

January

Components: Revenue and Spending

RM I – Tax Policy

RM II – Revenue Administration

SM I – Spending Policy

*SIERRA LEONE***PROJECT SUMMARY**

COUNTRY (S): Sierra Leone

LEAD DEPARTMENT: FAD and/or ICD

REGION (S): AFR

PROGRAM ID: (To be filled out by Secretariat)

PLANNED DATES: 02/01/2024 to 4/30/2027

FUNDING PROGRAM TITLE: GPFP Sierra Leone

PROJECT MANAGERS:

RM I/TAX POLICY Dan Devlin – Tax Policy 2

RM II/REVENUE ADMIN: Faith Mazani – Revenue Administration 2

SM I/ SPENDING POLICY Fernanda Brollo – Expenditure Policy

PROJECT LEAD MANAGER: Faith Mazani – Revenue Administration 2

ESTIMATED BUDGET \$1,969,147

BUDGET FOR ENDORSEMENT \$863,213 (through FY25)

Contents

Project Summary	2
I. Project Purpose	4
II. Background	4
III. Project Level Description	5
A. Project Scope	5
Table 1. Summary of Objectives covered by the Proposal	7
B. Country Engagement	7
C. Delivery Modalities	8
D. Coordination / Cooperation	8
IV. Risk Assessment and Mitigation	9
V. CD Delivery Plan Country Level	10
Table 2. Summary of Indicative CD Delivery	10
Table 3. First year workplan	11
VI. Program Financials	11
ANNEX I. REVENUE MODULE I – TAX POLICY	12
A. Program Objectives	12
B. Expected Results	12
C. Targeted Logical Framework – TAX POLICY	13
ANNEX II. REVENUE MODULE II – REVENUE ADMINISTRATION	14
A. Program Objectives	14
B. Expected Results	14
C. Targeted Logical Framework REVENUE ADMINISTRATION	14
ANNEX III. SPENDING MODULE I – SPENDING POLICY	15
A. Program Objectives	15
B. Expected Results	15
C. Targeted Logical Framework – SPENDING POLICY	15

SIERRA LEONE

I. PROJECT PURPOSE

The government of Sierra Leone has been receiving Capacity Development (CD) support from FAD in several areas, including revenue mobilization, expenditure policy, and tax policy in line with Sierra Leone's Medium-term National Development Plan (MTNDP) 2019–2023. In Revenue mobilization, support from FAD was delivered through support from the Revenue Mobilization Thematic Fund (RMTF) and the Managing Natural Resource Wealth (MNRW) Topical Fund on natural resources, to assist the implementation of MTNDP. On tax policy, support on general revenue mobilization was delivered using the COVID-19 Crisis Capacity Development Initiative (CCCDI) pandemic response funds, complementing existing support provided on natural resource taxation under the MNRW. On the expenditure side of the budget, Sierra Leone has been on a pilot programmatic engagement with FAD to build the capacity of staff in the MoF in several expenditure policy areas. In particular, the engagement has helped staff to assess spending adequacy and efficiency and the need for reforms in areas, such as the public sector wage bill, health, and education.

The new CD project will support both revenue and spending reform efforts, with medium-term objectives and outcomes agreed with the authorities. On the revenue side (RM I and II), CD will be focused on enhancing domestic revenue through tax policy reforms, the digitalization of the tax administration, and strengthening compliance and the core functions of tax and customs as part of a broader reform effort through a medium-term revenue strategy (MTRS). Additionally, the digitalization of the tax administration is expected to provide valuable data for compliance risk management and tax policy analysis. The spending component will focus on expenditure policy (SM I), to continue to strengthen capacity in the areas of wage bill management energy subsidies and social protection. It will offer technical assistance and capacity building for designing an automatic fuel pricing mechanism, reviewing fuel pricing formulas, assessing the impact of alternative price smoothing rules, and examining the market structure of the energy sector. It will also support capacity building in the analysis of social protection policies.

