Liberia Domestic Resource Mobilization (LDRM) Report

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I. Executive Summary

The fiscal analysis framework provided in this report is designed to lay the groundwork for a collaborative engagement effort between the Government of Liberia (GOL) and the United States Agency for International Development (USAID) to promote the effective mobilization and efficient and transparent utilization of public revenues under the Liberia Domestic Resource Mobilization (LDRM) Program. It focuses on the major gaps in the current revenue policy and administration regime in Liberia within the broader context of the post-conflict and post-Ebola macro-fiscal imbalances that the GOL faces, and which constrain its capacity to deliver vital public goods and services to its population. The analysis in turn establishes the strategic parameters for a joint USAID-GOL fiscal reform program which incorporates a set of revenue mobilization and related expenditure allocation goals over the 2017-2022 period.

The fiscal analysis framework also outlines a set of prospective revenue mobilization and improved revenue allocation, and budget management-related policy, and administrative oversight activities that USAID/Liberia and the GOL would commit to collaborating on during the period of implementation of the LDRM program. This would entail commitments on the part of the GOL to move forward on critical domestic resource mobilization-related policy and administrative reforms defined in this agreement. In addition, it would entail a corresponding commitment from USAID to provide targeted technical training and limited material support to facilitate effective and timely adoption and implementation of these reforms.

This report concludes with a reflection on the political economy dimensions of the domestic resource mobilization effort in Liberia, and provides key recommendations. Domestic Resource Mobilization contributes to different objectives for USAID/Liberia—reflecting the country’s short and long-term needs. Addressing the GOL’s fiscal crisis is the most immediate. Inclusive economic growth reflects another central objective, reflective of the goal of USAID/Liberia’s 2012 to 2017 Country Development Cooperation Strategy (CDCS). Finally, LDRM offers a platform to begin to repair the profoundly broken relationship between the Liberian State and its citizens—an objective reflected in the Addis Tax Initiative Declaration.

The revenue mobilization reforms are focused in three main policy and administrative reform areas: (1) transition from the Goods and Services Tax (GST) regime to a best practice compliant Value Added Tax (VAT) system, and related improvements in key tax administration functional areas (including registration, e-filing/e-payment systems, and selective audit procedures); (2) targeted improvements in the policy and administrative oversight framework for the natural resource extraction-based revenue management regime; and (3) implementation of an innovative pilot property tax reform program. The key envisaged policy and administrative reforms are laid out, and related first-cut revenue projections elaborated (as a percentage of GDP) over a five-year time-frame. Revenue tracking/estimation enhancement tools required for effective program monitoring purposes are also briefly described. In addition, key related institutional-strengthening needs and related technical collaboration priorities are framed.

The report also articulates the major shortfalls currently characterizing the expenditure planning/execution framework. It underscores the ongoing weaknesses in the medium-term
expenditure framework planning process, the lack of any meaningful/coherent focus on basic program or results-based budgeting parameters across major sectors, and the somewhat limited coverage/capacity of the Integrated Financial Management Information System (IFMIS). The limited coverage and functionality of IFMIS, along with the absence of a Treasury Single Account (TSA) System to ensure unified tracking of expenditure flows within the Ministry of Finance and Development Planning (MFPD), serve to underscore the challenges which remain in moving towards a rigorous public expenditure tracking/reporting/verification system. The resulting analysis provides an effective point of departure for establishing the policy and administrative pre-conditions which will be required to facilitate effective planning and tracking of additional LDRM-leveraged expenditures in prioritized sectoral areas.

The report recommends an overarching institutional coordination structure designed to support the effective implementation and ongoing monitoring of the expenditure programming and results-tracking activities financed under the LDRM program. This would include the establishment of an LDRM Steering Committee which would help prioritize areas of programmatic focus, and periodically monitor implementation processes and progress, across each of the five major sectoral areas of LDRM focus currently envisaged (education, health, agriculture, WASH, and forestry/biodiversity). It would also include joint USAID-GOL program audit exercises. Overall, the envisaged LDRM program provides a unique opportunity to both augment the GOL’s fiscal financing envelope on a sustainable basis and to simultaneously build robust institutional fiscal management capacity.
II. Tax Policy/Administration Regime – Status and Major Challenges

Liberia has made significant progress in recent years in improving its system of tax administration, and to a lesser extent, tax policy. The main achievements in tax administration include establishing the Liberian Revenue Authority (LRA) in Fiscal 2014/2015, organizing itself along modern functional lines, hiring new staff, conducting highly visible and effective anti-corruption drives, public outreach initiatives, taxpayer awareness campaigns and establishing a reasonably effective system of tax dispute resolution. The recently concluded assessment mission by the Tax Administration Diagnostic Assessment Tool (TADAT) also credits the LRA with having efficient arrangements for collecting taxes, such as withholding at source, as well as advance payment of income taxes and significant contributions to the tax revenue forecasting and estimation process. The Tax Policy function is in the Ministry of Finance, and while nothing significant has happened in this important area, it is worth underscoring that a core staff of intelligent and motivated (and in several instances, western educated) young professionals have been hired and received an impressive level of training.

While these institutional changes are impressive, they are recent; and – not surprisingly – an enormous amount remains to be done in establishing sustainable, high quality capacity in both the tax policy and tax administration areas. In addition, rebuilding confidence on the part of the public regarding the institutional legitimacy and fairness characterizing the tax policy and administration regime is essential. As detailed in the Tax Administration Diagnostic Assessment Tool (TADAT), there are very serious deficiencies across many core functions of tax administration. Some examples include: taxpayer registration, tax revenue accounting, the effective use of the Standard Integrated Government Tax Administration System (SIGTAS) system, the use of electronic filing and electronic payment, and risk-based audit policies/procedures.

Addressing these problems will require intensive work, time, and commitment on the part of the GOL and the donor community. It will also require a well-prioritized strategic focus, especially now, during the current period of critical fiscal transition. In this regard Liberia’s Gross Domestic Product (GDP), and tax revenues, were powerfully impacted by the decline in mineral prices, and the Ebola outbreak of 2014-2015. While revenue in-take during this period was buttressed by major donor inflows, the GOL has begun to feel the hollowing-out impact from the post-Ebola draw-down of international assistance.

The chart below displays the behavior of Liberia’s Own Source (tax revenue, non-tax revenue) revenue in-flows from FY 2013 through FY2016. What stands out most sharply is (1) the deeply precipitous decline in revenues, and (2) that after four years, revenues have yet to return to where they were in FY2013.
Some are optimistic about how quickly Liberia’s GDP growth can/will turn around. After essentially zero growth over the past three years (FY 2013/14 through FY 2015/16), the GOL expects a rebound of 2.5% in FY 2016/17, followed by a return to trend growth of 6%. While this optimistic scenario might occur, the outcome is far from certain. Liberia’s economic growth will be dependent on the overall growth of the world economy, and the resultant growth in world commodity prices. It is also reasonably likely that growth will be slow – indeed the current world expansion has been going on for a very long time and it is quite possible that a mild recession lies before us over the next 1-2 years.1

This means that the need for accelerated Domestic Resource Mobilization in Liberia has assumed a high level of urgency. In addition to everything mentioned above:

i. Domestic Resource Mobilization is relatively low in international comparative terms at 18.9% of GDP;
ii. Expenditure needs to finance investments in infrastructure, agriculture, and social sectors are growing; and,
iii. Fiscal deficit levels are already high.

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1 See IMF Country Report No. 16/238. PP. 8 -10, which describes the outlines of an alternative economic scenario and its impact on Liberia’s macro-fiscal situation. The report also makes a strong case for the importance of focusing on Domestic Resource Mobilization. In particular, it stresses that “fiscal policy would benefit from a longer-term approach,” and the importance of rolling out the VAT in FY2018 (P.12) and streamlining of fuel import exemptions.
The fundamental question is: where are substantially high levels of DRM going to come from in the short to medium term? In the short to medium term, increased levels of DRM are likely to come from strategically targeted improvements in Tax Administration, guided in large part by the major findings of the TADAT analysis, coupled with a simultaneous focus on overarching tax policy goals, which will in turn help guide the prioritization of administrative and related institutional reforms. The LRA is highly receptive and has already made significant capacity development advances. As a result, it is ready to effectively capitalize on well-targeted additional assistance.

Our central finding is that the LDRM initiative has the potential to guide prioritization of ongoing capacity building efforts in Tax Administration and Customs reform, while supporting the implementation of key policy reforms consistent with:

i. Improving the enabling environment for private investment and economic development; and,

ii. Enhanced taxpayer compliance and improved accountability between taxpayers and government.

At the same time, it should be recognized that TADAT is neither prioritized nor “costed,” nor does it address important cross cutting issues with customs and border taxation with internal taxation. In the end, a predominant focus on tax administration issues is likely to put the LRA along a slow-and-steady crawl path towards increased revenues, without a major near to medium-term increase in revenue in-take in percentage of GDP terms. Experience across a plethora of prior fiscal reform projects, implemented by USAID and by other donors, also underscores the risk of project execution becoming bogged down across a range of micro-level tax administration improvement issues, in a manner which over time diminishes project vision regarding the major sources of potential revenue buoyancy that can be most effectively tapped into.

In this regard, movement across each major administrative reform area can easily become “bogged down” through ongoing resistance of internal administrative actors who benefit from the opaqueness associated with inefficient administrative oversight and the combined rent-seeking and ‘shirking’ opportunities they provide. In addition, powerful economic interests in general have a far easier time escaping scrutiny and effectively ‘leveraging’ outcomes in their direction if they are able to avoid the institutional spotlight associated with a major policy reform, and simply work to effectuate tax avoidance behavior through particularistic dealings with tax administration staff. The informational uncertainties associated with driving and demonstrating major improvements from micro-level tax compliance activities creates strong risks in this direction, particularly in the absence of a strong culture of voluntary compliance and a broken social contract.

Thus, it is unlikely in the absence of the “Big Bang” associated both with a major overhaul of core elements of the tax system, as well as a fundamental restructuring of tax administration activities, that the institutional momentum can be created which will be required to fundamentally change institutional incentive structures in a manner which can significantly improve revenue buoyancy in Liberia. Within this context, a strong focus on tax policy
objectives (even if not achievable in the short term) will mitigate risks of diffusion of effort within USAID Revenue Generation for Governance and Growth (RG3), and maximize potential for significant enhancement of DRM.

That said, appropriate and visible focus on administrative issues is certainly an important component in any program which wants to pursue the medium-to-long term goal of expanding the tax base through broader participation. Indeed, tax policy and administration systems are inextricably intertwined from a transparent and efficient fiscal performance perspective – the dictum that “tax policy is administration, and vice-versa,” has become a virtual truism in public finance circles. This brings us to a significant challenge facing LDRM from a political economy perspective. The role of any state is to provide for public goods that improve the lives of their citizens. From this responsibility flows the moral authority of a state to impose taxes and, if needed, to collect them by force. In turn, citizens who pay taxes are conscious of government’s obligations, and demand accountability for those critical services when they in fact are compliant with their tax obligations. That sense of mutual accountability helps create a virtuous behavioral cycle which ultimately promotes a strong voluntary compliance culture.

In Liberia, this virtuous cycle of taxation and governmental responsibility has yet to be firmly established. Supported primarily through revenues from natural resources and donor support, the GOL has not yet developed adequate capacity to safeguard public resources and effectively deliver services. As a result, citizens lack strong incentives to voluntarily comply with tax obligations, further narrowing the already distortedly limited base from which taxes can be collected. This further limits the resource envelope available to government, and along with it, the capacity and sense of obligation of government to account to the population for how those resources have been used. In this regard the Liberian government, beset by special interests and plagued by institutional weakness, has never been able to put in place the type of transparent and robust tax policy and administration framework which would help it ensure buoyant revenue performance, and provide the means to build a joint sense of trust and accountability with the population at large.

Over the long term, efforts must support a shift to a more “virtuous” and sustainable cycle as depicted below.
There is no panacea to reconstitute government responsiveness and legitimacy. Programming can, however, support the GOL in its efforts to present a progressively different face to its people, re-shaping perceptions and building a basic social contract. This entails engaging in an open, consultative process to establish, refine, and communicate a clear vision regarding the type of tax policy framework that will put the GOL in the strongest position to carry out its core role of sustainably providing critical goods and services in a manner which promotes broad-based growth and social equity. It also entails creating a tax administration framework which allows it to interface with taxpayers in a transparent and equitable manner which creates a sense of trust and legitimacy between the tax administration authority and the public. How the GOL interfaces with the public through design and implementation of a transparent, equitable and efficient tax policy framework and tax administration system are key to the achievement of this critical social cohesion objective.

