capital allowance deductions for depreciable assets, and deductions for expenses related to social services. These provisions were central to the country's post-war economic recovery efforts and played a significant role in promoting investment and rebuilding the country's economic foundation.

13 IMF (International Monetary Fund), OECD, United Nations, and World Bank. (2015) Options for Low Income Countries' Effective and Efficient Use of Tax Incentives for Investment: A Report to the G-20 Development Working Group. Washington, DC: IMF.

4.5 Recent Developments

In recent years, Sierra Leone has continued to use tax incentives as a tool to attract investment and stimulate key sectors of the economy. This has been especially important in the context of rebuilding after the Ebola epidemic (2014–2015), which severely affected the economy. The government introduced sector-specific incentives targeting industries such as tourism, energy, and agriculture, as part of a broader effort to diversify the economy away from over-dependence on mining. The government has continued to refine its approach to tax incentives. The Finance Acts have frequently updated provisions for various sectors, adjusting incentives based on economic needs and revenue generation goals.

> Subsequent tax incentive legislations were structured around the industrial and agricultural sectors, with the government granting exemptions on income tax, customs duties, and Goods and Services Tax (GST) for businesses. The goal was to continue to attract foreign investors as well as encourage domestic investment to help rebuild key sectors like energy, manufacturing, infrastructure, and natural resources.

4.6 Current Reform Efforts

In recent years, Sierra Leone has embarked on reforms to address the challenges associated with tax incentives, especially considering concerns about revenue leakages and the inefficiency of previous tax regimes. Annual Finance Acts continue to introduce changes to tax rates and compliance requirements, aiming to create a more favorable business environment and encourage investment.

> Current reforms aim to make tax incentives more transparent, better targeted, and tied to performance metrics, thereby ensuring they deliver tangible economic benefits. One of the most notable reforms is the Tax and Duty Exemption Act of 2023, which was passed as part of the government's efforts to streamline the exemption process and enhance revenue collection.

The Tax and Duty Exemption Act of 2023 introduced a more transparent and structured approach to the granting of tax exemptions. The Act seeks to reduce discretionary power and to ensure that exemptions are aligned with national development priorities.

Further, and about the same time, the government, with the support of development partners developed the 2023-27 Medium Term Revenue Strategy (MTRS), which has the objective of mobilizing more domestic revenues, but also promoting economic growth through the use of tax policies that are investment friendly. The introduced tax concessions in the MTRS were then legislated in the Finance Acts 2023 to 2025.

A major focus has also been on automation as a way of simplifying and streamlining tax incentives. The government (through the NRA) introduced the Customs Single Window, a digital platform that consolidates and automates the submission and processing of import documentation and duty waiver applications. This system, alongside the automation of the tax incentive application process through the Integrated Tax Administration System (ITAS), seeks to minimise administrative inefficiencies and improve the monitoring of tax incentives.

It can therefore be concluded that tax incentives in Sierra Leone have evolved significantly since the civil conflict, shaped by the country's economic, political, and social challenges. Initially introduced to stimulate post-war economic recovery, these incentives have played an important role in attracting foreign and domestic investment. However, over time, concerns about the misuse and over-generosity of these incentives have led to calls for reform. Going forward, Sierra Leone's challenge is to strike a balance between attracting investment and ensuring that tax incentives do not erode its revenue base.

4.7 Tax Incentives Provided by the Government of Sierra Leone

The Government of Sierra Leone offers various tax incentives designed to promote industrial growth and attract investments in specific sectors. Below are some of the key tax incentives provided by the government up to 2023:

- **Corporate Income Tax Relief:** Reduction in corporate tax rates for qualifying investments, particularly in priority sectors like manufacturing.
- **Import Duty Exemptions:** Exemptions on import duties for machinery, equipment, and raw materials that are used in production and not readily available locally, which reduces the startup and operational costs for businesses.
- **Export Duty Exemptions:** Elimination of export duties for most commodities which encourages companies to expand into international markets.
- **Tax Holidays:** Offering tax holidays to new ventures in specific sectors for a certain period, depending on the sector and investment size.
- **Accelerated Depreciation:** Allowing accelerated depreciation on capital goods, which can reduce taxable income in the early years of an investment when capital costs are high.
- **Investment Allowances:** Granting investment allowances that let investors deduct a certain percentage of the cost of new machinery and equipment from their taxable income to further lower the tax burden.
- **Creation of Free Trade Zones and Special Economic Zones:** Businesses operating within these zones can benefit from more extensive tax incentives.
- **Goods and Services Tax (GST) Refunds:** Offering GST refunds or exemptions on inputs for production which can significantly reduce the cost of production for companies manufacturing goods domestically.

In recent years, the Government of Sierra Leone has sought to refine and strengthen its tax incentive framework to better align with national development objectives. The Tax and Duty Exemptions Act 2023 and subsequent Finance Acts of 2023 and 2024 represent a focused effort to streamline tax exemptions that promote priority sectors including renewable energy, and local manufacturing.

The Tax and Duty Exemptions Act 2023 introduced significant regulatory changes, consolidating exemption authority and repealing provisions in other legislations. Specifically, Section 35 of the Act repeals prior tax exemptions not covered under the Goods and Services Tax Act 2009, Customs Act 2011, and Section 49 of the Finance Act 2013. However, exemptions or related laws passed before this Act, provided they are consistent with the new Act, will remain in force, and existing regulations will continue to apply.

Further, the Finance Acts of 2023 and 2024 expanded exemptions, particularly for GST, to support agriculture, environmentally sustainable practices, energy, and local agricultural production as inputs for manufacturing.

> The Finance Act 2024 grants GST supply exemptions on plant, machinery, and equipment for producing biodegradable plastic bag alternatives. It also extends GST exemptions to machinery used exclusively in agriculture, manufacturing, and mining.

The effectiveness of these tax incentives, however, depends on their strategic application and the broader economic and regulatory environment. For optimal impact, these incentives must be well-coordinated with other economic policies and aligned with the country's development goals. This will ensure that while fostering an attractive business environment, the benefits can be maximised for economic growth and development.

4.8 Legislative Framework Governing Tax Exemptions for Businesses in Sierra Leone

The legislative framework for tax incentives for businesses comprises various institutions, each contributing to the design, implementation, regulation, and oversight of tax laws and policies. The Ministry of Finance, for example, is responsible for formulating fiscal policies and drafting Finance Acts, as well as negotiating incentives with investors. The Parliament of Sierra Leone plays an important role by ratifying tax laws and special concession agreements, thereby providing legal support for these tax policies, while the NRA is tasked with implementing tax laws and policies, which include administering exemptions, offering guidance on eligibility, and monitoring compliance. The National Investment Board (NIB), created by the National Investment Board Act of 2022 offers special incentives to promote investment in Sierra Leone.

The legislative framework allows for both broad statutory tax exemptions under existing tax laws and targeted, and customised tax incentives through special concession agreements ratified by Parliament. Statutory Provisions are general tax incentives and exemptions established under various tax laws (e.g., Income Tax Act, Customs Act, GST Act, and Finance Acts) that automatically apply to qualifying businesses and sectors. These laws provide the legal basis for tax holidays, GST exemptions, duty exemptions, and other standard incentives available across different sectors and sub-sectors. While the general laws ensure that all qualifying businesses benefit from standard exemptions, special agreements allow for greater flexibility and tailored incentives to attract large-scale investments in strategic sectors. Special concession agreements are individualised agreements between the government and specific companies, often for large-scale projects, and are ratified by Parliament. Once ratified, these agreements have the force of law and offer tax incentives beyond what is typically available under the statutory framework. This ensures flexibility in attracting FDI in strategic sub-sectors like mining, manufacturing, energy, and construction.

Below is an outline of the key elements of the tax incentives framework granted by law:

1. Income Tax Act, 2000

The Income Tax Act is the primary legislation that governs corporate and personal income taxes in Sierra Leone. It includes provisions for tax holidays, deductions for export promotion, business investment relief, and capital allowance deductions.

2. Goods and Services Tax (GST) Act, 2009

This Act governs the application of the GST, a form of value-added tax (VAT). It contains provisions for exemptions from GST on specific goods and services, particularly those used in key industrial sectors like manufacturing, energy generation, and essential services such as health care and education.

3. Tax and Duty Exemption Act, 2023

The Tax and Duty Exemption Act of 2023 is a recent legislation that consolidates all laws relating to duty and tax exemptions in Sierra Leone aimed at improving the management and administration of such exemptions. Key provisions include:

- Streamlined application process by centralising the approval process for all tax and duty exemptions to ensure transparency and reduce discretionary powers.
- Stricter eligibility criteria such that only industries and sectors that align with national economic and social priorities are eligible for exemptions.
- Monitoring and evaluation mechanisms for review of entities benefiting from exemptions to ensure they meet performance criteria.

4. Special Acts for Sector-Specific Incentives

In addition to the general tax laws, Sierra Leone occasionally introduces sector-specific incentive schemes through Finance Acts and Special Legislation. These may include sectoral tax holidays, reduced tax rates for specific products or income or activities, duty waivers, and other tax incentives to further stimulate investment in key sectors. For instance, the Extractive Industries Revenue Act 2018 provides tax incentives including tax holidays, deductions for operations, loss carry forward provisions, investment allowances, and exemptions for rehabilitation and decommissioning funds to encourage investment and sustainable development in the extractive sector. The Finance Acts of 2023 and 2024 introduced new exemptions, particularly for GST-exempt supplies, targeting key sectors such as environmentally sustainable practices, energy, and the use of local agricultural products in manufacturing. In the Finance Act 2024, additional GST exemptions are granted for machinery exclusively used in agriculture, manufacturing, and mining.

5. Special Concession Agreements Ratified by Parliament

In addition to the statutory exemptions, the government negotiates special concession agreements with individual businesses or large-scale projects, which are then ratified by Parliament. These agreements are typically offered to big investors in strategic sectors as a means to attract investment.

6. Public Financial Management (PFM) Act, 2016

The PFM Act sets out a broader legal framework for managing public finances including reporting tax exemptions. Alongside the PFM Reform Strategy, it promotes transparency by requiring the publication of reports on tax exemptions granted, to ensure public accountability.

4.9 Specific Exemptions Granted to the Industrial Sector

The specific tax incentives granted to the industrial sectors in Sierra Leone—mining and quarrying, construction, manufacturing, and energy—are governed by several tax laws and regulations. These provisions collectively ensure that the industrial sector receives tax incentives to reduce operating costs, attract investment, and support the country's economic development goals.

> A special tax incentive granted to certain mining companies through agreements ratified by Parliament is the reduction of import taxes on fuel to 1%, which is lower than the general petroleum pricing formula.

Tables 4 to 8 provide a breakdown, by tax type, of the specific provisions of these tax laws that provide the legal basis for the incentives given to businesses in the industrial sector.

Table 4: Tax Incentives in Respect for Business Income

TABLE 4: PREVIOUS AND CURRENT TAX INCENTIVES IN RESPECT OF BUSINESS INCOME		
Sub-sector	**Measure**	**Statutory Provision**
All Sub-sectors	Any business registered in Sierra Leone and had, at least, 20% Sierra Leonean ownership as of 1st, January 2015 and beyond shall be entitled to corporate tax exemption: a. for five (5) years if its full-time workforce is at least 100 employees and the minimum investment is $5,000,000.00; b. For ten (10) years if its workforce is at least 150 employees and minimum investment is $7,500,000.00.	Section 24 of the Finance Act 2014
All Sub-sectors	100% income relief for Small and Medium enterprises established between 1st January 2021 and 31st December 2023 for the first year of business operations.	Section 45 of Finance Act, 2021
Construction	15-year income exemption for undertakings under the Public-Private Partnership Infrastructure Projects subject to investment threshold (USD 20,000,000).	Section 23 of Finance Act 2011
Manufacturing	A new business investing a minimum of US$2,000,000 and employing at least twenty Sierra Leonean citizens shall be eligible for the following relief– (a) a corporate tax relief not exceeding five years, and (b) equipment and machinery for establishing a new business shall be imported duty-free for five years.	Section 48 of Finan of Act 2013
Manufacturing	Corporate income tax of 15% for factories whose management and activities are exclusively outside the Western Area.	Finance Act 2021 Section 8
Manufacturing/ Energy	Five-year income exemption for petroleum refineries investing a minimum of $20,000,000 and employing at least fifty Sierra Leonean citizens.	Section 47 of the Finance Act 2013
Manufacturing	10-year tax exemption for businesses (a) manufacturing drugs, medical devices, and other health-related items (b) investing a minimum of US$500,000.00; and (c) employing a minimum of fifty persons in addition to other incentives the business may be eligible for.	Section 25(1) of Finance Act 2011
Manufacturing	Interest on any loan granted as working capital by a bank to any legally registered company engaged in the manufacturing sector and for the sole use of such business shall be exempted from withholding tax, provided. (a) the rate of interest on the loan is not more than the base lending rate at the time the loan was granted. ;(b) the beneficiary company of the loan is using at least 40 % of locally produced materials for its manufacturing.	Finance Act 2019, Section 37
Energy	Five-year corporate tax relief for businesses in the provision or supply of renewable energy from solar mini-grids in Sierra Leone, commencing from the later date of registering first commercial production or 1st January 2021, subject to tariff price requirements.	Section 54 of the Finance Act 2021
Mining and Quarrying	Interest exemption on rehabilitation and decommissioning funds for extractive projects.	Sec. 10(1)(b) and 28(1)(b) of the Extractives Industries Revenue Act

TABLE 4: PREVIOUS AND CURRENT TAX INCENTIVES IN RESPECT OF BUSINESS INCOME		
All Sub-sectors	25% tax credit for taxpayers undertaking Corporate Social Responsibility (CSR) in the normal course of business areas as complementary activity in support of government in specified priority areas: Free and quality school education; (ii). Children welfare; (iii). Natural disasters and disease outbreaks; (iv). Maternal child health; (v). Agriculture (food and cash crop production, fisheries, and animal husbandry) and agri-business; and (vi). Water and Sanitation.	Subsection 3 (c) of Section 115 of ITA 2000 (as amended in Section 19 of Finance Act, 2021)
All Sub-sectors	125% deduction for specified expenses, going up to 200% for the remuneration of any physically or mentally disabled employees: (a)any expenses on training of staff (b) any expenses on social services such as building of schools and hospitals and any investments outside the scope of the original investment (c) expenses which are aimed at promoting exports and the supply of goods overseas (e)expenditure incurred promoting an export quality standard Sierra Leonean owned product (f) actual cost of the remuneration payable to any physically or mentally disabled employees.	Section 32 of ITA 2000 (as amended by Sec 21 of Finance Act 2011)
All Sub-sectors	Any business employing a female employee in a management position between the 1st day of January 2021 and 31st of December 2023 shall be eligible for a tax credit at a rate of 6.5% on the PAYE of that female employee.	Section 40 of the Finance Act 2021
All Sub-sectors	For the purposes of income tax, any investor who donates to the Skills Development Fund shall be eligible for a 100% deduction of the donation from profits for the same year that the donation is made, but any unclaimed amount shall not be available for future deductions.	Section 25 of the Finance Act 2014
All Sub-sectors	100% deduction on any expenses on social services such as the building of schools and hospitals would also be available to the general public for use free of charge.	Sec. 32, ITA 2000, as amended by Sec 17, FA 2017
All Sub-sectors	Business investment relief for resident individuals, for subscription of shares in eligible companies, subject to rules set for this purpose.	Sec. 44(1) ITA 2000
All Sub-sectors	For the purposes of income tax, any expenses incurred on R & D by an investor shall be eligible for deduction from profits of 100% of the cost incurred up to the extent of profits of the same year the expenditure is made but any unclaimed amount shall not be made available for future deductions.	Finance Act 2011 Section 14
All Sub-sectors	A capital allowance deduction is allowed for depreciation of a taxpayer's depreciable assets, as per the following groups and depreciation rates 1) Plant, machinery, and equipment, including automobiles and trucks: 40%; 2) All other tangible depreciable assets except buildings, and intangible depreciable assets 10%; 3) Buildings used to house industrial, manufacturing, or agricultural activities: 15%; 4) Buildings used to house commercial activities other than those described in group 3: 10%; 5) Buildings other than those described in groups 3 and 4: 5% A deduction is allowed in respect of expenses incurred to repair, renew, alter, or improve depreciable assets.	Income Tax Act 2000 Section 39; ITA 7th Schedule; ITA Section 41

