Advanced Research Journal
Volume 2, Number 1, 2025, 23-31
DOI: 10.71350/3062192527
ISSN: 3062-1925

Article

An analysis of the current taxation policies affecting agro-processing micro-enterprises (AMEs) in the Cocoa Sector in Kenema City

Alpha Obi Fayia[1], Emmanuel Dauda[2], Mohamed Yusuf[3]

[1] Department of Business Administration, Eastern Technical University, Sierra Leone
[2] Institute of Social Studies, Administration and Management, Njala University, Sierra Leone
[3] Department of Peace and Development Studies, Njala University, Sierra Leone

Abstract

The study utilized a qualitative research technique to investigate the impact of taxation on the operations and growth of several players in the cocoa value chain, including growers, buyers, sellers, and processors. A total of 25 participants were selected, including 8 cocoa producers, 6 buyers, 6 sellers, and 5 processors, all sourced from different areas within Kenema City to guarantee a representative sample. The results indicated that higher tax rates, complicated tax rules, and inadequate tax education constituted substantial obstacles for cocoa farmers. The study also found that a lack of understanding of tax policies and their consequences obstructed the successful functioning and expansion of AMEs. The study recommends various reforms to enhance the tax system, including thoroughly evaluating existing tax policies, establishing tax education and training initiatives for stakeholders, introducing financial assistance programs for small-scale farmers and processors, and heightening awareness of policy changes within the sector. These ideas seek to establish a more favorable environment for the development of cocoa-based AMEs and augment their impact on the local economy.

Article History
Received 10.12.2024
Accepted 27.02.2025

Keywords
Agro-processing micro enterprises; taxation; policy reforms; cocoa sector; Kenema

Introduction

This study examines taxation policies on agro-processing micro-enterprises within the cocoa sector in Kenema City, Eastern Sierra Leone. Tax rules concerning micro-enterprises are crucial, as these businesses significantly contribute to the nation's economic development, regardless of their smaller scale. Despite their vital contribution to economic development and job creation, AMEs struggle with a complicated tax environment that may hinder their growth and expansion prospects. While taxation is an essential income stream for the government, the current tax structure of Sierra Leone appears to impose significant burdens on small firms, particularly in the agro-processing sector. The imposition of taxation manifests as reduced profitability, constrained cash flow, limited opportunities for expansion and growth, high tax rates, occurrences of double taxation, complex tax regulations, and inadequate comprehension of tax-related issues, all of which present substantial challenges to operations. The deficient tax framework and absence of effective tax policy design have significantly jeopardized the

Corresponding Author Mohamed Yusuf ✉ Department of Peace and Development Studies, Njala University, Sierra Leone

business climate, particularly for agro-processing micro-enterprises in the cocoa sector in Kenema City, Eastern Sierra Leone.

Sierra Leone Tax System

The tax system of Sierra Leone is managed by the National Revenue Authority (NRA), established by an Act of Parliament in 2002. The National Revenue Authority is overseen by a Board of Directors, which possesses the financial autonomy to retain 3% of all collections for operational expenses, similar to an increasing number of administrations in the region. It comprises three principal departments, each associated with a major tax type: the Income Tax Department, the Goods and Services Tax Department, and the Customs and Excise Department.

Income taxes encompass both personal income taxes and corporation taxes, regulated by the Income Tax Act of 2009. Personal income tax is levied on every individual possessing chargeable income for the twelve-month assessment year. The tax is due on the total income of the taxpayers from all sources. The tax system is progressive, imposing elevated rates on individuals with more income. The predominant portion of personal income taxes is sent monthly by employers through the pay-as-you-earn (PAYE) system.

