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ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
BGA	Bureau of General Accounting
BoB	Bureau of the Budget
CSA	Civil Service Agency
CMCo	Cash Management Committee
GAC	General Auditing Commission
GAPS	Government Accounting Payroll System
GDP	Gross domestic product
GEMAP	Governance and Economic Management Assistance Program
HIPC	Heavily Indebted Poor Country
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
MOE	Ministry of Education
MoF	Ministry of Finance
MOHSW	Ministry of Health and Social Welfare
MPEA	Ministry of Planning and Economic Affairs
MDRI	Multilateral Debt Relief Initiative
NGOs	Nongovernmental organizations
PEFA	Public Expenditure and Financial Accountability
PEMFAR	Public Expenditure Management and Financial Accountability Review
PFM	Public financial management
PPCC	Public Procurement and Concessions Commission
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
UN	United Nations
UNDP	United Nations Development Program
USAID	United States Agency for International Development

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The Public Expenditure and Financial Accountability Review (PEMFAR) for Liberia was initiated in 2007, based on consultations with the Liberian authorities. It is the first comprehensive study of public financial management systems in Liberia conducted since the civil war (1989–2003). The study was intended to provide the analytical foundation for government and development partner discussions on the phase-out of the Governance and Economic Management Assistance Program (GEMAP), and the broader public financial management reform agenda necessary to lay the foundation for future budget support. The study was undertaken in collaboration with key ministries and agencies and development partners, including the International Monetary Fund (IMF), the African Development Bank (AfDB), the United Nations Development Programme (UNDP), and the Swedish National Auditing Office (SNAO).

The report was prepared based on findings from three missions conducted between October 2007 and January 2008. The aide memoir from the first PEMFAR mission was circulated and discussed in November 2007, at the GEMAP technical team meeting, a forum that brings together government and partners. Subsequent drafts of the PEMFAR and 2007 Public Expenditure and Financial Accountability (PEFA) assessment were circulated for review in February and May 2008, and comments were received from the Minister of Finance, Revenue Department, and General Auditing Commission. Development Partners also provided several rounds of reviews, including the IMF, AfDB, and UNDP. The final version of the PEMFAR was discussed and validated by stakeholders at the Budget Support Working Group in March 2009.

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PREFACE

Liberia's strong reform performance since the end of the civil war in 2003 has been widely commended. The 14-year civil war and preceding decade of economic decline and poor governance had a devastating effect on Liberia's institutions, particularly public financial management systems. Since 2006, Liberia has developed its first full PRSP, successfully implemented an IMF-supported staff-monitored program and poverty reduction growth facility, cleared arrears to multilateral institutions, reached the Heavily Indebted Poor Country (HIPC) decision point, and embarked on reform agendas across the public sector. But much still remains to be done to strengthen gains, modernize systems and processes, and ensure the sustainability of current efforts.

This study was undertaken to take stock of the current public financial management practices, conditions, and ongoing reform efforts, and provide recommendations for a more harmonized and strategic reform agenda. It aims to provide a framework for future reform and donor support, as the transitional Governance and Economic Management Assistance Program (GEMAP) begins its phase-out. It is also hoped that the PEMFAR will provide a basis on which to judge Liberia's readiness for budget support, and recommendations for moving the government towards increased aid. This study provides a baseline of conditions at the beginning of Liberia's post-conflict recovery, from which Liberia's performance can be judged. Public Expenditure Reviews focused on two strategic sectors: health and education, identified as priority sectors in the PRSP. These expenditure reviews provide initial observations, based on limited data, about the allocative and operational efficiency of public spending.

The PEMFAR was finalized in late 2008 and covers developments through the end of the Liberian Government fiscal year 2007/08. The accompanying PEFA assessment (annex 2) was completed in 2007, relying on 2006/07 fiscal data.

The PEMFAR represents a truly joint donor partner and government effort. Led by the Bank, it includes contributions from the IMF, AfDB, UNDP, and Swedish National Auditing Office, as well as information and input from key line ministries, agencies, and the legislature.

EXECUTIVE SUMMARY

1. **The 2008 Public Expenditure Management and Financial Accountability Review (PEMFAR) is the first comprehensive assessment of public expenditure allocations and financial management systems in Liberia by development partners and the Liberian government in the past 20 years.** It is a consolidated diagnostic tool to enhance understanding of the country's public expenditure management, assess the fiduciary risks to government and donor resources, and provide recommendations for comprehensive public expenditure reform. This report builds on the findings of the assessments conducted jointly by the World Bank, the African Development Bank, the International Monetary Fund, United Nations Development Programme, Department for International Development, and the Swedish National Auditing Office, between September 2007 and February 2008 in Liberia. The mission worked closely with the Ministry of Finance, the Department of the Budget, the Auditor General, the Public Procurement and Concessions Commission, and other ministries and state-owned enterprises.

2. **The challenges for public expenditure management reform in Liberia are shaped by the country's history over the past three decades.** Liberia has begun to recover from a devastating civil war that reduced real output to less than a third of its peak at the beginning of the 1980s. Production of iron ore, the country's major industry, ground to a halt, the physical infrastructure was destroyed, and public services deteriorated dramatically. Liberia remained in default on its external debt from the mid-1980s until it began clearing arrears to multilateral creditors in 2007. It is currently one of the most heavily indebted countries, relative to GDP, in the world.

3. **The government led by President Johnson-Sirleaf, inaugurated in January 2006, is committed to comprehensive economic and institutional reform.** It has implemented measures to improve fiscal discipline and strengthen financial controls over the use of public funds. Key reforms include a Staff Monitored Program agreed with the IMF in 2006, a subsequent Poverty Reduction and Growth Facility Program, agreed in 2008, and the ongoing Governance and Economic Management Assistance Program. After its successful clearance of arrears with the International Monetary Fund (IMF), World Bank, and African Development Bank (AfDB), Liberia reached the Heavily Indebted Poor Country (HIPC) decision point in March 2008.

4. **Given the institutional collapse over the past decades and the ambitious ongoing reform efforts undertaken by the government to address its weak public financial management (PFM) institutions, this is an opportune time to take stock of the current direction of PFM reforms in Liberia.** The PEMFAR provides a comprehensive review, of past practices and ongoing reforms and makes recommendations for the future.

5. **The PEMFAR assesses Liberia's public expenditure performance along four main dimensions: macroeconomic, institutional, allocations between sectors, and allocations within key sectors.** At the macroeconomic level, it describes the external economic constraints and opportunities that will drive growth and revenue mobilization over the medium term and determine the likely fiscal envelope (chapter 1). It next reviews the institutional structures that guide and ensure appropriate resource allocation and assesses the strength and weaknesses of the current systems using a standardized Public Expenditure and Financial Accountability scoring system (chapter 2). It then assesses how public expenditure has been allocated between sectors and priorities (chapter 3). It lastly reviews the allocation of resources within two priority sectors, health and education (chapter 4).

6. **The PEMFAR recommendations and action plan were developed in consultation with the government of Liberia and reflect national priorities.** The original concept note and draft PEMFAR were reviewed extensively by the Ministry of Finance and the government-led Budget Support Working Group. Many of the recommended actions build on ongoing reform efforts in the context of the HIPC Initiative and Poverty Reduction and Growth Facility. The Government intends to use the PEMFAR to help guide its PFM reform planning in preparation for a phase-out of the ongoing Governance and Economic Management Assistance Program (GEMAP). The PEMFAR is also a response to a call from donor partners for a more comprehensive assessment of Liberia's PFM system to underpin their assistance strategies, and the report has benefited from their reviews and comments. The PEMFAR will be disseminated broadly to the government and donor partners. The report will be presented and discussed before the Economic Governance Steering Committee, chaired by the President, and the Budget Support Committee. Further workshops will also be held with relevant stakeholders to discuss the findings and recommendations.

7. Note that public expenditure reviews at this stage in Liberia's post-conflict development are significantly constrained by the limited availability and quality of data, notably about donor resources. In this respect, several PEMFAR recommendations focus on actions needed to strengthen the quality and broaden the coverage of public expenditures.

