

# *Revenue Assignment in Sierra Leone*

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*Presented at the Summer University Training Course on Intergovernmental Fiscal Relations and Local Financial Management organised by the Central European University (CEU) in Budapest, Hungary from 10-21 July 2006*

## **1.0 Background**

Sierra Leone, on the Atlantic Ocean in West Africa share borders with Guinea, in the north and east, and Liberia, in the south. Mangrove swamps lie along the coast, with wooded hills and a plateau in the interior. The eastern region is mountainous. The country has a land area of about 87,000 square kilometres and a population of about 4.9 million<sup>1</sup>. The country is rich in mineral resources (diamonds, rutile, bauxite etc.), yet 70% of the population live below the income poverty line of less than \$1 per day (15% in Freetown and 79% in the rest of country). The following indicators ranked the country one of the least developed countries in the world with a Human Development Index of 0.298<sup>2</sup>.

### **Infant mortality**

- 166 deaths per thousand
- Sub-Saharan Africa average –101 deaths per thousand
- World average 57 deaths per thousand

### **Under-5 mortality**

- 284 deaths per thousand
- Sub-Saharan Africa average -171 deaths per thousand
- World average - 86 deaths per thousand

### **Life expectancy**

- 37 years
- Sub-Saharan Africa average - 46 years
- World average – 67 years

### **Child immunization rate**

- Measles - 73% of children between 12-23 months old
- Sub-Saharan Africa average - 61%
- World average 77%

### **Adult literacy rate**

- 36%

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<sup>1</sup> 2004 Statistics Sierra Leone Population Census Data

<sup>2</sup> United Nations Human Development Report (2005). The Human Development Index (HDI) measures the average progress of a country in human development

- Sub-Saharan Africa average - 71%
- World average - 80%.

After independence in 1961, there was deterioration in government, which led to the abolishment of local governments in 1972. The centralisation of power then resulted to the rural population being deprived of the basic economic opportunities, education and political participation. All these coupled with massive corruption, nepotism and the marginalisation of youths in decision making resulted in a 11 years (1991-2002) bloody civil war that displaced half of the population, caused 20,000 deaths and destroyed infrastructure and social capital.

The government, after assuming peace and stability in 2002, undertook series of structural reforms with the support of the World Bank, the IMF, EU, DFID, ADB etc. Key among these reforms was the rebirth of fiscal decentralisation that led to the enactment of the Local Government Act in April 2004.

The enactment of the Local Government Act 2004 was intended to promote good governance, democracy and has an overall aim of improving on the quality of life through the delivery and management of public infrastructure and social services. This, it is envisaged will be accomplished through the introduction of the policy of decentralization of powers and functions from the central government to the 19 local councils (14 rural districts and 5 town councils). It is also envisaged that through this policy of decentralization, peace which has been restored, will be sustained through popular participation in decision making.

To actualize this, the Government of Sierra Leone with the help of the World Bank put in place the Institutional Reform and Capacity Building Project (IRCBP). The objective of this project is to help assist the Government and indeed local governments on accountability and build their capacity to deliver services and promote economic development<sup>3</sup>.

## **2.0 An Overview of Revenue Assignment in Sierra Leone**

The assignment of taxes in a decentralised system of finance must decide three types of issues. First, what level of government will be granted legal powers to introduce new taxes or change its structure in terms of the definition of tax bases and the determination of tax rates? Second, how will the revenues from different taxes be shared, if at all, among the different levels of government? Third, what level of government will be responsible for the administration and enforcement of different taxes?

The Local Government Act 2004 attempted to address the above issues in order to unfold the revenue assignment in Sierra Leone, which has two-tier system of government (the central government and 19 local councils). Below the 19 local councils are 149 chiefdom councils each, headed by a Paramount Chief. The chiefdom councils, though not formally

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<sup>3</sup> Report on a Revenue Mobilization workshop organized by LGFD and a World Bank Consultant, Gordon Mwesigye (The Makeni Declaration) (<http://www.ircbp.sl>)

recognised as a tier of government, are empowered by the new Local Government Act 2004 and the guidelines issued by the Ministry of Local Government and Community Development to collect certain set of revenues and share it with the local councils.

The LGA 2004 in section 20(1) states that a local council shall be responsible to mobilise the human and material resources necessary for the overall development and welfare of the people of the locality. This can be achieved with the resources at its disposal and with such resources and capacity it can mobilise from the central government and its agencies, national and international organisations, and the private sector.