The 3-year project is guided by priorities established with the authorities as part of the ECF program negotiations starting in 2024. The estimated budget for this 3-year project is \$1,969,147, but endorsement is requested for \$863,213 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

II. BACKGROUND

Macro-fiscal situation

Sierra Leone's fiscal situation remains extremely tight, characterized by large development financing needs, low tax base, and high debt levels. Sierra Leone's economic challenges have intensified. Inflation has continued to rise; the currency has depreciated sharply; and debt related risks have increased. Growth decelerated to 3.6 percent in 2022 reflecting lower-than-expected mining output, severe flooding, and decline in household purchasing power. Inflation rose to 41.5 percent y-o-y in March 2023 and current account deficit remained at around 9 percent of GDP despite the 67.3 percent y-o-y Leone depreciation as of end-2022. To address some of the challenges above, CD support will be tailored to addressing the near and medium-term policy and administrative reform priorities. This requires increased emphasis on revenue mobilization, improving the efficiency and effectiveness of spending, strengthening budget credibility, and debt management.

SIERRA LEONE

IMF priority areas / cross-cutting themes

Sierra Leone is a low-income country and CD building is required given its limited public service delivery and institutional capacity. This project will focus on IMF priority areas, including Gov-Tech and the climate agenda. CD delivery will enhance digitalization and the Integrated Tax Administration System (ITAS) system's ability to generate reliable data for improved compliance risk management. While ITAS implementation is a positive step, the National Revenue Authority (NRA) needs to develop capabilities in data governance and analytics and strengthen essential tax administration functions to leverage digital advancements. The climate agenda will receive increased attention to address recurring floods and the associated infrastructure destruction expenses. The authorities in Sierra Leone recognize their capacity challenges and have requested support from CD to implement the MTRS for 2023-27. The MTRS aims to enhance revenue collection, improve the transparency and predictability of tax policies, boost the business environment, and promote economic growth in the country. The MTRS aligns with the country's previous national development plan and includes a range of tax policy and revenue administration measures with the goal of raising tax revenues to 19 percent of GDP by 2027. This CD project will support CD to implement reforms on energy and other subsidies and improve the management of wage bill to create fiscal space for priority spending in line with the transition to the green economy. The CD project also aims at supporting the authorities on their efforts to strengthen the social protection system, and policies to improve human and physical capital. This will help to inform the new MTNDP for the incoming years.

Country engagement and alignment to reform priorities

The new CD project will support the country's revenue mobilization goals espoused in the MTRS and supporting the country's national development goals. The MTRS identifies both tax policy and revenue administration measures that will help Sierra Leone raise overall revenue over time. On tax policy, the CD will assist the authorities to consider tax policy issues in a systematic and structured way, so that sound tax policy measures are legislated. On revenue administration, the CD will assist the NRA to develop reform initiatives to ensure tax compliance is enhanced, the tax base is expanded, leakages are reduced, and administration of revenue is simplified and made more efficient for increased revenue mobilization. These include implementation of compliance improvement initiatives in key taxpayer segments and groups, taxation of high-net-wealth-individuals (HNWI), and improving compliance of small and medium enterprises (SMEs).

On the spending side this project will keep supporting the authorities on their medium-term wage bill strategy, build capacity to implement subsidy reforms in line with the climate agenda while protecting the most vulnerable by making use of digital tools. The CD aims to support the authorities on the costing of reaching their development goals in key areas, such as improving human and physical capital and reducing poverty.

III. PROJECT LEVEL DESCRIPTION

A. Project Scope

This CD project is aligned with Sierra Leone's CD priorities and is fully integrated with the IMF program, which aims to enhance revenue mobilization capacity, improve tax policy design and the efficiency and effectiveness of spending, strengthen budget credibility, and debt management.

Module RM I / Tax Policy

CD on Tax Policy will support the MTRS as part of the country's MTNDP in the following areas:

- Improving Tax Policy design.

