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Fiscal Regulatory Frameworks through the National Revenue Authority as an Engine of Economic Growth in Sierra Leone: An Overview

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Abstract:

The study explored the fiscal regulatory frameworks through the NRA as an engine of economic growth in Sierra Leone. The study revealed that revenue mobilization is an important device for the Government of Sierra Leone (GoSL) in accomplishing its determinations for poverty reduction; delivering its Agenda for Prosperity; building up financial independence; and reaching middle income standing. It also exposed that the financial and regulatory frameworks that support NRA to perform effective revenue mobilization are based on the following regulations and laws such as: revenue laws enacted by parliament; annual budget, Finance Act, Strategic plan; the assessment of collection and accounting for all revenue collected. In addition, the use of electronical based systems, the provision of tax legislation and policy, transparency in the tax administration, modernization of custom service department, the national acts, regional treaties, other international treaties are some of the financial and regulatory frameworks that back NRA to perform effective revenue mobilization.

Keywords:

NRA (National Revenue Authority); Fiscal regulatory; Revenue mobilization; Financial regulatory

I. Introduction

Fiscal regulation is a form supervision, which subjects financial institutions to certain requirements, restrictions and guidelines, directing to maintain the stability and integrity of the financial system. This may be controlled by either a government or non-government organization. In Sierra Leone it is handled by a government agency called the National Revenue Authority (NRA). Fiscal regulation has also biased the structure of banking sector by increasing the variety of financial products available. Fiscal regulation forms one of three legal groups which establishes the content of financial law, market practices and case law. Usually, the intentions of fiscal regulators are to uphold confidence in the financial system, contribute to the protection and improvement of the stability of the financial system, and to secure the appropriate degree of protection for consumers (Benjamin 2008).

Revenue mobilization is a significant tool for the Government of Sierra Leone (GoSL) in achieving its drives for poverty reduction; delivering its 'Agenda for Prosperity'; building up financial independence; and accomplishment of middle-income status. In addition, the Sierra Leone tax administrative system has experienced substantial changes since its beginning. Reforms have ranged from the creation of the Non-Tax Revenue department (NTR) in 2004, to the introduction of Taxpayer Identification Numbers (TINs) in 2009, the launching of the Automated System for Customs Data (ASYCUDA++) and the application of the Goods and

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Services Tax (GST) in 2010. Also, the establishment of the Domestic Tax Department (DTD) in early 2011, the introduction of the Domestic Tax Information System (DTIS) in 2013, as well as the formation of the Extractive Industries Revenue Unit (EIRU) in 2014 (Adam Smith International 2015)

It has been documented in the literature that financial system plays an important role in the development process. As a result, it is mandatory on governments to have strong and operative regulatory regimes in place to defend investors, guarantee systematic working of financial institutions and markets, and support confidence and reliability in the fiscal system. Although the kind of institutional structure may possibly not be the focal factor of regulatory effectiveness, but an inapt or old-fashioned structure can deter the achievement of regulatory and supervisory objectives (Wood A. and Clement K. 2015). It is also known that the primary role of NRA is revenue collection through taxation. Pfister (2009) therefore, noted that taxation is an important part of every country's development policy, knotted with many other areas: from good governance and formalizing the economy, to stimulating growth through, perhaps, promoting small and medium sized enterprises (SMEs) and inspiring export activities.

II. Review of Literature

2.1 Regulation

The term regulation describes a set of mandatory rules issued by a private or public body. Usually, these rules can be described as those that are applied by all regulators in the serenity of their functions. In the financial services area, they consist of such sensible rules such as: compelling the conditions of admittance to the market and those meant at controlling the risks related with financial activities, corporate governance and internal control systems, conduct-of-business rules, and methods of supervision. Therefore, the body issuing these rules must be given the authority to do so. Though some critics, such as the International Compliance Association (ICA), have opposed that the body issuing regulations should also have both the authority to supervise compliance with the rules and the power to issue sanctions against breach of the rules. But, experience in many countries has uncovered that this is not always the case. There are situations where the power to issue regulations rests in a different body from that handling sanctions for breach of regulations. Moreover, the role of a regulator should not be implicated with the role of a supervisor. Where a regulator is concerned mainly with making and issuing regulations and promoting a culture of compliance with these regulations. While a supervisor, by separation, may perhaps assume on-site and off-site supervision of financial services' businesses. In some countries, such as the UK, so far, the powers to regulate and to supervise the activities of financial services' businesses both belong to the same body (Mwenda 2006). As, financial regulation is a form of regulation or supervision, which subjects financial institutions to unquestionable requirements, limitations and rules, directing to preserve the stability and integrity of the financial system. This may be handled by either a government or non-government organization. Financial regulation has also influenced the structure of banking sectors by increasing the range of financial products available. Financial regulation forms one of three legal groups which constitutes the content of financial law, the other two being market practices and case law (Benjamin 2008).