### **3.0 Revenue Sources**

The resources at the disposal of the local councils are their own revenue sources and grant for administrative expenses. All other grants to councils (grants for devolved functions and the Local Government Development Grant) (LGDG) are tied to the implementation of specific activities. Grants for devolved functions relates to the Statutory Instrument which clearly map out Ministries, Departments and Agencies (MDAs) commitments to devolve functions to the local councils for the transition period 2004-2008. Implementation of activities using the LGDG is tied to local council's development plans.

#### **3.1 Own Revenue Sources**

The most important and lucrative sources of local councils' revenues are:

- 1) Precept from local tax
- 2) Property tax
- 3) Licences
- 4) Fees and charges (market dues) and
- 5) Mining revenues

There is a sharing formula designed by the Ministry of Local Government and Community Development between the local councils and chiefdom councils for three of the above revenue sources.

##### **a) Local Tax**

- Local tax in Sierra Leone is a tax per head on selected individuals (poll tax)
- The Government sets the tax base and the legal basis is the Local Tax Act
- The LGA 2004 says every person liable should pay local tax
- Liability is defined in the Local Tax Act 1975 as all adult males age 21 years and above in a council's area who are in receipt of any income, and are ordinary resident in the area
- The tax rate is set by local councils but collected by chiefdom councils
- The current sharing formula is 60 percent in favour of chiefdom councils – This could be different in other councils

##### **b) Property Rates**

- The legal basis is the LGA 2004

- The LGA 2004 states the definition of property as all buildings within a council's locality
- The tax is payable on the 'assessed annual value' of all buildings.
- The Act, in section 70, gives a list of those properties that are *exempt from property rates*. These are: any church, chapel, mosque, meeting-house or other building exclusively used for public religious worship; buildings used for public hospitals and clinics; buildings used for charitable purposes; buildings used for public educational purposes, including public universities, colleges and schools; buildings on burial grounds and crematoria; and buildings owned by diplomatic missions as may be approved by the Ministry responsible for foreign affairs.

**c) Licences**

- Section 56 of the LGA 2004 states that councils SHALL issue a *license* to any person who: establishes or maintains premises from which to carry on any business; owns a cart, wagon or other non-motorised vehicle or canoe; or holds any concert, dance, musical, theatrical or other entertainment.

**d) Fees and Charges**

- The LGA 2004 states that local councils shall charge fees for: the use of markets; the use of bus, taxi, car or lorry parks; the extraction of fish; the extraction of timber, sand and other building materials; and services provided by the council.
- Some fees councils could charge include, but are not limited to: hire of the town hall; hire of recreation grounds; rent of council property; jetty/landing fees; cemetery/burial fees; lorry park fees; slaughter house fees; market store rent etc.
- A major component of fees and charges, which has proved to be one very lucrative source of revenue for local councils, is market dues.

**Market Dues**

- This is charge levied on persons selling in councils jurisdiction
- The Act states that councils shall charge fees for the use of markets
- Collection of this fee is done by the chiefdom administration for the district councils and revenue collectors for the urban councils
- The sharing formula is 80 percent in favour of the chiefdom councils.
- Market due for the urban councils and the Western Area Rural District Council is not shared.

**e) Mining Royalties**

The sharing formula for this source is as follows:

*Mining surface rent from small-scale miners* - 80 percent in favour of chiefdom councils

*Mining surface rent from large-scale miners*

- 40 percent to land owning families
- 20 percent to chiefdoms
- 20 percent to Paramount Chief
- 20 percent to councils

*Community Development Fund (0.75%) - 80 percent in favour of chiefdom councils<sup>4</sup>*

### **3.2 Transfers to Local Councils**

There are basically three broad types of transfers: Administrative Grants, Grants for Devolved Functions and the Local Government Development Grant (LGDG). The first two are provided for in the LGA2004 and are financed solely by the central government. The LGDG is co-financed by government of Sierra Leone and donors mainly the World Bank and DFID.

#### **3.2.1 Administrative Grant**

Government do provide administrative grant to help local councils defray some of their administrative expenses, considering that many of them are newly established councils and are learning to mobilize local revenue. The administrative grants are to be used to finance administrative and supervision activities related to performing local council functions. It is NOT meant to cover only the allowances of councillors.

#### **3.2.2 Grants for Devolved Functions**

Section 46(2) of the Local Government Act 2004 provides that there shall be paid to local councils, transfers in the form of tied grants for each devolved function, in an amount that is at least necessary to continue the operation and maintenance of the devolved function at its pre-devolution level. In accordance with the Statutory Instrument of November 2004, more functions have been devolved to Local Councils in 2006 in addition to the functions devolved in 2005. Thus the total resource envelope has increased significantly (see chart below).