Table 5: Tax Incentives in Respect of Income Arising from Export Activities

TABLE 5: PREVIOUS AND CURRENT TAX INCENTIVES IN RESPECT OF INCOME ARISING FROM EXPORT ACTIVITIES		
Sub-sector	**Measure**	**Statutory Provision**
Manufacturing	Five (5) percent of business income derived from export sales calculated as necessary in the proportion that export sales bear to total sales are exempt from income tax.	Section 31 sub-section (1)(h) of Income Tax Act 2000
Manufacturing	To ascertain the chargeable income derived by a taxpayer during a year of assessment, there shall be deducted at the rate of 125% expenses which are aimed at promoting exports and the supply of goods overseas.	Section 32 sub-section (2) (d) (iii) of the Income Tax Act 2000
Manufacturing	To ascertain the chargeable income derived by a taxpayer during a year of assessment, there shall be deducted at the rate of 125% expenditure incurred promoting an export quality standard Sierra Leonean-owned product.	Section 32 sub-section (2) (d)(v) of the Income Tax Act 2000
Manufacturing	Any expenses that are aimed at promoting exports and the supply of goods overseas shall, for income tax, be eligible for deduction from profits of 100% of the cost incurred up to the extent of profits of the same year the expenditure is made.	Section 20 sub-section (1) of Finance Act 2011
Manufacturing	Any expenses incurred on promoting an export quality standard Sierra Leonean-owned product shall be eligible for deduction from profits of 100% of the cost incurred up to the extent of profits of the same year the expenditure is made.	Section 22 sub-section (1) of the Finance Act 2011

Table 6: Tax Incentives in Respect of Import Duty

TABLE 6: PREVIOUS AND CURRENT TAX INCENTIVES IN RESPECT OF IMPORT DUTY		
Sub-sector	**Measure**	**Statutory Provision**
All Sub-sectors	Duty-free import of plant and machinery, excluding spare parts and general-purpose vehicles, exclusively for their business operations for three years from the date of first registration. This shall apply: (i) in the case of a new business if the investment is at least $10,000,000 (ii) in the case of an existing business if the investment is at least $5,000,000 in expanding the business.	Section 33 of the Finance Act 2016
All Sub-sectors	A new business investing a minimum of US$2,000,000 and employing at least twenty Sierra Leonean citizens shall be eligible for importing duty-free equipment and machinery for establishing a new business for five years.	Section 48(b) of Finance Act 2013
Construction	Duty-free import of plant, equipment, etc. during the construction period of an undertaking under the Public-Private Partnership Infrastructure Projects in excess of twenty million dollars ($20,000,000), subject to conditions.	Section 23 of Finance Act 2011
Manufacturing	Duty-free import of equipment for manufacturing and delivery by a new business assembling stoves or cookers, importing or producing liquefied petroleum gas, subject to investment and employment thresholds for any period of three years chosen by that business.	Section 24 of Finance Act 2011 (as amended)
Manufacturing	A petroleum refinery investing a minimum of $20,000,000 and employing at least fifty Sierra Leonean citizens shall be eligible for importing duty-free equipment and machinery for establishing the refinery for five years.	Section 47 of the Finance Act 2013
Manufacturing	Raw materials for any new business engaging in the manufacturing of drugs, medical devices, and other health-related items according to the guidelines of the World Health Organizations, shall be imported duty-free for ten years.	Section 25(2) of Finance Act 2011
Manufacturing	Intermediate goods for any new business manufacturing drugs, medical devices, and other health-related items according to the guidelines of the World Health Organizations, shall be imported at the concession rate of 3% for ten years.	Section 25(2) of Finance Act 2011
Manufacturing	Any person importing plant, machinery, or equipment for the manufacturing of paper bags, cotton bags, compostable bags, or any biodegradable plastic bag alternatives for his manufacturing business purpose and not resale, shall be entitled to import them duty-free for five years effective from the date of first import registration.	Section 25 of the Finance Act 2024
Energy	The importation of Photovoltaic System Equipment and low-energy and energy-efficient appliances that meet relevant International Electrotechnical Commission (IEC) global standards for resale or use by third parties shall be duty-free.	Section 34 of the Finance Act 2016

Table 7: Tax Incentives in respect of Goods and Services Tax (GST)

TABLE 7: PREVIOUS AND CURRENT TAX INCENTIVES IN RESPECT OF GOODS AND SERVICES TAX (GST)		
Sub-sector	**Measure**	**Statutory Provision**
Manufacturing	Animals and plants for breeding/propagation purposes, agricultural inputs, raw fish, and local agricultural produce for manufacturing.	Paras,1, 3, 16 of the Second schedule, as amended by Sec. 14, FA 2018 Sec. 17, FA 2019
Manufacturing/ Mining	Machinery, apparatus, and appliances designed for use exclusively in agriculture and associated businesses, manufacturing, and mining, and import GST on certain hotel undertakings for a limited period, now expired.	Para 13 & 16 Second schedule
Energy	Solar and energy-saving equipment.	Para 21 Second schedule (as amended by Sec. 28 FA 2017)
Manufacturing/ Energy	Environmentally friendly activities and certain electrical energy consumption.	Paras 26 and 29 Second schedule as inserted by Sec 34 FA 2021
Energy	The consumption, supply, or use of renewable energy from mini grid-connected solar power in Sierra Leone	Second schedule (as amended by Sec. 6 Para 13 FA 2023)
Manufacturing	Supply of local agricultural produce to local industries exclusively local manufacturing	Second schedule (as amended by Sec. 6 Para 15 FA 2023)
Manufacturing/ Energy	Supply relating to the management and recycling of plastics and other wastes in support of environmentally friendly activities.	Second schedule (as amended by Sec. 6 Para 16 FA 2023)
Manufacturing	Supply of bulk wheat as input for industrial manufacturing of flour	Second schedule (as amended by Sec. 6 Para 17 FA 2023)
Manufacturing	Supply of wheat flour in respect of imported and domestically produced wheat flour.	Second schedule (as amended by Sec. 6 Para 18 FA 2023)
Manufacturing/ Mining/Energy	Supply of machinery, plant, and equipment designed for use exclusively in agriculture; manufacturing; mining and upstream petroleum operations Locally produced edible vegetable oils extracted from seeds or from other parts of fruits	Second schedule (as amended by Sec. 15 FA 2024)

Table 8: Tax Incentives in respect of Capital Gains Tax (CGT)

TABLE 8: PREVIOUS AND CURRENT TAX INCENTIVES IN RESPECT OF CAPITAL GAINS TAX (CGT)		
Sub-sector	**Measure**	**Statutory Provision**
All Sectors	Capital gain accruing to or derived by a company out of a merger, amalgamation, or reorganization of the company where there is continuity of underlying ownership in the asset of at least 75%.	Sec. 61(1)(b), ITA 2000, as amended by Sec. 19 FA 2017
All Sectors	Related party transfers between close relations and on divorce of individuals.	Sec. 61(1)(c) and (d), ITA 2000,
All Sectors	Reinvestment relief, in full or in part, on capital gains subject to time limits.	Sec. 61(1)(e) and (f), ITA 2000,

It can be seen from the legislative provisions that Sierra Leone offers a range of tax incentives aimed at stimulating investment in the industrial sector. These incentives include corporate tax exemptions, income relief, and deductions for specific expenses such as training, social services, and research and development.

There are also duty-free imports of machinery and equipment, GST exemptions for agricultural inputs, manufacturing machinery, solar equipment, and environmentally friendly activities, and exemptions on capital gains for mergers, and reinvestment relief. The provisions also offer targeted incentives for businesses employing Sierra Leonean citizens and those investing in renewable energy and public-private partnerships.

It can be seen that Sierra Leone's tax incentive framework reflects a progression from previous legislative provisions to current and more streamlined measures aimed at attracting investment and stimulating growth in key subsectors.

Previously, tax incentives were governed by a range of separate laws, offering exemptions and reliefs, yet lacking cohesive alignment with broader national development goals. The Tax and Duty Exemptions Act 2023 has consolidated much of this authority, repealing certain exemptions in earlier laws and establishing a more streamlined approach. In doing so, it introduces a more targeted incentive structure which is supported by the Finance Acts of 2023 and 2024 which expand exemptions for GST to prioritise sectors such as renewable energy, local manufacturing, and environmentally sustainable practices.

These recent legislative adjustments enhance the benefits initially provided to businesses. Current incentives include GST exemptions for machinery involved in agricultural production, manufacturing, and mining, and for biodegradable alternatives to plastic bags, reflecting a focus on local production and environmentally sustainable industries.

4.10 Special concession agreements ratified by Parliament

Companies operating in the industrial sector often benefit from specific tax incentives and exemptions through special concession agreements ratified by Parliament. These agreements provide targeted financial and tax reliefs beyond general statutory provisions.

The tax incentives contained in these agreements typically include:

- Reduced corporate tax rates compared to the standard corporate tax rate, and tax holidays for periods during which the company is exempt from paying corporate taxes.
- Exemptions on import duties for raw materials, machinery, and equipment necessary for operations.
- Reduced or exempted export duties on the products exported.
- Exemptions from GST on certain goods and services used in the operations of businesses.
- Reduced royalty rates on the extraction of minerals or resources.
- Reduce excise duty rates on the uplift of petroleum products

> Critics argue that these agreements can lead to revenue leakage, as the government foregoes taxes that could have been used to finance essential public services. While the expectation is that future tax revenues will increase once the concessions expire and as economic growth accelerates, the delay in revenue collection and the risk that some projects may underperform can strain the government's fiscal position in the short term.

Weak enforcement is also a concern. Companies benefiting from these agreements may fail to meet their obligations, while still enjoying tax breaks. This lack of accountability raises questions about the efficacy of these agreements. Further, relying on FDI in sectors prone to external shocks through these concessions can lead to fiscal dependency which can expose Sierra Leone to economic instability and hinder sustainable long-term growth.

CHAPTER

05

Comparison of Tax Exemption Practices from Other Countries

5.1 Cross-Country Case Studies in Enhancing the Effectiveness and Efficiency of Tax Exemptions

Several developing countries have implemented targeted tax incentives that successfully attract investment, foster innovation, and promote economic growth. By analysing these models, Sierra Leone can learn valuable lessons to enhance its own tax incentive framework.

Tax Incentives in Kenya:

The National Treasury (synonymous with the Ministry of Finance) is responsible for formulating tax policies, overseeing tax collection by the Revenue Administration, as well as managing tax expenditures, while the National Assembly is responsible for enacting tax laws and supervising their administration.[14] The Kenya Investment Authority (KenInvest) is an agency that promotes investment and assists investors with tax incentives aimed at attracting foreign investment. The Kenya Revenue Authority (KRA) on the other hand is responsible for assessing, collecting, and accounting for all revenues in Kenya. In line with the Income Tax Act, KRA provides tax incentives in collaboration with various regulators and facilitators, such as the Capital Markets Authority (CMA) and the Export Processing Zones Authority (EPZA), which oversees the granting of EPZ incentives.[15]).

Kenya provides a range of tax incentives to boost investment in the manufacturing, construction, extractive, and energy sectors, offering benefits such as capital allowances, investment deductions, tax holidays, accelerated depreciation, special economic zones, and reduced tax rates to reduce costs, attracts investments and drive economic growth. For instance, in the manufacturing sector, companies benefit from wear and tear allowances on equipment, ranging from 37.5% for heavy equipment to 30% for essential technologies. Additionally, businesses in Special Economic Zones (SEZs) and Export Processing Zones (EPZs) can claim a 100% investment deduction on buildings and machinery. SEZ firms enjoy a 10-year corporate tax holiday at a reduced rate of 10%, followed by a preferential 15% corporate tax rate for the next 10 years, before reverting to the standard 30% rate.

Furthermore, businesses in EPZs benefit from a 10-year withholding tax holiday on dividends paid to non-residents, along with perpetual exemptions from VAT and customs duties on inputs. Businesses in the Special Economic Zones receive incentives through a 10% industrial building deduction, alongside the 100% investment deduction on buildings in SEZs and EPZs, which significantly reduces construction costs in these zones. The extractive industry also benefits from wear and tear allowances of 37.5% for heavy equipment, in addition to the full capital expenditure deductions available in SEZs.[16]

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14 Republic of Kenya, National Tax Policy: Sessional Paper No. 02 of 2023, The National Treasury and Economic Planning, 2023.

15 Guchu, B. (2024) 'Tax Incentives in Kenya: For Whom and at What Cost?' The Elephant, 30 January. Available at: https://www.theelephant.info/analysis/2024/01/30/tax-incentives-in-kenya-for-whom-and-at-what-cost/ (Accessed: 8 October 2024).

16 Kenya Investment Authority (KenInvest) Incentives. Available at: https://www.invest.go.ke/incentives/ (Accessed: 7 October 2024).

Tax Incentives in Ghana:

The Ministry of Finance is responsible for formulating fiscal policies, including tax laws and incentives, while Parliament enacts these laws and approves the fiscal policies proposed by the Ministry. The Ghana Revenue Authority (GRA) administers and enforces tax laws, ensuring compliance and efficient revenue collection, and the Ghana Investment Promotion Centre (GIPC) plays a role in promoting investment and developing attractive tax incentive frameworks, particularly those targeting foreign investors. The 1992 Constitution of Ghana grants parliament authority to approve tax incentives and waivers, with any taxation-related agreement requiring parliamentary approval to be legally binding. Additional legal frameworks for tax incentives in Ghana include several acts, such as the Customs Excise and Preventive Service law, the Income Tax Act, the VAT Act, the Free Zones Act, and international treaties.[17]

Ghana's Medium-Term Revenue Strategy (MTRS) 2024-2027 outlines revenue measures to meet the government's targets by 2027. It includes various incentives for agro-processing, export-oriented enterprises, and manufacturers, such as VAT exemptions on raw materials and concessions under the Customs Tariffs. The strategy emphasises sector-based incentives rather than entity-specific ones, with plans to regularly review and rationalise tax expenditures. Ghana's tax expenditures are centralised under the Tax Exemptions Act, 2022 (Act 1083), which enhances transparency by consolidating exemptions under the Ministry of Finance. Automated systems like the Integrated Customs Management System (ICUMS) are used to manage these tax expenditures, and guidelines have been issued to support the Exemptions Act.

The GIPC Act, 2013 (Act 865), offers various incentives to promote strategic investments in key sectors such as agriculture, manufacturing (especially for industries engaged in export or using local raw materials), construction, and tourism. These incentives are also targeted based on specific locations and product types. The eligibility criteria for these incentives are therefore industry-specific, location-specific, and product-specific, thereby ensuring that the most impactful sectors benefit from these measures.[18] These incentives aim to stimulate growth and investment across critical sectors of the economy. Key benefits include exemptions from customs import duties on plant and machinery, special tax rates, reduced Corporate Income Tax (CIT) rates, tax holidays, and favorable capital allowances on investments in plant and equipment, which help to lower operational costs. Businesses operating in free zones benefit from a ten-year corporate tax holiday. After this period, they are taxed at a 15% CIT rate for export activities outside the domestic market, while income from domestic sales is subject to a 25% CIT rate.[19]

Challenges identified in Ghana's MTRS (2024-2027) include limited awareness of domestic tax incentives, lack of data for impact assessment, and inconsistencies in applying location-based incentive rates. The MTRS focuses on implementing the Exemptions Act effectively, developing regulations for industry concessions, publishing annual tax expenditures, and continually reviewing and rationalizing them.