Income tax is a direct tax levied on business income, employment income, pension investment income, and payroll tax. Income tax is imposed on the aggregate income of both resident and non-resident individuals in Sierra Leone. Resident individuals are subject to taxation on their global income, whilst non-resident individuals are taxed solely on income sourced from Sierra Leone. The corporate tax rate is established at 30% of taxable income following suitable deductions. The Customs and Excise Department oversees international trade taxes and several domestic indirect taxes, including the domestic sales tax. It also oversees domestic excise taxes and is responsible for collecting the import Goods and Services Tax (GST) and the 3% withholding tax on income for the GST and Income Tax Departments.

Customs administration is regulated by the Customs Tariff Act of 1978, the Excise Act of 1982, and the Sales Tax Act of 1995. The Goods and Services Tax was implemented in 2010, imposing a 15% tax on the value contributed to all commercial transactions. The implementation of the new tax was accompanied by the establishment of the GST Department to supervise its enforcement. Additionally, there exist four classifications of business taxpayers determined by their turnover. The existing thresholds are delineated in the Income Tax Act of 2000, as modified by section 6 of the Finance Act of 2000. These comprise huge taxpayers, midrange taxpayers, and tiny taxpayers. Large taxpayers refer to those with a yearly turnover above le 5,000,000,000 and/or other supplementary criteria. A medium taxpayer is defined as an individual or entity with an annual turnover above le 100,000,000 and not surpassing le 5,000,000,000, both of which are subject to the standard tax regime. A small taxpayer is defined as one having an annual turnover exceeding le 10,000,000 but not surpassing le 100,000,000.

Sierra Leone's tax system comprises both centralized and decentralized taxation mechanisms. The centralized tax system is administered by the National Revenue Authority, while the decentralized tax system is managed by local governments or councils within their respective jurisdictions. A chiefdom administrative tax system is levied on products, individuals, and services throughout many chiefdoms in Sierra Leone.

Review of Related Literature

This review examines the current literature on tax policies and regulations affecting micro-enterprises in the cocoa industry. Furthermore, it examines the impact of policy measures on advancing equitable taxation and enabling the formalization of micro-enterprises within the cocoa sector. Tax policies are the decisions made by a government on the types and amounts of taxes to impose, and the individuals or entities subject to them (Even, 2013). The taxation policy for AMEs is critical as AMEs constitute a substantial segment of the economy, despite their individual lower scale (Holban, 2007). Tax policy has a crucial and multifaceted role in the development of agro-processing firms within the cocoa sector. This sector is crucial for food security and employment generation, and its reliance on tax regulations directly and indirectly influences the growth and expansion of agro-processing. Research indicates that taxation policies significantly influence the economic landscape for agro-enterprises. It is observed that elevated tax rates can adversely affect investment in agro-enterprises, constraining their potential for expansion and modernization.

The taxation system in Sierra Leone has evolved, integrating various taxes that impact enterprises across diverse sectors, including cocoa processing. The National Revenue Authority (NRA) regulates tax administration, holding micro-enterprises accountable for corporate income tax (CIT), value-added tax (VAT), and customs charges (NRA, 2023). In the cocoa agro-processing business, mismanaged or excessive taxation undermines the competitiveness of small enterprises. A World Bank study (2021) reveals that despite the government's tax relief initiatives for Small and Medium-sized Enterprises (SMEs), many agro-processing micro-enterprises cannot effectively leverage these incentives due to their constrained capacity and lack of awareness. The complexities of tax legislation and compliance requirements, especially with VAT and CIT, provide significant challenges for small-scale processors (World Bank, 2021). Uzor (2004) contends that both ineffective policy formulation and domestic market failures intensify the challenges faced by Agro-Processing Micro-Enterprises (AMEs) in underdeveloped countries. A major obstacle faced by AMEs is the lack of access to both short-term and long-term financing. Personal income tax affects labor expenses. An augmented tax rate leads to reduced net income for employees and heightened costs for firms and production.