The Current Tax Policy Environment in Liberia

Direct Taxes: CIT and PIT
In Fiscal Year 2015 the Corporate Income Tax (CIT) generated 1.5% of GDP while the Personal Income Tax (PIT) collected 5.7%. Combined, the two taxes produced revenues totaling 7.2% of GDP. Liberia is clearly over-dependent on direct taxes in relation to other countries internationally and in the region – this creates significant tax administration challenges, since it creates substantial avoidance incentives. It also distorts work and investment incentives in a manner which a Least Developed Country (LDC) with low factor productivity and inadequate domestic investment levels, such as Liberia, can ill afford. One of the reasons the figures are so high is that at 25%, the top rate for each of these taxes, is extremely high by LDC standards. Not only are these high rates, but the top rates of PIT become effective at relatively low levels of annual income: 15% is applied above $2,000 USD, and 25% above $8,000 USD. With 2015 per capita annual income at just over $500, this means that the hypothetical coverage net of this tax is quite wide. At the same time, this presumably encourages evasion and constrains coverage at a practical level. As a result of tax avoidance factors and limited tax administration outreach capacity, the PIT is for the most part levied on a small population of local employees to foreign missions and aid programs, employees of GSM concessions, public sector workers, and employees of certain large and high profile companies such as telecommunications.

For a low-income country, these high rates constitute a real barrier to improving compliance. Arguably, an important step to improving compliance and revenue mobilization from the direct taxes would be to reduce rates and modify the intervals at which they become effective (another example of the above-referenced dictum – tax policy is tax administration). However, the immediate impact of this would be to reduce revenues. It would likely subsequently require several years and much committed work to improve registration and compliance for this to translate into higher revenues.

Indirect Taxes – GST
The Goods and Services Tax is a one stage sales tax levied at 7%. Certain services are taxed at a higher rate: 15% for telecommunications and 10% for hotels and airline tickets. It is levied at the border where it collected 2.5% of GDP, and internally where it generated 1.2%. With total
collections standing at approx. 3.4%, overall the revenue generated through indirect taxes (GST and excises) is extremely low at about 4.2% of GDP - this in fact represents one of the worst indirect tax revenue performances worldwide.

If Liberia continues to under-perform on domestic indirect taxation in relation to international standards, it will not be able to address its chronic fiscal imbalances, or to muster the resources required for vital public investment and social expenditure needs over time. This underscores the importance of both addressing strategic policy framework distortions which are inhibiting revenue in-take under the GST – most importantly administratively determined exemption and waiver policies – and improving critical GST administrative oversight procedures/practices. It also demonstrates the critical need to move swiftly towards transition to a modern and effectively phased VAT regime. Doing so will bring attendant benefits including providing strong self-enforcement incentives, limiting tax levies on non-consumption activities, and facilitating compliance with ECOWAS trade protocol integration requirements.

**Taxes on Natural Resources**

There are three main sources of revenue from natural resources taxation: the first is “royalties and rent” – this is not considered a tax at all, but a form of non-tax revenue, and thus was not addressed by the TADAT report. In FY2015 it brought in 1.7% — significantly below its level of 3% in FY2011. The next is “social contributions;” which brought in 0.6% of GDP in FY2015. The third is the “GSM annual gross margin tax.” This is a low rate gross receipts tax. In FY2015 it brought in 0.04% of GDP. All three components together brought in 2.3% of GDP in FY2015 — significantly down from their level of 3.5% in FY2011. The main reason for the steep decline appears to have been the slump in world commodity prices.

Revenue from each of the Natural Resource Concessions is governed by terms defined in a discrete contract. The website: [http://portals.flexicadastre.com/liberia/](http://portals.flexicadastre.com/liberia/) maintains critical information on many concessions including: the kind of activity they are engaged in (e.g., forestry, mining), the duration of the contract and the date of its termination. Per this source, the minimum contract was 13 years, the maximum 80 years, the average was 32.6 years, and the median was 25 years.

**Property Taxation:**

Liberia has a system of real property taxation with different rates for different types of property: commercial property is taxed at 1.5%, industrial property at 1.5%, agricultural at 0.3%, and residential at .12%. In FY2015 the total collected from this tax was 0.2% of GDP. The reasons for the very low level of revenue mobilization from this source include:

- Currently levied only on commercial and industrial properties, coverage is sparse with only 11,463 properties in all of Liberia included in the tax net. To increase coverage, LRA’s property tax unit needs significant capacity building in core areas such as valuation, billing and collection.
- Presently, property valuation is based on self-declaration where the property owner contracts an architectural company to prepare an official valuation for tax purposes. However, there is widespread concern of collusion between the owner and the appraiser. This is further reinforced by an institutional sense of apathy derived from the absence of a coherent real property registration system and the lack of a coherent
nationwide system of property addresses. Thus, there appears to be little concern on the part of most property owners that they will be obliged to pay property taxes. In addition, as there is virtually zero linkage drawn by most citizens between property taxes paid and local services delivered (particularly in the absence of a modern inter-governmental finance framework), voluntary self-assessment activity is quite limited.
III. Tax Policy/Administration Regime – Major Recommendations

The preceding analysis indicates that a maximally impactful LDRM program should be centrifugally guided by a focus on three priority reform areas:

- Efficient and time-effective transition from the GST to a VAT;
- Improving the administrative framework for Natural Resource Taxation; and,
- Taking decisive steps to implement broad based property taxation in carefully selected pilots.

Transition from the GST to a VAT

Before discussing the details of the transition from GST to VAT, it is worth a moment to review what it is that makes the VAT such a desirable instrument for revenue mobilization.

Why A VAT? Since establishment in the 1950s, the VAT has rapidly emerged as the preeminent mechanism for revenue mobilization in most countries in the world. Among the large broad-based taxes, the VAT is the simplest to administer and it is highly productive of revenue. It is far superior to its main alternative in indirect taxation: the single stage retail sales tax, which Liberia currently administers in the GST.

Single Stage Sales Taxes are economically non-neutral and they have low yields: A single stage sales tax is always vulnerable to tax-on-tax cascading and the consequent economic distortions. Extreme care must be taken to levy the tax on retailers and on goods and services which represent final consumption. In practice, however, it is never possible to do this perfectly, because some “final” output will always be an intermediate good or input for some producer. Therefore, the only response is to keep tax rates below some maximum to limit the level and extent of economic distortion. The practical maximum rate is somewhere between 5% and 10%. Liberia is already at the top of the range.

Compliance: There is always a strong incentive to evade a single stage sales tax. The only countervailing factor is the threat of punishment. The higher the rate the greater the incentive to evade. For example, the retail sales tax in the United States has the weakest compliance among the major taxes levied in the country.

The VAT comprehensively addresses these serious issues through the mechanism of the input credit deduction – the VAT’s signature characteristic. There is no fear of tax cascading because of this mechanism, so practically, speaking it does not matter whether the tax is levied on a final or an intermediate good or service. Consequently, the VAT is levied over a broader range of producers and sellers than possible under a sales tax. Absent the possibility of cascading the upper limit of approximately 10% vanishes. Many countries successfully levy VATs with rates above 20% with little discernible economic distortion. The same input credit mechanism
introduces a very powerful pro-compliance incentive absent in any other form of indirect taxation.

**Trade Friendly:** As a result of its economic efficiency and relative absence of distortion, the VAT has become the dominant instrument for revenue mobilization in many, if not most, countries of the world. The VAT is also widely acknowledged to be “trade-friendly.” It is broadly applied at import, but because exports are “0-rated,” all internally levied VAT is stripped out of the product at export. The constructive role of the VAT in international trade is a fundamental reason why regional economic blocs like the EU and ECOWAS typically mandate that each member of the group implement a VAT as a condition of membership and of protection under a common external tariff. Currently, Liberia has not covered by the Common External Tariff of ECOWAS because it does not administer a VAT.

There is appropriate concern regarding the institutional readiness of Liberia to implement VAT. This would be in the case of any emerging market country and more so for an LDC which has only recently emerged from a series of institutional crises and exogenous socio-economic shocks, resulting in systemic overburdening of limited administrative oversight capacity. At the same time, the Liberian fiscal policy and administration regime is characterized by a fiscal policy framework and institutional features which bode well for the relatively rapid potential transition towards an effectively targeted VAT system:

- Liberia’s institutional technical readiness for VAT implementation exceeds that of many other countries where it has been successfully introduced, such as Kosovo and Bulgaria. In this regard, the LRA has strong and committed political leadership, strong top and upper-mid tier technical staff, and an efficient recently instituted functional organizational structure (at its central offices);
- Critical preconditions to VAT introduction have already been achieved, including: a) preparation of an initial draft law; b) signing of ECOWAS VAT protocols;
- The IMF explicitly recommends implementing a VAT in FY2018 (Liberia Country Report No. 16/238), underscoring the criticality of its adoption from both an economic policy neutrality and a revenue buoyancy perspective; and
- Technically, a simple, high threshold, moderate rate VAT, (associated with substantial revenue yields as compared to the current GST regime) could be introduced in Liberia within 12 to 15 months. An abbreviated “checklist” of major steps that must be taken in that period appears in Appendix III.

While technical preconditions for VAT appear to be in place, politically there may be limited prospects for passing VAT legislation before the October 2017 elections; nonetheless, fiscal 2018 in fact still falls within the IMF’s projected/recommended adoption timeframe. In this regard, it is worth noting the potential challenges which could be confronted on the path to VAT passage and implementation. Traditional perceptions about the ‘ regressivity’ of a VAT – particularly at an increased rate in relation to the average rate structure under the current GST regime – can be expected to foment opposition to VAT adoption on the part of advocacy groups concerned with equity in economic growth, as well as business interests which would like to avoid transition to the transparent features of a single rate VAT regime. It is critical to counter these perceptions by focusing on the important indirect benefits of VAT adoption on
investment and job creation, as well as on revenue in-take and enhanced public service provision.

Some business interests are certainly likely to resist transition to the transparency of a single rate VAT regime. The recent budget negotiations, during which excise taxes on alcoholic beverages, bottled water, soft drinks, and mobile telephone usage were rejected, is instructive [Note: taxes on alcohol, tobacco and fuel were passed in a second go]. Many of the most significant businesses impacted by the proposed increases spoke out vocally against them during public hearings, arguing that they would “not only affect production and sales, but would also encourage redundancy, unemployment and poverty.” A representative of the Lebanese business community indicated that, in the past, the MFDP would never have submitted a tax bill without a consultation with the Chamber of Commerce, which did not occur this instance.

These objections are familiar an economic environment in which a significant tax reform is under consideration. Never-the-less, all other West African countries, except for Sierra Leone, have adopted and implemented the VAT over the past two decades. Moreover, the above-referenced proposed excise tax increases that were rejected in early fall were subsequently approved by the Parliament later in 2016, thus indicating that consensus-building for significant tax policy reforms, though certainly challenging, is not an unmanageable prospect over the near-to-medium term, when shaped and conducted effectively. It is clear in this regard that passage, successful initial implementation, and ultimate expansion of participation in the VAT base will thus require significant investment in coalition building, outreach and education. Indeed, public awareness around the VAT and its significance is minimal, even among Monrovia elites. Asked his opinion of VAT implementation prospects, the chair of Liberia’s Chamber of Commerce indicated that there had been “no real conversation around the VAT,” an understanding also reflected in conversations with a representative of the Lebanese business community.

Moreover, business interests can be expected to be extremely negative about any change in the tax regime which they feel will impact them in a manner they can’t easily “navigate through” or control – certainly several interviews conducted by the team indicated this. At the same time, such issues have been overcome in a range of other countries, including in West Africa, where the VAT has become the single most significant source of revenue for providing vitally needed goods and services for their citizens.

In the end, the key is to link the increase in revenues, which will result from VAT implementation, to enhanced capacity and commitment of the GOL to provide the critical goods and services required to improve the lives of ordinary Liberians across the country. It will also be important to underscore the administrative streamlining and cost-reductions that will result from the ‘self-enforcement’ features of the VAT, which will incentivize business to comply voluntarily, by allowing them to deduct the taxes paid on inputs from their overall VAT payments. In addition, it will be important to build an understanding that continued overreliance

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3 Interview, Francis Dennis, Monrovia, September 22, 2016.

4 Of course, these same perceptions will be brought to bear in resisting enhanced tax administration efforts, although they will tend to be expressed through actions rather than words.
on direct taxation will dampen the expansion of investment resources desperately needed to drive job and income growth in one of Africa’s poorest countries.

A vigorous public outreach and education campaign could and should be mounted to broaden understanding of the VAT introduction process, the implications for different groups, and the rationale for VAT adoption. These outreach efforts should also effectively articulate the longer-term ECOWAS trade integration-related benefits indirectly associated with VAT adoption (which at this point seem to have been generally ignored by most constituencies). In addition, advocacy efforts should focus on the prospective implementation of an appropriate phase-in strategy for the VAT, and the degree to which this will serve to effectively limit its impact on most SMEs and consumers in Liberia over the early stages of its implementation. Moreover, it will be critically important that advocacy efforts effectively tie the increase in revenues from both improved GST and (ultimately) VAT implementation to increased GOL expenditures on poverty-reducing socio-economic development initiatives. To date, no efforts of this nature have been initiated.