Key Findings

8. **Sustainable economic growth is a prerequisite for creating fiscal space for priority expenditures, because growth in government revenue will primarily be driven by growth in the revenue bases.** So, the government should continue to ensure that fiscal policy supports macroeconomic stability by maintaining budget discipline and avoiding domestic financing of the budget. It should endeavor to persuade donors to gradually channel a larger share of their assistance through the government budget to enable it to assume greater responsibility for providing essential public services. Over the medium term, there is scope for strong growth in the budget envelope. But there will still be large shortfalls in budget resources relative to spending requirements, making it essential to improve the allocative and technical efficiency of expenditures. For both, the government should consolidate and deepen its ongoing public financial management reform efforts to increase absorption capacity, attract more donor resources through the budget, and increase efficiency in public expenditure.

9. **Liberia's public financial management system has improved markedly since 2006, and an ambitious reform agenda is under way, which will require strong continued efforts to ensure that reforms take root.** Many of Liberia's financial management structures are transitional, designed to strengthen central controls, curb corruption, and enable centralized planning during reconstruction. Over the medium term, there will be a need to shift toward longer term and more sustainable solutions in some areas and to continue implementing, fine-tuning, and entrenching new systems recently introduced. Both the government and partners should keep in mind that they are rebuilding an extremely weak and outdated PFM structure, which deteriorated markedly during the civil conflict. Therefore, reform efforts need to focus on "getting the basics right," rather than introducing sophisticated reforms or systems that may absorb a large share of the government's scarce resources and human capacity.

10. **There have been some improvements in the inter-sectoral allocative efficiency of expenditures, with a larger share of the budget allocated to the key social services.** These

positive shifts in budget allocations should be maintained. In addition, the share of the budget allocated to investments in economic services and infrastructure should increase, if the budget is to support economic growth. Note, however, that government spending represents only a share of public investment and that significant donor funding devoted to investment is spent outside the national budget.

11. **Despite recent increases, there is a need to further expand public resources for education and health.** Furthermore, the efficiency and equity in public spending on health and education can be improved by shifting more resources toward the rural areas and poorest regions, by better integrating donor expenditure in overall budget planning, by shifting a larger share of resources in the education budget to primary and secondary education, and by encouraging more girls to remain in school, thus reducing gender imbalances.

MACROECONOMIC PROSPECTS AND FISCAL SPACE

12. **Although the Liberian economy grew strongly in the 1960s and 1970s, driven by the production and export of iron ore and rubber, the benefits of growth were distributed inequitably.** By 1980, GDP per capita had increased to middle-income country levels, but the economy first slumped and then collapsed over the next two decades. The collapse resulted from deteriorating terms of trade, economic mismanagement and the civil war, which afflicted the country from 1989-1996 and again during 2001-2003. In the first phase of the civil war, the economy contracted by 90 percent in real terms. When peace was restored in 1996, the economy began to recover rapidly, driven by a strong expansion of timber exports. But output fell sharply again after the resumption of fighting in 2001, which led the United Nations to impose sanctions on Liberia's timber and diamond exports.

13. **The Liberian economy has the potential for strong growth, but it also faces major risks.** Since the signing of the Comprehensive Peace Agreement in 2003, which ended the second phase of civil war in Liberia, the economy has started to recover, with real GDP growth accelerating to about 9.5 percent in 2007. Strong economic growth since 2003/04 enhanced government revenue. Other contributing factors to revenue growth include stronger enforcement in customs administration (including the strengthening of pre-shipment inspection of imports since 2006), strengthening the Large Taxpayer Unit, eliminating the settlement of tax liabilities through noncash payments, and reducing tax and duty incentives.

14. **In the short to medium term, continuing growth of aggregate demand should be sufficient to maintain rapid GDP growth** by bringing underused factors of production back into use, as long as the economy has sufficient access to foreign exchange to fund the widening trade deficit. Unemployed labor, for example, could be employed in labor-intensive services, construction, and agriculture.¹ This is a common pattern in post-conflict economies, where growth is driven by a recovery of capacity use and associated improvements in factor productivity. However, the current global economic crisis may slow down this recovery process, if it affects the rate of investment and transfers to Liberia. The short-term priority for macroeconomic policy should be to stimulate growth by maintaining budget discipline and ensuring that demand remains buoyant, that jobs are created, and that there is sufficient foreign exchange to meet the economy's need for imports.

¹ The government has set a high priority on labor-intensive public works as a short to medium term poverty reducing strategy to provide income to vulnerable groups and boost aggregate demand.

15. **Over the longer term, however, sustainable growth will be possible only with an expansion of the supply side of the economy.** This will require investment in public infrastructure, private investment in commercial activities, and investment in human resource development through improving the access to and the quality of health and education services. The medium-to-longer term effects of the global economic slowdown are still hard to predict and difficult to measure, but its impact is likely to be felt as a result of falling demand and prices for Liberia's primary exports, falling remittance inflows, possible falls in foreign direct investment or delays to large investment projects, and a possible fall-off in inflows of official development assistance. These factors may result in a lower growth rate than previously estimated. But Liberia's growth rate is expected to remain high in comparative perspective, as production restarts in mining and forestry.

16. **The sectors of the economy with the greatest potential to contribute to sustainable growth are timber, mining, agriculture, and services.** With the lifting of sanctions on Liberia's timber exports in 2006, production is expected to recover. But logging must be sustainable to maintain long-term positive benefits for the country's development. Growth in agriculture will be slower, but because it constitutes about 40 percent of GDP and employs a high share of the labor force, its impact on poverty reduction could be significant. Service growth will be boosted by further growth in domestic demand. This includes public services, construction, private consumption and the service inputs required to support the timber and mining industries, such as transport.

17. **Large-scale investments in mining will boost GDP, exports, and government revenue.** The government has signed a Mineral Development Agreement with Arcelor Mittal for a US\$1.5 billion investment to rehabilitate iron ore production in Nimba County, with production scheduled to start around 2010. The government is also in the process of tendering two other iron ore deposits. But a natural resource boom can pose difficult challenges for economic management. Mining itself will create relatively few jobs. There is also a strong likelihood of Dutch disease, which would have negative effects on other (more labor-intensive) tradable goods sectors. In many developing countries, including Liberia in the 1960s and 1970s, natural resource booms have not translated into equitable growth and poverty reduction. Instead, they have been associated with inequality, corruption, wasteful public spending, and economic volatility. To avoid these problems, the government should create a stable and business-friendly environment for the private sector, attract private investment into labor-intensive industries, and support the development of backward linkages from the natural resource industries. It should also ensure that a substantial share of the rents from resource extraction are captured as public revenue and invested efficiently in human capital development, especially improvements to public education and health services. This in turn will improve labor productivity and raise real wages.

18. **The PEMFAR presents an evaluation and quantitative projections of fiscal space through fiscal 2011/12.** The projections are intended to identify additional budgetary resources to fund priority public expenditures supporting economic growth and poverty reduction. They can also contribute to medium-term fiscal planning and inform debates over fiscal policy. Fiscal space can be generated from four main sources: increases in domestic revenue, increases in donor grants, sustainable public borrowing, and improvements in expenditure efficiency. The PEMFAR's fiscal space projections take the 2007/08 budget outturn as a base and build on it by incorporating macroeconomic projections and the estimated impact of policy changes (such as planned tax policy changes).

19. **If economic growth accelerates over the medium term (12.3 percent on average during 2008-12), increased revenue will generate substantial fiscal space by 2011/12.** Revenues are projected to grow by US\$160 million, or 80 percent in nominal terms and 48 percent in real terms, compared with the 2007/08 outturn. But higher debt servicing will reduce the fiscal space. Domestic debt servicing may require up to US\$16 million by 2011/12. External debt servicing requirements are still subject to much uncertainty because of the need to mobilize additional debt relief over and above that given under the HIPC initiative. But the government expects that they will be limited to a maximum of 1 percent of GDP during the period. There will be almost no scope for domestic or external borrowing in the medium term.

20. **Revenue growth may be lower than expected if growth prospects are not realized.** Given the uncertainty about the possible impact of the global economic slowdown on Liberia's growth, the PEMFAR's fiscal space projections consider an alternative scenario based on slower growth of real GDP. In this scenario, nonmining GDP growth is two percentage points lower than the baseline throughout the projection period, iron ore production is delayed by one year, and forestry extraction is slower than expected. Revenue growth then falls to 72 percent in nominal terms and 36 percent in real terms, compared with the 2008 outturn.