#### **3.2.3 Local Government Development Grant (LGDG)**

This grant is intended to help councils undertake development projects in their localities. This grant is not specific to any sectors and allows discretionary decisions of councils to undertake development projects that meet priority needs of their localities. The LGDG Operations Manual specifies a range of projects for which this grant is applicable or not.

This grant program has a Revenue Effort component, access to which is conditional on a council contributing 50 percent of the cost of an additional proposed project. For instance, if Council A is entitled to Le50 million (US\$16,700) of the Revenue Effort Grant, then it can propose a project whose total cost does not exceed Le100 million (US\$33,400) provided that it can provide convincing evidence that it can finance 50 percent of the cost of the project in question. However, funds allocated per councils will be reverted to a common pool where any council can access it, if councils cannot match their allocation by July of every year<sup>5</sup>.

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<sup>4</sup> 0.75% of the 3% royalty paid to the central government export of diamonds

<sup>5</sup> Sierra Leone Gazette on the intergovernmental transfers and allocations made to local Government Councils for the 2006 financial year (<http://www.ircbp.sl>)

### **3.3 Local Council Borrowing**

Local councils at present are encouraged not to borrow but adopt the hard budget constraint rule (zero tolerance to budget deficit)<sup>6</sup>. The Local Government Act 2004 does however make provision for local borrowing. Section 65 of the Act states that a local council may raise loans or obtain overdraft within Sierra Leone of such amounts, from such sources, in such manner, for such purposes and on such conditions as the Minister, after consulting the Minister responsible for finance, may approve; except that no approval is required where the loan or overdraft to be raised does not exceed such amount as the Minister may, after consultation with the Minister responsible for finance, by statutory instrument determine. To facilitate this, a guideline on local borrowing is yet to be prepared.

### **4.0 Local Government Revenue Performance for FY 2005**

Effort to increase mobilisation of local government revenue must be directed towards the more important revenue sources. The indications of the importance and performance of each of the sources of council own revenues for FY 2005 is discussed below.

#### **Local Tax**

- Local tax collection in FY 2005 for councils was below potential
- 9 out of 17 local councils made effort in collecting this source of revenue.
- The reasons for poor collection are partly due to the late submission of receipt books to the Chief Administrators of the District Councils (July 2005)
- Also, the sharing formula designed by the MLG&CD in collecting this source neither was not respected as it relates to the chiefdom council administration (Paramount Chiefs, Treasury Clerks and the Central Chiefdom Finance Clerks (CCFCs)).

#### **Property Rates**

- This tax is a major collection challenge for the local councils.
- 12 out of 17 local councils have made zero effort in collecting this source.
- Even the efforts made by some of the urban councils to collect are below potentials.
- The reasons attributed to this are partly due to inadequate information on the tax base, and where it exists (the urban councils), there is a problem with the rate system and valuation rolls are outdated.
- In Freetown City Council (the capital city) for instance where the rate capacity is greatest because of the greater degree of commercialisation, the property register for an estimated 45,000 old properties are still all kept manually and valuations have been haphazard at best.

#### **Licenses and Fees and Charges**

- Generally, marginal efforts are made by all councils in collecting this source of revenue which indicates a potential source for the councils.

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<sup>6</sup> Balanced budget, that revenues = expenditures

- The LGA 2004 did not repeal most other Acts that have powers to collect this source (Tourism Board Act, Agriculture Acts, etc.)