By way of illustration of the importance of this type of systemic outreach approach, when asked about introduction of the VAT, the manager of the LRA Taxpayer Services Center exclaimed “they will storm us.” By expressing conviction that ultimately the legislature and taxpayers could be convinced, she indicated that it would require a specific taxpayer-education campaign (yet to be initiated) and additional resources. A representative of the Bureau of Tax Appeals (BOTA) expressed a similar view, reflecting on the experience from Ghana, where the VAT initially faced strong protests, but was ultimately accepted (and implemented within 10 months of its permanent adoption in 1998). He stressed the need to clarify details of the effort, and explain attendant benefits, including among tax collectors, business people, and consumers.

Within this context robust outreach and education efforts should be planned and launched which effectively address:

1) Implementation plans, including the appropriate phase-in strategy which should limit its impact on the vast majority of SMEs and consumers in Liberia during the early stages;
2) Contributions of VAT implementation to economic growth and institutional transparency;
3) The longer-term ECOWAS trade integration-related benefits indirectly associated with VAT adoption (to date, more or less ignored and fundamentally misunderstood by most constituencies); and
4) The linkages to improved GST and (ultimately) VAT implementation to increased GOL expenditures on poverty-reducing socio-economic development initiatives.

The final point will require essential agreements by the GOL on allocation of enhanced resources. The DRM effort itself may help to encourage such agreement. Another potential motivator for the GOL to converge behind such expenditures is the potential offered to

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5 Interview, Monrovia, September 26, 2016.
6 A World Bank Case Study found that among the keys to successful rapid adoption of the VAT in 1998 in Ghana were a strong outreach campaign as well as a high initial threshold with limited coverage during the initial implementation period (as we are proposing for Liberia).
broaden coalitions around these new taxes/increases. To illustrate, the Health Financing Director in the Ministry of Health raised the recent difficulties in passage of excise tax increases, and what those would mean for the health budget. He referenced missed opportunities for advocacy, and stressed the need for health and education ministries to recognize the fact that revenue generation efforts were not just the domain of Finance.7 While capacity is limited, the potential for institutional and public activism exists where interests are seen to be at stake.

**Overall the most critical point we are raising here is that if preparations for VAT implementation do not begin soon, this will only serve to delay the inevitable and effectively leave too much of the preparation work for the last minute. This would in turn put at risk effective implementation prospects for FY 2018-19.** The core message here is that preparation for implementation – from both a technical preparedness and a public outreach and buy-in perspective – should start soon – even if actual implementation is 2-3 calendar years away.

It is also very important to emphasize that many steps to VAT implementation will in fact enhance DRM within the context of the existing GST regime over the short-term. For example, the following steps essential to VAT implementation will simultaneously mobilize additional GST revenues in the ramp-up stages to actual VAT implementation:

i. Improved discipline, reporting and verification in the use of GST (and customs) waivers (exemptions);
ii. Actively addressing problems of undervaluation at the border;
iii. Electronic filing and bank-based payment;
iv. Strengthened registration requirements/procedures;
v. Improved capability and use of primary tax and customs IT systems (SIGTAS, ASYCUDA), and streamlined interfaces with other IT systems;
vi. Improved coordination of effectively targeted risk-based audit processes between tax admin and customs offices;
vii. Streamlined border clearance procedures and improvement in business processes to reduce costs of compliance; and,

viii. Targeted review of exemptions/waiver system.

It should be noted that many of these items are fully consistent with the most important items flagged in the TADAT report. Examples include improved IT systems, enhanced registration compliance, electronic filing and bank-based payment, and adoption of risk-based audits procedures. The simultaneous improvement and integration with Automated System for Customs Data (ASYCUDA) was not mentioned because the terms of reference of TADAT explicitly exclude customs related issues. Regardless of immediate VAT implementation, these items will yield additional revenue from the GST.

In addition, without the focus on DRM in general (and the transition to a VAT), it is highly likely that work on the critical issues raised by TADAT would be diffused across a range of micro-

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7 Interview, Roland Kesselly, Monrovia, September 22, 2016.
level tax administration support initiatives, with adjoining difficulties in maintaining strong reform momentum and tracking and maintaining accountability for reform adoption and follow-through within concrete timeframes. Thus, DRM results would likely be significantly less impressive than would otherwise be the case. Moreover, VAT ramp-up will help increase the focus on and build the institutional momentum for ensuring the critically important integration of SIGTAS and on ASYCUDA implementation steps, which will be extremely important for maximizing indirect tax revenue mobilization (through effective coordination of registration/returns processing/audit activities).

Other important steps on the path to VAT introduction include:

- Developing detailed analysis of VAT impact (by the Policy Analysis and Forecasting unit in the MFDP);
- Setting up a VAT steering committee in the MFDP and a VAT preparation unit in the LRA;
- Capacity building of LRA officials in all aspects of VAT administration, including financial accounting specific to VAT requirements;
- Developing a public information program and a focused taxpayer education and training effort and taxpayer service facility focused on the VAT; and,
- Possible legislative broadening of the GST base in a manner which mimics that of the VAT. Some examples include:
  - Automotive and Repair Services
  - Construction Services
  - Vehicle and movable property rental
  - Car parks and garage services
  - Legal and Accounting Services
  - Port Related Services:
    - Cargo and Container Services
    - Dockage
    - Pilotage and Mooring
    - Shipping Lines Services
    - Demurrage

Initial Revenue Impact: the revenue impact of this initiative is divided into three distinct “tiers,” depending in the course taken and the timing of the actions.

Tier One: a VAT is not adopted, but the administrative work to take that step is complete (without broadening the GST base to emulate that of a VAT).

Initial Revenue Impact: Tier One. Concretely, this will involve the work surrounding SIGTAS and ASYCUDA integration, electronic filing and payment through banks and related improvements in registration and selective audit-related procedural reforms. This work would focus on the GST regime and it would involve introducing related improvements in the system of excise taxation, which now represents approx. 20% of indirect tax revenues (this would be expected to diminish of course over time, as the VAT is introduced and becomes the priority


source of indirect tax revenues). In addition, improvements in administrative performance will also entail significant streamlining of the current system of waivers.

**Impact:** Assuming reform progress in this area can be supported through targeted technical and training assistance starting by early 2017, it should be possible to generate an additional 2.15% of GDP over the following 5 years, the two activities would each contribute approximately 0.175% of GDP per year. Table One summarizes revenue impact.

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<tbody>
<tr>
<td>Administrative</td>
<td>0.43%</td>
<td>0.86%</td>
<td>1.29%</td>
<td>1.72%</td>
<td>2.15%</td>
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</table>

**Tier Two:** a VAT is adopted in mid-2017 and implemented in mid-2018. This will have the same revenue impact as “Tier-One” until the point of implementation in mid-2018. At that point, the impact of the rate increase from its current GST level of 10% to 15% will take effect as well as the base broadening, and the “Tier-One Impacts” will continue.

**Impact:** Tax Rate Increase. In mid-2018 when the VAT is implemented, VAT revenues will experience a sudden increase. In the first year of implementation we should expect to see perhaps 70% of the total impact of the rate increase, or 1.5% = (70% X 2.1%). In year two, we should expect to see 90% of the total impact of the rate increase, or 2.0% = (90% X 2.234%). In the third year, we should expect to see 100% of the total impact of the rate increase, or 3.4%. These numbers are cumulative.

**Base Broadening:** as indicated below, more detailed information than is readily available would be needed to develop a rigorous estimate for the impact of base broadening. The estimate would also depend upon the value of the “threshold” chosen. However, a reasonable initial working assumption would be 1.5% of GDP over four years. As above, we should expect to see this come in phases, with 60% the first year, 80% the second, 90% the third and 100% the fourth. Therefore, Year One (2018-2019): 0.9%. Year Two (2019-2020): 1.2%. Year Three (2020-2021): 1.4%. Year Four (2021-2022): 1.5%. As above, these numbers are cumulative.

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8 This assumes that the basic rate structure is shifting from a 7% GST applied to imported goods to a 15% uniform VAT.
All of this is summarized in Table Two below.

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<th>Table Two</th>
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<tbody>
<tr>
<td>Tier Two</td>
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<tr>
<td>Summary of Revenue Impact by Year of Making a Rapid Transition to GST to VAT</td>
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<td>2017-2018 to 2021-2022</td>
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<tr>
<td>Administrative</td>
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<tr>
<td>Rate Increase</td>
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<tr>
<td>Base Broadening</td>
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<td>Total Impact</td>
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Tier Three: tier three is exactly like tier two in every way except timing. Instead of being adopted in mid-2017 and implemented in mid-2018, it is moved back one year, adopted in mid-2018 and implemented in mid-2019. The revenue mobilization impact is exactly like tier two, except that all items are moved forward one year. This is summarized in Table Three below.

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<td>Tier Three</td>
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<tr>
<td>Summary of Revenue Impact by Year of Making Delayed Transition to GST to VAT</td>
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<td>2017-2018 to 2021-2022</td>
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<td>Administrative</td>
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<tr>
<td>Rate Increase</td>
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<tr>
<td>Base Broadening</td>
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<tr>
<td>Total Impact</td>
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Improving the Administrative Framework for Natural Resource Taxation

Over the long term, working with the GOL to support enhanced taxation of natural resources—and of multinational corporations operating in Liberia more broadly—offers potential for significant direct and indirect impacts on domestic resource mobilization. Yet, prospects for policy change and for short term DRM in this area are constrained, given that contracts are updated on very long cycles. Concession allocation and management is also intensely political, with the interests involved not fully understood. Some of these interests are legitimate—they reflect a sense of urgency around the need for investment and economic development, which argues for more centralized and efficient decision making processes. Yet, powerful political interests presumably also benefit from the current system. These challenges notwithstanding, natural resources concessions dominate Liberia’s economy. Historically, they have driven inequitable development and the alienation of poor Liberians. Given this, it is critical to seek openings for engagement.
It should be noted that fairness is a recurring theme in conversations with Liberian civil society and citizens on taxation. The perception that multi-national corporations are not paying their share contributes to this, a concern that is particularly acute given that elites in Monrovia allocate natural resource concessions without the input of local communities, and frequently without regard for the livelihoods of rural Liberians. Laws intended to preserve benefits for local communities are frequently not implemented. Social development funds (payments concessionaires intended to benefit the communities impacted through the counties) are neither traceable, nor understood to be primarily spent within counties. The Community Rights Law of 2009 gave indigenous communities the right to manage their own forest resources; yet land intended to be community managed is sometimes also allocated through centrally negotiated concessions.

All of which suggests that serious effort to impose consistency and limit corruption in the realm of natural resource taxation, could positively impact popular willingness to engage in taxation regimes, beyond any additional revenue generated directly through the effort. Follow-up on recommendations included in this report should encompass furthering the dialogue on policy initiated by the LDRM team, in order to gauge levels of interest in improving management of current concessions, and improving terms under future concessions as they are negotiated.

Within this overall institutional context, potential key areas of focus for purposes of improving the natural resource revenue mobilization system include:

- Audit-based activities designed to strengthen adherence to the terms of the contract – especially disciplining the excessive utilization of waivers on GST, petroleum taxes, and Customs duties;
- Improved training in transfer pricing principles/practices;
- Policy Analysis training/technical support on best practice in natural resource taxation; and,
- Analytical work on the execution of current contracts such that the GOL can develop a more focused picture of the quantitative shortcomings characterizing the execution regime for the current set of concessions contracts.

Initial Revenue Impact: an early and tentative estimate indicates that we might hope to generate an additional 0.5%-1.0% over a three to five-year period, particularly assuming political economy rigidities in this area can be at least partially ameliorated. This should be estimated and monitored in two ways: first, establish an annual “statistics of income” document covering all the concessions. It would cover details of all tax payments made for each company, details on the number and amount of each waiver used, and relevant information such as the amount of the natural resources extracted, the price received for it and so forth. Second, develop a (micro) simulation model for each of the more important and/or most questionable of the concessions which calculates the values of the royalty under the specific terms of the contracts, but in addition to using the prices given by the company, uses a series of world market prices as a more objective basis of comparison. This tool can give a clear and objective framework on whether the company is abiding by the terms of the contract, and can be of assistance in audit investigations that would support the transfer pricing work.
Taking Decisive Steps to Implement Broad Based Property Taxation in Carefully Selected Pilots

Given that the regime of real property taxation is significantly underutilized, and that expanded property taxation offers unique and compelling opportunities to expand the base of taxpayers and improve the relationship of local citizens to their government, a focus on promoting selective introduction of local property taxation reforms could yield significant social contract strengthening benefits. It could also raise municipal revenues to a reasonably significant degree over the medium-to-long term. This would in turn entail a tightly focused technical support and institutional outreach effort that would be focused in the following manner:

- Establish a limited number of pilots where coverage would be high including; commercial/industrial, residential, and perhaps agricultural property;\(^9\)
- Support implementation of a mass appraisal approach to valuation;
- Establish an efficient system of billing and collection;
- Build direct links between real estate taxation and expenditures on locally-identified priorities; and,
- Seek linkages with Local Empowerment for Government Inclusion and Transparency (LEGIT) activity to the extent possible, in terms of promoting the establishment of the core elements of a policy framework for Intergovernmental Fiscal Reform (IGFR).