In addition, the regulatory framework for financial services is frequently comprise of a mixture of two or more of the following: i. primary enabling legislation; ii. Secondary legislation issued pursuant to the enabling statute; iii. Principles, rules, as well as codes issued by regulators; and iv. Guidance or policy directives issued by the regulatory authority. In certain jurisdictions, primary legislation provides that 'guidelines' should be treated as law. In civil law countries, the civil code, which is the gore line of private property rights in most civil law jurisdictions, can be linked to a constitution for the protection of private commercial and contractual rights of citizens. Although common law jurisdictions do not have the equal of a civil code, they can import and apply principles of the common law and doctrines of equity (Mwenda 2006:5).

Besides, once a regulatory framework is planned, it is significant that the drafters understand primarily, the size and structure of a specific industry together with the role of a regulator in that country. In most jurisdictions, massive power is given to regulators to authorize the commencement and termination of businesses. Regulators naturally have equal power to make judgments about the conduct of individuals, which can have a profound impact on the competence of those individuals to work in the regulated sector. Consistently, the structure and objectives supporting the regulatory framework differ from one jurisdiction to another. In the U.S., for example, there are a host of agencies, at both the state and federal levels that have different however; seldom duplicative regulatory authority over the financial services industry. This high level of duplication is produced by a mixture of functional and institutional regulation (Ramirez 2000, Mwenda 2006).

2.2 Why Financial Regulation?

As said by Wood and Clement (2015) the idea of mandatory regulating proposes a need to control it, have it follows to homogenous norms and obey with rules within a particular framework. Financial regulation involves government intervention in the financial system through the passage of rules and laws, and the formation of institutional preparations to deal with enforcement, monitoring and supervision. It is generally known that the financial system is more extremely regulated than other areas of the economy. This circumstance ascends from the special nature of the activities engage in by financial institutions and the significant role of the financial system in the development process. Wood (2012) had before mull over the significant functions performed by the financial system. First, through economies of scale in the collection of information and portfolio management, financial intermediaries transmute the financial claims flowing from borrowers to lenders in order to satisfy concurrently the portfolio preferences of both economic agents.

It should be noted that it is through the intermediation process transaction costs are reduced and there is greater divergence of risk than is attainable under direct finance. Accordingly, financial intermediaries contribute meaningfully to an increase in investment activities and, hence, growth. Second, financial intermediaries may serve as leading agents in development by pinpointing entrepreneurs with the potentially most profitable ideas and products, and supplying finance to these projects (King and Levine, 1993; Drzeniek-Hanouz et al., 2009). Third, financial intermediaries facilitate a more efficient allocation of resources through their ability to overcome informational problems in financial markets (Diamond, 1984; Mayer, 1988). Fourth, financial institutions may serve as a disciplinary device on management, thereby encourage managers to pursue policies that can develop the financial performance of firms (Jensen, 1986 and 1988; Sheard, 1989; Aoki and Patrick, 1994). Moreover, financial intermediaries may play an significant role in the reordering of assets through corporate reformations. Fifth, the financial system facilitates trade through the provision of credit and ensuring payments. Finally, financial institutions provide specialized services, for instance, brokerage, insurance, property management, underwriting and other financial services.

2.3 Public Statutory Powers of a Regulatory Body

According to Mwenda (2006), most operative regulatory bodies, whatever the jurisdiction in which they operate, have clear duties and objectives, adequate powers, profuse resources, transparency together with accountability. Usually, the responsibilities and objectives of such a body is dependent in part on the regulatory model in place and the role the regulator has been recognized to accomplish. It has been upheld, for example, that a regulator must have sufficient legal powers to make regulation operational, perhaps the power to

- authorize businesses to conduct regulated activities;
- supervise regulated businesses;
- inspect, investigate, and enforce compliance with legal and regulatory requirements, either through imposition of license requirements or withdrawal of authorization; and
- share information with other regulators.