CD will continue to assist the authorities to consider tax policy issues related to actions identified in the MTRS. This will be developed at the direction of the authorities, but assistance could include advice on broadening the income tax base, trimming GST exemptions, international taxation and treaty issues. The CD support may also cover ad-hoc policy issues that arise (e.g., responding to external shocks affecting revenue) and sectoral policy issues including continued assistance on the taxation of Sierra Leone's mining sector.

- Strengthening tax policy capacity at key agencies.

CD will assist in strengthening the capacity of key agencies to undertake tax policy analysis. This is expected to improve tax policy formulation and advice to Ministers. Assistance is expected to include training on the formulation of a tax policy unit, and key analytical concepts and tools including tax potential, personal income tax rate simulations, and if needed, revenue forecasting.

Module RM II / Revenue Administration

CD in both tax and customs will support the MTRS as part of the country's MTNDP in the following areas:

- Strengthening Management and Governance Arrangement

Key to the implementation of the MTRS and delivery administration reforms to be supported under this CD project is the strengthening of NRA leadership and management capacity supported by strong governance structures. CD will continue to assist the revenue administration to balance reform management and delivery of the immediate revenue needs of the country with clear monitoring and evaluation structures.

- Strengthening core tax administration

CD will assist the authorities in enhancing the capacity of the new ITAS processes to improve compliance in the core compliance areas, i.e., registration, on time filing and payment, and accurate reporting. Attention will be paid to improved data gathering and analysis for compliance risk management, with particular attention on large taxpayer segments in key sectors, and high net wealth individuals.

Module SM I / Spending Policy

CD in Expenditure Policy will support the country's MTNDP in the following areas:

- Strengthening the management of the Public Sector Wage bill

CD will continue assisting the authorities in their efforts to strengthen the management of the government wage bill. Specifically, the engagement will provide support on the authorities' medium-term wage bill strategy.
- Subsidy Reforms

CD will help to build capacity and assist the authorities in their efforts to eliminate subsidies in the energy and other sectors to create space for critical investments in education, health, and infrastructure, contributing to better redistribution, human capital development and the transition to the green economy.
- Assessment of adequacy and efficiency of social spending and infrastructure key areas

CD will build capacity to assess adequacy and efficiency of spending in key areas, such as health, education, social protection, and basic infrastructure, and identify gaps and reforms needed to ensure that those mostly in need can be covered while improving formality, in line with NDP1.

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM I / Tax Policy	• Improve Tax Policy design • Strengthen Policy Monitoring, Evaluation, and Institutions
Revenue	RM II / Revenue Administration	• Strengthening Management and Government Arrangements • Strengthening Core Tax Administration
Spending	SM I / Expenditure Policy	• Strengthen Expenditure Policy Formulation and Design • Strengthen Policy Evaluation and Institution Building

B. Country Engagement

Sierra Leone has demonstrated a strong commitment to implementing CD recommendations and has made progress in various areas through support from FAD. Notably, the RMTF CD project, running from FY18 to FY24, has facilitated important reforms in tax policy and revenue management. These reforms encompassed tax policy development and revenue administration measures within the MTRS. Despite significant capacity challenges, the NRA has achieved several milestones during the previous CD projects, including the establishment of a modernization office, the formulation of strategic and operational plans with monitoring and evaluation frameworks, and the creation of structures for compliance risk management. Furthermore, CD support has been provided on several expenditure areas since FY2022, such as on education and health spending and on the management of the wage bill. The activities and outcomes of the engagement, including a report on the distributional analysis of education

spending prepared by staff in the MoF was presented in a dedicated event during the IMF and World Bank Spring meetings in April 2023.