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17 available at https://www.un.org/esa/ffd/wp-content/uploads/2015/04/2015TIBP_CountryExperience-Ghana.pdf (accessed October 7, 2024)

18 Ghana Revenue Authority (GRA), Tax Exemptions for Businesses, available at https://gra.gov.gh/domestic-tax/tax-types/tax-exemptions-for-businesses/ (accessed October 7, 2024).

19 PricewaterhouseCoopers (PwC), "Ghana - Corporate - Tax Credits and Incentives," available at https://taxsummaries.pwc.com/ghana/corporate/tax-credits-and-incentives (accessed October 12, 2024).

Tax Incentives in Rwanda:

The Ministry of Finance and Economic Planning (MINECOFIN) is responsible for formulating fiscal policies, including tax laws and incentives, while Parliament enacts tax laws and approves fiscal policies proposed by MINECOFIN. The Rwanda Revenue Authority (RRA) administers and enforces these tax laws, ensuring compliance and efficient revenue collection, and the Rwanda Development Board (RDB) plays a key role in promoting investment and managing tax incentives, particularly those targeting foreign investors.

Rwanda's fiscal incentives, as outlined in its Investment Promotion Act, are designed to attract investment and support domestic industries, particularly in key sectors like ICT, manufacturing, energy, mining, housing and construction, and tourism. These targeted tax benefits have contributed to the country's rapid economic transformation, positioning Rwanda as a competitive investment hub in Africa. Key elements of Rwanda's incentive framework include a zero corporate income tax for companies relocating their headquarters to Rwanda, which is aimed at making the country a regional business hub. Strategic sectors such as energy, transport, affordable housing, ICT, and financial services enjoy a preferential corporate income tax rate of 15% thereby promoting growth in these areas. Additionally, accelerated depreciation at 50% for capital investments in tourism, construction, manufacturing, and agro-processing enhances profitability by way of allowing quicker recovery of costs, encouraging businesses to invest in critical infrastructure and equipment.

Another incentive is the exemption of capital gains tax which makes Rwanda attractive to investors by reducing the tax burden on the sale of assets or businesses. Furthermore, large projects in strategic sectors such as energy, exports, tourism, health, manufacturing, and ICT are eligible for a seven-year corporate income tax holiday, offering tax relief during the early stages of large-scale investments.[20]

Singapore's Targeted Tax Incentives:

Singapore has established a range of tax incentives aimed at attracting manufacturing businesses that contribute to local economic growth and technological advancement and offers a wide range of incentives for the financial sector. Key initiatives include the Pioneer Certificate Incentive, which grants up to 5 years (which can be extended) of tax exemption for high-tech manufacturing industries, and the Development and Expansion Incentive, which offers reduced tax rates for up to 40 years for qualifying businesses. Singapore also provides enhanced deductions and credits for research and development (R&D) aimed at fostering innovation.[21] These incentives are regularly assessed, ensuring that they continue to meet their objectives. As a result, Singapore has become a global hub for technology and innovation, thereby attracting substantial FDI.

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20 UNCTAD (United Nations Conference on Trade and Development), Compendium of Investment Laws - Rwanda Investment Law 2021: Law on Investment Promotion and Facilitation - N° 006/2021 of 05/02/2021 (2021), available at https://investmentpolicy.unctad.org/investment-laws/laws/369/rwanda-investment-law-2021 (accessed October 7, 2024).

21 An Introduction to Doing Business in Singapore (2023) Tax Incentives for Businesses, available at https://www.aseanbriefing.com/doing-business-guide/singapore/taxation-and-accounting/tax-incentives-for-businesses (accessed October 7, 2024).

Malaysia's Targeted Tax Incentives:

Malaysia offers targeted tax incentives to businesses in specified sectors such as manufacturing, agriculture, hotels, and high-technology industries. These businesses have benefitted from targeted tax incentives such as the Pioneer Status, which offers a 5-10-year tax holiday, and Investment Tax Allowance, which enables businesses to offset taxable income against capital expenditures. The Reinvestment Allowance (spanning 15 years) further encourages businesses to reinvest in expanding existing production capacity, modernising or automating production facilities, and diversifying into related products. It also offers Infrastructure Allowance to businesses engaged in manufacturing, agriculture, hospitality, and other industries operating in specific parts of the country.[22] These initiatives have helped transform Malaysia into a competitive manufacturing hub, driving industrial growth and attracting substantial FDI.

Philippines' Tax Incentive Reform:

The Philippines has recently restructured its tax incentive system through the Comprehensive Tax Reform Program (CTRP). The Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act[23] and the Tax Incentives Management and Transparency Act (TIMTA)[24] Have introduced cost-based incentives and enhanced transparency. These reforms have improved the competitiveness of the Philippines' tax incentive framework, which has attracted new investments while promoting accountability.

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22 Tax Incentives in Malaysia: Types, Eligibility, and 2024 Updates (2024), available at https://www.cleartax.com/my/en/tax-incentives-in-malaysia (accessed October 7, 2024).

23 ASEAN Briefing, The Philippines' CREATE Act Comes into Effect, Pushing for Accelerated Economic Recovery, available at https://www.aseanbriefing.com/news/the-philippines-create-act-comes-into-effect-pushing-for-accelerated-economic-recovery/ (accessed October 12, 2024).

24 Republic of the Philippines, National Economic and Development Authority (NEDA), Report Pursuant to Republic Act 10708: Tax Incentives Management and Transparency Act.

From the foregoing analysis, all regions have centralised bodies for fiscal policy, tax administration authorities, and investment promotion agencies. Differences lie in the scope of incentives, tax rates and holidays, and regulatory frameworks. Some focus on financial services, R&D, and innovation, while others on manufacturing and export promotion, and services, or special economic zones. Tax rates and holidays vary, with some regions offering competitive rates and specific incentives. Regulatory environments range from highly transparent and efficient to more complex, with ongoing efforts to improve transparency and compliance.

5.2 Best Practices to Maximize the Benefits of Tax Incentives

Sierra Leone can learn from successful tax reforms in other countries to design policies that are well-suited to its own economic context. By taking a targeted, transparent, and performance-driven approach, these lessons can help Sierra Leone balance attracting investment with maintaining fiscal sustainability. The following strategies and steps, inspired by international best practices, offer a roadmap for the country to pursue to ensure it maximises the benefits of tax exemptions while maintaining fiscal sustainability:

Targeted Tax Incentives:

Countries like Singapore, Ghana, and Rwanda demonstrate the value of directing tax incentives to high-growth sectors. Sierra Leone can adopt this model by focusing on important subsectors of the industrial sector. For example, the government could offer tax holidays, reduced tax rates, and enhanced deductions, all of which would stimulate economic development in these areas. Targeting these incentives can ensure that they have the greatest possible impact, driving growth where it is most needed. Linking incentives to specific investments and expenditures in these sectors will drive economic growth while minimising revenue losses. According to Stotsky[25]), a country should ideally provide tax incentives to investors making marginal investments—those that would not occur without these incentives—to prevent unnecessary revenue loss. However, while targeting marginal investments can support a more diverse economy, it requires a good balance to avoid stalling growth in already-successful sectors. A mix of tax incentives that are designed for both promising marginal investments and high-growth sectors may yield the best economic outcome.

Ensuring Transparency and Accountability:

The Philippines offers an example of how enhancing transparency and accountability in tax policies can improve outcomes. Sierra Leone could establish a system for public disclosure of tax incentive beneficiaries and require regular reporting on the costs and benefits of such exemptions. Clear guidelines should be established for tax exemptions, with beneficiaries required to report periodically on the use and impact of the incentives. This will reduce the risk of misuse and will ensure exemptions are tied to genuine, impactful investments. To further ensure accountability, independent oversight

25 Stotsky, J. (2024) Tax incentives and investment. The Governance Brief, Issue 54.

bodies could be tasked with monitoring compliance and effectiveness to ensure that these incentives serve the intended purpose and benefit the economy without unnecessary revenue loss.

Performance-Based Incentives:

The experience of Malaysia and Singapore shows the benefits of linking tax incentives to specific performance criteria. Sierra Leone could apply this approach by offering investment and reinvestment allowances that are contingent upon achieving measurable outcomes, such as job creation, technology transfer, and export growth. This will ensure that companies benefiting from tax incentives can contribute to the broader development goals of the country while growing their businesses. This will also ensure that only investments that deliver tangible economic benefits can receive tax relief.

Prioritising Strategic Sectors:

Rwanda has successfully prioritised tax incentives for sectors with high growth potential. Sierra Leone can mirror this by granting tax holidays, accelerated depreciation, and import duty exemptions for investments in strategic subsectors like manufacturing, mining, construction, and energy. This would attract long-term and sustainable investments that would contribute meaningfully to the country's economic development.

Periodic Assessment and Adjustment:

Singapore, Malaysia, and the Philippines emphasize the importance of regularly assessing the performance of tax incentives. Sierra Leone can implement a system for periodic cost-benefit analyses to evaluate the effectiveness of its tax incentive policies with results published in annual budget submissions or special reports. This will ensure public accountability and help policymakers make informed decisions. By making data-driven adjustments based on these evaluations, the government can ensure that tax incentives are aligned with the country's evolving economic priorities.

Review the Duration of Tax Holidays, and Sunset Provisions:

Tax holidays should have a fixed duration (e.g., 5-10 years) to prevent prolonged revenue loss and allow periodic reviews of the effectiveness of the incentives. Periodic assessments of the incentives' continued relevance will help the government adapt policies as needed. This will enable the government to decide on whether to extend or discontinue tax holidays based on performance. Introducing sunset clauses and periodic reviews will ensure that underperforming tax exemptions can be phased out or restructured.

Set Clear Eligibility Criteria:

Strict eligibility requirements should be implemented to ensure that only projects with significant social and economic contributions receive exemptions. This will streamline the approval process and reduce opportunities for abuse.

Incorporate Tax Incentives into Tax Laws:

Incorporating exemptions into the tax laws, rather than granting them through discretionary measures will minimise corruption risks and ensure that incentives are awarded based on well-defined legal frameworks. This will also help avoid discrimination in the tax system. UNCTAD (2022)[26] Note that most tax incentives are implemented through investment laws rather than tax codes or budgets.

By adapting these strategies to its unique context, Sierra Leone can create an effective, balanced tax system that stimulates investment while safeguarding fiscal sustainability.

5.3 Practical Steps for Implementing Changes

To implement these changes effectively, Sierra Leone can draw from international best practices. Adopting these changes can enhance Sierra Leone's tax incentive framework, stimulate sustainable economic growth, and ensure that fiscal sustainability is maintained.

Stakeholder Engagement:

Including stakeholders in the process of designing and implementing tax incentive laws and regulations can build broad support and ensure that policies are practical and effective. This inclusive approach will ensure the changes are well received and supported. Public awareness campaigns that educate businesses and the public about the changes and benefits of the new laws and regulations will further reinforce understanding and compliance.

Policy Adjustments and Focus on Cost-Based Incentives:

Draft legislation that outlines the new tax incentive framework, including clear eligibility criteria, performance metrics, and reporting requirements. Ensure the legal framework is robust and will prevent misuse of incentives. A key aspect of these adjustments is the shift from profit-based incentives, such as income tax exemptions, to cost-based incentives, including investment allowances and tax credits. This adjustment promotes more transparent and targeted support for new investments, which will reduce the risks of profit shifting and abuse and ensure that benefits are directly tied to actual investment costs. Additionally, the framework aims to diversify incentives and prioritising areas that encourage sustainable investment growth.

Strengthen Institutional Capacity:

Provide training and resources to the NRA and other stakeholders to enhance their capacity to monitor and enforce tax incentives provisions. This will improve implementation and compliance and ensure that incentives are administered efficiently and transparently.

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26 UNCTAD (United Nations Conference on Trade and Development) (2022) World Investment Report: International Tax Reforms and Sustainable Investment. Geneva: UNCTAD.

Monitoring and Evaluation:

Establish a monitoring system to assess the impact of tax incentives. Periodic evaluation will allow for adjustments and improve the effectiveness of the incentives. Conducting periodic cost-benefit analyses to ensure that tax incentives are meeting their objectives. By implementing sunset clauses and periodic reviews, overly generous incentives can be avoided, and necessary adjustments can be made based on performance which can ensure long-term fiscal sustainability.

Enhanced Supervision of Special Economic Zones (SEZs):

Globally, it is recognised that Special Economic Zones (SEZs) should be carefully regulated to avoid misuse. In Sierra Leone, stricter supervision of SEZs can ensure that only businesses producing primarily for export benefit from tax relief. Limiting tax incentives to indirect and international trade taxes related to export production will help the country avoid revenue leakages while encouraging export-driven growth.

Ensure Policy Coherence:

Align tax incentives with broader economic policies and development goals. By ensuring consistency between fiscal policy and other economic objectives, Sierra Leone can maximise the effectiveness of its tax exemptions.

CHAPTER

06

Estimation, Shares, and Revenue Impact of Siera Leone’s Tax Exemptions

6.1 Contribution of the industry sector to domestic revenue

Growth in the value of the industrial sector has significantly increased from NLe8.88 billion in 2018 to NLe35.6 billion in 2023. This growth is mainly attributed to the growth in the Mining and Quarrying subsectors, in addition to the contribution of the construction subsector.

The industrial sector has over the years been a major contributor to domestic revenue mobilization. This section provides an analysis of the industry sector's contribution to domestic revenue mobilization. We will first look at the individual subsector's contribution to domestic revenue and then compare their performance against each other toward domestic revenue mobilization.

Mining subsector contribution to domestic revenue

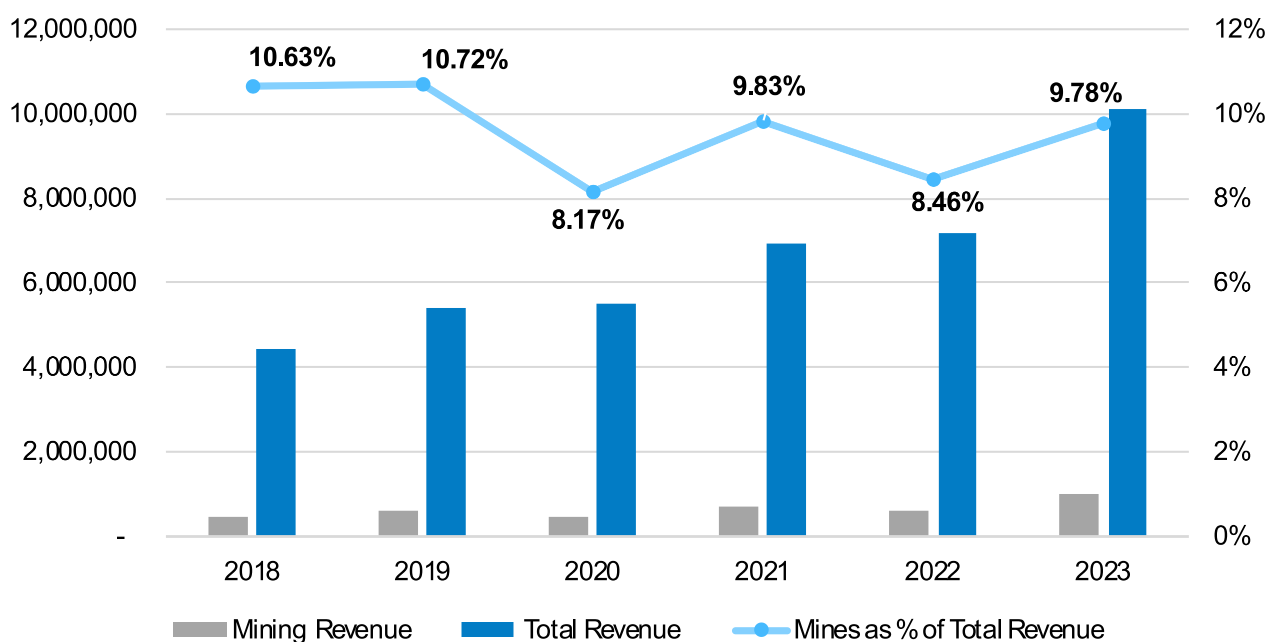
The mining and Quarrying subsector has over the years been the driving force of the Sierra Leone economy, contributing significantly to the GDP, especially from 2020 onward when it increased from NLe1.75 billion in 2018 to NLe13.84 billion in 2023. The sector's contribution to domestic revenue has also been immense even though it fell short of expectations should we consider the tax gap estimation for the sector.