Also, so as to facilitate application of these powers, the law should also provide the regulator with protection against any liability that may arise from the appropriate discharge of its powers. In several countries, primary legislation protects regulators from liability arising out of the exercise of any of their powers unless the regulators exercise those powers in bad faith. The protection of regulators is vital. It gives them an inducement to perform diligently, competently, independently, and professionally, without fear that they will be sued by an aggrieved party, even if they had acted in good faith, for offences such as negligence or trespass. Another area where some regulators face resource constraints relates to an inability to hire well-qualified people to perform certain supervisory tasks. The lack of suitably qualified human capital is an outstanding constraint on regulatory agencies, especially in developing countries and emerging economies. Equally important is the human resource limitation couple with the lack of suitable infrastructure and technology to process information in a timely and reliable manner. Yet again, various regulatory agencies in developing countries and emerging economies are confronted by this problem. On the whole, the issue of how independent a regulator should be has produced considerable discussion on the disadvantages and advantages of the very concept of an independent regulator. A common view, however, is that a regulator should be operationally independent and accountable for the use of its powers. The resulting indicators are characteristic of a regulator with accountability: operations that are independent of political and commercial interests and that are transparent; the right of appeal of the regulator's decisions; and access to judicial review of the regulator's decisions. Regulatory bodies habitually seek to achieve transparency and accountability by imposing both internal and external safety measure (Mwenda 2006).

2.4 Forms of Regulatory Measures

Financial systems globally are subject to many types of regulatory measures which vary by levels of complexity and scope depending on the state of development of the country's financial system and the opposing cultural, economic and political systems. The study identifies the following types or groups of financial regulation: structural, monetary, prudential, code of-conduct/consumer protection and competition. Structural regulation sets the overall limits for the financial institutions. It indicates the sorts of activities, products and geographical boundaries within which financial institutions can operate. Monetary regulation, sometimes termed macro-monetary regulation, refers to the use of monetary policy tools to bring about planned macroeconomic outcomes. Traditional instruments of monetary policy comprise of open-market operations, cash reserve requirements, interest rate controls and discount rate. Prudential regulation pay attention on the safety and soundness of financial institutions. This kind of regulation emphasizes the control of risk mostly through capital requirements, limits on customer concentration and risk-based portfolio assessment. Prudential regulation is more divided into micro and macro-prudential regulation. Micro-prudential regulation focuses on the health of individual institutions while macro-prudential regulation refers to the use of prudential tools with the clear objective of promoting the reliability of the financial system as one. Macro-prudential regulation may as a result be considered systemic regulation where the focus is on the externalities from financial disturbances (Williams, 1996; Wood and Clement 2015).

Practically, after the financial crisis, a prevalent agreement arose among policymakers and academics that a new macro approach to prudential regulation meant at covering externalities was needed to stabilize the economy going forward (Glavan and Anghel, 2013). Precisely, the regulatory measures should address issues connecting to the underestimation of risk during economic booms and overestimation during economic recessions, the procyclicality phenomenon reflected by the Warwick Commission (2009) along with Mishkin and Eakins (2012), among others. This would safeguard that financial institutions, largely banks, invest more capital than they would generally consider necessary in boom periods so they can support credit during crash periods by releasing this capital. Such activities would narrow the gap between economic boom and crash periods and, hence, achieve greater economic steadiness.

Besides, consumer protection regulation is captivated on conduct of-business arrangements planned to protect the consumer from factors such as insufficient information, bad practices by financial firms and unfair practices (Llewellyn, 2004). This sort of regulation needs setting and applying the suitable rules under a transparent legal framework. It is not the meekest task for the ordinary consumer to understand the specifics of financial products and, henceforth, can be disadvantaged in their transactions with financial institutions. Woolward (2013) notes that numerous financial firms add layers of complexity via impenetrable jargon, pages of terms and conditions, bizarre exclusions in the reams of small print, and products launched and withdrawn with often bewildering frequency. Yet, regulations that consider the interest of consumers, with regards to making financial terms more customer-friendly and having the financial institutions being more clear, fair and accountable for their actions, will aid to make sure that customers are protected against biased and unfair practices by the institutions (Jordan 2015). Accordingly, competition regulation is intended to make sure that there is fitting degree of competition in the financial system and that anticompetitive practices by financial firms are removed. This type of regulation is important to prevent unproductive competition leading to poor consequences for consumers. In addition, competition regulation involves probing markets from all angles and in search to understand the interactions between both demand and supply-side competition weakness. The regulator then uses his powers to develop the effectiveness of competition (Wood and Clement 2015).