C. Delivery Modalities

The CD delivery will mainly be in-person activities due to the low capacity of the country, necessitating a more hands-on approach. Virtual deliveries will be used to provide efficiencies to on-the-ground support, including pre-engagement meetings and post-follow-up meetings. Peer-to-peer learning opportunities will be provided for the NRA to benchmark with other revenue administrations in the region and beyond, including in-country or regional workshops on areas of common interest. The following CD activities will be delivered as a package:

Headquarters-led (HQ) missions and staff visits to provide strategic recommendations, conduct regular follow-ups, assess progress, inspect STX work, coordinate with other TA providers, and adjust reform implementation plans.

Peer-to-peer learning and bench-marking visits to learn from developments in other revenue administration experiences.

Short-term expert (STX) visits to help implement the recommendations delivered by the HQ missions; a limited number of STXs will be assigned to provide specialized assistance in specific areas of revenue administration like digitalization and the taxation of mineral wealth and international transactions.

D. Coordination / Cooperation

The NRA and the Ministry of Finance are currently receiving FAD CD on tax, customs, and PFM through AFRITAC West 2 (AFW2) and through separate project funded by JSA in customs and MNRW on the Extractive Industry. Appropriate linkages with the existing CD programs are defined using the IMF's result-based management (RBM) framework. When designing specific country-based activities and workplans, this program will seek to define the emerging challenges in an integrated and coordinated manner. On the expenditure policy side, CD will be coordinated with other FAD divisions including public financial management, tax policy and climate policy as needed.

Currently the World Bank is providing CD support to the tax administration in implementing the ITAS and the necessary change management. This CD will be coordinated with the Gov-Tech CD that will help in strengthening the ITAS and improve data governance and analytics, to ensure alignment. In addition, the United Nations Conference on Trade and Development (UNCTAD) are providing CD support to customs in the upgrading of the Automated System for Customs Administration (ASYCUDA) and the World Customs Organization (WCO) in other operational areas. Project managers will seek collaboration with other CD providers in the respective areas to ensure regular exchange of information and discuss areas of support. While there is not a formal Development Partner (DP) committee, the IMF Res. Rep. assists FAD by setting up meetings with donors during major CD deliveries in the country, and this practice will continue. The authorities will be advised on the need to coordinate the various CD providers to seek a more formal arrangement to improve cooperation among the IMF and the other key DPs.

IV. RISK ASSESSMENT AND MITIGATION

Program risks based on the assessed probability and impact on the achievement of the expected results.

General or Module	Description	Risk Probability	Risk Impact	Mitigation Measures
External climate/conditions				
General	Risk that external events create a more challenging environment to implement reforms.	High	Medium	Ensure sufficient flexibility in program execution across countries and allow for ability to adjust activities in the case of adverse events.
Political Support				
General	Lack of political support for reforms inhibits required actions or resources being allocated that are needed to enhancements to fiscal risk management institutions and practices.	High	Medium	Ensure CD is focused on priority areas and engage regularly with ministers and senior management to ensure government are aware of political economy considerations and to ensure ownership of reforms.
Management and Technical Staff Support and Commitment				
General	Low commitment of management and staff in finance and other ministries to adopt and implement fiscal risk management practices.	High	High	Engage with senior management and technical staff pro-actively and explain the importance of strengthening fiscal risk management.
Resource Adequacy				
General	Insufficient technical capacity and human resources necessary to implement reforms are limited.	Medium	High	Ensure CD plans include sufficient capacity building and training elements and prioritize CD to priority or highest risk areas where resources are limited.
Other risks				
General	Multiple donors are providing technical assistance on fiscal risk topics and gaps, or overlaps may arise as a result.	Medium	Low	Take an active role in engaging with other donors to ensure support is well coordinated.