21. **Core Poverty Reduction Strategy (PRS) spending needs are estimated at US\$550 million for 2008/09** (compared with about US\$132 million which is allocated in the budget) and this will fall slightly down to US\$526 million by 2010/11. In addition to these core poverty-reducing spending requirements, many other important government administrative costs will have to be financed to maintain the state structure, such as the legislature, Ministry of State, and debt service. The PRS estimates that 45 percent of government revenues will be dedicated to non-PRS expenditures in 2008/09, falling to 35 percent of total revenues by 2010/11, or about US\$110 million a year. In current prices, total requirements for expenditures on PRS and public administrative costs are estimated at US\$650 million a year over the PRS period (2008/09–2010/11). This amounts to about 70 percent of projected GDP for 2008/09, falling to 52 percent by 2010/11. The resource shortfall amounts to US\$418 million in 2008/09 and falls to US\$326 million by 2010/11, assuming that creditors and donors provide additional debt relief or resources to enable the government to avoid any substantial increase in its external debt servicing burden, in line with the government's projections.

22. **Despite the projected growth in revenues over the next five years, the requirements for public expenditures are greater than the resources available to fund them.** Poverty-reducing expenditure requirements are estimated to be about 300 percent higher than the allocation to these expenditures in the 2008/09 budget. Attracting more donor aid and improving expenditure efficiency will therefore be crucial if the government is to fund its core poverty-reducing spending requirements. Donors should begin to channel more funding through national systems, either through direct budget support or pooled funds. Most donor financing is project based and implemented outside government agencies, which makes coordinating and managing public development programs a challenge.

THE PUBLIC FINANCIAL MANAGEMENT SYSTEM

23. **A recent assessment of Liberia's PFM system, using standardized Public Expenditure and Financial Accountability (PEFA) indicators, reveals several weaknesses, but shows that it is consistent with those of other post-conflict countries in**

Africa, such as Sierra Leone. Of the 28 performance indicators and three donor practices indicators, Liberia scored Ds on 15 indicators, Cs on 10, Bs on 2, and an A on 1, while 3 received no score. PEFA indicators pertaining to budget implementation and budget accounting, auditing, and monitoring scored particularly poorly. Liberia performed better on budget credibility and orderliness and on participation in the budget process. Given Liberia's outdated institutional system for PFM and the severe stress of the civil war and economic collapse, the scores are relatively strong, reflecting improvements since the end of the civil war. Note, too, that the PEFA scorings look at practices over past years, and thus do not fully capture the strong ongoing reform progress.

24. **The legal and regulatory framework for PFM requires revision** to clarify the roles and responsibilities of different public agencies, establish internal controls, institutionalize the internal audit function, and formalize reporting requirements. A PFM Act, now before the legislature, is expected to rectify the deficiencies in existing legislation.

25. **Institutional responsibilities for preparing and implementing the budget are being reformed and strengthened.** The past two years have seen significant improvements in coordination, thanks to the establishment of the Budget Committee, which includes representatives from the Ministry of Finance, Bureau of the Budget, Ministry of State, Ministry of Planning, Civil Service Agency, and General Service Agency. The committee provides oversight of the budget process and advice to the cabinet on policy proposals and the strategic direction of the budget. The recurrent and investment budgets have been merged into a single budget, simplifying the budgeting process. Ministries and agencies are engaged early in the budget process through a budget circular setting out guidelines for budget preparation, sent out by the Bureau of the Budget. In September 2008, legislation was approved for a merger of the Bureau of the Budget with the Ministry of Finance, which is expected to reduce fragmentation in budget preparation and execution. The legislature's role in the budget review process needs further strengthening. Capacity building and greater communication between legislature and executive are required to ensure that the legislature can adequately oversee the budget process.

26. **The national budget document should provide a comprehensive overview of the government's fiscal operations.** It should include information on prior year budget outturns (presented in the same format as the budget proposal); data on both the debt stock and financial assets, with details for at least the beginning of the budget year; consideration of the implications of new policy initiatives and estimates of the budgetary impact of major changes in policy or expenditure programs; and information on donor-funded activities in Liberia.

27. **While the government would like to move toward a medium-term expenditure framework, it is advised to gradually phase in the elements of such a framework.** As a part of the PRS, a costing exercise was undertaken to guide and ensure policy-based budgeting over the PRS period. The government is also developing a medium-term fiscal framework, which will help to provide broad parameters for budgetary planning. It is recommended that this be accompanied by strengthening the macroeconomic analysis capacity within the MoF; producing strategies for key sectors, formulating medium-term objectives, and producing related expenditure plans; linking budgeted funds and the results to be produced, defined by measurable indicators; and introducing a system to measure performance.

28. **The Liberian government should set up a well functioning system for selecting and managing public investments.** A first-level screening of all project proposals should

ensure that they meet minimum criteria of consistency with the government's strategic goals. There should be consideration of how to finance the costs of maintaining and operating assets created through public investment projects. And evaluation of completed projects is desirable to ensure that learning and feedback from projects create a positive dynamic for improvements over time.

29. **The government's personnel databases should be rationalized.** There are two databases of public servants, one operated by the Civil Service Agency and the other by the Bureau of General Accounting in the MoF. Although these databases are regularly reconciled, the lack of a common classification system makes this cumbersome. Supervisory controls of the payroll are weak. Although payroll audits have been conducted in recent years and ghost workers removed from the payroll, systems for regular maintenance and monitoring of the payroll need to be strengthened. The planned introduction of a biometric identification system to verify all civil servants on the payroll and the development of a Human Resource Management Information System will be milestones, as will the development of the Integrated Financial Management Information System.

30. **A major effort is under way to reform public procurement.** A Public Procurement and Concessions Act was enacted in September 2005 which provides for public sector contracts to be subject to meaningful competition. A Public Procurement and Concessions Commission (PPPC) has been established and is charged with regulating public procurement. Procurement regulations and a manual are currently being prepared with support from a consultancy firm, which will further help to strengthen procurement practices. Procurement units and committees have been set up in ministries and agencies, as required under the Act, but these structures lack the human and physical resources to operate effectively. Moreover, there is still some confusion over the roles which different entities should play in the procurement process, especially in the separation of functions between procurement units and procurement committees. As a result, and despite a notable improvement in public procurement practices, they still fall short of the standards stipulated in the Act, and incorrect application of the law remains common. There is also a recognition that some of the stipulations in the Act are too stringent for the Liberian environment. The PPCC has initiated a full review of the act, which is expected to lead to amendments to the Public Procurement and Concessions Act to be submitted to the legislature in early 2009.

31. **The momentum from the passage of the Public Procurement and Concessions Act should be used.** This will require a comprehensive set of implementing regulations and manuals (currently under draft) and providing procuring entities with detailed instructions and increased capacity on the correct application of the law. Efforts to strengthen the ability of private sector operators to meet the requirements of the Act, including by providing training, reducing the cost of bidding, and improving the scope and quality of public procurement reporting, are also needed.

32. **A key component of budget execution is the cash management and commitment control system introduced under the GEMAP.** This aims to ensure that expenditures remain within the resources envelope, prevent the accumulation of expenditure arrears, and ensure compliance with the new public procurement legislation. While the current arrangements have re-imposed fiscal discipline and increased transparency and accountability in the budget process, they represent a temporary measure while longer-term financial institutions are re-established. The government may want to consider planning for a more streamlined budget execution process. In the MoF, it is necessary to shift responsibility for operating the system away from GEMAP technical experts to those MoF officials who would

normally be in charge of the payment process. It is also necessary to rationalize the approval process further, as it involves many steps.

33. **The accounting system does not meet internationally accepted standards.** It is not based on a double-entry method of book keeping and does not include sufficient reports to permit reporting based on generally accepted accounting principles. It also omits debt and contingent liabilities. As an interim measure, SunSystems has been introduced, but is being used primarily for reporting purposes. It will eventually be replaced by an Integrated Financial Management Information System. Implementation should focus on the introduction of a few core modules that can quickly be rolled out without sapping scarce resources.

34. **The internal audit function needs to be further developed.** There is a need for a systematic and disciplined approach to evaluating risk management, control, and governance processes. The PFM Act now being drafted would address this issue with a roadmap of revised institutional arrangements for internal audit and would secure a border between internal and external audit functions.