2.5 The Role of the Central Bank

A different significant factor that must be considered when thinking of changing the regulatory structure, is the role of the central bank. More precisely, to what degree should the central bank, with responsibility for monetary (macro-monetary) regulation, be involved in prudential regulation? There are three main issues which must be considered in determining the central bank's role: The interaction between financial stability and prudential supervision, the concentration of power and the independence of the central bank (Wood and Clement 2015). One doctrine supports that the central bank is well placed to perform the dual role of monetary and prudential regulator. Schoenmaker (2013) supports this view on the grounds that the objectives of financial stability and prudential supervision are two sides of the same coin. As, instabilities in the financial system have an impact on the real economy, with related effects on output and inflation. Also, merging the responsibilities for monetary policy and prudential regulation can also be advantageous in crisis management arrangements. For example, in the United Kingdom, the memorandum of understanding between the Bank of England and the Financial Services Authority gave the Bank of England lender of last resort responsibility. Whereas, the Financial Services Authority had responsibility for the conduct of operations in response to problem cases affecting firms, markets, and clearing and settlement systems within its purview. When the bank run on Northern Rock occurred in September 2007, the authorities were criticized for failing to respond adequately and promptly to prevent the run on the bank. This led to a revival of the argument that the central bank should also be the bank supervisor, since it is very difficult for the lender of last resort to act promptly when the agency with the knowledge of a particular failing bank is not the same agency responsible for extending credit. The authorities' response in the United Kingdom was to unify the Financial Services Authority with the Bank of England (Taylor, 2013).

However, the disagreement for the dual role of the central bank must be balanced against the concern about concentration of power. Some of the normal checks against the abuse of regulatory power might be stress-free when the regulatory function is combined with other powers. For instance, a bank might be reluctant to challenge regulatory actions (anything from proposed rulemaking to an enforcement action) for fear that the central bank might retaliate by limiting its access to liquidity support in times of need (Taylor, 2013). Furthermore, the central bank may suffer loss of credibility if it performs poorly as a bank supervisor, which could compromise its effectiveness in applying monetary policy. Nevertheless, in developing countries such concentration may prove beneficial. The build of the central bank may be necessary to force change in the culture of regulation. The central bank may be a necessary force behind a hopeful supervisory regime. Surely, the World Bank's Bank Regulation and Supervision Survey 2012 notes that in more than 60% of jurisdictions, central banks are the agencies that supervise commercial banks for prudential drives (Wood and Clement 2015).

The independence of central banks is commonly considered necessary with respect to monetary policy. There is also a trend to require regulatory and supervisory independence henceforth; if the supervisory role is done by the central bank. It is expected that the independence the central bank has over its monetary policy function will also apply to its prudential function. In many developing market economies, the central bank possesses a degree of prestige and independence not enjoyed by a regulatory agency under a wing of a government ministry. This permits the central bank to pursue a forceful regulatory policy free from political meddling. But, the type of independence that is necessary for the central bank's macro-prudential function may not be appropriate for micro-prudential regulation. Since micro-prudential regulation has the potential to impact on individual rights (for instance, those of shareholders). As a result, the bank supervisor must be limited by the checks and balances provided by judicial review and political accountability (Schooner and Taylor, 2010).

2.7 Synopsis of Sierra Leone Fiscal Regulatory Framework

In an attempt to decide whether Sierra Leone fiscal system would benefit from a combined regulator and to speak out on the role of the Ministry of Finance and Economic Development, the current structure of the regulatory system must be understood. Revenue mobilisation is an important instrument for the Government of Sierra Leone (GoSL) in accomplishing its ambitions for poverty reduction; delivering its 'Agenda for Prosperity'; increasing financial independence; and reaching middle income status. In this regard therefore; Sierra Leone tax administrative system has experienced considerable changes since its beginning. Reforms have ranged from the creation of the Non-Tax Revenue department (NTR) in 2004, the introduction of Taxpayer Identification Numbers (TINs) in 2009, the launching of the Automated System for Customs Data (ASYCUDA++) as well as the implementation of the Goods and Services Tax (GST) in 2010. Also, the establishment of the Domestic Tax Department (DTD) in early 2011 and the introduction of the Domestic Tax Information System (DTIS) in 2013, then the establishment of the Extractive Industries Revenue Unit (EIRU) in 2014 (Adam Smith International 2015).