This would reinforce and build on the strong interest expressed by the Real Estate Unit of the LRA to work on pilots in targeted areas, where broad compliance regarding real estate taxation is linked to funding for community identified priorities. If successful, such an effort could ultimately help build support for expanded application of property taxation around the country. Likewise, while the current areas in consideration are within greater Monrovia, GOL interests in implementation of property taxation in rural areas could be a source of pressure for meaningful fiscal de-concentration and greater accountability to local areas. That said, the legal tools to support this effort outside of Monrovia and Paynesville (which receive budgetary allocations) are limited, and a legal reform initiative will be required to make this possible in a manner which could help address the challenge of entrenched and centralized power in Monrovia. In this regard, the potential for long-term fiscal de-concentration would be improved in the event of passage of the Local Governance Act (submitted to the legislature in July 2016). However, if the Act is passed, implementation during the next administration would be uncertain.\(^10\)

In terms of working with local communities to expand voluntary compliance in property taxation, the promise of additional investments within the community is one lever – for instance, various conversations with civil society highlighted communities who take up their own collections for much needed road repairs. Another possible message is to highlight the

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\(^9\) Currently, the property tax unit at the LRA has already selected three of the prosperous areas in Greater Monrovia: Paynesville, Sinkor, and Bushrod Island. Each of these is relatively large and they have a good concentration of commercial and industrial as well as residential property.

role that payment of property taxes can play in bolstering the legal right to property.\textsuperscript{11} This is potentially extremely powerful in a context where land rights – both currently and historically – have been conflicting and insecure.

**Initial Revenue Impact:** over the next 5 years, an optimistic set of assumptions would have revenues from the property tax growing from their current level of about 0.2% of GDP to about 0.3% of GDP.

Table Four, below, provides overall estimates of the incremental revenue enhancement impact of LDRM-supported reform measures. This assumes adoption of a tier 3 reform scenario for the transition from GST to VAT and low-end impact scenarios for reforms to the natural resource taxation and property tax systems.\textsuperscript{12} We also include a sensitivity analysis-based assumption that revenue impact will be one third lower than the estimates provided above, due to various ‘revenue–leakage’ related factors. The resulting aggregate revenue impact figures (defined in % of GDP) are provided below (these are the figures recommended for utilization for planning purposes moving ahead).

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<th>Table Four</th>
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<tr>
<td>Tier Four</td>
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<tr>
<td>Summary of Revenue Impact by Year of Making Delayed Transition to GST to VAT 2017-2018 to 2021-2022</td>
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<td>Administrative</td>
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<tr>
<td>Rate Increase</td>
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<td>Base Broadening</td>
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<td>Natural resources</td>
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<tr>
<td>Property taxes</td>
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<tr>
<td>Total Impact</td>
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<td>Sensitivity analysis based reduction of 30% in projected revenue streams</td>
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\textsuperscript{11} Personal Communication with USAID/Liberia staff person, highlighted her own experience in this regard.

\textsuperscript{12} This approach has been adopted to ensure that the revenue enhancement impact projections are reasonably conservative in nature.
IV. Taxation Regime – Measurement Approaches/Guidelines

Given the nature of the LDRM initiative, it is important to measure the impact of the LDRM initiatives – both before and after implementation of key support initiatives – in order to be able to predict how much each initiative should yield before it begins and also to demonstrate actual impact on an ex-post basis. The ability to do this within the Liberian context will be facilitated/supported by:

- Good quality tax collection records that stretch back over a sufficient time span;
- Economic and social data maintained at an acceptable level of quality; and,
- An existing system of revenue mobilization which has “matured” to the extent that there is surprising stability in the revenue generation system.

The measurement activities divide themselves into Ex-Ante Measurement of the Impact of DRM Initiatives and Ex Post Measurement Approaches:

- **Ex-Ante Measurement of the Impact of DRM Initiatives:** Ex-Ante Initiatives should be costed or “scored” using existing tax collection and administration data, employing conventional descriptive data analysis approaches/methods. This involves using trend analysis to determine what would have been collected ceteris paribus, and what can be expected to be collected when the initiative goes into effect. In addition to tax collection and economic and social data, it will be important to support the analysis with relevant detailed tax administration data, such as the number of registered taxpayers, detailed information on the number of GST and customs duty waivers, the number of audits performed across different types of taxpayers and distinct disposable income categories, and so forth; and,
- **Ex-Post Measurement of the Impact of DRM Initiatives:** enhanced LDRM will reveal itself as a positive deviation from existing trends, to be measured using an eclectic set of tools and indicators. These include econometric trend analysis using tax collection data and economic and social data, micro-analysis of tax collection and tax administration data using a “statistics of income” (census-like) approach; and tax instrument-specific microsimulation analysis when feasible.

**Data Sources**

Before elaborating on the data sources to be used in performing this analysis, it must be emphasized that some of these have uneven data quality. TADAT, for example was emphatic that the data from SIGTAS (in its current form) is highly questionable. Anecdotal information indicates that the same may well be true at this point for ASYCUDA. In those cases, the specialists involved in implementing LDRM will be required to work very closely with the data to fully understand data weaknesses. Similarly, LDRM specialists should work very closely with the SIGTAS/ASYCUDA team of local experts and foreign advisors to help target major data
reliability and cross-walk problems and focus on implementation of time-efficient, practical solutions.

It was previously noted that SIGTAS/ASYCUDA needs to be significantly upgraded within the context of transitioning from the GST to a VAT-based indirect tax regime. The same holds for bank-based payment and electronic filing processes. Improvement of administrative guidelines/practices and related IT processes in these areas (other than those related to interfacing with customs/border enforcement procedures) would presumably be potential core activities for RG3. However, the LDRM prioritization process should help effectively prioritize and focus these support efforts in critical revenue enhancement areas, including prioritizing their application for high potential under-utilized tax instruments (e.g., GST and eventually VAT, natural resource revenue based contractual agreements). The process should also effectively “marry” key aspects of border-based and internal tax administration oversight work.

In this regard, we provide below a short list of key data sources currently available:

a. **The Historical Revenue Table.** This is a product of the MFDP Department of Revenue Forecasting and Analysis. It contains highly detailed information on tax revenues, non-tax revenues, borrowing and related information. A copy is attached. The data is presented in a modern GFS format, and is scrutinized by the IMF and other international organizations.

b. **Data Extract from World Development Indicators.** This is also maintained by the MFDP. It is an eclectic compilation of economic and social data drawn from organizations like the World Bank, the UN, the WHO and others. It is also attached. The quality of the data is also eclectic, but overall it appears to be effectively maintained.

c. **SIGTAS.** As discussed above, flawed though the data may be, the skilled analyst can (with the support of RG3 specialists) apply SOI (Statistics of Income) and relevant micro-simulation analysis tools to SIGTAS-generated data in a manner which can bring to light and help effectively prioritize tax estimation and compliance problems in need of solution. It is the first place to begin linking the tax collection data with taxpayer counts – a critical aspect of this analysis.

d. **ASYCUDA.** The same database review/upgrading/analysis process is envisaged as described for SIGTAS.

e. **LRA Annual Report.** The LRA annual report provides a great deal of very useful information to be effectively mined, such as detailed data on petroleum waivers and general goods waivers.

f. **Specific Departments in the LRA.** The Large Taxpayer Unit, the GST (domestic) unit, GST (customs), the Property Tax Unit, and the Natural Resources Unit all have their own administrative data. Per TADAT, it often does not agree with SIGTAS, but it is the main data source utilized in actual administrative oversight activities, so it should be quite helpful.
Using the Data

There is no single or elegant way to measure the ex-ante or the ex-post impact of an LDRM-type policy and administrative reform support program. Policy and institutional reform and related support activities under such an initiative are typically multi-faceted processes which evolve as they move forward because institutional circumstances change, new data becomes available and the quality of existing data improves. Below we provide further perspective on the measurement process utilizing two concrete examples: a) transition from GST to VAT, and b) application of a broad-based property taxation instrument in carefully selected pilots.

Consider the development of a LDRM impact estimate for a transition from the current GST to a VAT. Here are the main policy and institutional factors that would be assessed in conducting this type of analysis:

Rate Change: from 7% to 15%. The impact analysis would be separated via discrete monitoring/measurement of the impact of the rate change at the border and domestically.

The Border: in FY2015 the GST collected 2.5% of GDP. With the change in rates that would grow by approximately 2.9% of GDP to a total of 5.4%. This makes clear prospective sense – a 15% VAT rate is more than double the current GST rate and at the border there are no VAT credits that would be deducted. It should also be underscored that this estimate assumes no major improvement in key administrative efficiency parameters, meaning that if anything, it reflects a rather conservative estimate.

Domestic: in FY2015 the domestic VAT collected 1.2% of GDP. With a change in rate to 15% it would collect an additional 0.5% of GDP, increasing to a total of 1.7%. The grand total (domestic plus border) would then rise from 3.7% of GDP to 7.1%. There are several reasons why the domestic gain should be expected to be so much smaller than the gain at the import stage. First, for many the biggest GST “earners”, the rates are already close to what the new VAT rate would be: telecom (15%), hotels and airline tickets (10%). Second, there will be a slight reduction as companies offset the VAT they charged with the VAT they would have already paid.

Base Broadening: as indicated above, the base of the VAT is potentially significantly broader than the current GST. “Costing” the revenue impact of adding these items to the base of the VAT (or GST) will entail a practical exercise of expanding the prospective number of taxpayers. At a pragmatic level the place to start would be the LRA Large Taxpayer Unit, and analysis of the SIGTAS data base; as well as reviewing taxpayer records with the GST team at customs (particularly because some of the important base broadeners entail better tracking of the linkage points between customs activity and 1st stage domestic sales, and vice-versa). Initiating the coverage-extension analysis along these dimensions represents a coherent and high-impact frame of institutional reference for initiating base-broadening expansion efforts.

Waiver Reduction (general and petroleum). The LRA FY2015 Annual Report lists the value of petroleum waivers at $5.5 million for that year, and the total value of the General Goods waiver at 211 million. A few key points need to be underscored regarding these numbers:
The “General Goods” waiver includes customs duties as well as GST;
Many of both waivers are undoubtedly legitimate;
There is a strong perception that the total number of waivers is under-reported;
There is a strong perception that there is a significant level of abuse in both kinds of waivers; indeed, the recent IMF Article IV report made a point of recommending streamlining of fuel import exemptions;
Some of the waivers that “appear” legitimate are at best only partially legitimate—this is of course not terribly unusual in countries like Liberia; and,
Underreported or not, the numbers seem to be extremely high. A reduction of 10% would generate an additional revenue yield of 0.6% of GDP.

Within this context, developing a sharper picture of the potential gains from waiver reductions would essentially entail detailed additional “detective work” at the LRA Customs Office. This will not be particularly complicated, but instead will require thorough step-by-step work. Step one would entail amplifying and making more detailed the existing base of information on all waivers. Part of this effort will also involve a detailed examination of the way that these waivers are reported in the ASYCUDA System, to determine how much leakage in revenues is occurring at this stage. This then gives you a detailed Census-like or “Statistics of Income” like picture of the use of all waivers for the country and for individual entities, and how these waivers impact tax assessments/collections across the economy. This in turn provides the foundation of audit selection work in this critical area and for measuring progress year-over-year. Ultimately, the incremental revenue enhancement impact of each distinct significant administrative reform intervention supported by the LDRM Program should be specifically tracked by RG3 by establishing a base-line estimate of annual revenue-intake from the relevant tax instrument and taxpayer category associated with the current administrative procedural framework, and then tracing the increase in revenues from that tax instrument and taxpayer category after the reform is introduced.

Potential LDRM impact estimates from implementing broad-based property taxation reforms in carefully selected pilots

This is quite distinct from VAT introduction, so let’s begin by reviewing what we know and pointing out what we need to know but do not yet have adequate information on.

What do we know? In general, it is understood that this tax currently mobilizes approximately 0.2% of GDP, which it is levied almost entirely on some of the larger commercial and industrial establishments in Liberia. They are widely scattered, and that approximately 11,463 are said to be currently taxed.