Impact of Corporate Income Tax (CIT)

The Corporate Income Tax (CIT) substantially impacts the profitability of micro-enterprises in the cocoa processing industry. The International Labour Organisation (ILO, 2022) reports that smaller firms in Sierra Leone enjoy reduced corporate income tax rates compared to larger corporations; yet, the tax remains a significant burden. Minor processors may require substantial resources to meet tax liabilities, which could otherwise be spent in the business for equipment enhancements or growth projects. Nevertheless, CIT constitutes merely one of the tax obstacles encountered by cocoa processors in Kenema. Adherence to CIT standards entails administrative expenses and efforts that may divert critical resources from core corporate operations (ILO, 2022). Administrative difficulties for cocoa processors may result in considerable potential costs, shifting focus from tax compliance to the improvement of production processes or market expansion (Bertoli et al., 2019).

Impacts of Value-Added Tax (VAT) and Cash Flow Issues

Value-added tax (VAT) is a taxation policy that significantly impacts the cocoa sector. Value Added Tax (VAT) is imposed on the procurement of raw materials and the sale of finished goods, creating cash flow difficulties for small processors in Kenema due to the taxation structure. Small-scale cocoa processors in Sierra Leone encounter difficulties concerning the initial VAT expenses on inputs such as cocoa beans, machinery, and packaging. Notwithstanding exemptions for exports, many micro-enterprises in areas such as Kenema are unable to obtain refunds on VAT paid for inputs, exacerbating cash flow difficulties. The deferral of VAT refunds, or the inability to collect them, might result in firms essentially pre-financing government income, so negatively impacting the financial stability of micro-enterprises. Cash flow challenges affect both immediate operations and hinder long-term growth by limiting a business's ability to invest in capacity development and market expansion (ILO, 2022).

Impact of Customs Duties on Agro-Processing Machinery

A significant problem faced by agro-processing micro-enterprises in the cocoa sector is the taxes levied on imported machinery and equipment through customs duties. Research by the Food and Agriculture Organisation (FAO, 2020) reveals that customs tariffs on machinery increase the capital expenditure required for small processors, consequently limiting their ability to upgrade their equipment. In the cocoa industry, processors requiring sophisticated roasting and grinding equipment frequently encounter challenges in importing such machinery due to elevated customs taxes. A case study by the International Trade Centre (ITC, 2022) indicated that cocoa processors in Sierra Leone frequently employ antiquated machinery, leading to production inefficiencies. While customs taxes are intended to protect domestic industries, the increased expenses they create for small businesses substantially reduce their competitiveness in the international market. As a result, micro-enterprises in Kenema face a significant competitive disadvantage, particularly in comparison to larger organizations that can absorb these costs (FAO, 2020).

Local Taxes and Regulatory Compliance

Alongside national taxes, municipal taxes and charges exacerbate the operational difficulties faced by micro-enterprises. These may include corporate licensing, environmental taxes, and land use costs. According to research conducted by the Sierra Leone Chamber of Commerce, Industry, and Agriculture (SLECCI, 2021), local taxes and regulatory obligations often exacerbate the complexities faced by businesses that are already burdened by national taxes. For micro-enterprises in areas such as Kenema, these additional costs can be disproportionately high compared to the resources available to the business. The SLECCI (2021) research emphasized that local governments often encounter difficulties in efficiently enforcing tax rules, resulting in inconsistent taxation practices and complications for enterprises in understanding their tax responsibilities. The combination of local taxation and inconsistent enforcement methods creates a widespread sense of uncertainty and danger for small-scale cocoa processors (SLECCI, 2021).

Limited Access to Tax Incentives

The limited awareness of various tax benefits and exemptions in Sierra Leone among micro-enterprises presents a significant challenge. The World Bank (2021) asserts that tax incentives intended to foster entrepreneurship are often underutilized by small businesses, particularly in rural areas. The failure to use these incentives stems from factors such as inadequate knowledge, bureaucratic impediments, and the lack of efficient information dissemination channels. Moreover, even when incentives exist, the application processes may be daunting for small processors. These firms may lack the administrative capacity to pursue tax exemptions on agricultural products or to get preferential tax rates (World Bank, 2021). The lack of access to tax incentives ultimately impedes small-scale cocoa processors from reaping the benefits that could improve their productivity and competitiveness. H. Huet et al. (2021) contend that promoting investment and reducing the tax burden can improve agricultural output and increase its competitiveness and growth.