35. **The external oversight function is weak but is undergoing significant reform and capacity building.** The General Auditing Commission is implementing extensive reform and capacity building and produced a first set of audit reports, submitted to the legislature in late 2008. These efforts will need to be sustained and consolidated to ensure that annual audits are institutionalized. Further training and support to the legislature will be required to enable it to perform its oversight role of reviewing financial statements and audit reports.

36. **The debt management department of the MoF requires additional capacity and tools.** As the HIPC process is unfolding, the government has begun to deal with an unsustainable debt burden (and 20 years of default). However, there is also a need to institute regular debt-management practices within the MoF and ensure that the debt burden is analyzed during budget preparation. Legislation is needed to clearly specify the debt-management responsibilities of the MoF. Debt software tools should be introduced and the debt management staff should be trained to analyze the debt and produce high quality reports.

37. **A complete overview of Liberia's public finances should include information on the activities of donors.** A project database detailing all donor-funded projects needs to be developed. This would require the ministries to declare all direct-donor funding for government-implemented projects and donors to report all the funding they provide in Liberia. In addition, the central Project Financial Management Unit in the MoF could be used for a greater volume of donor-funded projects, ensuring standardization of project funds management.

PUBLIC EXPENDITURE ANALYSIS

38. **Liberia's budgeted expenditures have risen rapidly since 2004/05 as the government's revenue base has recovered, increasing by 194 percent in nominal terms between 2004/05 and 2007/08, from 13 percent to 25 percent of GDP.** The positive effects of increased public resources are evident, as the functions of the state are gradually re-established after 14 years of civil conflict. While government revenue remains insufficient to meet Liberia's reconstruction needs and the country remains heavily dependent on donor resources, the economic and fiscal recovery is strengthening the government's coordinating and regulatory roles and has contributed to improvements in basic social service delivery.

39. **The government ran small cash surpluses in 2005/06, 2006/07, and 2007/08 and expenditure has been unevenly paced across the fiscal years.** The rate of expenditure has been low in the beginning of each fiscal year and rapid toward the end of the year due to the constraints of cash-based budgeting, which only allows large capital purchases to be made toward the end of the year when sufficient cash balances have accumulated; under-projection of revenues, which has resulted in the passing of supplemental budgets in the second half of the fiscal years; and capacity constraints within the ministries and agencies to comply with new procurement requirements and Cash Management Committee controls. So, there may be room to increase spending efficiency through better procurement planning, improved sequencing of activities, and an eventual transition away from a cash-based budget. As a result, in 2005/06, 2006/07, and 2007/08, there were significant deviations between the original budget estimates and final expenditure, largely due to mid-year budget revisions and the passing of supplemental budgets. These discrepancies decrease the predictability of the budget and may increase greater discretion in budgetary allocations as mid-year revisions and supplemental budgets usually undergo less thorough public scrutiny than the annual budgeting exercise.

40. **Major shifts have taken place in the allocation of expenditures classified by function between 2004/05 and 2007/08, reflecting increased attention to the Interim Poverty Reduction Strategy and Poverty Reduction Strategy priorities.** The main beneficiaries of this shift are the social and community services sectors (of which education and health and social welfare constitute the largest sectors) whose share of the budget rose from 18 percent in 2004/05 to 27 percent in the 2007/08 budget. Debt servicing has also received a larger share of the budget, rising from 2 to 6.5 percent of total expenditure over the same period. In contrast, administration and security services saw their shares of the budget fall, from 36 to 29 percent and from 34 to 14 percent, respectively. The share of economic services declined marginally, from 8 to 7 percent.

41. **There have also been positive shifts in the composition of expenditures by economic classification.** The share of wages and salaries in the budget declined from 55 percent in 2004/05 to 36 percent in the 2007/08 budget, while that of goods and services increased from 21 to 33 percent. The reduction in the share of the budget allocated to the wage bill was partly made possible by purging ghost workers from the payroll. But transfers and subsidies to public enterprises, commissions, local governments, and other recipients increased as a percentage of total expenditure from 7.8 percent in 2004/05 to 15.9 percent in 2007/08. This is due in part to the creation of new commissions that receive monthly transfers and a rise in direct transfers to ministries and agencies for operating expenses. The budget has also seen a reduction in investment expenditure, which fell from 14 to 10 percent. While this is partly because donors contribute most of the public investment expenditure outside of the national budget, the government's spending on capital investment will have to rise substantially in the future if it intends to contribute to rebuilding infrastructure.

42. **Liberia's public expenditure patterns cannot be fully assessed without an appreciation of the impact of donor assistance.** Total official development assistance was estimated at US\$357 million for 2007,² or more than twice the government's expenditure in the same period. Given the magnitude of external assistance compared with public resources, it will be difficult for the government to improve allocative efficiency and ensure alignment with the PRS, unless improved and disaggregated aid data is collected and analyzed.

² Paris Declaration Survey 2007.

43. **While Liberia's post-war progress to date is commendable, ensuring that additional resources are devoted to Poverty Reduction Strategy policy objectives will be important, as the resource envelope continues to grow in the medium term.** As seen in many resource-rich countries, there are risks that increased public resources will fuel greater public consumption at the center, to the benefit of the highest income groups. Increased budget monitoring and analysis will need to be performed to ensure that the budget is contributing to stated objectives. Specifically, administrative and personnel expenditure should be aligned with the Civil Service Reform Strategy; resources should shift to investment expenditure, particularly in infrastructure, and to support operation and maintenance of new physical investments; and greater attention should be given to economic sectors with large employment potential, such as agriculture, which is underfunded. These are some of the top priorities reflected in the PRS, which focus on economic sectors under Pillar 2: economic revitalization, Pillar 3: governance and rule of law, and Pillar 4: infrastructure and basic services. In addition, improvements in data availability, reporting, and dissemination will be crucial for holdings elected officials accountable by monitoring that the use of public financing is aligned with the PRS.

SECTOR EXPENDITURE REVIEWS

Health Sector

44. **Liberia's health status remains poor in regional comparison, and the country is unlikely to reach many Millennium Development Goals due to the deterioration in health status during the 14 years of civil war.** Average life expectancy at birth is estimated by WHO (2006) at 42 years, with 44 years for women and 39 years for men. Malaria is the leading cause of death, accounting for more than 40 percent of outpatient attendance and up to 18 percent of inpatient deaths at health clinics. Diarrheal diseases are the second leading cause of morbidity and mortality. However, there have been improvements in health indicators since the end of the war, with a fall in total fertility rate from an estimated 6.6 births per woman in 1986 to 5.2 in 2007 and declines in both infant and child mortality rates.

45. **Expenditure allocation in the health sector is driven by the National Health Policy of the Ministry of Health and Social Welfare for 2007–11, which focuses on equitable and affordable health services by providing a Basic Package of Health Service.** This package standardises prevention and treatment services throughout the health system to ensure that all individuals have access to the same care.

46. **Health expenditure has grown rapidly in the post-war period, and per capita health expenditure is estimated at approximately US\$20 for 2006/07, high for Liberia's development status.** Donor funding accounts for an estimated 64 percent of health spending, which is well above the average for low-income countries and reflects Liberia's large reconstruction needs in the health sector.

47. **In the medium term, the government must demonstrate a strong commitment to the health sector as part of its strategy to improve human capital for Liberia's development.** In 2007/08, government expenditure on health accounted for 8.1 percent of total expenditure, significantly lower than the 2015 Abuja target of 15 percent of total expenditure. As Liberia moves toward implementing a medium term expenditure framework, public expenditure for the health sector should gradually increase.

48. **There will be a continued need for capital investments in the health sector.** Government expenditure is almost entirely recurrent, while most capital costs are carried by donors. The government is encouraged to develop a capital investment plan as an integral part of its Public Sector Investment Program in the context of its medium term expenditure framework, outlining construction and reconstruction priorities, to ensure a more systematic approach to investment and to increase national ownership.

49. **A regional analysis of government health expenditure shows that health services are not equitably distributed across regions.** The ratio of persons per physician in the richest region of the country is less than half that in the poorest region. Similarly, total expenditure on curative services is more than three times as high in the relatively richer South Central region, compared with the poorest South Eastern region. The government needs to ensure more distribution of health resources to the more remote regions of the country, both to improve Liberia's health status and to build public trust in state services.