Table 9 (see Appendix) shows revenue from the mining subsector by tax handles and the share of mine revenue to domestic revenue collection from 2021 to 2023. The non-tax aspect of Mines revenue which includes mining royalties and licenses accounts for the major share of revenue from the mining subsector, averaging 71% of Mines revenue from 2021 to 2023. Revenue from Income taxes is the second highest contributor to mining revenue accounting for an average of 24% of mine revenue from 2021 to 2023. Collection from Customs and GST account for the remaining 5% of Mines revenue within this period, with GST contributing the least.

Overall, the mining subsector contributes 81% of industry sector revenue over the period 2021-2023, emerging to be the predominant revenue contributor in the sector. As a proportion of total domestic revenue, this subsector contributed 9% out of the 12% contribution of the industry sector to total domestic revenue over this period.

Over an earlier period (from 2018), this contribution has followed a spiral trend ranging from 8.17 % to 10.63% (Figure 2). Most notably, there was a drop in revenue collection in 2020 and 2022. The drop in the subsector's contribution to domestic revenue in 2020 could be associated with the downturn in economic activities during the COVID-19 outbreak which affected the Sierra Leone economy.

Figure 2: Contribution of Mining to Domestic Revenue



Source: NRA (ITAS)

Construction subsector contribution to domestic revenue

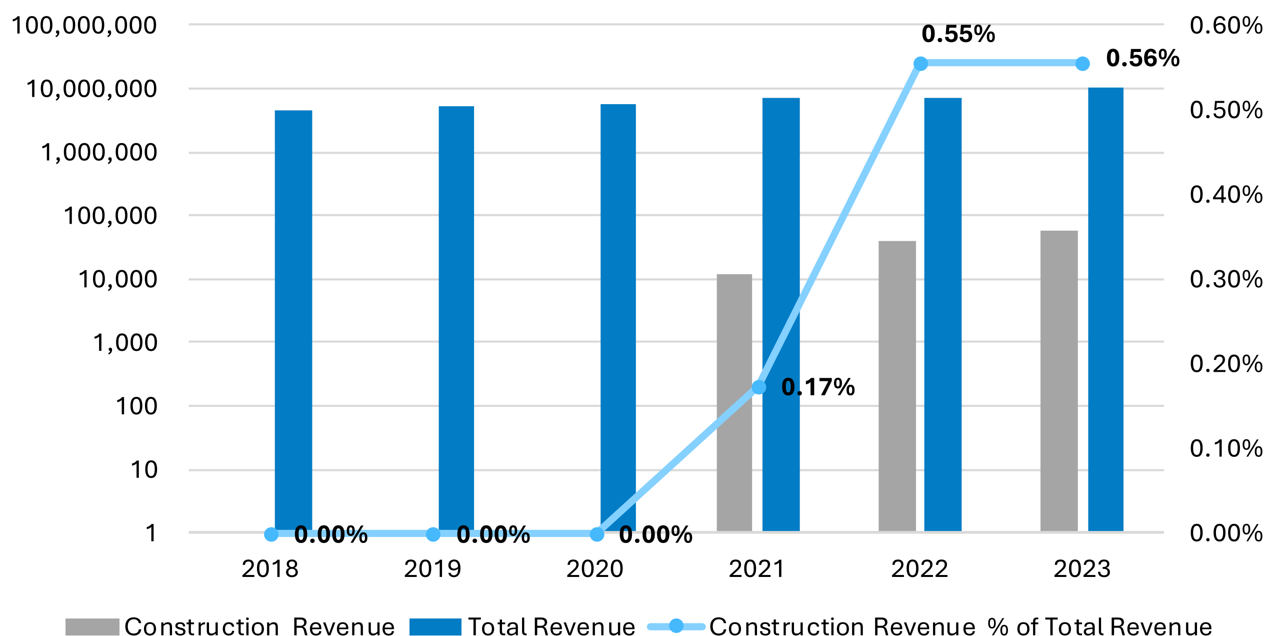
The Construction subsector has experienced notable growth in value addition, increasing from NLe3.23 billion in 2018 to NLe10.44 billion in 2023.

As a share of the Industry sector collection, the construction subsector accounts for an average of 4% over the period 2021 to 2023 (Table 9 in the Appendix).

As a share of domestic revenues, the construction subsector accounts for less than 1% of total domestic revenue collection (Table 9 in the Appendix, and Figure 3 below). However, there have been some glimpses of improvement in its contribution to total domestic revenue over the years, increasing from 0.17% in 2021 to 0.56% in 2023, even though the contribution is comparatively very low. This weak performance highlights not only the unimpressive level of compliance in the sector but also the level of tax exemptions granted to the subsector.

However, it is important to note that the rate of revenue contribution of the construction subsector (0.6% in 2023) is slower than the rate of subsector GDP contribution to total GDP (14% in 2023), implying that whilst the size of the construction subsector is expanding due to increasing projects and activities, yet, these projects tend to be increasingly exempt from paying taxes or that tax compliance in that sector tends to be weakening.

Figure 3: Contribution of Construction to Domestic Revenue



Source: NRA (ITAS)

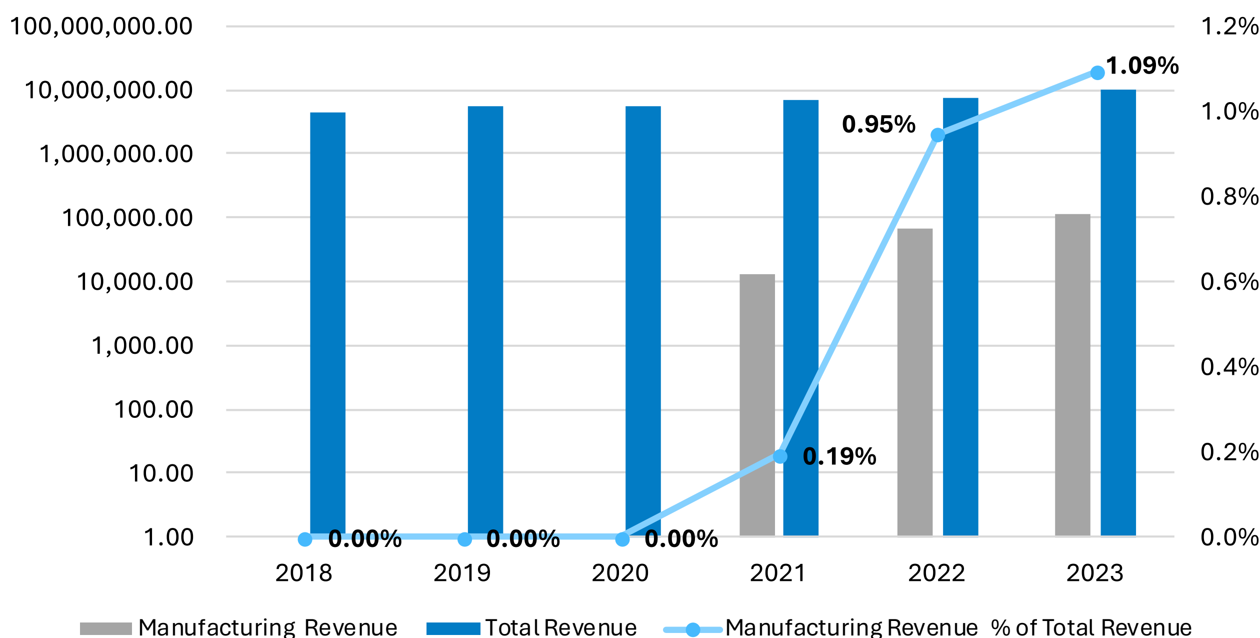
Contribution of the Manufacturing Subsector to Domestic Revenue

The manufacturing subsector's GDP grew from NLe3.56 billion in 2018 to NLe10.48 billion in 2023.

As a share of total domestic revenue, the manufacturing subsector contributes less than 1% over the period 2021-2023 (see Table 9 in the Appendix). As a share of total industry sector revenue, the manufacturing subsector's contribution is 7%, with income tax being the main contributor (65%) over the period 2021 to 2023.

Just like with the construction subsector, the manufacturing subsector's contribution to total domestic revenue over the period 2021-2023 seems to be slower compared to the subsector's GDP contribution to total GDP. This implies that despite the growing activities of the subsector, yet, the revenue yield is not commensurate due to increasing exemptions and weaker compliance in recent years.

Figure 4: Contribution of Manufacturing to Domestic Revenue



Source: NRA (ITAS)

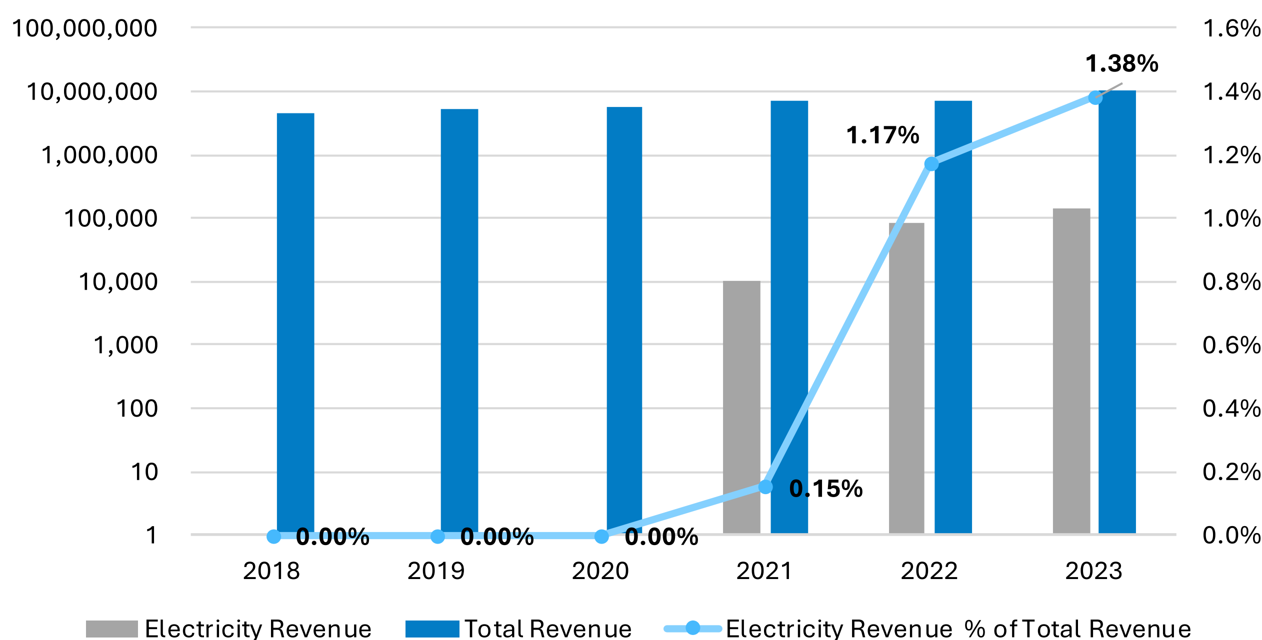
Contribution of Energy subsector (Electricity and Water Supply) to Domestic Revenue

Like other subsectors within the industrial sector, the energy/electricity subsector realised growth in GDP, although at a slower rate. Figure 5 illustrates the contribution of the electricity subsector by tax type and the contribution of the sector to domestic revenue collection. Personal income tax and corporate income tax account for over 80% of revenue generated by the electricity subsector. GST revenues are the lowest contributor to electricity revenue, although the contribution of GST has been increasing over the period under review.

As a share of total domestic revenue, revenue from the electricity subsector grew from 0.15% in 2021 to 1.38% in 2023, even though the average share remains quite low partly due to weak tax compliance and numerous tax exemptions.

As a share of industry sector revenue, the collection from electricity emerged to be 8% of total industry sector revenue over the period 2021-2023 (Table 9 in Appendix).

Figure 5: Contribution of the Electricity and Water Supply to Domestic Revenue



Source: NRA (ITAS)

6.2 Comparative Analysis of Revenue Contribution in the Industrial Sector

This section of the report looks at a comparative analysis of the subsectors in the industrial sector as shown in Figure 6. The mining subsector accounts for an average of 81% of total industrial revenue from 2021 to 2023, even though the mining subsector only accounts for an average of 24% of the Industry sector GDP. This implies the contribution of the other subsectors is comparatively very low, even though their share of GDP is higher. This also implies there has been less compliance and notable exemptions in the other subsectors.

When we further look at the share of industrial revenue to total domestic revenue mobilization from 2021 to 2023, we find that the industrial sector accounted for 10% of domestic revenue in 2021 increased to 13% in 2023, and averaged 12% of total revenue over the period. However, as the sector contributes 23% to GDP over this period, it is expected that its share of revenue to total revenue should be commensurate, but this has not been the case, as it rather contributes 12% to total domestic revenue over the same period.

Figure 6: Comparative Analysis of Revenue Collection in the industrial sector

Figure 6.1: Comparative revenue collection

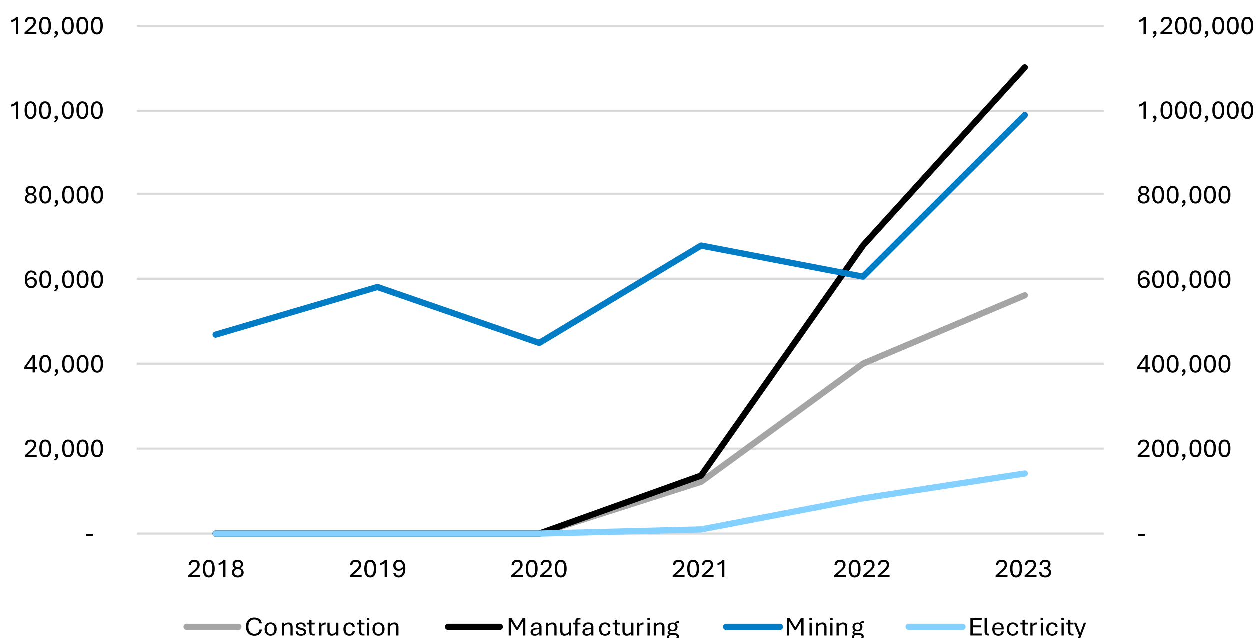
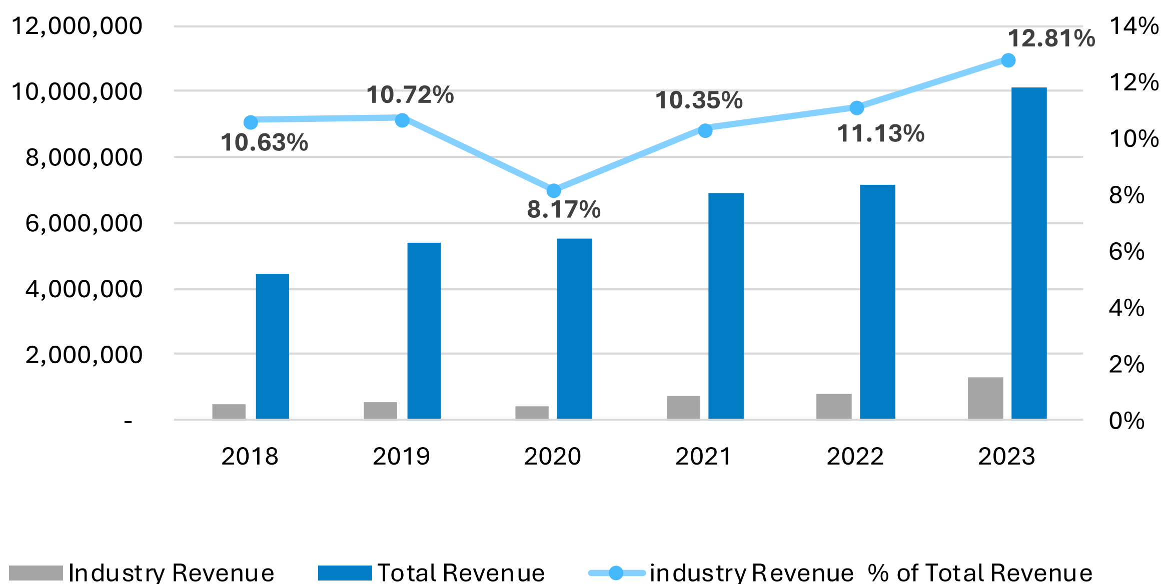