Method

This study employed a qualitative research methodology to examine the existing taxation rules impacting agro-processing micro-enterprises (AMEs) within the cocoa sector in Kenema City, Sierra Leone. The objective was to get a thorough understanding of the effects of taxation on the operations and growth of cocoa farmers, buyers, sellers, and processors, as well as to identify potential obstacles and opportunities within the existing regulatory framework.

Sampling

A purposeful sample method was utilized to guarantee the selection of participants directly engaged in the cocoa sector. The research focused on four primary groups: cocoa growers, cocoa purchasers, cocoa sellers, and cocoa processors. A total of 25 participants were selected: 8 cocoa producers, 6 buyers, 6 sellers, and 5 processors. The participants were chosen from several areas within Kenema City to ensure a representative sample from various stages of the cocoa value chain.

Data Collection

Data were gathered using semi-structured interviews, facilitating a comprehensive examination of the participants' experiences and perspectives on taxation policies. The interviews had open-ended questions addressing many themes, including the sorts of taxes participants recognized (e.g., VAT, income tax, customs charges, local taxes), the effects of these taxes on their enterprises, and their access to tax exemptions or incentives. Participants were queried regarding the difficulties encountered in adhering to tax requirements and their views on governmental assistance for micro-enterprises within the cocoa sector. Interviews were conducted face-to-face and audio-recorded with permission.

Data Analysis

The data collected were transcribed verbatim and subjected to thematic analysis. The thematic analysis facilitated the identification of prevalent patterns, repeating themes, and distinctions among the different groups. The transcripts were analyzed to identify major themes concerning tax loads, compliance concerns, awareness of tax benefits, and general company difficulties. The investigation facilitated conclusions regarding the influence of taxation laws on the sustainability and expansion of cocoa agro-processing micro-enterprises in Kenema City.

Discussion of the Findings

This study examines the existing taxation regulations impacting Agricultural Micro-Enterprises in the cocoa industry in Kenema City, Eastern Sierra Leone. Tax policies are the decisions taken by the Government regarding the types and quantities of taxes to impose and the individuals or entities subject to them. Tax regulations for AMEs are a critical concern as AMEs constitute a substantial sector of the economy, despite their lower scale (Holban, 2007). Notwithstanding their contributions to economic growth, expansion, and job creation for Sierra Leoneans, they are adversely impacted by tax policies characterized by elevated tax rates, multiple taxation, intricate tax regulations, and insufficient education regarding tax-related matters, which have imposed significant burdens on their operations (Vasak, 2018). The majority of AMEs are less likely to achieve their increasing profitability due to issues such as tax policies. The findings of the conversation are shown by the following:

Higher Tax Rate

The findings revealed that the tax rates levied on AMEs can hinder compliance, particularly among resource-limited firms, and elevated tax rates on the production and profitability of AMEs have curtailed their growth and expansion, notably in the cocoa industry. The operational expenses of agro-processing micro-enterprises in the cocoa sector in Kenema are significantly influenced by the enforcement of elevated tax regulations. Taxes, including VAT, income tax, and customs duties on imported equipment, diminish profitability, resulting in less cash for investments in corporate expansion or technological advancements. Small-scale processors sometimes have difficulties in tax compliance due to insufficient financial and administrative resources. The supplementary financial strain hinders business competitiveness, limits capacity growth, and creates cash flow challenges. Consequently, many micro-enterprises face challenges in maintaining sustainability, which undermines their ability to innovate, expand, and compete effectively in both home and international markets. If the tax structure is not appropriately tailored to the specific conditions of AMEs, it may impose a significant burden on their tax obligations, thereby jeopardizing the financial stability and operations of AMEs in the cocoa sector in Kenema.