50. **Donor commitments, already at a high level, should be maintained in the medium term and rise in real terms in line with GDP growth.** Liberia will depend heavily on external financing in the medium term, until domestic resources are sufficient to maintain constant expenditure. Donors are encouraged to improve the harmonization and predictability of aid, for instance through pooled funding mechanisms, such as the recently established Health and Welfare Pooled Fund, supported by DFID.

51. **Sustainability of the government's health program should be secured by introducing alternative sources of domestic funding, such as contributory health insurance and other prepayment or risk pooling mechanisms, rather than relying on out-of-pocket payments.** The government should develop a roadmap for introducing such programs as soon as possible.

52. **Although health financing will increasingly be channeled through national structures, the government should continue to use NGOs and private providers through formal contracting arrangements.** This will require strengthened financial management, procurement, and monitoring and evaluation capabilities of the ministry. The government should also develop a system of performance- and output-based financing, where financing for nongovernmental organizations or contractors hinges on satisfactory performance.

53. **The government has rightly made a basic healthcare package that targets vulnerable populations its first priority.** But it should also expand and develop secondary and tertiary care parallel to primary healthcare, and strengthen the referral system. It should also emphasize human resource development, through further recruitment and training opportunities and improved remuneration.

Education Sector

54. **Enrollment figures suggest that access to education has improved significantly since the end of the civil war, with gross primary enrollment rates increasing from 40 percent in 2002 to 86 percent in 2007.** The net primary enrollment rate is significantly lower at 37 percent, suggesting that a large number of over-aged children and youth who missed out on years of school during the war have returned to school and that many school-age children are not attending school.

55. **Although government spending on education increased rapidly, from US\$7 million in 2004/05 to US\$23 million in the 2007/08 budget, it remains low as a proportion of total expenditure at 11.8 percent in 2007/08.** In this respect, Liberia is far from reaching the Education for All Fast Track Initiative benchmark, which targets education expenditure at 20 percent of total government expenditure. Government distribution of education expenditure is also skewed, with Liberia spending an unusually small share of its budget on primary education and a very high share on tertiary education and administrative and support services. In 2006/07, of the total education budget, 14.5 percent was allocated to primary education, 11.4 percent to secondary education, 31.6 percent to tertiary education, 7.1 percent to technical/vocational training, and 35.4 percent to administrative and support services. Moreover, private households spent US\$27 million on education in 2006/07, which places a considerable burden on poor households, and represents more than twice the government's expenditure on education. This suggests that families place a high priority on educating their children.

56. **The rapid expansion in enrollment at the primary level means that many students in the coming years will require places in junior secondary education.** The junior secondary education system does not have the space to support the large influx that will be entering the system. Nor can it sustain the numbers when the primary system stabilizes and achieves universal primary completion. The percentage share of expenditure for secondary education has increased from 9.5 percent in 2004/05 to 11.4 percent in 2006/07. To adequately supply the resources for this sub-sector, the allocation will need to be increased.

57. **The largest source of education expenditure comes from external aid.** These aid flows are very difficult to track, and only tentative data is available. It is estimated that US\$40 million was spent by donors on education (with a focus on primary education) in 2007, which accounts for more than half of total education spending. Better monitoring and targeting of these resources may improve the efficiency of education expenditure and outcomes.

58. **There are clear gender, regional and income disparities in access to education.** Girls, rural children, and children from less wealthy households are less likely to attend school. There are also important regional variations in access to and quality of schooling. In general, access to primary school is fairly equitable, but disparities increase in secondary and tertiary education. At the primary school level, the parity index for female to male students is 0.96, and for rural to urban students is 0.89. But these disparities increase at the secondary level to 0.78 and 0.53, respectively. Gross enrollment rates also show high regional variation by county, with a rate of 29 percent in Grand Bassa, compared to 129 percent in Grand Cape Mount. More effort should be made to ensure that female and rural children have access to secondary and tertiary education, and resources should be distributed more equitably across the country to reduce regional variations in education access.

59. **Budget allocations to education should be more strategic.** Within the context of the multi-year budget framework, the government should ensure that more public resources go to primary and junior secondary education, where the social returns are likely to be higher than those in upper secondary and tertiary education. In addition, when allocations are made to investments, the government should indicate the long-term recurrent implications, like those of the regional training institutes. Some allocations toward basic education services that go beyond primary education should be equity or quality based. As the majority of external

funding supports primary education, increased capital spending is needed at the secondary education level to provide more schools and learning materials.

60. **Greater gains in resource efficiency within the sector could be achieved by lowering the drop-out and grade-repetition rates, especially in grade 1.** Interventions should focus on improving overall quality, by improving teachers' qualifications and increasing accessibility to teaching and learning materials. In addition, the government should reduce the pupil to teacher ratio by addressing the very large inequities in teacher distribution. This could be done by providing teacher housing and salary incentives and doing more local recruitment.

61. **There is also the need to complete the clean up of the teacher payroll as soon as possible.** The disruption and insecurity caused by the war resulted in many teachers leaving their posts, large numbers of replacement teachers (47 percent in Grand Cape Mount), and concern about the possibility of ghost teachers. Exercises have been conducted to clean the payroll, but discrepancies remain between school data, human resources data, and Education Management Information System data, suggesting that the payroll is not completely clean. Cleaning up the payroll should be completed as soon as possible.

62. **Further efficiency gains could come from decentralizing service delivery.** An initial step toward decentralization could be enhancing the capacity of county education offices and improving school management for service delivery. Since the free and compulsory education policy has been implemented, schools no longer benefit from revenues to cover the school operational cost for minor maintenance and small material. School management committees exist but are not fully functional. In many Sub-Saharan African countries, direct flow of funds to schools to support service delivery has improved accountability and quality. This system may be worth piloting in select counties. One implication would be the need to strengthen local financial management systems to ensure accountability and transparency.

63. **To expand resources to the sector, the government could promote public-private partnership and cost recovery at the tertiary level, in keeping with making expenditure more progressive by spending more at the primary and lower secondary levels.** Different models of public-private partnership and cost recovery systems operating in other countries could be examined for tertiary education, where the unit costs are far higher than those for primary and secondary education.

64. **An important element of strategic planning for education is to ensure that its outcomes are aligned to the labor-market needs of the country.** The public-private partnership should go beyond investment in school plants or tuition to consultations on curriculum development, life skills training, and other innovative ways of involving the private sector in managing education and training services.

ACTION PLAN FOR PFM REFORM

65. The action plan draws on the PEFA results and PEMFAR findings, reflecting the chapter conclusions and recommendations. It builds heavily on ongoing reform efforts by the government and incorporates and complements the reforms the government is committed to in the context of the HIPC Initiative and Poverty Reduction and Growth Facility. It provides a broader framework for PFM reform, with the aim of defining a road map as GEMAP phases out. It identifies a number of quick wins, which are shorter term actions that can be completed within a year and rapidly contribute to the reform momentum. The medium term actions will require 1-3 years to complete. The action plan is intended as a foundation for further government-partner dialogue about the government's PFM reform agenda. The action plan can serve as a basis from which the government, in collaboration with partners, can develop a narrower, more focused, and strategic PFM reform plan that does not overstretch government capacity. This plan should highlight those activities that are already receiving donor funding and provide a framework to which other donors can align their support.