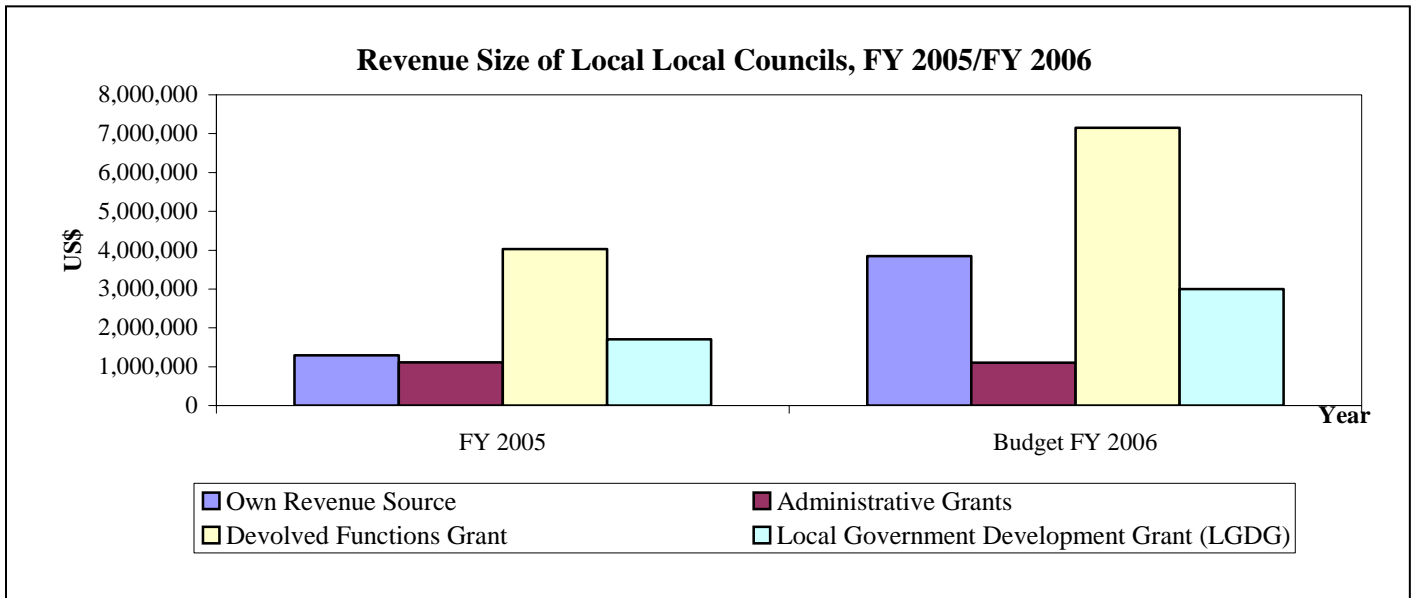
**Market Dues**

- Generally, market dues are a very lucrative source for the urban councils including WARDC because it is not shared.
- This source on average accounted for over 60 percent of the revenues for the urban councils
- District councils faced considerable challenges to collect this source
- In some of the district councils collection is zero.
- The reasons are partly due to the in proper record on the tax base and collection and sharing arrangements between the local and chiefdom councils.

**Mining Revenue**

- Mining revenues in the form of royalties attracted jurisdictions with ongoing mining activities (Diamond or Rutile). For those jurisdictions, mining royalties on average accounted for about 60%.

The chart below gives the revenue sources of local councils for the Fiscal Year 2005 compared to estimates for Fiscal Year 2006



**5.0 Challenges**

Creating local councils alongside chiefdoms was bound to evoke a certain amount of friction. However what was not anticipated was the difficulties that were to be experienced in revenue collection and sharing.

The enactment of the Local Government Act however did not repeal many Acts that have revenue collection implications. Key amongst them is the Chiefdom Administration Act.

The institution of chiefdom councils remained and it is to the chiefdom councils that authority was granted by the Local Government Act 2004 supported by the guidelines issued by the Ministry of Local Government and Community Development to collect revenue and share this revenue with the local councils. It is this very aspect of sharing and managing the collection that has given rise to numerous problems and challenges.

Other enormous challenges local councils faced in 2005 and will continue to face during the transition period (2004-2008) are the slow pace of the devolution process and the existing legal instruments empowering other government agencies to collect revenue. The un-equitable sharing formula designed by the Ministry of Local Government and Community Development and the different rates set by the local councils to collect revenues from various sources also posed serious problems.

## **6.0 The Way Forward**

Considering the facts that the sustainability of service delivery is hinged on own revenue mobilisation, the untimely disbursement of central government transfers and the expected discontinuity in the disbursements of donor funds in the medium to long term, local councils are faced with enormous challenges to enhance their revenue potential to improve service delivery at the local level. For councils to be aware of what their obligations are in revenue mobilisation and collections and the methods they must take to maximise revenue collection, the following methods should be adopted for the medium term.

### **Local Tax and Market Dues**

- Get an idea of all eligible local tax payers through survey or census reports
- Local councils engage chiefdom authorities to negotiate workable collection and sharing arrangements

### **Property Rates**

- Establish proper valuation zones
- Update valuation rolls (property census)
- Establish record on all properties that has changed use (comm./residential)
- Initially adopt simple valuation methods
- Train valuation specialists in the medium term.

### **Licenses and Fees and Charges**

- Ministry of Finance, Ministry of Local Government and Community Development, Law Officers Department to harmonize policy and legal instrument relating to revenue assignment.