Complex Tax Regulations

The study revealed that agro-processing micro-enterprises encounter increasing challenges due to intricate tax regulations and policies, which have imposed a significant burden on their financial operations and profitability within the cocoa industry in Kenema City. The tax policies and procedures are unclear to agro-processors. A considerable proportion of small-scale processors cannot adhere to intricate tax requirements owing to insufficient finances or competence. This often results in income underreporting, hence intensifying financial instability. The time and resources required to manage these complex requirements impede the core operations of a firm, such as marketing and production. The lack of information concerning relevant tax advantages for small firms hinders their capacity to use potential benefits, thereby obstructing their growth, competitiveness, and long-term viability.

Lack of Tax Education

The research revealed that the majority of AME operators fail to adhere to tax legislation and policies. Regular tax education is necessary for them to understand the tax policies and rules established by authorities and the government. The AME operators require clarification on their tax obligations and the rationale for these payments. They should also be informed on the tax structure and its components. This will enhance their compliance behavior.

Conclusion

This study investigates the taxing difficulties encountered by agro-processing micro-enterprises (AMEs), which are vital to the economy despite their limited size (Holban, 2007). AMEs have considerable challenges, including elevated tax rates, numerous taxes, complex regulations, and inadequate tax education, resulting in substantial operational expenses (Vasak, 2018). Increased tax rates may deter compliance, especially among smaller enterprises, impacting their financial performance and profitability (Oats & Onama, 2017). Moreover, insufficient tax assessments by officials exacerbate these financial difficulties (Muwanga, 2004). Cultural and societal attitudes on taxation impact AMEs' compliance, whereas non-compliance constrains access to funding, hence limiting their growth and development potential (Muwanga, 2018). Inadequate financial management procedures exacerbate tax compliance issues (Mwai, 2019). The analysis reveals a negative relationship between taxation and AMEs, indicating that resources designated for tax compliance may be redirected towards reinvestment to stimulate growth, implying that the tax system puts excessive constraints on small enterprises (Tomlin, 2008). The study revealed that the complex tax system and substantial tax burden adversely affect the financial performance and growth potential of AMEs, especially in Sierra Leone. The lack of tax reforms and adverse policies obstruct the growth of AMEs. Taxation diminishes profitability and constrains growth potential (Basire et al., 2019). The study advocates for the government to establish reasonable and efficient tax policies that encourage AMEs and create a growth-oriented environment, hence enhancing business success and increasing tax revenue.

Recommendations

According to Gitaru (2017), for AMEs to enhance their tax compliance, individuals engaged in their tax affairs must possess the knowledge and abilities necessary to interpret the diverse tax laws and regulations. Taxpayers exhibit a lack of apprehension regarding potential tax audits and associated fines (Thomas & Ferrier, 2003). Consequently, the subsequent important recommendations for this study are presented.

Tax policy review and reform: The Sierra Leone government ought to undertake a thorough evaluation of its tax policy, particularly concerning AMEs, to streamline tax systems, lower tax rates, and thereby improve equity. The government should form a specialised tax policy review group consisting of tax professionals, government officials, and AME representatives. The committee must delineate particular domains for tax improvements and recommend amendments to tax statutes and regulations.

Tax education and training: Mandatory tax education and training programs for AMEs should include workshops, seminars, and accessible online tools to enhance their comprehension of tax compliance obligations and incentives. Accessible, cost-effective, and secure digital platforms for tax compliance are essential. Deliver technical assistance and training to facilitate AMEs' transition to a digital tax system in the cocoa industry in Kenema.

Financial support mechanism: The government should implement financial support measures, such as low-interest loans and grants, to aid AMEs in fulfilling their tax commitments during challenging times. This is achieved by collaborating with local financial institutions, such as banks, to develop and provide financial assistance specifically designed to address the tax-related cash flow difficulties faced by AMEs.