Table 1: Action plan

Challenge/issue	Recommended action	Responsible party	Sequencing	
			Quick win	Medium term
A. Legal and regulatory framework for PFM				
The legal and regulatory framework for PFM is fragmented and outdated.	Approve the new PFM Act.	Ministry of Finance (MoF)/ Legislature	X	
	Prepare PFM enabling regulations and manuals.	MoF	X	
B. Internal audit				
Internal audit function is weak.	Develop an internal audit manual, based on the internal audit strategy.	MoF/General Auditing Commission (GAC)	X	
	Recruit and train internal auditors.	MoF		X
C. External oversight				
External audit function is weak and legislative capacity to perform oversight role is insufficient.	Adopt International Public Sector Accounting Standards with due recognition of the new PFM Act.	GAC/MoF		X
	Develop a mechanism to ensure follow-up of audit queries and recommendations by the Ways and Means Committees of the Legislature.	GAC/ Legislature		X
D. Procurement and concessions				
Improve the PPC legal and institutional framework				
The PPC Act contains weaknesses and inconsistencies that require amendment.	Amend the PPC Act in line with international good practice on public procurement, addressing: removal of the schedule of procurement thresholds from the Act and increase of the thresholds, harmonization of the Act with the Mines and Minerals Law, and removal of possible conflicts of interest in the roles and responsibilities of the PPCC.	Public Procurement Concession Committee (PPCC)/ Parliament		X
The implementation of the Act is hampered by the absence of comprehensive regulations, guidelines, and manuals.	Complete and submit for approval the PPC regulations and a PPC manual to supplement the PPC Act.	PPCC	X	
Develop institutional procurement capacity				

Challenge/issue	Recommended action	Responsible party	Sequencing	
			Quick win	Medium term
The PPCC lacks the resources and capacity to meet the large training needs of procurement entities and private sector participants.	Outsource some components of PPCC's training program to specialized training institutions to supplement PPCC's limited in-house training capacity.	PPCC	X	
Procurement units and committees are not sufficiently staffed and resourced.	Monitor the staffing levels and operations of procurement structures and publicize monitoring results.	PPCC	X	
Liberia has very few procurement professionals who can effectively manage and monitor procurement systems.	Develop a partnership with the University of Liberia and the Liberian Institute for Public Administration to establish a set of training courses on public procurement.	PPCC		X
	Establish a procurement career path within the civil service, in partnership with the Civil Service Agency.	PPCC/Civil Service Agency (CSA)		X
Strengthen the capacity of the private sector				
Few Liberian-owned companies are awarded public contracts due to low capacity.	Hold consultations and develop and implement an action plan to address factors inhibiting Liberian private sector participation and performance in public tenders.	PPCC		X
Strengthen internal and external scrutiny of the public procurement function				
Current public procurement practices are often in breach of the PPC Act.	Review procurement plans from procuring entities and identify and correct cases of contract splitting.	PPCC		X
	Monitor and publish a special report on the use of single sourcing above the stipulated threshold by procurement entities.	PPCC		X
The public procurement system lacks sufficient transparency and accountability.	Strengthen procurement expertise among audit institutions.	PPCC, GAC and Internal Audit Agency		X
	Publish the PPCC Bulletin quarterly.	PPCC	X	
	On the PPCC website, publish information on contract opportunities, contract awards, and procurement plans.	PPCC	X	
	Conduct regular monitoring and publish reports on contracts and concessions.	PPCC		X
E. Planning and budget formulation				
Liberia does not yet have multi-year or program-based budgeting. Forecasting capacity is weak.	Develop a roadmap for a gradual shift to multi-year budgeting.	MoF, Ministry of Planning and Economic Affairs (MPEA), Ministry of Internal Affairs	X	
	Pilot the development of sectoral strategies based on the PRS and linked to the budget,	MoF, MPEA,		X

Challenge/issue	Recommended action	Responsible party	Sequencing	
			Quick win	Medium term
	in 3-4 ministries.	MIA		
	Design a methodology for bottom-up financial planning from county level.	MoF, MPEA, MIA		X
	Revise the Chart of Accounts.	MoF, MPEA, MIA	X	
	Strengthen the macro-fiscal function through recruitment and training of macro-fiscal economists at MoF.	MoF, MPEA, MIA		X
Need for improved prioritization process for investment expenditure.	Strengthen public investment management system to ensure adequate planning and implementation/monitoring of capital expenditure.	MoF, Ministry of Public Works	X	
F. Budget execution				
Budget execution process is manual, cumbersome, and could be streamlined further.	Build capacity for cash flow forecasting.	MoF	X	
	Review and streamline business process for recording payment vouchers and issuing checks.	MoF	X	
G. Accounting, recording, and reporting				
Accounts are not reconciled sufficiently. Execution reports are produced, but quality could be strengthened.	Prepare monthly bank reconciliation and follow up on uncleared items.	MoF	X	
	Prepare annual statement of public accounts using GAC approved standard.	MoF		X
	Reduce the number of departmental bank accounts.	MoF		X
H. Human resources and payroll management				
Payroll not reviewed sufficiently.	Streamline the allowance system, include allowances in the payroll system, and increasingly pay employees through their bank accounts.	CSA		X
	Generate payslips instead of checks from the payroll system.	CSA		X
	Systematize the payroll verification exercise and reconciliation of nominal roll with payroll.	CSA		X
I. Tax administration				
Tax administration system largely manual and audit function weak.	Strengthen the tax audit function.	MoF	X	
	Implement an Integrated Tax Administration System which can capture all relevant tax data and make it available in a user friendly format.	MoF		X
J. Integrated Financial Management Information System (IFMIS)				
Budget execution and accounting is largely manual.	Implement the core modules of the Integrated Financial Management Information System.	MoF		X
	Conduct change management and basic computer	MoF		X

Challenge/issue	Recommended action	Responsible party	Sequencing	
			Quick win	Medium term
	training.			
K. Cash and debt management				
Cash flow management requires further strengthening.	Rationalize and strengthen MoF control over GoL banking arrangements.	MoF	X	
	Establish a cash flow management unit in MoF supporting the work of the CMCo.	MoF		X
	Clarify the status of remuneration of GoL account surpluses with the Central Bank of Liberia.	MoF	X	
	Introduce MICR system and develop electronic payment systems.	MoF	X	
Debt management system insufficient, no specialized software in use.	Decide on which debt management system to adopt and implement the debt management system for all domestic and foreign debt.	MoF		X
L. Aid management				
No effective tracking system for donor aid flows in place.	Establish an aid tracking database and begin including collected aid data in the budget document.	MoF		X
M. Institutional				
Law passed allowing merger of BoB and MoF.	Prepare a plan and begin implementation of the merger of BOB into MoF.	MoF	X	
N. Expenditure allocation				
Expenditure allocation has been improving, with greater share allocated to social and community services, but sustaining positive trends in the medium term will require continued efforts and monitoring.	Continue positive shifts in spending allocations toward social, community, and economic services (notably agriculture), as well as for operation and maintenance for the regular upkeep of infrastructure investments.	Government of Liberia		X
	Develop a functional PRS monitoring structure that allows civil society to monitor progress.	MPEA	X	
O. Health				
Health expenditure constituted 8.1 percent of total expenditure in 2007/08.	Continue to gradually increase health expenditure as a proportion of total expenditure, in line with Abuja Target (15%).	Government of Liberia		X
Long-term sustainability of the healthcare system needs to be secured.	Develop a roadmap for introduction of a contributory health insurance program.	Ministry of Health and Social Welfare (MOHSW)		X
Increased donor funding will be channeled through MOHSW in the medium term, but the MOHSW lacks sufficient capacity to	Strengthen systems and capacity at the MOHSW to enter into performance-based contracting arrangements with NGOs and contractors for health service provision.	MOHSW		X

Challenge/issue	Recommended action	Responsible party	Sequencing	
			Quick win	Medium term
implement health services.				
MOHSW has difficulty attracting and retaining competent health professionals.	Develop a human resource plan designed to attract and retain health professionals within the civil service.	MOHSW/CSA	X	
Continued need for capital investment in the health sector.	Develop a capital investment plan for the health sector.	MOHSW	X	
P. Education				
Education expenditure constituted 11.8 percent of total expenditure in 2007/08.	Gradually increase education expenditure as a proportion of total expenditure, toward Education for All Fast Track Initiative Benchmark.	Government of Liberia		X
Proportion of expenditure on primary and secondary education is low.	Increase proportion of education budget dedicated to primary and secondary education.	Ministry of Education (MOE)		X
Donor financing constitutes 49 percent of total education expenditure, and is primarily executed in parallel to the government.	Develop a monitoring system to track donor expenditure within the education sector and monitor activities.	MOE		X
Large inequalities in teacher distribution—for example, the pupil-teacher ratio is 30 in Montserrado, and 105 in Lofa county.	Design and provide an incentive package for teachers in remote rural areas.	MOE	X	
School management often lack the small cash resources required to ensure smooth operations.	Pilot a system of direct transfers to schools to support operations and maintenance costs.	MOE		X
Enrollment in private or faith-based schools is high. Educational access, could be expanded through improved public-private partnerships and cost recovery systems.	Develop a policy to govern public-private partnerships within the education sector.	MOE		X
Many vocational training programs do not target the demands from the labor market.	Strengthen the quality and relevance of vocational training programs through better alignment with labor-market demands.	MOE		X

1. MACROECONOMIC PERFORMANCE

1.1 **Liberia has embarked on economic recovery and is rebuilding its institutional capacity following a protracted conflict lasting from 1989–2003.** The 14-year civil war had a paralyzing effect on the country's economic and social service provision, reducing both real GDP and public expenditure to a third of their pre-war levels. Today, per-capita GDP is estimated at US\$195,³ and an estimated 63.8 percent of the population lives below the national poverty line, with 47.9 percent of the population living in extreme poverty.⁴ Only an estimated 17 percent of the labor force is employed in formal wage labor. Among paid employees, salaries are low, with the lowest paid civil servants earning approximately US\$70 a month. Social indicators are poor, although a recent Core Welfare Indicator Questionnaire (2007) shows some improvements since the end of the civil conflict.