Figure 6.2: Industrial Revenue as a share of domestic Revenue



Source: NRA (ITAS)

6.3 Estimation of revenue forgone due to tax exemptions in the industry sector

Tax exemptions are benefits that are granted by governments that lower revenues and the tax liabilities of individuals/companies that benefit from them. These are policy objectives used by governments around the world to attract investment, foster innovation, and alleviate poverty. Tax exemptions are quite costly as they account for a global average of 3.8 percent of GDP and 24.2 percent of tax revenue worldwide.[27]

This section of the report looks at revenue forgone from the granting of different exemptions, either through statutory laws or through different agreements with the Government of Sierra Leone (GoSL). Tax exemptions through import duties and import GST are processed by the National Revenue Authority through duty waivers granted by the Ministry of Finance. Domestic GST estimates are derived from exempt supplies and institutional relief claims by GST-registered businesses. We therefore estimated the revenue loss associated with exempt supplies and institutional relief if these were taxed at the statutory GST rate of 15%. Where applicable, we estimate excise tax loss as obtained from the Petroleum Regulatory Agency and CIT tax loss associated with income tax exemptions.

Estimation of Foregone Mining Subsector Revenue

Revenue forgone because of exemptions granted to the mining subsector is shown in Table 10 (see appendix). Over the period 2018 to 2023, Revenue forgone relating to petroleum excise (Average NLe414 million per year) and Goods and Services (GST) (average NLe404 million per year) account for the highest share of total exemptions from the mining sector, and the forgone revenues have been increasing in recent years. This increase in foregone mining subsector revenue is notable between 2019 and 2023 as the foregone revenue rises exponentially from NLe137 million in 2019 to NLe2.45 billion in 2023. The foregone revenue from Corporate Income tax is also significant and has been increasing over the years as more exemptions are granted.

In Figure 7, we further show the contribution of forgone mining revenue to total mining revenue and total domestic revenue. As a share of total domestic revenue, revenue forgone from the mining subsector accounted for 1.20% of total revenue in 2018 but rose to 24.28% of total revenue in 2023. This spike is notable between 2020 and 2021 as exemptions increase due to the economic recovery plans of the GoSL from the COVID-19 pandemic. In addition, tax exemption as a share of GDP also follows a similar trend with the spike occurring from 2020 and 2021 due to a possible economic recovery plan with the granting of numerous tax exemptions during this period to big mining companies including those on iron ore and rutile operations.

27 GTED, Report 2022) http://www.gted.net/

Figure 7: Comparative Analysis of Mines Revenue and Revenue Forgone

Figure 7.1: Revenue forgone as a Share of Revenue and GDP

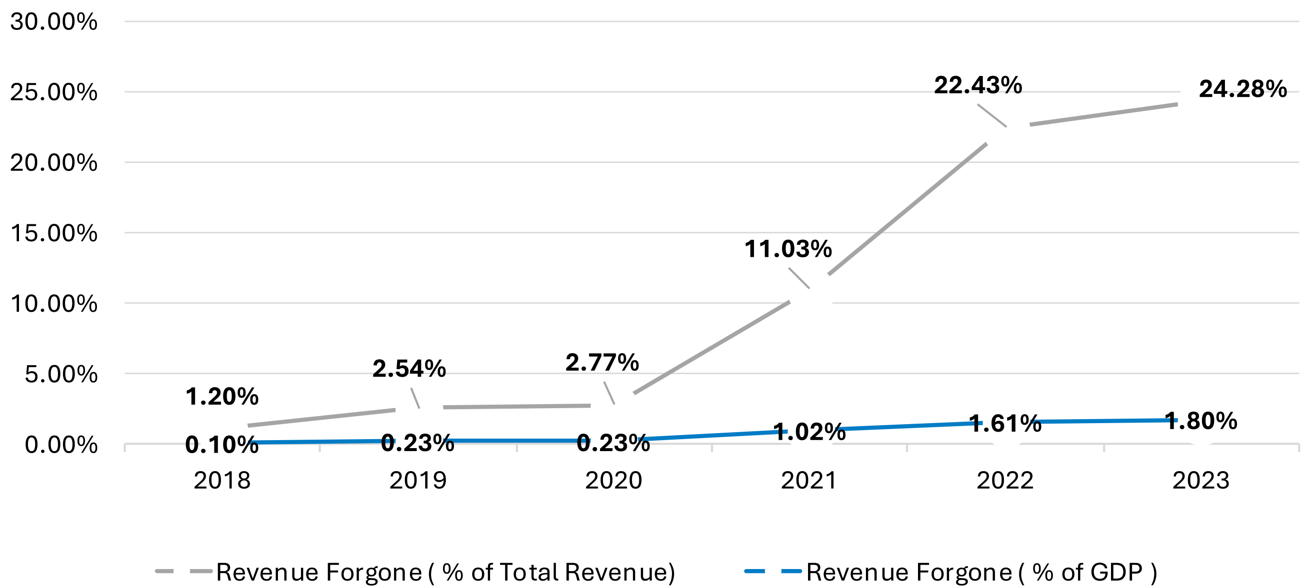
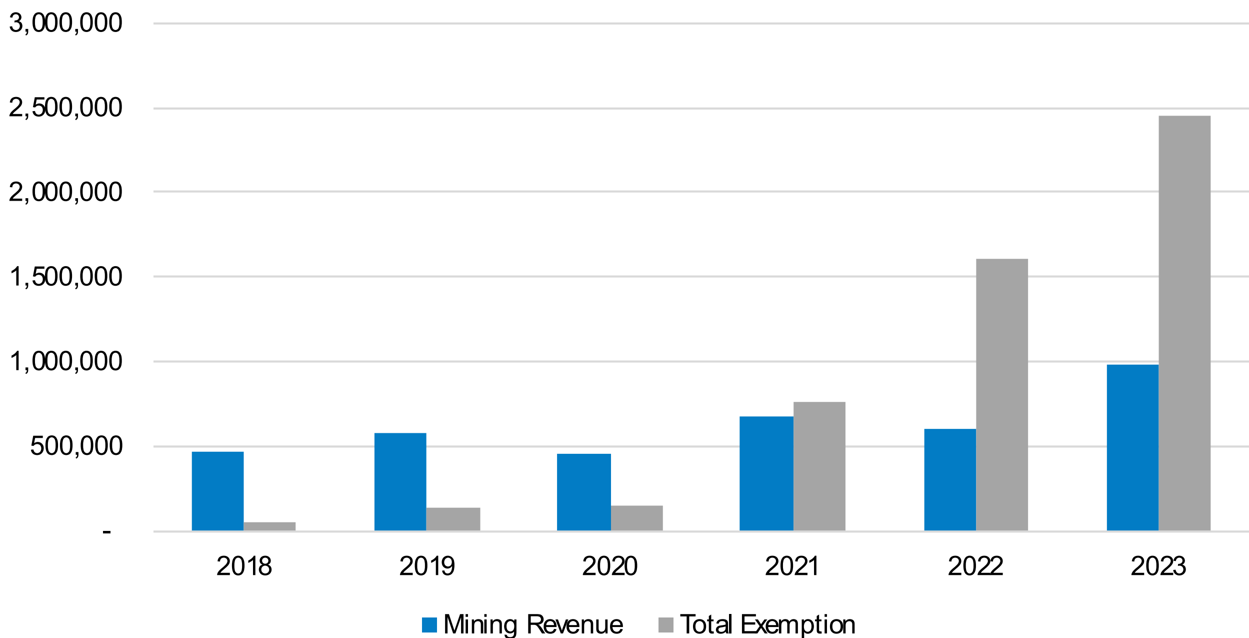


Figure 7.2: Mines Revenue/Revenue forgone from Mine Exemption



Source: NRA

When we compare the revenue contribution of the mining subsector to the revenue loss associated with the exemptions granted to the subsector (Figure 7.2), we observe that the revenue loss associated with exemption from the period 2018 to 2021 was not significant and was far lower than the actual mining revenue collected. This might be because the GoSL put a hold on all mining agreements between private entities and the GoSL in 2018. However, from 2022, revenue forgone from exemptions in the mining sector outweighed the revenue contribution from the mining sector by an average of 22.77% of mining revenue. This increase is mainly due to GST-exempt supplies which have significantly increased over the period as well as the granting of petroleum excise concessions to big mining companies in recent years.

Estimation of Forgone Construction Subsector Revenue

Revenue forgone because of tax exemptions granted to the construction subsector is also shown in Table 10 (See Appendix). Revenue forgone from the construction subsector was NLe54 million in 2018 but increased to NLe362.3 million in 2019, before decreasing in 2020 and increasing again in 2021 before reaching 451.23 million in 2023. Revenue forgone from corporate Income Tax has been the most significant, reaching as high as NLe411 million in 2023. Revenue losses from import duties and import GST have also been notable. Although revenue forgone from Domestic GST has been low compared to other tax handles, it is worth noting that it has followed an upward trend over the period under review.

With further analysis in Table 10 and Figures 8.1 and 8.2, a trend analysis of revenue forgone from the construction subsector as a share of total domestic revenue would not show a true picture due to data gaps in some years. However, the few years with data seem to point at the increasing exemptions granted by the government to construction companies particularly those doing roads and other government infrastructure. Economic activities in the construction subsector have been increasing especially with the GoSL infrastructure development plans and the free education project under which many government schools were rehabilitated and new schools constructed in remote areas of the country. Other projects in road construction and rehabilitation are also large contributors to the growth in the construction sector.

What is even worth examining is that the revenue forgone in the construction subsector is far higher than the actual revenue collected from this subsector over the period 2021-2023 (Figure 8.2).

Figure 8: Revenue forgone as a Share of Revenue and GDP

Figure 8.1: Revenue forgone as a Share of Revenue and GDP

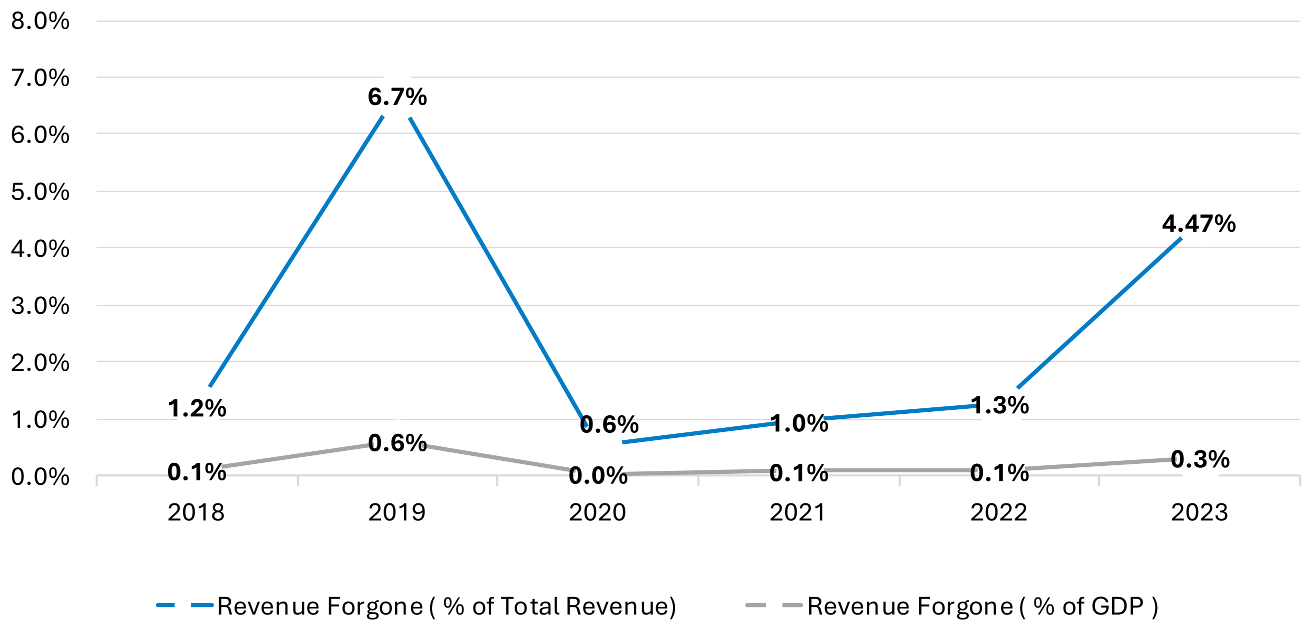
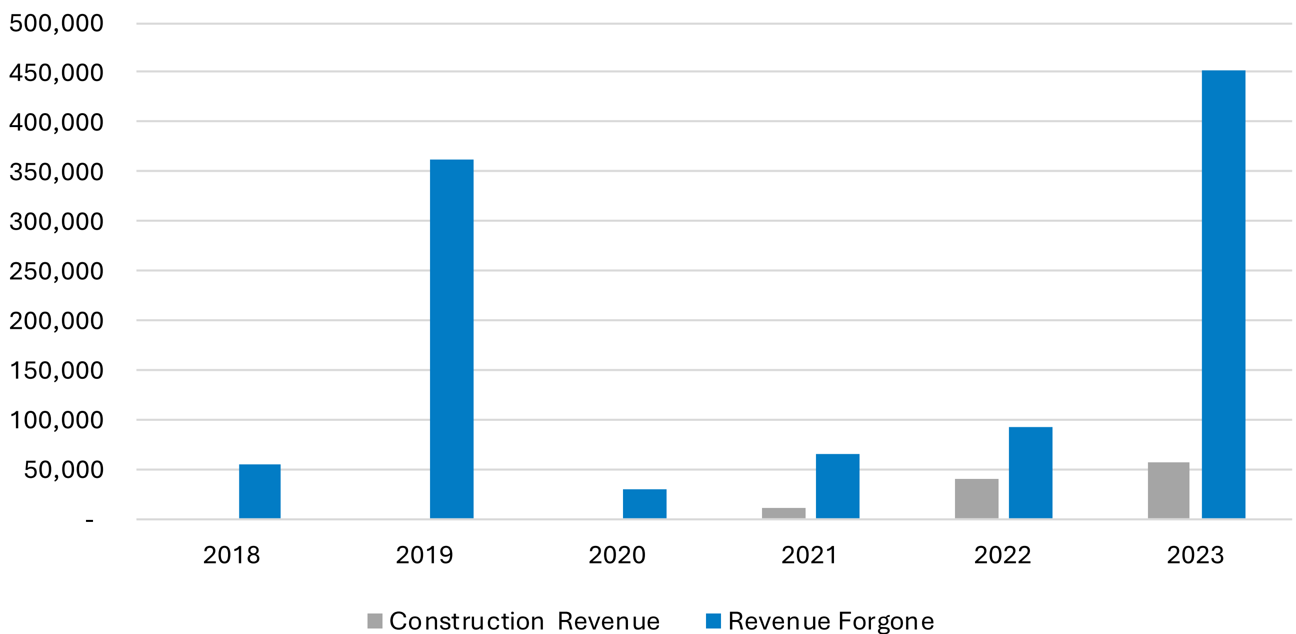


Figure 8.2: Construction Revenue VS Revenue forgone from Construction Exemption



Source: NRA

Estimation of Forgone Manufacturing Subsector Revenue

The manufacturing subsector has over the years proved to be a crucial subsector of the economy, especially for the GoSL's sustainable development agenda in ensuring food sufficiency and boosting domestic production of goods and services. Table 10 (see Appendix) provides a detailed analysis of estimated revenue forgone for the manufacturing subsector. As shown in Table 10, the revenue loss associated with tax exemptions in this subsector has followed an upward trend since 2018 growing from NLe7.0 million to NLe324 million in 2023, with the most notable revenue losses seen in 2022 and 2023, when it peaked in NLe324 million. Exemptions in import duties and import GST (especially in recent years) account for a larger share of revenue forgone from the manufacturing subsector, although CIT exemptions have also been substantial in recent years.