Regular stakeholder engagement: Establish platforms that unite AMEs associations, chambers of commerce, tax authorities, and policymakers to promote open dialogue and feedback on tax policies and regulations through the organisation of periodic meetings, seminars, and consultations, ensuring that perspectives are acknowledged in the policymaking process.

Policy awareness campaign: A policy awareness campaign should be conducted using diverse media platforms such as television, radio, social media, and community outreach programs to convey information regarding the advantages of tax compliance and the repercussions of evasion.

Research data collection: The government should commit resources for ongoing study and data collection to assess the effects of tax policies on AME's financial success and economic growth. This is achieved through collaboration with academic institutions, research organizations, and statistical agencies to perform frequent surveys and studies on AME's tax compliance and its impact on the wider economy.

Declarations

Acknowledgments: Not applicable.

Competing interests: The author(s) declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

Publisher's note: Advanced Research Journal remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.

References

Ahene, A. A. (2005). *Changing regulatory environment for small-medium size enterprises and their performance in Ghana* (Unpublished master's thesis). Government Management Training Center, Tehran.

Basire, et al. (2019). The relationship between corporate tax compliance cost and financial performance of SMEs in Kenya. *International Journal of Economics, Commerce and Management, 7*(4), 70-87.

Evans. (2013). The effect of tax payment on the performance of SMEs: The case of selected SMEs in Ghana, West Municipal Assembly. *European Journal of Business and Management, 8*(20), 119-125.

Farzbod, J. (2000). *Investigation of the effective factors in tax efficiency* (Unpublished master's thesis). Government Management Training Center, Tehran.

Fjeldstad, et al. (2016). Fighting fiscal corruption: Lessons from the Tanzania Revenue Authority. *Public Administration and Development, 23*, 165-175.

Hanefah, et al. (2002). Compliance costs of small and medium enterprises. *Journal of Australian Taxation*.

Holban, O. (2007). The taxation of small and medium-sized enterprises: A hindering factor influencing European economic growth. *Alexandra Ioan Cuza University*.

Huet, H., et al. (2021). Corporate profit shifting and the role of tax havens: Evidence from German county-county reporting data. *Journal of Economic Behavior and Organization, 194*, 454-477.

International Tax Dialogue. (2007). *Taxation of SMEs: Background paper for the International Tax Dialogue conference, Buenos Aires*.

Maseko, N. (2014). Determinants of tax compliance by small and medium enterprises in Zimbabwe. *Journal of Economics and International Finance, 8*(3), 21-30.

Mnewa, & Maliti, E. (2008). The role of small business in poverty alleviation: The case of Dares Salaam, Tanzania. *S.I. Research Report*.

Mopelwa, D. (2018). Culture and tax evasion in South Africa: An empirical investigation. *Journal of Economics and Behavioral Studies*.

Mwai, G. (2017). Tax compliance among small and medium-sized enterprises in Kenya: A case of Kitale town, Trans Nzoia County. *International Academic Journal of Human Resource and Business Administration, 2*(8), 203-227.

Nwaiwu, J. (2018). Tax audit practice and down south tax revenue generation in Nigeria. *International Journal of Innovative Finance and Economics Research, 6*(1).

Oats, A., & Onama, K. (2015). Tax morale: An African case study. *Journal of Accounting in Emerging Economies, 5*(4), 363-385.

Sterm, R., & Barbour. (2005). Designing a small business tax system that enhances growth: Lessons from Africa.

Thomas, & Ferrier, G. (2003). Economic and behavioral determinants of tax compliance: Evidence from the 1997 Arkansas tax penalty amnesty program. *IRS Research Conference Paper*.

Tomlin, B. (2008). The power of flexibility from mitigating supply chain risks. *International Journal of Production Economics, 116*(1), 12-27.

World Bank. (2023). Taxes and government revenue. Retrieved from https://www.worldbank.org/en/topic/taxes-and-government.revenue