On account of the above goals, the National Revenue Authority (NRA), a semi-autonomous government revenue authority was established by an Act of Parliament on the 13th September 2002 so as to achieve these goals. The aforementioned operations began in 2003; with the goal of focusing on cumulative domestic revenue collection and lessening donor dependence. As a result, NRA primary mandate is to assess and collect tax revenues on behalf of the Government of Sierra Leone. In order to increase domestic revenue a combination of revenue policy and revenue administration reforms were done by the Government of Sierra Leone. As the revenue policy is principally the responsibility of the Ministry of Finance and Economic Development (MoFED) and the revenue administration is primarily the responsibility of NRA. Revenue administration is considered in the three functional areas of the NRA: the Domestic Tax Department, which mainly deals with personal and corporate income taxes including employee PAYE, as well as a range of withholding taxes and domestic GST. The Customs and Excise Department which deals mainly with import duties, GST on imports and excise taxes – the main one being on petroleum. And the Extractives and Non-Tax Revenues (the most significant being mineral licenses and royalties; most are assessed by MDAs but collected by NRA). Out of the three functional areas of the NRA, the area with the greatest revenue potential is domestic taxes. As it is common in developing countries, tax policy is usually much stronger than tax administration, the latter being more affected by limited resources and human capacity, even with the relative advantage of a semi-autonomous revenue authority structure. It is always much at ease to develop and pass laws than it is to implement them. Given the tax administration's comparatively imperfect resources, there is a need to balance scarce resources between helping taxpayers who are prepared to willingly conform under self-assessment systems and actively following up non-compliers with emphasis on the latter. This area is still in its embryonic stage in Sierra Leone; as being reliant on risk-based exploration as well as data matching with external sources (Adam Smith International 2015).

Nevertheless, gaining revenues from tax rate changes in any direction requires that tax administration is effective to at least to some extent. Raising revenues through base expansion needs even improved tax administration. New taxpayers must be known and brought into the tax net and new collection techniques developed. Such changes take time to implement. The best tax policy in the world is worth little if it cannot be applied effectively. Tax policy design must consider the administrative aspect of taxation. What can be done to a substantial extent unavoidably regulates what is done (McLaren 2003).

In addition, the importance of good administration has long been as understandable to all concerned with tax policy in developing countries as its absence in practice. One cannot shoulder that whatever policy designers can ponder can be done or that any administrative problems faced can be easily and quickly resolved. How a tax system is administered affects its yield, its incidence, and its efficiency. Therefore, administration that is unfair and unpredictable may bring the tax system into disrespect and weaken the legitimacy of state actions. In a lot of transitional countries, for example, the failure to improve tax administration when introducing new tax structures resulted in very uneven tax burden, widespread tax evasion, and lower than expected revenue. In developing countries, corporate tax liabilities are often negotiated rather than calculated as set out in the law. Bribery is sometimes so common that it is considered a regular part of the compensation of tax officials. Such corruption weakens confidence in the tax system, affects willingness to pay taxes, and reduces a country's capacity to finance government expenditures (Fjeldstad 2005).