V. CD DELIVERY PLAN COUNTRY LEVEL

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	Total for FY24	Total for FY25	Total for FY26	Total for FY27	Grand Total
RM I / Tax Policy					
HQ-led CD mission (may incl. STX)	-	1	1	-	2
STX visits	-	1	2	-	3
RM II / Revenue Administration					
HQ-led CD mission	-	1	1	-	2
STX visits	-	2	2	-	4
STX Remote	1	-	-	-	1
Staff or other visit (HQ Advisor)	-	1	1	-	3
Interactive Learning (virtual workshop)	-	1	1	-	2
Interactive Learning (in-person workshop)	-	-	1	-	1
SM I / Expenditure Policy					
HQ-led CD mission		1	1	-	2
STX visits			1	-	
Staff or other visit (HQ Advisor)	1			1	2
Interactive Learning (in-person workshop)	1		2	-	3

Table 3. First year workplan

Timing	CD Area	CD Delivery	Proposed Topics of CD
Revenue / Tax Policy			
FY25 – Q2	In-depth mission	1 HQ staff, 2 STX	MTRS Tax policy actions
FY25 – Q4	Training	1 STX	Strengthening tax policy analysis
Revenue / Revenue Administration			
FY24 – Q4	STX follow-up visit	1 STX (FB)	Compliance Improvement Plans
FY25 – Q2	In-depth mission	HQ (FB)	MTRS support
FY25 – Q1/Q3	STX follow-up visit	2 STX (FB)	CIPs
FY25 – Q4	Staff Visit	HQ (FB)	HNWI
FY25 – Q2	Training	Virtual	MTRS Support
Spending / Expenditure Policy			
FY24 – Q4	Workshop (4-day)	1 Staff and 1 STX	Wage bill
FY24 – Q4	Staff Visit (5-day)	1 staff & 2 STXs	Energy subsidies
FY25 – Q1	HQ-Standard (2-weeks)	2 HQ staff and 2 STX	Social Protection

VI. PROGRAM FINANCIALS

	FY24 Q4	FY25	FY26	FY27	TOTAL (USD)
Direct Delivery	114,946	691,795	1,001,646	31,937	1,840,324
Module RM I - Tax Policy	0	159,029	210,327	0	369,355
Module RM II - Revenue Administration	24,123	348,031	423,820	0	795,973
Module SM I - Spending Policy	90,823	184,735	367,500	31,937	674,996
Module SM II - Managing Public Finances	0	0	0	0	0
Subtotal	114,946	691,795	1,001,646	31,937	1,840,324
Trust fund management fee (7%)	8,046	48,426	70,115	2,236	128,823
TOTAL	122,992	740,221	1,071,761	34,173	1,969,147

The estimated budget for this 3-year project is \$1,969,147, but endorsement is requested for \$863,213 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

ANNEX I. REVENUE MODULE I – TAX POLICY

A. Program Objectives

The Tax Policy Module aims to support the authorities in their implementation of the MTRS, which was developed using funding from the CCCDI. CD support aims to ensure the MTRS policy actions remain on track for implementation (see detail below), and to provide advice and analysis on emerging policy issues. The module also aims to harness any further digitalization of taxpayer information by NRA (under the related revenue administration module), which will enable stronger tax policy analysis and the use of more sophisticated analytical tools. In addition, the module will continue CD support for natural resource tax policy issues (transitioning from MNRW Topical Fund).

In particular, CD activities will focus on:

- Providing implementation advice on planned MTRS policy actions, potentially including expanding the coverage of the Personal Income Tax (PIT), trimming Goods and Services Tax (GST) exemptions, and rationalizing tax incentives. CD support will also respond to ad-hoc requests from Ministers or senior officials (particularly if the MTRS requires review or adjustment).
- Developing and tailoring analytical tools and training materials and building capacity within countries to assess the revenue and other impacts of tax policy measures (e.g., tax potential, PIT rate simulation analysis, tax expenditure analysis, revenue forecasting).
- Continuing CD support on the taxation of Sierra Leone's natural resources, including training on the fiscal modeling and analysis of natural resource projects (commencing when the MNRW Fund concludes).

B. Expected Results (outcomes)

Successful implementation of this module will be indicated by tax policy actions included in legislations such as Finance Acts that accord with sound tax policy principles (e.g., efficiency, equity, simplicity). These legislated actions are also expected to raise the total tax to GDP ratio over time, in line with the aims of the MTRS.