As a share of total domestic revenue, the revenue foregone from the manufacturing subsector showed a progressive trend from 2020 through 2023 (Figure 9.1). This is also the case for revenue forgone in the manufacturing subsector as a share of GDP. Similar to the situation in the construction subsector, revenue foregone in the manufacturing subsector has been by far higher than the actual revenue collected over the period (Figure 9.2).

Figure 9: Revenue forgone as a Share of Revenue and GDP

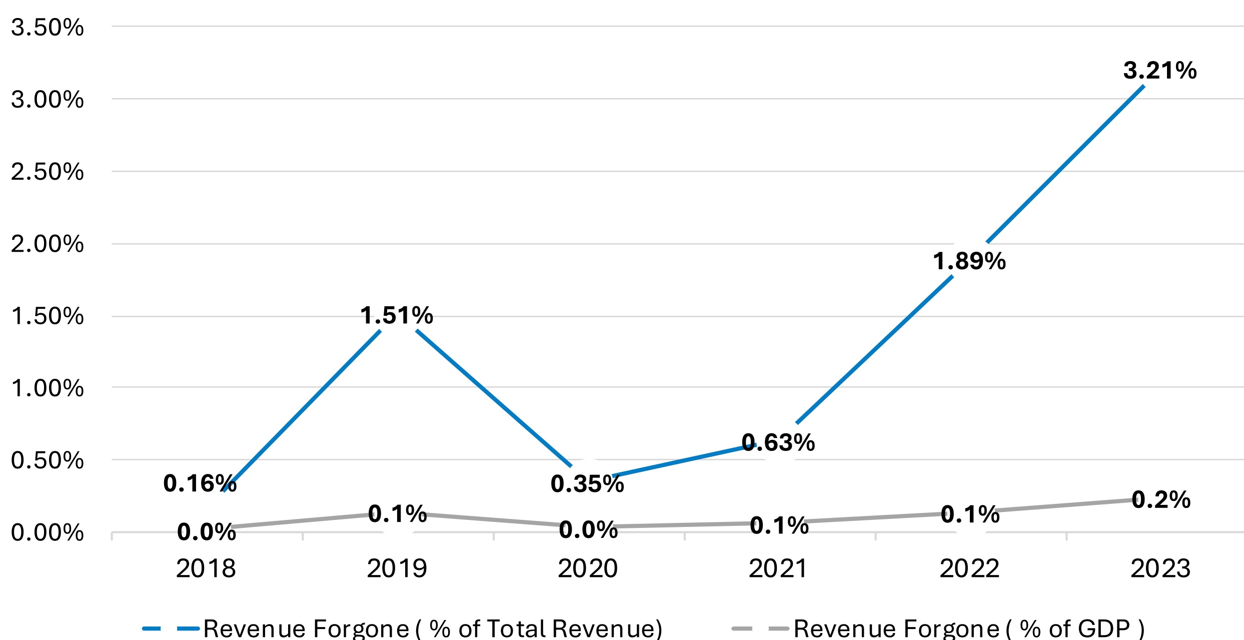
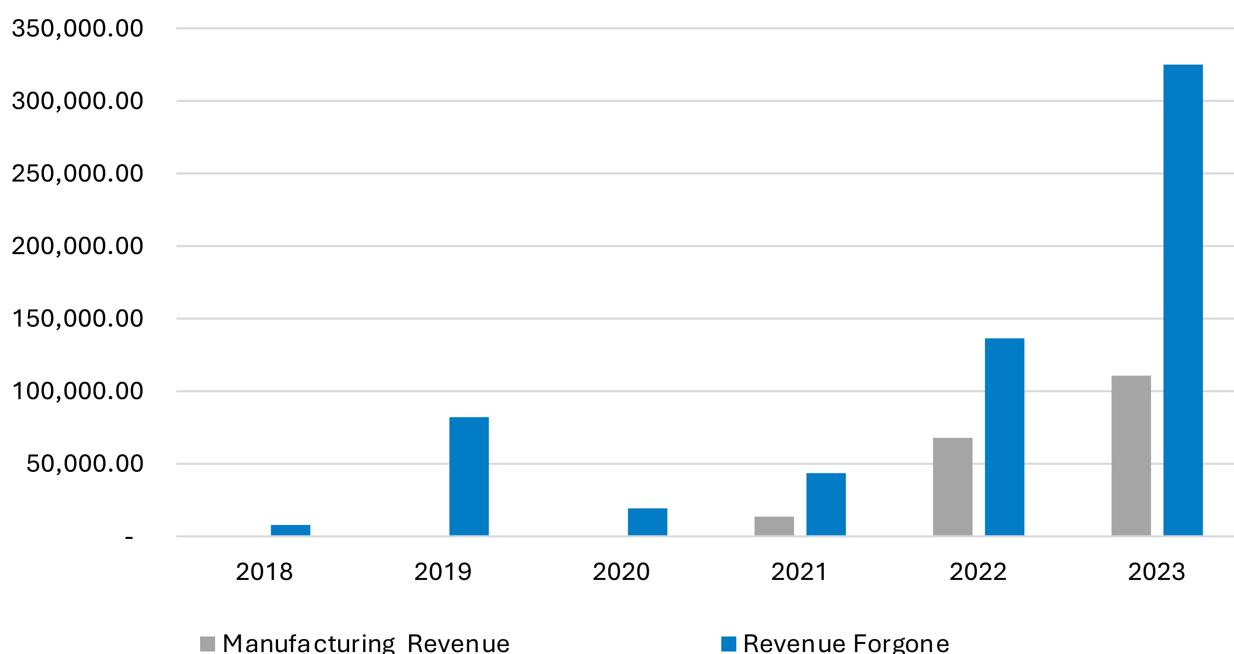


Figure 9.2: Manufacturing Revenue/Revenue forgone from Manufacturing Exemption



Source: NRA

Estimation of Energy Subsector (Electricity) Forgone Revenue

Electricity generation and distribution has over the years been a challenge for the GoSL, especially in remote areas of the country. As a result, the GoSL has granted incentives to the sector especially in renewable energy production and distribution. Table 10 (see Appendix) also provides an analysis of the revenue losses associated with the granting of tax exemptions to the electricity subsector.

Revenue losses from the electricity due to tax exemptions have been significant, especially in recent years, and peaking at NLe320 million in 2023. Revenue forgone from import duties and import GST exemption account for the larger share of total exemption granted to the electricity, although CIT exemptions have shown a substantial amount in 2023. GST Exemption from import increase significantly between 2022 and 2023.

With further analysis of the revenue losses as a share of domestic revenue and as a share of GDP (Figures 10.1 and 10.2), we observed that revenue forgone as a share of domestic revenue increased exponentially from 2021 to 2023. Revenue forgone as a share of GDP has also followed a similar trend.

When we further compare revenue losses to revenue generated in the subsector as shown in Figure 10.2, we find that revenue losses were higher than actual collected revenue, being consistent with what we saw with other subsectors of the industry sector.

Figure 10: Revenue forgone as a Share of Revenue and GDP

Figure 10.1: Revenue forgone as a Share of Revenue and GDP

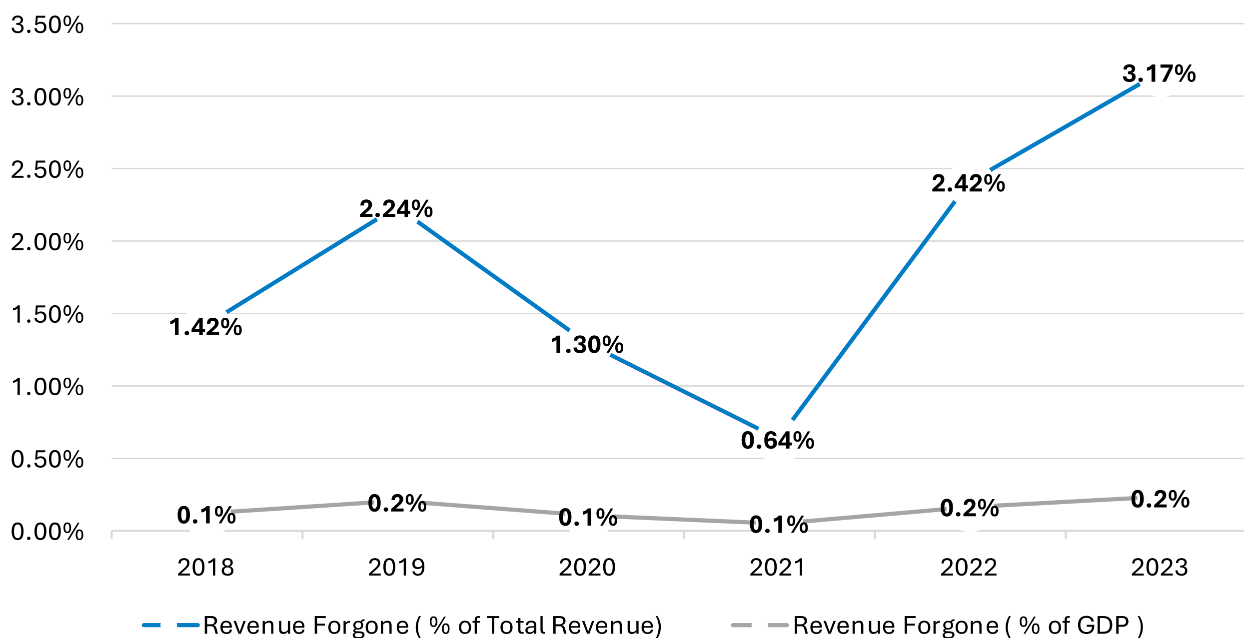
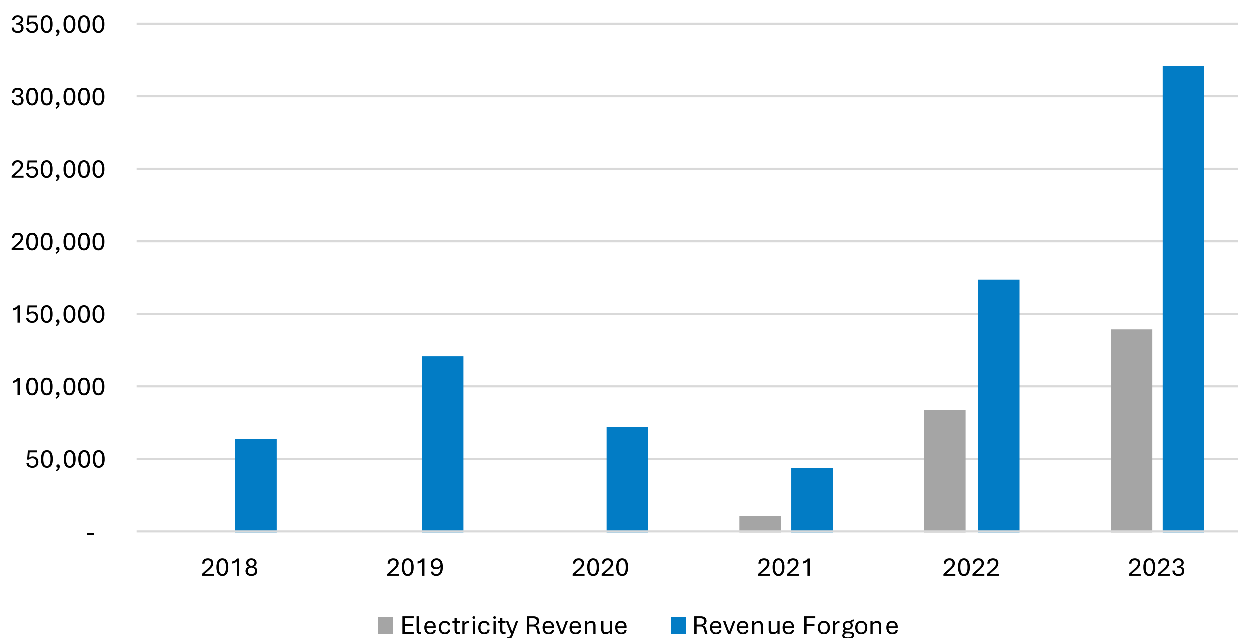


Figure 10.2: Electricity Revenue/Revenue forgone from Electricity Exemption



Source: NRA

6.4 Comparative Analysis of Tax Exemptions by Sector

This section of the report provides a comparative analysis of the sub-sectors of the industrial sector. Revenue forgone from the four sub-sectors has been increasing since 2018, from NLe177 million to NLe3.5 billion in 2023 (Table 11 see Appendix).

On average over the period 2018 to 2023, the mining subsector contributed 71% of the total revenue loss from the industry sector, which is by far the highest of the other subsectors. The manufacturing subsector has the lost share at 8% of total revenue forgone from the Industry sector over the period.

As a share of total domestic revenue, the revenue forgone in the Industry sector increased from 4.01% in 2018 to as high as 35.13%, as shown in Table 11 and Figure 11.2. Revenue forgone as a share of GDP followed a similar trend as it increased from 0.35% in 2018 to 2.60% in 2023.