What are some of the specific characteristics of the property tax that we should know about to derive more robust impact estimates? The main thing to know is highly detailed information from each of the potential pilots that have already been selected. The LRA would like to implement three pilots, each one in a relatively well-off district of Monrovia that is “mixed” with residential, commercial and industrial elements. It would also be important to know with reasonable accuracy how many of each kind of property exists in each pilot area, and to have a sense of the value of those properties based on a small sample.
It would also be important to know how far the self-declared values for the eleven thousand properties currently taxed diverge from a more objective appraisal value. This could be determined by establishing a manageable-sized sample and undertaking a rapid valuation process using local resources and technical assistance.

In addition, it will be useful to undertake a detailed assessment of the skill profile and upgrading needs of the property tax unit in the LRA, in preparation for a pilot program.

The current estimate discussed on page 20, which indicates that moving forward on the pilots could increase revenue mobilization from 0.2% to approximately 0.3% of GDP, is based not only on optimistic assumptions regarding the institutional volition/commitment of LRA and a relatively enthusiastic local institutional buy-in to the pilot implementation process in relatively wealthy areas, but also on proven experience in robust pilot Property Tax LDRM efforts elsewhere. There are two key additional points in this regard which warrant additional emphasis:

- First, to make useful ex-ante estimates one must consider the information mentioned above on the characteristics of the properties in each of the pilots (e.g., number, classification, size, location) and use a simple “appraisal simulation” model to simulate the property tax liabilities of all the properties using the sample values obtained and the details of the characteristics of the properties; and,
- Second, measuring the success of LDRM in this case is a two-step process. First, add the amount of revenue generated in the pilot (a self-contained experiment). Second, compare the amount calculated in step one to the results obtained from the significantly enhanced and upgraded appraisal simulation model.

**USAID/Liberia Technical Support Recommendations**

Efficient and time-effective implementation of the targeted LDRM policy and administrative reforms envisaged above will be vitally dependent on the provision of effectively tailored implementation support across several critical dimensions. In this regard, targeted technical/training and institutional-strengthening support, as well as limited material procurement support, under RG3 will be required to achieve the aforementioned increases in revenue-intake from:

1. transition from the GST to a broad-based VAT;
2. improvements in the natural resource extraction-based revenue regime; and,
3. implementation of selective property tax pilot programs.

This will not be achievable in the absence of intensive technical support in the tax policy design and key tax administration (e.g., registration, e-filing/e-payment, selective audit, stop-filer/non-filer analysis, taxpayer education) areas. In addition, RG3 technical and training support within the LRA and the Revenue Policy Unit of the MFDP will be required to significantly enhance revenue estimation and forecasting capacity in a manner which will facilitate effective tracking of the impact of LDRM interventions on revenue-intake. This should include application of basic
statistical and econometric trend analysis tools, as well as tax-specific SOI and micro-simulation modeling tools.

Targeted technical support to MFDP will be needed as well to facilitate effective SIGTAS-based tracking and verification of additional revenue in-flows resulting from LDRM policy and administrative reform interventions and to promote effective integrated utilization as needed of SIGTAS/ASYCUDA data for audit and related administrative oversight/verification purposes. Moreover, peripatetic technical support under the RG3, MSTAS and other relevant USAID support instruments should be considered for purposes of facilitating effective monitoring of implementation progress under the revenue enhancement component of the LDRM Program, and to facilitate any required program adjustments, if/as needed.
V. Expenditure Planning/Execution – Status and Major Challenges

Introduction
Public Expenditures in Liberia have ballooned to just over 40% of GDP in recent years. This reflects the massive increase in post-conflict expenditures, subsequently reinforced by the major spending pressures associated with the Ebola crisis. The GOL has made an overarching post-conflict commitment to improving basic social services and promoting economic growth. This is reflected in its current medium term economic and development strategy, the Agenda for Transformation (AFT). The AFT serves as the GOL’s five-year development strategy for 2013-2017. The strategy is based on the National Vision 2030 that foresees Liberia as a middle-income country supported by inclusive politics, a diversified economy, stable institutions, and enjoyed by a healthy, capable citizenry.

The AFT focuses on the following five key pillars:

i) Peace, security and rule of law;
ii) Economic Transformation to reduce constraints to rapid, broad-based and sustained economic growth to create employment;
iii) Human Development to increase access and quality of basic social services and reduce vulnerability;
iv) Governance and Public Sector Institutions to improve public sector and natural resource governance; and,
v) Cross-cutting issues. It is buttressed by several sectoral studies as well as by a Medium-Term Fiscal Framework process/tool.

A focus of the AFT is to improve quality of life by investing in accessible and higher quality education, affordable and accessible health care, social protection for vulnerable citizens, and expanded access to healthy and environmentally friendly water and sanitation services. The total cost of the AFT is currently estimated at about US$3.2 billion during the 2013-15 period. In this regard, it should be highlighted that the 2015 MDG Report indicated that the Human Development Index for Liberia improved from 0.33 to 0.43 between 2005 and 2014.

Moreover, it should be noted that recent performance for three of the eight MDGs have surpassed their respective targets: i) Promote Gender Equality and Empower Women, ii) Combat HIV/AIDS, Malaria and Other Diseases, Halt and Reverse the Spread of HIV/AIDS and iii) Development of a global partnership for development. However, performance for five of the major MDG indicators: i) eradicate extreme poverty and hunger, ii) achieve universal primary education, iii) reduce child mortality, iv) improve maternal health, and v) ensure environmental sustainability, has been well below their performance targets. Overall recent performance against core MDG results have been mixed, underscoring the importance of further improving the efficiency and cost-effectiveness of public spending in critical health and education programs.
Public Expenditure Composition/Planning Processes

In terms of the composition of public expenditures, almost half of all expenditures (roughly 20% of GDP) is allocated to wages and salaries (which have been expanding rapidly in recent years) as well as transfers and subsidies. This means that most of the budget for goods, services and capital expenditures is being financed by donor in-flows. Moreover, the MFDP and major line ministries are not able to effectively track the future recurrent expenditure “off-loading” requirements likely to be associated with current and programmed donor-funded infrastructure and social development initiatives. In addition, public debt has expanded from about 27% of GDP in 2014 to just over 41% of GDP in 2016, a worrying trend which needs to be tapered off in the near-to-medium term. Overall the fiscal deficit (including grants) has expanded to over 8% of GDP in recent years, and a chronic fiscal gap has emerged.

This in turn will need to be effectively addressed in order to: (1) enable the GOL to provide critically needed physical and social infrastructure services and maintain and expand vital social service expenditures; and (2) establish a balanced macro-fiscal policy framework which will encourage urgently needed private investment and job/income creation. Within this overall context, a key strategic challenge for fiscal policy moving ahead will be to effectively address endemic fiscal imbalances, while simultaneously allocating greater resources to the delivery of critical socio-economic infrastructure and key social services.

More effective targeting and management of public expenditures is hampered by endemic flaws in the expenditure planning process. Although in nominal terms, sectoral strategy setting and medium-term expenditure planning processes are in place within the MFDP, in a fundamental sense longer-term expenditure planning aims/processes tend to be overwhelmed by short-term spending considerations/pressures. This is for instance underscored by the huge share of GOL expenditures allocated to wages and salaries.13

Moreover, despite recent efforts to develop a better-coordinated capital budget planning system through formal establishment of a Public Sector Investment Plan (PSIP), the sectoral public investment planning process is mainly a passive rack-up exercise. In addition, most donor spending continues to be off-budget and there is, as referenced above, limited effective integration of donor capital funding programs with GOL recurrent expenditure projections. In addition, the state-owned enterprise (SOE) sector is at best tangentially integrated into MFDP annual and multi-year budget planning/management oversight processes. The MFDP has put a game-plan in place for improving investment management over the medium-term; including development of a comprehensive database of public investment projects (both own-financed and donor-supported) and elaboration of feasibility studies for future locally-financed investment projects.

It should be noted that at present there is little/no basic program or performance-based budget planning activity undertaken by the MFDP and line ministries/agencies for purposes of annual and multi-year budgetary exercises. Thus, budgetary planning processes are often only tenuously connected to Millennium Development Goal (MDG) and related overarching socio-economic development objectives despite the explosive growth in public expenditures which

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13 A significant portion of which reportedly is absorbed by ‘ghost employee’ payments, most prominently in the Ministry of Education.
has transpired over the past decade. These chronic budget planning weaknesses are clearly manifested in the most critical social expenditure areas:

(1) **Education** – The sector is characterized by distortive under-allocation of resources to primary education vis-à-vis higher education; excessive student-teacher ratios (even by regional standards) and inadequate provision of basic educational materials; and huge expenditure leakages through ‘ghost employee’ payments.

(2) **Health** – The sector is characterized by massive funding allocations to overhead expenses with low value for money; extremely limited capacity to manage logistics (particularly deployment of medical supplies); and weak capacity to monitor and analyze expenditure needs and outcomes.

In short, core GOL expenditure planning processes will need to be significantly upgraded from a technical rigor and transparency perspective to promote a significant improvement in the allocative efficiency characterizing public expenditure patterns, and the impact which those expenditures have on attainment of key socio-economic welfare enhancement objectives.

**Budget Management/Execution Processes**

The budget reporting and execution framework has advanced considerably in recent years. In this regard, a core IFMIS system has been effectively rolled-out across the line ministries/agencies (anchored by the general ledger module of Free-Balance), establishing real-time electronic integration of budgetary allotment/commitment/payment authorization processes. Moreover, new procurement guidelines have been recently introduced which formally mandate competitive and transparent procedures for vendor transactions; and payroll verification practices are being rolled-out to try to bring the ghost employee phenomenon under better control.

In addition, major progress has been made in streamlining the formerly extensive network of decentralized payment accounts maintained by public sector entities. A new debt management manual and guidelines are under development. In addition, the PFM Unit in the MFDP has developed an integrated M&E process and system that it coordinates with the M&E staff in individual line ministries/agencies, and which is incorporated into ongoing budget monitoring processes.

At the same time, significant weaknesses in the budget management/execution framework continue to exist, which inhibits to some degree the operation of a fully efficient, time-effective and transparent budget tracking process. In this regard the Free-Balance General Ledger module is available only within Monrovia. This effectively means that any budget tracking and reporting outside of Monrovia is done manually, and expenditure reporting and payment reconciliation activities are carried out through interfacing of the IFMIS system with manualized accounting procedures/practices implemented at the line ministry/agency and decentralized entity level.\(^\text{14}\)

\(^{14}\) A pilot roll-out program for Free-Balance is reportedly underway in 4 districts.
Budgetary coding is carried out at the economic and organizational/institutional classification level, but does not encompass/permit program budget codes; thereby complicating the process of tracking expenditures across strategic priority areas. Moreover, despite the progress in streamlining expenditure accounts, the MFDP has not yet been able to establish a unified TSA system, which would establish comprehensive control over financial transfer/payment operations. In addition, it appears that several core Free-Balance modules (e.g., budget planning, procurement) have yet to be put in place. The human resource management module has reportedly recently been introduced. This combination of factors makes it difficult to ensure that budgetary allotment, commitment, and payment authorization processes can be readily monitored/verified. These factors also cause related audit management difficulties.

It should also be noted that while there are M&E units in the MFDP and in most line ministries/agencies, they generally do not develop meaningful output/outcome-based monitoring targets and systems and essentially remain at the periphery of budget management processes. Moreover, though the public procurement legal/regulatory framework is relatively robust, as noted above, institutional capacity and enforcement guidelines and volition remain weak. This in turn continues to create manifold opportunities for waste and corruption in procurement processes. This is symbolized by the reportedly endemic ongoing reliance on sole source procurements for public goods and services, and the limited advertisement of public procurement opportunities.

This combination of budget management–related policy, administrative and institutional constraints serves to significantly limit GOL capacity to ensure efficient and time-effective execution of the budget in a manner which reflects in a consistent manner budgetary priorities and goals established in the approved annual budget and the PSIP, and which is consonant with strategic AFT objectives. Instead it creates significant institutional leeway for re-focusing/directing expenditures in a manner which reflects particularistic influences/interests, and can lead to significant waste and corruption in public expenditure patterns and outcomes. Again, while significant recent gains have been made in tightening budgetary controls across major dimensions of the budget management process, substantial additional progress must be made if budgetary outcomes in key sectoral areas are to be systematically enhanced.
VI. Budget Planning/Execution Processes and LDRM Monitoring Approaches – Major Recommendations

The enhancement of core budget planning and execution processes will be critically important for purposes of facilitating efficient and time and cost-effective utilization of LDRM-leveraged resources to promote major socio-economic development objectives, as embodied in the GOL’s AFT strategy and core goals. Overall it is anticipated that the increase in revenues which results from implementation of the LDRM program would be utilized to raise spending in key economic and social expenditure areas.\(^{15}\) For purposes of the planned LDRM program, these sectors are envisaged as including health, education, WASH (water, sanitation, and hygiene related services), agriculture, and forestry/biodiversity.