C. Targeted Logical Framework – TAX POLICY

Objective	
Improve Tax Policy Design	
Outcomes	Indicators
Improved distributional fairness across taxpayers due to amended tax rates or base	Estimated tax share of upper-income individuals/households
Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures	Adopt legislation that reduces economic distortions
Objective	
Strengthened Core Tax Administration Functions	
Outcomes	Indicators
Improved structures (e.g., tax policy units) or capacity (e.g., models and tools) related to tax policy advice and analysis.	Improved models to evaluate tax policy adopted
	Dedicated function for extractive industry fiscal regime analysis and/or modeling is strengthened or setup

ANNEX II. REVENUE MODULE II – REVENUE ADMINISTRATION

A. Program Objectives

The Revenue Administration Module aims to support the authorities in their implementation of the MTRS, with actions to mobilize domestic revenue. CD support aims to ensure the MTRS revenue administration measures in tax and customs help deliver the revenue targets set to support the SDGs.

In particular, CD activities will focus on:

- Strengthening leadership and management capacity for operational delivery and reform implementation.
- Building technical capacity for better compliance risk management in tax and customs.
- Developing core competencies in customs and tax administration including data analytics and audit capabilities.

B. Expected Results (outcomes)

The CD will help the authorities finalize development of a medium-term revenue strategy supported by a detailed implementation plan and a monitoring and evaluation strategy to ensure delivery of the MTRS targets and revenue growth. A compliance improvement plan will be developed to give focus on high risks in large and critical segments, especially those arising from taxation and management of international transactions and cross-border trade.

C. Targeted Logical Framework REVENUE ADMINISTRATION

Objective	
Strengthened revenue administration management and governance arrangements	
Outcomes	Indicators
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized.	Reform management capacity strengthened or in place for reform implementation, including dedicated resources.
Corporate priorities are better managed through effective risk management.	Improved identification, assessment, ranking and quantification of compliance risks (TADAT POA2-3).
Objective	
Strengthened core tax administration functions (SDG 17.1)	
Outcomes	Indicators
Audit and other verification programs more effectively ensure accuracy of reporting	Appropriate range of tax audits and other initiatives used to detect and deter inaccurate reporting and fraud (TADAT 2015 POA6-16/TADAT 2019 POA6-19)

ANNEX III. SPENDING MODULE I – SPENDING POLICY

A. Program Objectives

The Expenditure Policy Module aims to support the authorities to assess spending adequacy and efficiency, options for reform, and building capacity on several expenditure policy areas and inform the government's national development plan.

In particular, CD activities will focus on:

- Support the authorities on their medium-term wage bill strategy.
- Build capacity to manage energy subsidies and implement an automatic pricing mechanism to support the transition to the green economy and improve redistribution.
- Assess spending adequacy and efficiency of social spending and infrastructure, identify gaps and reform options.

B. Expected Results

Successful implementation of this module will be indicated by expenditure policy actions implemented that accord with sound expenditure policy principles (e.g., adequacy, efficiency, and equity). These actions are also expected to be in line with the aims of the National Development Plan.

C. Targeted Logical Framework – SPENDING POLICY

Objective	
Strengthen Expenditure Policy Formulation and Design	
Outcomes	Indicators
Government pay and employment are more competitive and consistent with fiscal constraints	Public wage bill, in percent of GDP
Reduce subsidies while mitigating impact on vulnerable households	Existing social safety nets are capable of protecting vulnerable groups from price reform
	Public subsidy spending, in percent of GDP
Public expenditure is fiscally sustainable and efficient	Primary spending, in percent of GDP
Objective	
Strengthen Policy Evaluation and Institution Building	
Outcomes	Indicators
Authorities have an understanding of opportunities to enhance the adequacy, efficiency, and sustainability of public expenditure	Authorities are able to evaluate impact of different expenditure policy options