1.2 **The educational system was severely damaged during the war, resulting in a generation that grew up with little access to formal education.** Today, net primary school enrollment rates remain at 37.3 percent, while the much higher gross enrollment rate (86.3 percent) suggests that older children that missed out on education during the war are returning to school. The youth literacy rate (73 percent) is substantially higher than the overall adult literacy rate (55 percent), and the gender discrepancy in literacy rates is lower among youth than adults. The health system depends heavily on international development partners. Health indicators are poor, with infant and under-five mortality rates of 72/1,000 and 111/1,000, respectively. Child malnutrition rates are high. An estimated 19 percent of children under age five are undernourished, 7 percent are wasted, and 39 percent are stunted.⁵ Access to health services is uneven across the country, with higher access in urban areas. Effective public financial management (PFM) institutions and increased capacity are urgently needed to improve social and economic service delivery to Liberia's needy population.

1.3 **During 2003-2005, Liberia was governed by the National Transitional Government of Liberia, which mismanaged public finances and engaged in widespread corruption.** This situation prompted the establishment of the Governance and Economic Management Assistance Program (GEMAP). Set up with the support of the donor community in September 2005, GEMAP was designed to curb the most egregious abuses of public funds and to ensure fiscal discipline. It also initiated essential PFM reforms in such key areas as procurement.

1.4 **Since the election of President Johnson-Sirleaf and the formation of a new government in January 2006, the government has taken actions to improve public financial management.** Government revenues have increased markedly and expenditure controls have been strengthened through the establishment of the cash management committee (CMCo) and the GEMAP interim commitment control system. GEMAP has also helped fill some of the capacity gaps in the ministries and supported the establishment of financial and management procedures and systems. An Interim Poverty Reduction Strategy Paper was prepared in April 2007 and a full Poverty Reduction Strategy Paper (PRSP), completed in April 2008, establishes the framework for poverty reduction and determines the budgetary priorities for the medium term. With the completion of the PRSP and arrears clearance from the World Bank, AfDB, and IMF, Liberia became eligible for debt relief

³ Nominal GDP. IMF, Macroeconomic Framework 2007.

⁴ Core Welfare Indicator Questionnaire 2007.

⁵ Liberia Demographic and Health Survey 2007.

under the Enhanced Heavily Indebted Poor Country (HIPC) initiative, reaching the HIPC decision point in March 2008.

A. MACROECONOMIC AND FISCAL PERFORMANCE

1.5 This section provides an overview of the macroeconomic and fiscal situation in Liberia, discusses the medium and long term prospects for economic recovery, and presents quantitative projections and an evaluation of fiscal space over the next four years (through fiscal year 2011/12). The projections are intended to identify additional budgetary resources to fund priority public expenditures supporting economic growth and poverty reduction. Fiscal space projections can aid medium-term fiscal planning and inform debates over fiscal policy issues.

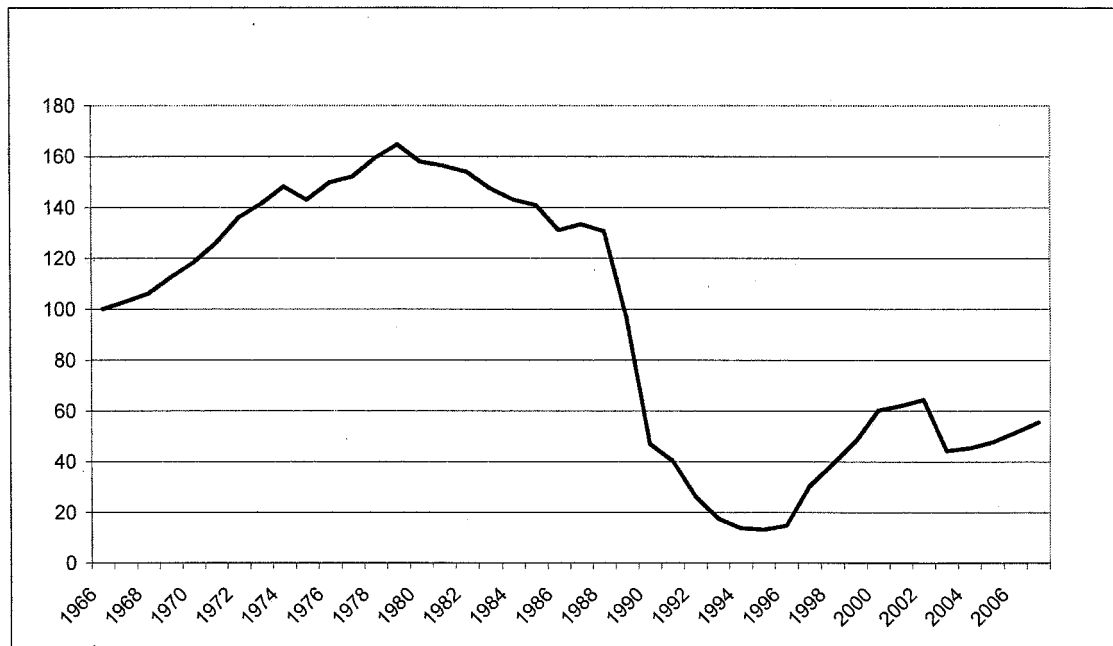
1.6 Unfortunately, fiscal space in Liberia depends on variables that are very difficult to forecast over the medium term. Problems stem from the volatility and lack of relevant data (especially on donor aid). Moreover, the impact of the current global slowdown on Liberia's medium- to long-term growth prospects is hard to assess. So, the fiscal space projections are tentative. Nevertheless, three important conclusions emerge from the fiscal space analysis: revenues will continue to make the most important contribution to fiscal space; revenues should grow steadily over the medium term; and economic growth is the most important factor driving revenue growth. Despite anticipated strong revenue growth, the government's spending requirements will substantially exceed revenues for core poverty-reducing programs. So, attracting more donor grant aid and ensuring expenditure efficiency will be essential if the government is to achieve its fiscal objectives.

B. THE LEGACY OF CIVIL WAR

1.7 Although the Liberian economy grew strongly in the 1960s and 1970s, driven by the production and export of iron ore and rubber, the benefits of growth were distributed inequitably. By 1980 GDP per capita had increased to middle-income country levels,⁶ but the economy first slumped and then collapsed over the next two decades (figure 1.1). The collapse resulted from deteriorating terms of trade, economic mismanagement and the civil war that afflicted the country from 1989-1996 and again from 2001-2003. In the first phase of the civil war, the economy contracted by 90 percent in real terms. When peace was restored in 1996, the economy began to recover rapidly, driven by a strong expansion of timber exports. Output fell sharply again after fighting resumed in 2001, leading the United Nations to impose sanctions on Liberia's timber and diamond exports. Although the economy has resumed its recovery since 2004, the level of real output in 2007 is still only a third of its peak in 1979.

⁶ In 1980 GDP per capita reached US\$890, in 1992 prices (IMF, 2006: 14).

Figure 1.1: Index of Real GDP, 1966–2007 (1966 = 100)



Source: IMF, Article IV Consultation, 2005 (22); IMF, Article IV Consultation, 2006.

1.8 Most of the economy’s physical capital—infrastructure and productive capacity—was either destroyed or severely damaged during the civil war. The rest deteriorated from lack of maintenance. Iron ore production ceased and public provision of such utilities as electricity and water is extremely limited. The road network is in serious disrepair.