Illustrative expenditure initiatives with significant socio-economic development impact which were identified and discussed during the LDRM team’s discussions with USAID and relevant sectoral counterparts included the following:\(^{16}\)

1. **Education**
   - Supporting expansion of management contracting programs to improve delivery of public educational services;
   - Supporting production and distribution of higher quality pedagogical materials for teachers and instructional materials for students; and,
   - Developing and implementing improved training programs for primary school teachers.

2. **Health**
   - Supporting robust distribution and management of medical supplies at the community level; and,
   - Design/implementation of a pilot program (with subsequent roll-out) designed to enhance infant nutrition and to link it to improved nutritional strategy and local food production techniques at the household level.

3. **WASH**
   - Supporting capital expenditures and/or incentive-based operational subsidies for a sustainable management services contract for a water supply project in a secondary city.
   - Supporting capital expenditures and institutional-strengthening costs for establishment of pilot community-based enterprises to support small decentralized water service systems in peri-urban areas.

\(^{15}\) It is expected the first 1% of GDP in incremental LDRM-leveraged resources will be allocated to specific priority socio-economic expenditure agreed upon by USAID/Liberia and the GOL (and which are broadly consistent with AFT and PSIP priorities defined in the annual and multi-year budget process). Any remaining/residual revenue gains generated through the program would be allocated in accordance with additional priorities defined through the annual and multi-year budget process.

\(^{16}\) Final determinations should be made jointly by USAID and sectoral GOL program officials/experts and ratified through the LDRM Steering Committee described below.
(4) **Agriculture**

- Design and implementation of a training and grant-based program designed to encourage development of a vibrant private extension network and to enhance provision of a range of efficient agricultural support services across a core network of rural regions with significant agricultural competitiveness potential;
- Implementation of a pilot program to promote artisanal fishery operations including enhanced production techniques/skills, small-scale infrastructure improvements, and targeted community outreach/engagement activities; and,
- Design and implementation of a pilot private warehousing and warehouse receipts program including development of the required regulatory and institutional architecture, development of agricultural information-related e-service delivery channels, design of warehouse receipts-based lending products with commercial finance institutions and related stakeholder outreach/dissemination activities.

(5) **Forestry/Biodiversity**

- Design and implementation of a community level outreach/dissemination and related grant-based program to foster community level capacity to sustainably engage in small-scale agroforestry cultivation and management practices;
- Development and effective implementation of an improved regulatory and enforcement framework for sustainable forestry and biodiversity-enriching extraction practices including enhanced incentive based community-level engagement and related institutional capacity building; and,
- Development and implementation of an eco-tourism based strategy and rationalized management regime to promote the effective conservation of forestry resources and the protection of endangered species at SAPO National Park.

To facilitate efficient and transparent planning and oversight of the budgetary allocation process for LDRM related expenditure initiatives, it is recommended that USAID/Liberia work with the MFDP to establish an LDRM Steering Committee composed of relevant senior GOL and USAID officials. This group would meet on a trimestral basis and monitor progress towards and any needed mid-course adjustments to LDRM revenue enhancement and expenditure allocation/utilization goals and activities. At a later stage and as needed, it is also recommended that USAID/Liberia and MFDP consider establishing within each of the relevant line ministries involved sub-working groups under the LDRM Steering Committee framework to develop programmatic priorities within each of the socio-economic expenditure areas referenced above. This will help efficiently guide the allocation of incremental LDRM-generated revenues to key social and economic development initiatives within each sector. This should be done in a manner which is synchronized/consistent with the broader annual and multi-year budget planning guidelines and processes established by MFDP. 17

We have hypothesized that initially LDRM-generated revenues will be allocated proportionately across the four key sectoral areas (although this is obviously a determination which

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17 There should also be periodic outreach sessions planned with broader civil society representative entities to discuss the LDRM Program’s core objectives and implementation activities.
USAID/Liberia and GOL should ultimately determine and forge agreement on. Adjustments to the adopted allocative formula could be made as needed by joint agreement by MFDP and USAID/Liberia Steering Committee representatives.

Given the key weaknesses enumerated above in core budget planning processes, it will be critically important that USAID/Liberia work with the GOL to establish pilot sector strategy, PSIP prioritization and pre-feasibility analysis, and basic program budget pilot initiatives for each of the key sectoral areas enumerated above, which the planning deliberations of the LDRM Steering Committee would be effectively linked to. This will in turn help facilitate the most impactful planning and monitoring processes for allocation of LDRM-related funding, and have broader institution-building benefits for the annual and multi-year budget process for these sectors overall. The annual and multi-year performance goals for major expenditure initiatives at the sectoral level, as well as overall sector-level performance goals, would thus ultimately be assessed and agreed upon by the LDRM Steering Committee. It is recommended that an overarching LDRM performance goal be considered which would help encapsulate or reflect the overall impact of LDRM Program initiatives and related institutional-strengthening support on core socio-economic outcomes. A possibility would be targeting a minimum 5% annual improvement in Liberia’s Human Development Index (HDI) score.

We also strongly recommend that USAID/Liberia work with the LDRM Steering Committee to establish a technical secretariat and related working group reporting to the Steering Committee, for purposes monitoring effective tracking of the actual allotment/utilization of LDRM-based programmatic expenditures across each of the key sectors covered under the initiative. This should include the establishment of a practical game-plan for effectively tracking agreed-upon expenditures through the IFMIS system, and related elaboration of a reporting framework for the provision of periodic budget execution reports to USAID/Liberia on expenditures in the relevant programmatic areas (the exact format of which would be agreed upon by the MFDP and USAID/Liberia). For effective tracking purposes, this will in turn likely require the adoption of an ad-hoc supplementary coding element to the current budget coding framework now being applied. In addition, USAID/Liberia should consider working within the aforementioned working group context to promote adoption of competitive and transparent procurement processes for major expenditure activities directly supported with LDRM-leveraged resources in priority sectors (although the overarching legal parameters for public procurement actions have improved in Liberia, there reportedly remain procedural rigidities which continue to inhibit competitive procurement practices at a practical level).

Efficient and transparent implementation of the sectoral expenditure plus-up program described above will almost certainly require the provision of technical support resources to facilitate the effective planning and tracking of additional programmatic expenditures in the envisaged sectoral areas. In this regard, the PFM Unit within the MFDP can and should play a key role in coordinating the LDRM-related expenditure planning/tracking processes and joint activities discussed above, given the guiding policy formulation and institutional oversight role that it plays in sponsoring better practice-compliant budget planning and management processes across the GOL. The LDRM working group should in fact be effectively ‘linked’ in organizational coordination terms to the PFM Unit, in order to ensure that this is the case.
**Key Implementation Provisions**

It is recommended that the exact composition of the LDRM Steering Committee referenced above should be established within approximately one month of the signing of the LDRM agreement between USAID/Liberia and the GOL. The relevant technical secretariat described in this report should be established shortly after the formation of the LDRM Steering Committee, to help jumpstart practical LDRM program planning/coordination processes. In addition to the quarterly Steering Committee meetings referenced earlier, the technical secretariat-anchored budgetary working group should also meet on a regular basis. There should also be an annual Steering Committee review meeting on LDRM project performance and compliance with targeted outcomes. The establishment of a clear and systematic collaborative management framework for the LDRM Program will help ensure that the planning and monitoring process for program implementation is as efficient and transparent as possible; and will also facilitate identification and leveraging of institutional synergies at the sectoral and MFDP-level through which USAID can promote broader dissemination of key public finance policy and institutional reforms.¹⁸

The key annualized domestic resource mobilization and related sectoral revenue allocation targets established under the program are provided in tabular form in table 5 below:

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¹⁸A more detailed explication of how effective LDRM-related budget planning/tracking/reporting/execution activities could be carried out is provided in Appendix 2.
### Table 5 - Expenditure Analysis

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<tr>
<th>Revenue Increase Measure Description</th>
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<td>Total Impact</td>
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<td>Total Impact</td>
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Note: Additional revenues above 1% of GDP will be allocated in accordance with GOL annual and multi-year annual expenditure priorities.
VII. Political Economy Considerations in Design, Negotiation, and Implementation of the LDRM Effort

In considering the political economy dimensions of the DRM effort, it is important to reflect on how different Liberians have experienced taxation and government overall. As a whole, Liberia’s rural indigenous majority never lived under a legitimate, representative taxation regime – only one of extreme coercion and brutality. Driven by fiscal crisis, the GOL imposed a “Hut Tax” in 1910, (initially $1 per residence) to address foreign debt, integrate the “hinterland”, and (by compelling entry to the cash economy) mobilize labor to work on the Firestone plantation.\(^{19}\) Enforcement was notoriously brutal; one stakeholder interviewed referenced how those unable to pay the tax were tied up with their faces pointed toward the sun until their family had paid their debt.\(^{20}\) This effort met great resistance, feeding an active rebellion among the Kru ethnic group in 1915. It also met passive resistance, as average residents of a single hut in Nimba grew from approximately five in 1917 to twenty in 1934-35. The hut tax was seen as a contributor to the 1980 coup and later descent into civil war.

Alternately, Liberian elites reference 1980 as the breaking point. Along with an end to settler rule, Doe brought extreme corruption and economic mismanagement, followed by the descent into 14 years of civil war during which a generation of Liberians grew up with no positive presence of government in their lives. In this light, uncertainty surrounding 2017 elections yields a shaky foundation on which to build a partnership between the GOL on one hand and citizens and businesses on the other. The President of the Liberia Chamber of Commerce highlighted the need to build confidence in the “government as a continuum”—one administration must respect the commitments of those that preceded it.\(^{21}\) He illustrated his point with the example of Liberian Government Savings bonds issued in 1980. “We are still holding onto those pieces of paper,” he noted, calling on the GOL to address the old savings bonds issue in some way, in order to restore confidence and build willing compliance.

Professionalism in the Taxation Regime Matters

Improvements in the revenue policy and administration regime represent not only sources of increased efficiency—enhancing participation, improving enforcement, and limiting opportunities for corruption. Among civil society, private sector actors, and individual Liberians, the tax system represents a fundamental element of the social contract between the individual and the state. In this regard, many private sector actors have naturally placed predominant emphasis on the application of laws and policies—not the policies themselves. This in turn is quite a natural phenomenon in an emerging market, and particularly an LDC context, and largely reflects the lack of any type of public outreach regarding the type of taxation regime requirements need to facilitate equitable and sustainable poverty reducing growth in a country desperately in need of investment and job and income expansion. Within this context, it is natural for business persons and citizens in general – who have only known the state as a predatory institutional

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\(^{20}\) Personal Communication, and also Ngaima, Samuel K. Sr., The Circumstances Leading to the Underdevelopment of Liberia after more than One Hundred Sixty Years of Independence,” 2016.

\(^{21}\) Meeting with Francis Dennis, Liberian Chamber of Commerce.
agent over decades of conflict, to view the tax regime and what afflicts it from the micro-
perspective of their own interaction with it.

Having said that, there is no doubt that an important element of successful tax reform is
transforming the taxation regime in a manner which both reduces its complexity, and limits the
need for ongoing direct interaction between the tax authority and individual businesses and
citizens. This in turn will result from simplification/streamlining of core elements of both the tax
policy and administration framework (again, tax policy is tax administration, and vice-versa). 22

In this regard the need for simplified processes was a recurrent theme in conversations with
Liberians. Many cited unwillingness to comply with vehicle registrations given the enormous
effort involved, and the likelihood of experiencing some combination of incompetence and
corruption. Taxpayers also appealed for consistency and fairness in the application of taxes. One
civil society representative noted aggressive attempts to collect taxes on property he owns,
when none of his neighbors had been subject to similar efforts. A business leader from the
Lebanese community highlighted the need for systems to be respected, expressing the view that
LRA did not act on requests for duty waivers in the order received, but according to priorities
defined by other interests and relationships.

Finally, several Liberian stakeholders – from civil society, business, and government – appealed
for greater flexibility and less antagonism in tax administration and enforcement. The Chamber
of Commerce president indicated that businesses feel “under attack” while being encouraged to
formalize, noting it is hard to find the distinction between corruption and error, and urging an
attitude of partnership between government and the private sector. Another business leader
called for a “friendly way” to encourage businesses to register. The Bureau of Tax Appeals
referenced the need for flexibility, stressing the inability of the LRA to reach incremental
payment agreements with individuals and businesses unable to pay in full. This encourages
corruption as tax collectors may solicit bribes in exchange for relaxing enforcement efforts.

The broader message that has emerged is that it matters how taxes are collected. Outside of
the government, the administration of taxes is perceived as the greatest problem facing the
taxation regime in Liberia. Focus on policy without equal emphasis on this range of issues could
further inspire cynicism from businesses and the public. A detailed taxpayer perception survey
could help to clarify these considerations and guide decision-making going forward.