Figure 11: Revenue foregone as a share of Domestic Revenue and GDP

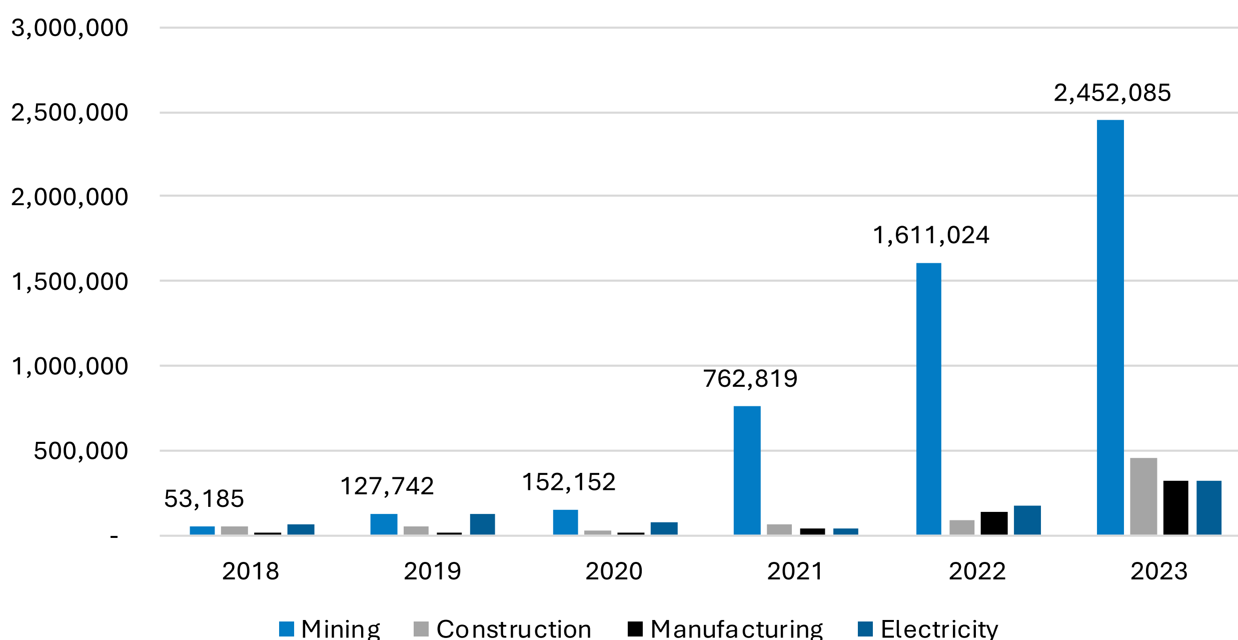
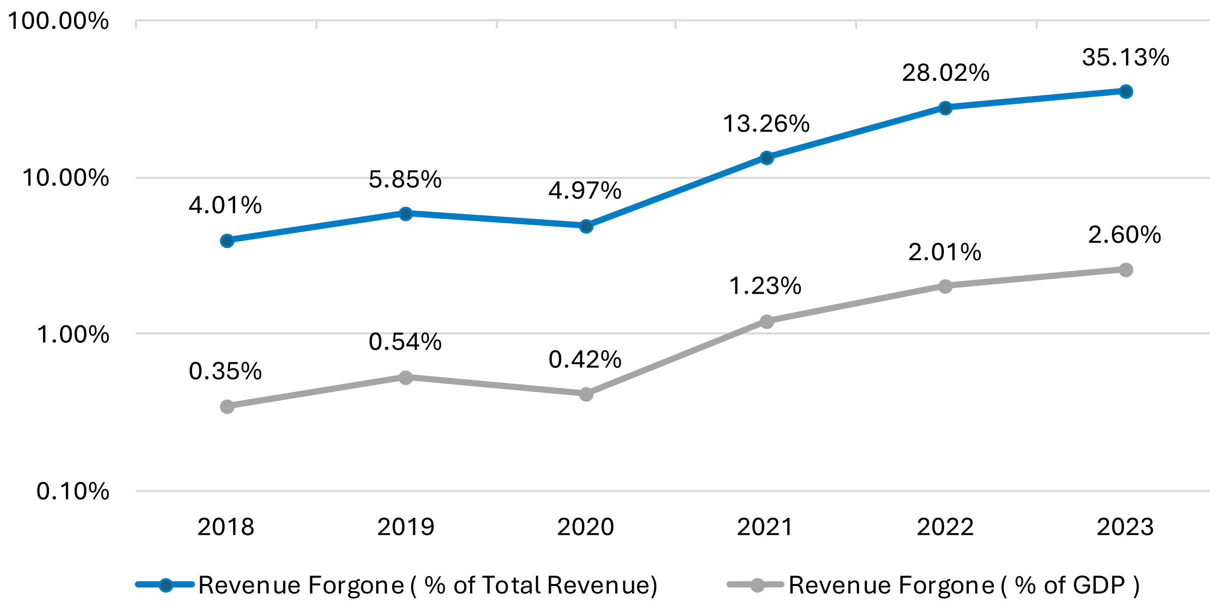
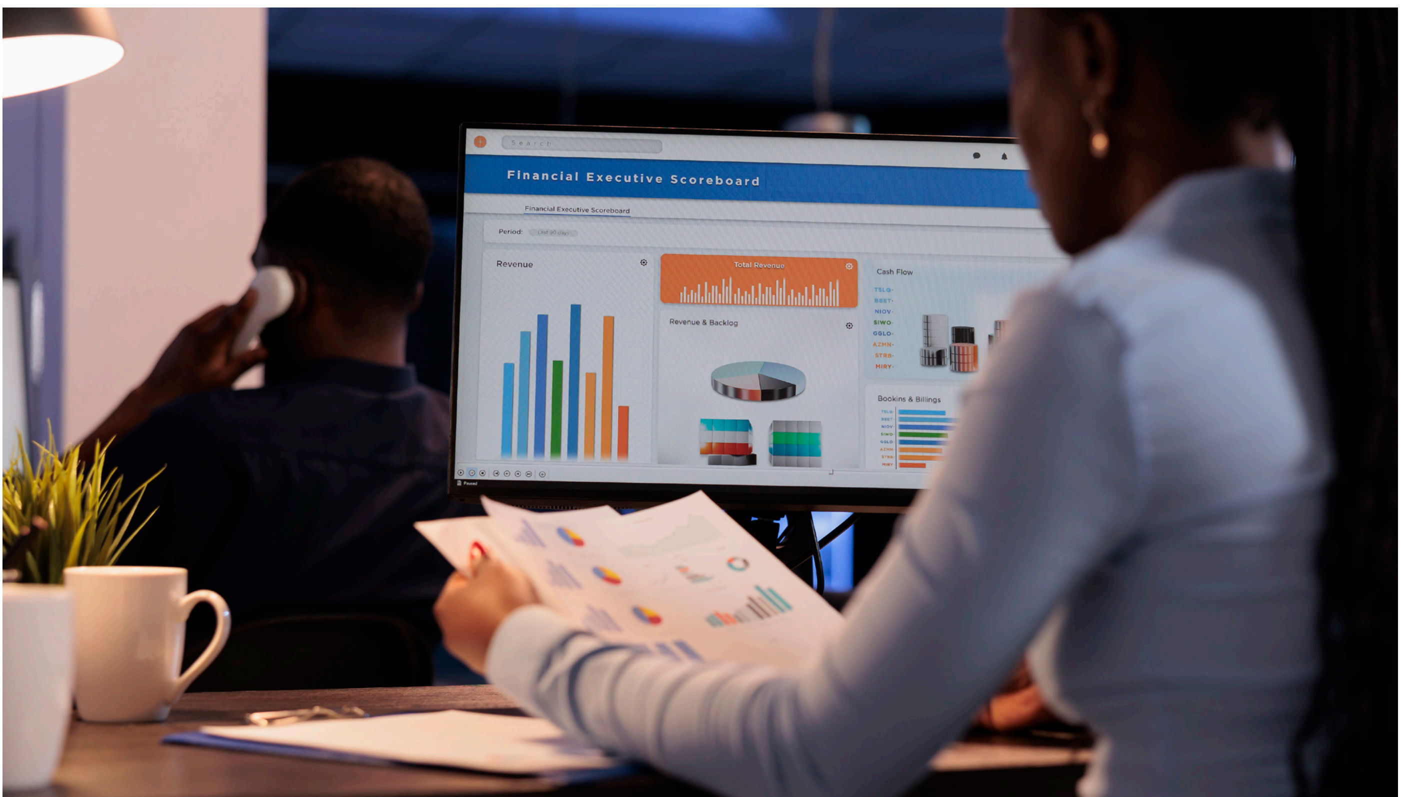


Figure 11.2: Revenue foregone as a share of Domestic Revenue and GDP



Source: NRA

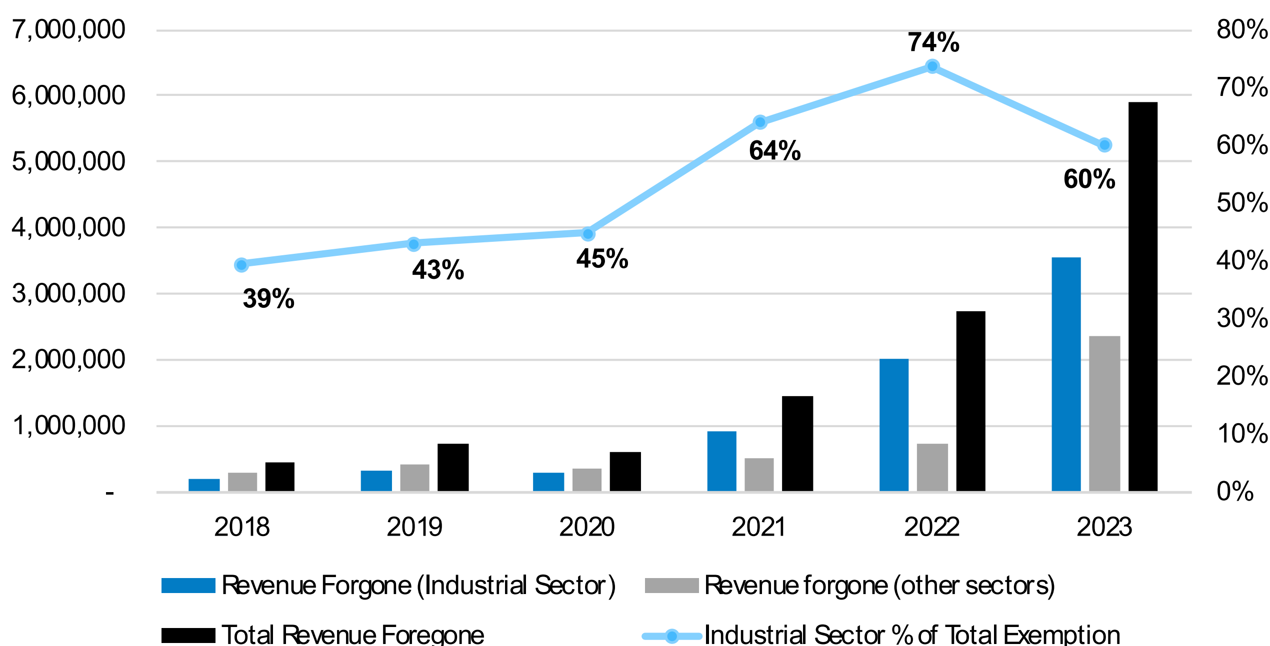


6.5 Comparison of exemptions in the industry sector vs. other sectors

The analysis in Table 12 (See Appendix) and Figure 12 provided in this section offers an insight into the revenue losses associated with tax exemptions in the industrial sector and other sectors of the economy combined using data from tax exemption computation from the NRA, highlighting the growth rate in revenue forgone and the percentage changes in revenue forgone in the industrial sector compared to other sectors of the economy.

The industrial sector has benefited from tax exemptions with revenue foregone increasing from NLe177 million in 2018 which accounted for 39.36% of total revenue forgone through tax exemptions to NLe3.5 billion in 2023 which accounted for 60.08% of total revenue forgone through tax exemptions.

Figure 12: Revenue forgone by the Industrial Sector



Source: NRA

This analysis shows that the industry sector has increasingly been the most favored sector of the economy in recent times to benefit from tax exemptions as the share increased from 39% to 60% in 023 and even peaked at 74% in 2022. On average, the industry sector had as high as 61% of the total revenue loss over the period 2018 to 2023, making it the predominantly exempted sector of the economy.

CHAPTER

07

Conclusion and Recommendations for Streamlining Tax Incentives in Sierra Leone

7.1 Conclusion

This study examined the landscape of tax incentives in Sierra Leone, specifically focusing on their implications for revenue mobilisation in the industrial sector from 2018 to 2023. Tax incentives have played a vital role in attracting investment, fostering industrial growth, and stimulating economic recovery. Historically, Sierra Leone has relied on tax holidays, duty exemptions, and investment reliefs, which have contributed to the rebuilding of key sectors such as the industry, and agriculture. However, despite these benefits, significant challenges—such as revenue leakages, administrative inefficiencies, and discretionary exemptions—have hindered the full potential of these incentives. A strategic approach to tax policy—one that emphasizes efficiency, accountability, and alignment with national priorities—will be essential for Sierra Leone to maximise its revenue potential while fostering sustainable economic development. The findings provide valuable insights for policymakers, offering a roadmap to navigate the challenges of tax incentives in a rapidly evolving economic environment.

7.2 Summary of Key Findings

Several key findings emerged from the analysis:

Growth of the Industrial Sector

The industrial sector in Sierra Leone has demonstrated remarkable growth over the past five years, with the Gross Domestic Product (GDP) of the sector increasing from 8.9 trillion Leones in 2018 to 35.6 trillion Leones in 2023. This expansion has been primarily driven by the mining and quarrying subsectors, alongside significant contributions from the construction sector. Despite this growth, the share of the industrial sector in domestic revenue collection has been variable, peaking at 13% in 2023 after experiencing declines due to external shocks such as the COVID-19 pandemic.

Contribution of Subsector Revenue

The mining subsector consistently dominated domestic revenue, contributing 82% of total industrial revenue from 2021 to 2023. However, revenue collection has often fallen short during economic downturns. The construction sector contributed, on average, less than 1% to total domestic revenue, highlighting significant compliance issues and the extensive tax exemptions afforded to this subsector. The manufacturing subsector, while contributing less initially, has increased its share, indicating potential for future growth. The electricity and water supply subsector, while also growing, remains a minor contributor to domestic revenue, demonstrating the need for enhanced strategies to improve its revenue-generating potential.

Revenue Forgone Due to Tax Exemptions

Tax exemptions granted to the industrial sector have resulted in substantial revenue losses, with total exemptions increasing from 69 billion Leones in 2018 to 1.5 trillion Leones in 2023. The mining subsector has emerged as the largest beneficiary of these exemptions, particularly through GST-

exempt supplies, which skyrocketed from 35 million Leones in 2018 to 1.2 trillion Leones in 2023. This trend emphasizes the government's reliance on tax exemptions as a means to stimulate investment while also revealing the potential for significant revenue loss. The comparison of revenue forgone across subsectors highlights that while tax exemptions may be aimed at promoting growth, they often lead to a decrease in the actual revenue that could be mobilized for national development. For instance, revenue forgone from mining activities outweighs mining revenue by 23%, showcasing an alarming trend where tax incentives do not yield proportional economic benefits.

Favorability of Tax Exemptions in the Industry Sector

The analysis revealed that tax exemptions have disproportionately favored the industrial sector, with revenue forgone growing from 15% of total domestic revenue in 2018 to 43% in 2023.

Further, it is also realised that the mining subsector accounts for an average of 81% of total industrial revenue from 2021 to 2023, even though the mining subsector only accounts for an average of 24% of the Industry sector GDP. This implies the contribution of the other subsectors is comparatively very low, even though their share of GDP is higher. This also implies there has been less compliance and notable exemptions in the other subsectors.

Increasing tax exemptions and weaker compliance in the industry sector compared to its increasing growth rate in recent years.

Revenue collection from the industry sector is not growing at the same pace as the GDP of the sector, implying that the increased activities or projects in the sector in recent years have either benefited from increased tax exemptions or have been less compliant in paying their due taxes.

Lack of transparency

The current tax incentive framework is characterized by a lack of transparency. Numerous exemptions have been granted without sufficient monitoring or evaluation, leading to potential misuse and significant revenue losses.

Lack of Performance Monitoring

The absence of systematic performance reviews for existing incentives has hindered the government's ability to assess their effectiveness and align them with broader economic objectives.

Need for Greater Accountability

A significant gap in accountability was identified regarding the implementation and reporting of tax incentives. Mechanisms to ensure that incentives are granted based on merit and align with national development goals are urgently needed.