It is however, useful to think of the problem of tax administration at three levels: architecture, engineering, and management. The first level concerns the design of the general legal framework - not only the substance of the tax laws to be administered but also a wide range of important procedural features. Once the general architectural design has been determined, the engineer takes over and sets up the specific organizational structure and operating rules for the tax administration. Lastly, once the critical institutional structure has been erected, the tax managers charged with actually administering the tax system can do their jobs. One cannot assess how well a tax administration is functioning, let alone propose how to improve it, without considering not only the environment in which it has to function but also the laws it is supposed to administer and the institutional structure with which it has been equipped (Shoup 1991). Thus, three ingredients are essential for effective tax administration: the political will to administer the tax system effectively, a clear strategy for achieving this goal and adequate resources for the task. It helps, of course, if the tax system is well designed, appropriate for the country in question, and relatively simple, but even the best designed tax system will not be properly implemented unless these three conditions are satisfied. Most attention is often paid to the resource problem -- the need to have sufficient trained officials, adequate information technology and so on. However, without a sound implementation strategy even adequate resources will not ensure success and without sufficient political support even the best strategy cannot be effectively implemented. If the political will exists, the blueprint for effective tax administration is relatively straightforward. The tax administration should be given a suitable institutional form, which may (or may not) mean a separate revenue authority: as deliberated later, the jury is still out on this question. It should be sufficiently staffed with trained officials. It should be correctly organized, which usually means an organizational structure based on function or client groups (e.g. large- and small-taxpayer offices) rather than on a tax-by-tax basis. Computerization and appropriate use of modern information technology are important, but as discussed later technology alone is not sufficient and these improvements must be carefully integrated into the tax administration. Putting all this into place takes time, resources, direction and effort. But it can be done, as countries from Singapore to Chile have shown (Bird 2007).

Finally, if a country needs or wants better tax policy or administration, it can have it - the answer largely lies in its own influences. Even those who want to do the right thing, yet, can often use help in finding out just what is right and how it can best be done. Therefore, it is always easy and occasionally effective for those not in a game to give counsel to those who are trying to play it. In general, however, outside agencies interested in nurturing better sustainable tax systems in developing country will likely employ their efforts and resources most usefully if they play in the right game. Fifty years of experience tells us that the right game is not the short-term political game in which policy decisions are made. As an alternative, it is the long-term game of building up the institutional capacity both within and outside governments to express pertinent ideas for change, to collect and analyze relevant data, and of course to assess and criticize the effects of such changes as are made. Such long-term 'institution-building' activities are seldom instantly recompensing. However, they are surely out of style. It seems much more alluring and directly productive to create 'standards' for success, to support this specific organizational change reform here (National Revenue Authority) and that new technology (automation) there, in the seeming belief that such simple 'one-size-fits-all' approaches can provide quick but, sustainable answers to the several complex problems inherent in policy reform in difficult environments (Bird 2007).

III. Research Method

This paper explored the fiscal regulatory frameworks through the national revenue authority as an engine of economic growth in Sierra Leone with the use of secondary data obtained from published materials such as documentations available on websites, journals and, other researches related to this study.

IV. Results and Discussion

Revenue mobilization is an important tool for the Government of Sierra Leone (GoSL) in achieving its drives for poverty reduction; delivering its Agenda for Prosperity; amassing financial independence; and reaching middle income status. It has also been recognized that the financial system plays a key role in the development process. It is well-known that taxation is an important part of every country's development policy, entwined with many other areas, from good governance and formalizing the economy, to stimulating growth through, perhaps, promoting small and medium sized enterprises (SMEs) and inspiring export activities.

The study had proven that the financial and regulatory frameworks that support NRA to perform effective revenue mobilization are based on the following regulations and laws: revenue laws enacted by parliament; annual budget, Finance Act, Strategic plan; the assessment of collection and accounting for all revenue collected; the use of electronical based systems; the provision of tax legislation and policy; transparency in the tax administration; modernization of custom service department; the national acts, regional treaties, other international treaties are some of the financial and regulatory frameworks that support NRA to perform effective revenue mobilization. These regulations and laws are necessary because, they provide the government the funding obligatory to build the infrastructure on which economic development and growth are based, constructs an environment in which businesses are done and wealth is created. They as well position the way government activities are conducted in addition, plays a leading role in domestic resource mobilization.

V. Conclusion

Based on the conclusion of this study, though NRA has the capacity to mobilize domestic revenue but, can in addition strengthen its capacities with the purpose to continue to mobilize domestic revenue so as to improve the Sierra Leone revenue performance as compared to other West African economies. This can be done through the assessment of various platforms where revenue analysis is done, evaluate all revenue generation areas, introduce IT system that can pursue the single window and; introduce an effective mechanism to monitor and collect taxes. In addition, NRA should adopt an approach that can improve the investment climate for enterprise development through the enhancement of trade facilitation, provide automated system, working with other stakeholders, encourage business people to involve in fair trade process and; implement a favourable tax regime for SMEs.

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