**Linking Taxation to Transparent Expenditure**

Ultimately, Liberian citizens and businesses hope for the GOL to demonstrate its contribution
to human welfare and the health of the Liberian economy. The current absence or poor quality
of public services (from electricity to education) as well as perceptions of rampant
corruption—from the highest levels of government to the bottom—severely constrain efforts
to expand voluntary compliance. Conversations with civil society highlight the desire for greater
transparency on expenditures—moving beyond the Open Budget Initiative to provide more
concrete and granular information on how and where government resources are being spent
and how those expenditure levels correspond to revenues generated from a region. Challenges

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22 Including through the introduction of the self-enforcement and voluntary compliance-focused features of a VAT (as has been
seen throughout a host of emerging market and post-conflict countries).
of negotiating with the GOL notwithstanding, the Mission may seek to explore the extent to which the LDRM can support allocations to local areas and locally identified priorities. If ultimately achievable and measurable, the expenditure tracking aspect of the LDRM could be employed to reinforce the revenue generation effort going forward.

**Building Coalitions for DRM Efforts**

Building coalitions around expanded DRM efforts in Liberia will likely be an involved and long-term effort. Voter education and engagement is one key; however, the effectiveness of this effort also depends on having a meaningful story to share on why new taxes, expanded tax registration, or tax increases are important and needed. As proposals for tax policy and administration improvements are framed, data on how the resources will ultimately be allocated will buttress education and engagement with those who will gain from the proposals—and mitigate opposition from those who may lose.

**Watch the Transition(s)—Institutionalization of the Reform Agenda**

Finally, from a political economy perspective, it is important to remember that this context remains highly dynamic. While its progress has been impressive, the LRA remains in its infancy, benefiting from strong leadership and a supportive presidency. The change of administration in just over a year is one source of uncertainty to prospects for tax policy and administration reform going forward. The transition in leadership of the LRA which can be presumed to ultimately take place is another. Progress in reform of tax policy and administration may be uneven—new leadership may bring increased openings and opportunities, or may present new constraints. Wherever possible it is important for programming to support institutionalization of the reforms—rather than rely on individual champions. It will also be important to periodically map the political terrain with respect to ongoing implementation of the LDRM to ensure that changes in the political economy environment and their implications for reform have been considered.23

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Introduction
This document describes a collaborative engagement effort between the Government of Liberia (GOL) and the United States Agency for International Development (USAID) to promote the effective mobilization and effective utilization of public revenues under the Liberia Domestic Resource Mobilization (LDRM) Program. This joint program will be executed on behalf of the GOL by the Ministry of Finance and Development Planning (MFDP) and the Liberia Revenue Authority (LRA), and on behalf of USAID by the USAID/Liberia Mission. The program will incorporate a set of revenue mobilization and related expenditure allocation goals over the 2017-2022 period which will be mutually agreed upon by both parties.

It will also outline a set of prospective revenue mobilization and improved revenue allocation and management related policy and administrative oversight activities that the two parties commit to collaborating on during the period of implementation of the LDRM Program. This will entail clear commitments on the part of the GOL to move forward on critical domestic resource mobilization-related policy and administrative reforms defined in this agreement. It will also entail a corresponding commitment from USAID to provided targeted technical and training and limited material support to facilitate effective and timely adoption and implementation of these reforms and related institutional strengthening actions.

The implementation of the LDRM Program activities outlined in the agreement below will be overseen by an LDRM Steering Committee which will be composed of relevant senior GOL and USAID officials, and which will meet on a trimestral basis. The USAID/Liberia Mission commits to providing support for establishment of a technical secretariat for the LDRM Steering Committee, which it is envisaged would include technical resources from the USAID/Liberia RG3 Project and other resources, such as the USAID/AFR MSTAS Program. It is expected that the Steering Committee will be charged with reviewing progress towards annual performance goals established under the LDRM Program, as well as monitoring related provision of technical/training and material assistance activities associated with program implementation.

Background
Liberia has made significant strides over the past decade in its efforts to build a stable post-conflict political and economic governance framework. However, the Liberian economy has faced the devastating twin shocks associated with the Ebola crisis, and the recent massive decline in major commodity prices. These have resulted in zero GDP growth over the past three years and dramatically constrained public revenue in-take, in the process creating new challenges for the country to surmount as it approaches an historic political and security transition process in 2017.

Though the Ebola crisis has been effectively addressed through effectively coordinated efforts by the GOL and civil society institutions, aided by massive donor in-flows, the prospective
diminution in donor funding to Liberia underscores the importance of renewed progress towards enhanced domestic resource mobilization. This will in fact prove critically important for purposes of providing the resource envelope required for the major economic and social infrastructure investments which will be needed to help Liberia permanently transition from fragile state status and achieve its critically important MDG goals.

In this regard, tax and non-tax revenues have stagnated over the 2015-16 period at approximately 18% of GDP annually, while annual public expenditures have ballooned to just over 40% of GDP. The composition of taxes is heavily weighted towards direct taxes (approximately 9% of GDP), with only about 3.5% coming from indirect taxes (mainly the single-stage GST); and most other tax revenues generated by customs levies. In addition, just over 2% of GDP is generated annually in non-tax revenues by natural resource extraction levies such as royalties and related arrangements.

In terms of the composition of public expenditures, almost 20% of GDP is allocated to wages and salaries (which have been expanding rapidly in recent years) and transfers and subsidies. This effectively means that essentially the entire budget for goods and services and capital expenditures is being financed by donor in-flows. In addition, public debt has expanded from about 27% of GDP in 2014 to just over 41% of GDP in 2016—a worrisome trend which needs to be tapered off in the near-to-medium term. Overall, the fiscal deficit (including grants) has expanded to over 8% of GDP in recent years, and a chronic fiscal gap has emerged.

This in turn will need to be effectively addressed to (1) enable the GOL to provide critically needed physical and social infrastructure services and maintain and expand vital social service expenditures; and (2) establish a balanced macro-fiscal policy framework which will encourage urgently needed private investment and job/income creation. With international growth projections and export demand forecasts likely to be “soft” over the medium term (according to current IMF/WB forecasts), it is more imperative that strategic domestic resource mobilization measures be adopted which can buttress the GOL’s resource envelope and stabilize public spending in critical sectoral areas. Enhanced progress towards LDRM objectives will also put the GOL in a stronger position to effectively focus on strategic expenditure initiatives which can promote poverty-reducing growth and sustainably improve social service delivery capacity and performance.

The GOL has taken major initial institutional steps to position itself to effectively improve revenue mobilization. In 2014 it created an independent tax administration entity, the Liberia Revenue Authority (LRA). The LRA has organized itself along modern functional lines in its central offices in Monrovia, hiring new and effectively motivated staff, conducting highly visible and effective anti-corruption drives, public outreach initiatives, tax-payer awareness campaigns and establishing an effective system of tax dispute resolution. A recent multi-donor assessment mission, which applied the new Tax Administration Diagnostic Tool (TADAT), underscored the recent progress made by the LRA in establishing efficient arrangements for collecting taxes.

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24 District-level field offices need to be further staffed-up over the medium-term such that a functional organizational structure can eventually be adopted outside Monrovia as well.
These included efficient arrangements for withholding at the source and advance payment of income taxes, as well as significant advances in the tax revenue forecasting and estimation processes. The Tax Policy function is in the Ministry of Finance, and a team of well-trained tax policy analysts with strong experience in tax data base collation and analysis staffs this unit as well.

**Major Foci of LDRM Program Initiatives**
The LDRM Program will focus centrifugally on major “Targets of Opportunity” which have the potential to yield significant increases in revenue for key programmatic expenditure areas, while avoiding the creation of incentives that distort/dampen urgently-needed private investment. These Targets of Opportunity will include the pursuit of the following major tax policy and administration reforms, which the GOL agrees to prioritize during the program implementation period:

1. **Transition from the GST to a VAT**: The development of a more buoyant and market-friendly tax regime in Liberia requires a major shift towards greater emphasis on indirect taxation. In addition, the adoption of a VAT and transition to a common external tariff regime is a core requirement for full ECOWAS integration, and Liberia is currently a signatory to the ECOWAS VAT Protocols. This is also consistent with the IMF’s recent recommendation (Country Report No. 16/238) that a VAT be implemented by FY 2018.

   The smooth adoption/implementation of a VAT will be facilitated by improved implementation of the GST system during an initial transition period. This in turn will entail enhanced discipline, reporting and verification in the utilization of GST (and customs) waivers/exemptions; further strengthening of electronic filing and bank-based payment systems; strengthened registration requirements/procedures; and improved capability and use of primary tax and customs IT systems (SIGTAS, ASYCUDA), including streamlined interfaces with other IT systems. It will, in addition, require improved coordination of effectively targeted risk-based audit processes between tax administration and customs offices; streamlined border clearance procedures and improvement in business processes to reduce costs of compliance; and further review and streamlining of the exemptions/waiver system.

   It is envisaged that the VAT will initially be implemented with a high threshold, which will limit its application to border transactions and a relatively small number of 1st stage manufacturing establishments and high-end retail establishments. This will facilitate ease-of-administration during the initial application phase, as well as consistency with GOL equity objectives. This process will also be accompanied by a targeted public outreach effort designed to improve voluntary compliance capacity on the part of taxpayers as well as to build broader public understanding of the purposes and prospective impact of transition to a VAT regime.

   The GOL commits to implementing policy and administrative reforms designed to improve the efficiency and transparency of GST implementation during FY 2017. The GOL also commits to preparing all the necessary groundwork for adoption of a best practice compliant VAT no later than FY 2018-19. It is expected that because of improved
transitional application of the GST and adoption and effective implementation of a VAT, GOL revenues would under conservative assumptions increase by approximately 0.30% of GDP in FY 2017-18; 0.60% of GDP in FY 2018-2019; 2.58% of GDP in FY 2019-2020; 3.44% of GDP in FY2020-2021; and 4.03% in FY 2021-2022.

2. **Improve the Policy and Administrative Framework for Natural Resource Taxation:**
   Enhancing near-to-medium term revenue intake from natural resource taxation-related activities will essentially focus on enhanced policy and administrative guidelines and oversight of the current network of natural resource extraction contracts now in place. This in turn will entail more rigorous best practice compliant application of transfer pricing policies and definitions; and improved audit procedures/practices which help further discipline the use of GST (and customs) waivers/exemptions. It will also include development of enhanced policy analysis capacity on best practice natural resource taxation strategies/applications.

   The resulting upgrading of the natural resource extraction-related policy and administrative framework would be expected to generate an increase in annual revenues of 0.11% of GDP in FY 2017-18; 0.21% of GDP in FY 2018-2019; and 0.35% of GDP in FY 2019-2022.

3. **Pilot Property Tax Implementation:** The regime of real property taxation is significantly underutilized. As a result, expanded property taxation offers unique and compelling opportunities to expand the base of taxpayers and improve the relationship of local citizens to their government. It also has the potential to significantly raise municipal revenues over the medium-to-long term. As a result, the LDRM program will include a focus on establishing a limited number of pilots (at least two) in the greater Monrovia area, which will include the adoption of best practice compliant property tax administrative guidelines and oversight procedures.

   This is envisaged to include implementation of a mass appraisal approach to valuation; establishment of an efficient system of billing and collection; and development of a clear link of real estate taxation revenues to expenditures on locally-identified priorities. It is expected that as a result of the implementation of pilot property tax reform initiatives, revenues would increase by 0.02% of GDP in FY 2018-2019; 0.05% of GDP in FY 2019-2020; and 0.07% of GDP in FY2020-2022.

In support of the LDRM policy and administrative reforms envisaged above, USAID commits to the following institutional strengthening support activities under the LDRM Program:

1. Targeted technical/training and institutional-strengthening support, as well as very limited material procurement support, under the USAID-RG3 support program to build MFDP tax policy and LRA tax administration capacities in the areas outlined above required to achieve the aforementioned discrete increases in revenue-intake from: (1) refinement of the GST and preparation for its transition to a broad-based VAT; (2) improvements in the natural resource extraction-based revenue regime; and (3) implementation of selective property tax pilot programs.
In addition, the USAID-RG3 Program will support efforts within the LRA and the Revenue Policy Unit of the MFDP to enhance revenue estimation and forecasting capacity in a manner which will facilitates effective tracking of the impact of LDRM interventions on revenue-intake. USAID-RG3 will also provide targeted technical support to MFDP as needed to facilitate effective SIGTAS-based tracking and verification of additional revenue in-flows resulting from LDRM Program policy and administrative reform interventions.

2. Targeted technical support under the RG3 as well as other USAID-funded activities focused on DRM, perhaps including USAID/MSTAS, contracting vehicles to monitor implementation progress under the revenue enhancement component of the LDRM Program and facilitate program adjustments if/as needed.