7.3 Implications for Policy

The findings of this study suggest that while tax incentives may stimulate growth in specific sectors, they require careful evaluation and monitoring to ensure that they do not undermine the broader fiscal framework. Policymakers must strike a balance between providing incentives to attract investment and maintaining a robust revenue base to fund essential public services and infrastructure.

Reassessment of Tax Exemption Policies:

The government should conduct a comprehensive review of existing tax incentives and exemptions to evaluate their effectiveness in achieving desired economic outcomes. This review should focus on eliminating unnecessary exemptions that do not contribute to meaningful growth or revenue generation. Those that remain should be targeted and strategically aligned with economic growth objectives.

Incentives for Sustainable Development:

Future tax incentives should be aligned with national development goals, particularly those related to sustainable growth, innovation, and job creation. By targeting sectors that contribute significantly to social and economic development, the government can enhance the positive impact of tax incentives.

Engagement with Stakeholders:

Active engagement with stakeholders—including the private sector, civil society, and international partners—is essential for fostering a collaborative environment that promotes transparent and accountable tax incentive policies.

Enhanced Compliance Measures:

Strengthening compliance within the industrial sector is vital to improving revenue mobilisation. This could include the introduction of stricter regulations, regular audits, and capacity-building initiatives for tax officials and businesses. Enhancing the capacity of institutions like the NRA, MoF, and other stakeholders is important. A well-resourced and skilled workforce will be vital for implementing reforms effectively and enforcing compliance.

7.4 Limitations and Assumptions

- Reliance on Secondary Data: The study primarily used secondary data sources, which limited the ability to assess real-time policy impacts and track recent developments.
- Data Availability Issues: There were gaps in exemption data for certain years, which affected the continuity and depth of the analysis. The absence of comprehensive exemption data for some periods may have constrained the study's ability to fully estimate the fiscal impact of incentives.
- Assumptions on Exemption Efficiency: The study assumes that the impact of tax exemptions on the industrial sector can be quantified using available data. However, certain long-term effects—such as the broader economic benefits of investments driven by tax incentives—may not be fully reflected within the study period.
- Underestimation and underreporting of domestic tax exemptions: the value of domestic tax exemptions estimated in this study has been based on that filed in the ITAS by registered beneficiaries of tax exemptions. This implies, that if beneficiary taxpayers do not file in the ITAS, their tax exemptions are not reported. Based on compliance statistics extracted from the ITAS, a considerable number of large and medium beneficiary taxpayers of income tax and GST exemptions do not file their tax returns, thus leading to underreporting of the tax exemptions granted to or benefited by these taxpayers.

7.5 Recommendations for Possible Policy Reforms

Despite these limitations, the study offers a solid framework for assessing the effectiveness of tax exemptions in Sierra Leone's industrial sector and provides realistic recommendations for policy reforms.

1. Establish a Clear Legal Framework and Centralised Oversight

1.1 Codification of Incentives in Primary Legislation

Specify all tax incentives within a unified legal framework. This will ensure transparency and limit discretionary powers.

1.2 Establishment of a Centralised Incentive Management Body

Create a Tax Incentive Oversight Committee under the Ministry of Finance, in collaboration with other MDAs. This committee will oversee the approval, monitoring, and reporting of all tax incentives, develop comprehensive guidelines for assessing applications, and publish periodic reports on beneficiaries and the costs of incentives granted.

1.3 Joint Capacity Building

Conduct joint training sessions for staff from different agencies to ensure a consistent understanding and application of tax incentive policies.

1.4 Alignment with National Development Goals

Ensure that tax incentives are granted based on alignment with key sectors in the government's development strategy. Sectors that do not contribute significantly to the economy should be excluded from incentive schemes.

2. Conduct Periodic Impact Assessments

2.1 Periodic Reviews

Implement a systematic approach to evaluate the economic impact of existing incentives through regular assessments focused on job creation, revenue generation, and compliance levels. All incentives should be subject to performance reviews, with those failing to meet benchmarks being restructured or discontinued. New incentives must undergo a cost-benefit analysis before enactment to estimate potential fiscal impact, with results presented to Parliament for transparency.

2.2 Stakeholder Feedback

Engage with businesses and industry stakeholders to gather feedback on the effectiveness of current incentives to inform necessary adjustments.

3. Adopt a Performance-Based Incentive Structure

3.1 Conditional Incentives

Link tax benefits to specific performance outcomes, such as meeting investment thresholds, technology-transfer conditions, job creation targets, or sustainable practices.

3.2 Monitoring Mechanisms

Implement robust monitoring systems to track compliance with performance conditions. Establish data-sharing mechanisms among the National Revenue Authority (NRA), industry regulators, and stakeholders to mitigate the risk of technical smuggling.

4. Simplify the Application Process

4.1 Clear Guidelines

Provide accessible guidelines outlining the application process, eligibility criteria, and required documentation to facilitate understanding.

4.2 Introduction of a Time-Bound Exemption Regime

Limit the duration of exemptions to a maximum of 5 years, with strict renewal criteria based on performance indicators such as local job creation or export capacity. This will promote sustainability.

5. Streamlining Special Incentives for the Industrial Sector

In light of the study's focus on the industrial sector, specific reforms are needed to ensure that exemptions targeting this sector yield optimal results.

5.1 Targeted Incentives for High-Impact Industries

Prioritize incentives for industries with high potential for job creation, value addition, and exports. Provide tailored incentives such as accelerated depreciation or reduced corporate tax rates rather than blanket exemptions.

5.2 Phased Reduction of Blanket Exemptions

Gradually phase out industry-wide exemptions prone to abuse, replacing them with performance-based tax credits.

5.3 Encouraging Technology Adoption and Innovation:

Provide additional incentives for industries adopting green technologies or meeting international standards in production efficiency and sustainability, which will position Sierra Leone to attract investments in emerging sectors like renewable energy.

6. Incorporate Transparency and Accountability Measures

6.1 Public Reporting

This requires businesses benefiting from tax incentives to publicly report on their activities and contributions to economic development thereby fostering accountability.

6.2 Publication of an Annual Tax Expenditure Report

The government should publish annual reports detailing the total cost of all incentives granted and their economic impact, comparing actual outcomes with projections from cost-benefit analyses.

6.3 Public Database of Incentive Beneficiaries

Develop an online database listing all beneficiaries of tax incentives and the corresponding value of exemptions received, enabling scrutiny from civil society organizations, researchers, and the public.

6.4 Independent Audits

Implement independent audits of tax incentive programs to evaluate their effectiveness and ensure compliance with established criteria.

6.5 Stakeholder Engagement and Parliamentary Oversight

Engage stakeholders such as the private sector, civil society, and academia in formulating and reviewing tax incentive policies to ensure inclusiveness. Strengthen parliamentary oversight through training, information disclosure, and oversight funding.

7. Strengthening Revenue Mobilisation through International Cooperation

Addressing the issue of tax incentives requires collaboration with regional and international partners to harmonize practices and prevent harmful tax competition.

7.1 Regional Harmonization of Tax Incentive Policies

Collaborate with ECOWAS and other regional bodies to develop a regional code on tax incentives to avoid harmful competition and create a level playing field.

7.2 Adopting International Best Practices

Align Sierra Leone's incentive regime with best practices recommended by the IMF, World Bank, and OECD, and limiting incentives to areas with proven economic externalities.

7.6 Recommendations for Future Research

While this study provides valuable insights into tax incentives and exemptions in Sierra Leone, it highlights areas for further research:

1. Impact Assessment of Existing Incentives

Future research should focus on comprehensive impact assessments of current tax incentives on economic growth, investment, and revenue mobilisation, using empirical data to measure their effectiveness.

2. Detailed Comparative Studies

Conducting detailed comparative studies of tax incentive regimes in similar economies can provide valuable lessons on best practices and pitfalls to avoid, informing Sierra Leone's approach to tax policy reform.

3. Longitudinal Analysis

A longitudinal analysis of the impact of tax incentives and other reforms is key for understanding their long-term effects on the economy and revenue collection.

7.7 Final Thoughts

Streamlining tax incentives and exemptions in Sierra Leone is not just a fiscal necessity but a pivotal step towards fostering a more equitable and competitive economic environment. The recommendations outlined in this study aim to provide a roadmap for policymakers to enhance transparency, accountability, and efficiency in the tax incentive framework. By adopting a more strategic approach, Sierra Leone can unlock the potential of its industrial sector, attract responsible investments, and ultimately achieve sustainable economic development.

As the government embarks on these reforms, it is essential to recognize that successful implementation will require not only political will but also the active participation of all stakeholders in the economy. With concerted efforts and a commitment to transparency, Sierra Leone can build a resilient tax system that supports long-term growth and development.

APPENDIX

Table 9:Revenue Collection by Sector 2018 – 2023

TABLE 9: REVENUE COLLECTION BY SECTOR 2021 -– 2023 (AMOUNT IN THOUSAND NEW LEONES)						
Mines						
Year	**2021**	**2022**	**2023**	**Ave (2021-23)**	**Share of Total Industry Sector Revenue**	**Share of Total Domestic Revenue**
Non-Tax (royalties and licences)	522,749	414,292	671,472	536,171		
Income Tax Revenue (ITR)	150,880	159,545	230,378	180,268		
Goods and Services Tax (GST)	803	3,872	18,049	7,575		
Customs and Excise Department	5,457	29,695	68,191	34,448		
Total Mines Revenue	679,888	607,405	988,090	758,461	81%	9%
Manufacturing						
Company Income Tax	2,406	5,601	7,561	5,189		
Personal Income Tax	3,754	15,726	23,665	14,382		
Goods and Services Tax	7,213	46,706	79,026	44,315		
Total Manufacturing Revenue	13,373	68,033	110,252	63,886	7%	1%
Construction						
Company Income Tax	2,487	9,463	18,403	10,118		
Personal Income Tax	8,137	20,609	28,296	19,014		
Goods and Services Tax	1,436	9,783	9,435	6,885		
Total Construction	12,059	39,855	56,134	36,016	4%	0%
Electricity						
Company Income Tax	6,257	39,728	47,381	31,122		
Personal Income Tax	3,071	32,411	51,822	29,101		
Goods and Services Tax	1,169	12,025	40,242	17,812		
Total Electricity	10,496	84,164	139,444	78,035	8%	1%
Grand Total Industry Revenue	715,816	799,457	1,293,920	936,398	12%	

Total Domestic Revenue	6917104	7182684	10100463	8,066,750		

Source: NRA

Table 10:Industrial Sector Tax Exemptions Analysis 2018-2023

TABLE 10: INDUSTRIAL SECTOR TAX EXEMPTIONS ANALYSIS 2018-2023 (AMOUNT IN MILLIONS LEONES)						
Mining						
Category	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Revenue Forgone	53,185	137,635	152,152	762,819	1,611,024	2,452,085
Import Duties	3,199	3,012	3,996	7,392	13,382	10,465
Import GST	2,929	2,580	3,415	10,474	13,355	10,718
Domestic GST	820	43	18	401,778	782,756	1,197,505
Petroleum Excise	46,238	122,107	144,722	323,150	746,223	1,098,676
CIT	-	9,894	-	20,025	55,309	134,722
Growth Rate of Forgone Revenue		158.8	10.5	401.4	111.2	52.2
Revenue Forgone (% of Total Revenue)	1.20%	2.54%	2.77%	11.03%	22.43%	24.28%
Revenue Forgone (% of GDP)	0.10%	0.23%	0.23%	1.02%	1.61%	1.80%
Construction						
Category	2018	2019	2020	2021	2022	2023
Revenue Forgone	54,279	362,505	30,434	66,492	91,906	451,233
Import Duties	26,563	19,495	12,372	25,329	22,526	18,873
Import GST	26,920	29,986	17,402	30,031	27,135	17,191
Domestic GST	796	657	660	1,095	4,912	3,423
CIT	-	312,367	-	10,036	37,332	411,746
Growth Rate of Forgone Revenue		571.3	-91.6	117.8	38.4	393.8
Revenue Forgone (% of Total Revenue)	1.2%	6.7%	0.6%	1.0%	1.3%	4.47%
Revenue Forgone (% of GDP)	0.1%	0.6%	0.0%	0.1%	0.1%	0.3%
Manufacturing Sector						
Category	2018	2019	2020	2021	2022	2023
Revenue Forgone	7,044	82,049	19,094	43,802	135,796	324,405
Import Duties	3,318	6,722	5,457	13,630	48,708	97,336

TABLE 10: INDUSTRIAL SECTOR TAX EXEMPTIONS ANALYSIS 2018-2023 (AMOUNT IN MILLIONS LEONES)						
Import GST	2,746	7,847	9,453	26,774	70,456	137,816
Domestic GST	980	3,243	4,183	2,543	2,961	14,371
CIT	-	64,236	-	855	13,672	74,882
Growth Rate of Forgone Revenue		1064.8	-76.7	129.4	210.0	138.9
Revenue Forgone (% of Total Revenue)	0.16%	1.51%	0.35%	0.63%	1.89%	3.21%
Revenue Forgone (% of GDP)	0.0%	0.1%	0.0%	0.1%	0.1%	0.2%
			Electricity			
Category	2018	2019	2020	2021	2022	2023
Revenue Forgone	63,050	121,343	71,588	44,324	173,520	320,525
Import Duties	25,865	51,540	30,407	18,358	85,489	97,604
Import GST	37,183	69,546	37,494	25,149	81,509	159,742
Domestic GST	3	258	3,688	2	5,059	663
CIT	-	-	-	816	1,463	62,516
Growth Rate of Forgone Revenue		92	-41	-38	291	85
Revenue Forgone (% of Total Revenue)	1.42%	2.24%	1.30%	0.64%	2.42%	3.17%
Revenue Forgone (% of GDP)	0.1%	0.2%	0.1%	0.1%	0.2%	0.2%

Source: NRA

Table 11:Industrial Sector Tax Exemptions Analysis 2018-2023

TABLE 11: INDUSTRIAL SECTOR TAX EXEMPTIONS ANALYSIS 2018-2023 (AMOUNT IN THOUSAND NEW LEONES)								
Category	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**Ave (2018-2023)**	**% of Industry Losses)**
Revenue Forgone	177,558	317,036	273,269	917,437	2,012,246	3,548,248	1,207,632	
Mining	53,185	127,742	152,152	762,819	1,611,024	2,452,085	859,835	71%
Construction	54,279	50,138	30,434	66,492	91,906	451,233	124,080	10%
Manufacturing	7,044	17,813	19,094	43,802	135,796	324,405	91,326	8%
Electricity	63,050	121,343	71,588	44,324	173,520	320,525	132,392	11%
Growth Rate of Forgone Revenue		78.6	-13.8	235.7	119.3	76.3		
Revenue Forgone (% of Total Revenue)	**4.01%**	**5.85%**	**4.97%**	**13.26%**	**28.02%**	**35.13%**		
Revenue Forgone (% of GDP)	**0.35%**	**0.54%**	**0.42%**	**1.23%**	**2.01%**	**2.60%**		

Source: NRA

Table 12:Comparative Analysis of Industrial Sector vs Other Sectors 2018-2023

TABLE 12: COMPARATIVE ANALYSIS OF INDUSTRIAL SECTOR VS OTHER SECTORS 2018-2023 (NLE THOUSAND)								
Category	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**Ave (2018-2023)**	**% Total Rev Foregone)**
Revenue Forgone (Industrial Sector)	**177,558**	**317,036**	**273,269**	**917,437**	**2,012,246**	**3,548,248**	**1,207,632**	**61%**
Revenue forgone (other sectors)	273,522	421,740	336,055	515,186	717,083	2,357,949	770,256	39%
Total Revenue Foregone	**451,081**	**738,775**	**609,324**	**1,432,623**	**2,729,329**	**5,906,197**	**1,977,888**	
Industrial Sector % of Total Exemption	**39.36%**	**42.91%**	**44.85%**	**64.04%**	**73.73%**	**60.08%**		

Source: NRA

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