Prioritization & Monitoring of Expenditures Arising from LDRM Program Initiatives

The increase in revenues which results from implementation of the LDRM program will be utilized to raise spending in key economic and social expenditure areas. For purposes of this agreement, these sectors are envisaged as including health, education, WASH (water, sanitation and hygiene services), agriculture, and forestry/biodiversity.

It is expected that MFDP will work with USAID to establish a special working group (effectively part of the technical secretariat) which will coordinate with/through the LDRM Steering Committee to develop programmatic priorities within each of the socio-economic expenditure areas referenced above, for purposes of incrementally allocating a portion of LDRM-generated revenues to critical programs within each sector. This working group will focus as well on effective tracking of the actual allotment/utilization of LDRM-based programmatic expenditures across each of the key sectors covered under the initiative. This will include the establishment of a practical game-plan for effectively tracking agreed-upon expenditures through the IFMIS system, and related elaboration of a reporting framework for the provision of periodic budget execution reports to USAID/Liberia on expenditures in the relevant programmatic areas (the exact format of which will be agreed upon by the MFDP and USAID/Liberia). In addition, the working group will be linked to the PFM Unit within the MFDP, in order to ensure that the latter can be effectively engaged in coordinating the LDRM-related expenditure planning/tracking processes and joint activities enumerated above. This programmatic structure will also help ensure that LDRM-related expenditure planning/execution processes are synchronized/consistent with the broader annual and multi-year budget planning guidelines and procedures established by MFDP.

It is initially envisaged that LDRM-generated revenues will be allocated proportionately across the five key sectoral areas. Adjustments to this allocative formula will be made as needed through joint agreement by MFDP and USAID/Liberia representatives. It is also envisaged that the GOL will work to establish pilot sector strategy and basic program budget pilot initiatives for each of the five sectoral areas enumerated above. This will in turn help facilitate the most impactful planning and monitoring processes for allocation of LDRM-related funding, and have broader institution-building benefits for the annual and multi-year budget process for these sectors overall.
In support of the implementation of the expenditure plus-up program in key sectoral areas elucidated above, USAID/Liberia commits to: the provision of targeted technical support as needed to facilitate the effective planning and tracking of additional programmatic expenditures in the key sectoral areas enumerated above. This will include targeted technical support to include sector strategy and program budgeting formulation in the key envisaged sectoral support areas as needed, as well as needed technical support in the budget tracking/execution area. As a result of the implementation of these support initiatives, it is expected that Liberia’s Human Development Index (HDI) scores will rise by at least 5% annually over the period covered by this agreement.

**Key Implementation Provisions**

It is envisaged that the exact composition of the Steering Committee will be established by mutual agreement between the signatories within 30 days of the signing of the LDRM Compact. It is also envisaged that a specialized working group for the Steering Committee and related technical secretariat will be established within 2 months of the formation of the LDRM Steering Committee.

In addition to the trimestral Steering Committee meetings referenced earlier, it is expected that the technical secretariat-anchored working group formed to support effective planning and tracking of LDRM revenue allocations will meet on a regular basis as well. There will also be an annual Steering Committee review meeting on LDRM project performance and compliance with targeted outcomes. The key annualized domestic resource mobilization and related sectoral revenue allocation targets established under the program are provided below in tables 1 and 2:

**Table 1 - Summary of LDRM Revenue Impact by Year (FY 2017-18 to FY 2021-22)**

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<tbody>
<tr>
<td>Administrative</td>
<td>0.30%</td>
<td>0.60%</td>
<td>0.90%</td>
<td>1.20%</td>
<td>1.51%</td>
</tr>
<tr>
<td>Rate Increase</td>
<td></td>
<td>1.05%</td>
<td>1.40%</td>
<td>1.54%</td>
<td></td>
</tr>
<tr>
<td>Base Broadening</td>
<td></td>
<td>0.63%</td>
<td>0.84%</td>
<td>0.98%</td>
<td></td>
</tr>
<tr>
<td>VAT related</td>
<td>0.30%</td>
<td>0.60%</td>
<td>2.58%</td>
<td>3.44%</td>
<td>4.03%</td>
</tr>
<tr>
<td>Natural resources</td>
<td>0.11%</td>
<td>0.21%</td>
<td>0.35%</td>
<td>0.35%</td>
<td>0.35%</td>
</tr>
<tr>
<td>Property taxes</td>
<td>0.02%</td>
<td>0.05%</td>
<td>0.07%</td>
<td>0.07%</td>
<td></td>
</tr>
<tr>
<td>Total Impact</td>
<td>0.41%</td>
<td>0.83%</td>
<td>2.98%</td>
<td>3.86%</td>
<td>4.45%</td>
</tr>
</tbody>
</table>

*Note: Assumes VAT implementation is initiated during FY 2018-19 and revenues start flowing in FY 2019-20.*
Table 2 - Expenditure Analysis

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<tbody>
<tr>
<td></td>
<td>Y1</td>
<td>Y2</td>
<td>Y3</td>
<td>Y4</td>
<td>Y5</td>
</tr>
<tr>
<td>Expenditure Category</td>
<td>Education</td>
<td>Health</td>
<td>WASH</td>
<td>Agriculture</td>
<td>Forestry</td>
</tr>
<tr>
<td>Administrative</td>
<td>0.06%</td>
<td>0.09%</td>
<td>0.03%</td>
<td>0.02%</td>
<td>0.30%</td>
</tr>
<tr>
<td>Rate Increase</td>
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<tr>
<td>Base Broadening</td>
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</tr>
<tr>
<td>Natural resources</td>
<td>0.02%</td>
<td>0.01%</td>
<td>0.01%</td>
<td>0.11%</td>
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<tr>
<td>Property taxes</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Total Impact</td>
<td>0.08%</td>
<td>0.12%</td>
<td>0.04%</td>
<td>0.03%</td>
<td>0.41%</td>
</tr>
</tbody>
</table>

Note: Additional revenues above 1% of GDP will be allocated in accordance with GOL annual and multi-year annual expenditure priorities.
Appendix II – Suggested Guidelines for Program Planning and Management Under LDRM-Supported Initiatives

The sectoral activities selected for funding support by the LDRM should be defined and structured in a manner which establishes their relevance to the AFT and which establishes prospective outcomes/impacts as well as related performance indicators. Once established, these prioritized program initiatives will be submitted through the relevant sub-working group to the steering committee for final assessment and selection.

At that point, an identification accounting code will be assigned to each of the approved program initiatives by the IFMIS and a Special LDRM Unit will be arranged within the relevant line ministry/agency organization. Then each initiative approved by the MFDP for incorporation in the MTEF will be costed by examining the initiative’s associated salaries, benefits, subsidies, transfers and capital assets.

In addition, a work plan (WP) with a calendar of activities to be undertaken during the fiscal year, a detailed spending plan (SP) covering detailed cost of activities will be included, and a rigorously formulated procurement plan (PP) will be developed for each initiative. Targeted institutional-strengthening support would be important to promote efficient and time-effective implementation of these core budget planning activities.

Next, each initiative will be compiled into the budget to be submitted to the legislature, using the information submitted by the responsible ministerial unit. For new program initiatives, new coding blocks are required. The identification of new coding blocks will be coordinated through the Integrated Financial Management Information System (IFMIS) Section within the Department of Fiscal Affairs (DFA) of MFDP.

After being approved by the National Legislature, the execution stage would start July 1, with an initial request for funds originating in the relevant line ministry/agency. Funds are released through quarterly allotments based on the SP and cash availability in the Department of Fiscal Affairs. This constraint, however, would not be applicable to LDRM-based initiatives, in accordance with agreements to be established with the MFDP. The allotments would be issued electronically for the spending entities that have access to IFMIS and manually for those that are not yet included within the system. The line ministries/ agencies in the sectors envisaged for prioritization under LDRM are each connected to the IFMIS in their central Monrovia offices.

Budget execution would be registered automatically in the IFMIS as resources are committed and effectively released. Budget information at the central offices is reliable, timely and useful. Quarterly budget execution reports would be compiled in a manner which is consistent and compatible with budget estimates at aggregate sectoral and economic levels, as well as at the LDRM activity-level. This would be the case for both commitment and payment stages. Effective implementation of all of the above mentioned elements, which are defined in the MTEF Manual, would help implement the LDRM programmatic initiatives in a predictable manner as intended, releasing funds when duly required through line ministries/agencies, and accounting and
reporting each step in the process. At the same time, remaining institutional vulnerabilities could in part be addressed through the conduct of selective financial and/or performance audit reviews of major LDRM-supported initiatives. These could be jointly undertaken by teams composed of USAID/Liberia-supported and GOL audit specialists.

**Monitoring and Tracking mechanisms**

PFM regulations state that line ministries/agencies are responsible for conducting periodic performance reviews and reviewing the monthly, quarterly and annual financial reports before submitting them to the MFDP (for consolidation), the Auditor General and the Comptroller-General. These reports also should be made available to the LDRM Steering Committee. The Department of Budget and Development Planning oversees analyzing the progress made in project performance against the funds utilized. The semi-annual budget performance report provides an ongoing flow of information on performance against program objectives. This report will be quite useful for decision-making/course-adjustments at the Steering Committee level.

For monitoring purposes, the MFDP elaborates a Quarterly Report assessing programmed and actual revenues, as well as budget estimates and execution at aggregate sectoral and economic level at both the commitment and the payment stages. These reports should be compiled for all LDRM-supported initiatives and passed along for review by the Steering Committee.

In addition to producing periodic reports, the PFM regulations require that the relevant line ministry/agency commission, Public Expenditure Tracking Surveys (PETs) to keep track of trends in service delivery to targeted beneficiaries. PET-related findings and recommendations are meant to enhance accountability and transparency in the use of public resources, and to ensure that programmed resources reach the intended beneficiaries. Moreover, PETs may be useful for identifying and quantifying political and bureaucratic capture, leakage of funds, and inefficiencies in the deployment of human and material resources. A recent PET undertaken in the education sector, for instance, indicated significant ex-post under-allocation of resources for textbooks and instructional materials, in relation to approved ex-ante budgetary allotments.

In summary, budgetary allocation, monitoring and payment activities have improved significantly through IFMIS implementation. At the same time, there continue to be vulnerabilities that need to be controlled to the maximum degree possible for LDRM-related program initiatives. As elaborated above, this can best be managed through complementary budget planning and tracking activities which will help ensure the transparent and efficient utilization of LDRM-leveraged resources while simultaneously enhancing sustainable budget planning/management capacity within relevant GOL stakeholder institutions.
Appendix III – VAT Implementation Checklist

A Short List of the Main Steps That Need to Be Done to Put A VAT in Place.

The following list is a concise high level summary of the main steps to be taken to implement a VAT. Many of these items have been mentioned earlier in the text and many are already well-begun. A draft VAT law has already been drafted, work proceeds in improving the quality of ASYCUDA and SIGTAS and an initial effort has been made in preparing regulations. In addition, the leadership of both LRA and the MoF are not strangers to the VAT. They have worked and collaborated extensively with counterparts in ECOWAS on this important topic. Technical training has been provided and technical advisors from many countries have already provided substantial input in this important area.

- Strengthen the existing VAT Steering Committee and enhance its activities regarding the VAT preparatory work.
- Rationalize existing domestic trade tax regime, reduce the exemptions granted under the goods tax, and expand the base of service tax, levy GST on the importation of GST registered manufacturers and provide credit for input tax.
- Detail VAT/IT systems adjustments needed to ensure that SIGTAS and ASYCUDA are fully able to operate properly according to the draft VAT law and regulations.
- Introduce basic invoicing, filing procedures in the current GST in line with VAT to ease the implementation of VAT.
- Finalize the current draft VAT Act.
- Prepare initial set of draft VAT regulations.
- Organize initial VAT education sessions for policy makers, parliamentarians, and politicians.
- Prepare basic VAT education materials such as pamphlets, brochures, leaflets, VAT videos etc.
- Launch major VAT public education program through mass media: newspapers, radios and televisions.
- Train tax officials on VAT
- Prepare transitional rules for the smooth introduction of VAT in place of GST.
Appendix IV – List of Interviewees

Domestic Resource Mobilization team
September 19-30, 2016

1. Derrick Nyumah
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   Liberia Revenue Authority Taxpayer Support Unit
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2. Alexande Deline
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6. Oscar Bloh
   Center for Democratic Development (CDD)

7. Keith Metzner
   Tel: 0777-555-073)

8. Dr. Frank Beernaert,
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mob: +231 (0)77 091-4062  
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Mobile: +231 (0)777723986

15. Louise Fahnbulleh  
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USAID/Liberia

16. Jenkins Vengehn  
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17. Sjoerd Postma  
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18. Del-Francis Wreh  
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Ministry of Finance & Development Planning
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20. Mr. Asana A. Kromah Sr.  
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21. Mr. Peter Bennett, and Mr. Brian Glancy  
    ECORYS Customs Assistance Team at the LRA