1.9 The government remained in default until 2008 on its external debts from the mid-1980s. Very large fiscal deficits were incurred in the 1980s, but since the late 1990s fiscal deficits on a cash basis were generally small. The government had no access to new foreign loans and there was little scope for selling government debt on a market basis to the very narrow domestic financial sector. The cash fiscal deficits incurred were mostly financed by the Central Bank, although there was little scope for doing this because of the dollarized economy. But the government was frequently in arrears for salaries and goods and services.

C. MACROECONOMIC DEVELOPMENTS SINCE 2003

1.10 The second phase of the civil war ended with the Comprehensive Peace Agreement in 2003. The peace agreement brought into power the National Transitional Government of Liberia, which implemented an economic recovery program called the Results Focused Transitional Framework. After the slump in 2003, output began to recover. Demand rebounded more quickly, buoyed by spending for peace-keeping operations.⁷ Still, public finances remained very fragile—budget revenues fell to just over US\$50 million a

⁷ United Nations peace-keeping operations cost approximately US\$700 million a year, which is larger than Liberia’s GDP. Although much of this expenditure does not enter Liberia, even if a relatively small share were to enter the country to fund local purchases of goods and services, the impact on aggregate demand would be substantial.

year in 2002/03 and 2003/04. Fiscal discipline was weak and there was evidence of widespread corruption.

1.11 Following the presidential election in January 2006, the National Transitional Government of Liberia was replaced by the government of President Johnson-Sirleaf. The new government agreed to an ambitious program of reforms, supported by a Staff-Monitored Program and the IMF, beginning in February 2006. Key objectives were recovering the economy, rebuilding public institutions, and restoring credible financial management in the public sector. Performance under the Staff-Monitored Program was satisfactory, and Liberia entered a Poverty Reduction and Growth Facility program in early 2008. In March 2008 Liberia reached the HIPC decision point, due to strongly performing under the Staff-Monitored Program and successfully clearing its arrears with its multilateral creditors.

1.12 Liberia's economy has endured the effects of greater global economic volatility in 2008. GDP and revenue growth in 2008 remained fairly robust at 7.1 percent and 37.1 percent, respectively, while inflation increased to 14 percent in 2008 from 11.7 percent in 2007. Year-on-year inflation spiked at 27 percent in August 2008 as a result of the global commodity price increase. Given Liberia's high import dependence and large capital accounts deficit, the effects of the commodity price crisis rapidly passed through to the local economy. The medium- to longer-term effects of the global economic slowdown are still hard to predict. Its impact, however, is expected to be substantial and has begun to be felt, with falling demand and prices for Liberia's primary exports, falling remittance inflows, waning interest from foreign investors and delays to large investment projects, and a possible fall-off in official development assistance inflows. The growth rate has been revised downwards for 2009 and 2010, but may be even lower. Yet Liberia's growth rate is expected to remain fairly high in comparative regional perspective, as some production in the mining and forestry sectors is expected to restart.

Table 1.1: Key Economic Indicators, 2003–2008

	2003	2004	2005	2006	2007	2008*
Real GDP growth (%)	-31.3	2.6	5.3	7.8	9.5	7.1
Nominal GDP (US\$ millions)	410	460	530	612	735	870
Inflation	5.0	7.5	7.0	8.9	11.7	14.0
Exports (US\$ millions)	109	104	110	158	208	260
Imports (US\$ millions)	140	268	294	401	499	760
External official grants (US\$ millions)	20	189	287	303	389	401
Exchange rate LD/US\$	50.5	54.5	56.5	59.5	62.5	

* Projection.

Source: IMF, Article IC Consultations, 2006, 2007, and 2008.

1.13 Strong economic growth between 2003/04 and 2007/08 enhanced government revenue. Other factors to revenue growth include: more strongly enforcing customs administration (including strengthening pre-shipment inspection of imports since 2006), strengthening the Large Taxpayer Unit, eliminating the settlement of tax liabilities through noncash payments,⁸ and reducing tax and duty incentives. Revenue growth in 2006/07 and 2007/08 was stronger than initially budgeted. But the effects of greater economic instability are affecting revenues, and the government may not meet its 2008/09 revenue projections.

⁸ In the past some companies had settled their tax obligations by undertaking public works.

Table 1.2: Fiscal Indicators, 2002/03–2007/08 (US\$ million)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
(US\$ millions)						
Revenue plus grants	56.6	58.1	82.7	85.6	148.2	206.9
Revenue	56.6	55.1	81.7	84.6	146.7	201.2
Grants	0.0	3.0	1	1.0	1.5	5.7
Total expenditure	69.2	50.6	81.4	82	134.7	203.4
Current	28.3	46.9	72.1	75.7	117.5	182.7
Capital	40.9	3.7	9.3	6.3	17.2	20.7
Primary surplus/deficit	-3.8	10.3	7.6	10	14.7	11.0
Overall surplus/deficit	-12.6	7.5	1.3	3.6	13.5	3.5
Adjustments to cash						
Financing			-0.7	-3.6		
External			-0.7	-1.2	-1.2	
Domestic			0	-2.4		-3.5
(Percent of GDP)						
Revenue plus grants	11.9	13.4	16.7	15.0	22.0	25.8
Revenue	11.9	12.7	16.5	14.8	21.8	25.1
Grants	0.0	0.7	0.2	0.2	0.2	0.7
Total expenditure	14.5	11.6	16.4	14.4	20.0	25.3
Current	5.9	10.8	14.6	13.3	17.4	22.8
Capital	8.6	0.9	1.9	1.1	2.6	2.6
Primary surplus/deficit	-0.8	2.4	1.5	1.8	2.2	1.4
Overall surplus/deficit	-2.6	1.7	0.3	0.6	2.0	0.4

Note: Expenditure and balance are on cash basis.

Source: IMF, Article IV Consultations, 2006/07; Ministry of Finance, Annual Fiscal Report, 2005/06, 2006/07, and 2007/08.

1.14 Expenditure controls were strengthened by setting up the cash management committee (CMCo) and an interim commitment control system. Under the GEMAP, all local purchase orders and expenditure vouchers from ministries and spending agencies must be submitted to the CMCo, which verifies that each proposed expenditure accords with the spending agency's budget and monthly expenditure allocation and that correct procedures (for procurement and so on) have been followed. The CMCo will not authorize expenditures unless there are sufficient funds in government bank accounts in the Central Bank of Liberia, thereby ensuring that the government does not run overdrafts with the Central Bank. Since payments cannot be made without CMCo authorization, in principle, this system should prevent any new debt from being incurred (although wages and some other payments are not covered). All government bank accounts have been centralized into two accounts (one denominated in Liberian dollars, the other in US dollars) in the Central Bank, and checks cannot be drawn on these accounts without the authority of the committee. Initially, spending agencies struggled to meet the requirements of the cash management system, especially the procurement requirements, which slowed expenditure. Nevertheless, government spending quadrupled between 2003/04 and 2007/08 because of the rapid growth in budgetary resources. Revenue and expenditure growth has outpaced GDP growth, with expenditure increasing significantly in proportion to GDP from 11.6 percent in 2003/04 to 25.3 percent in 2007/08.

1.15 Liberia's public and public-guaranteed external debt is unsustainable. A debt sustainability analysis carried out in 2007 estimated that the nominal value of the debt was

US\$4.8 billion (as of June 30, 2007).⁹ This was more than seven times the country's GDP.¹⁰ The net present value of the debt stock was estimated at US\$3.3 billion, or approximately 1,700 percent of exports of goods and services in 2007.¹¹ Liberia has begun to resolve its unsustainable debt burden; it cleared arrears to the World Bank, African Development Bank, and IMF in 2007-2008 and subsequently became eligible for debt relief under the Enhanced HIPC initiative. This should reduce the net present value of Liberia's debt by a common reduction factor of 91 percent.

1.16 Only limited macroeconomic and fiscal management tools are available to Liberian policymakers. The government is constrained to limit its expenditure to what can be mobilized from domestic revenues. Although the country receives aid of about 45 percent of GDP, very little of this is channelled through the budget. The domestic banking system is quite shallow—commercial bank deposits amounted to the equivalent of only 19 percent of GDP in 2007—and it is unlikely that government debt would be attractive to domestic financial institutions, as the government has a heavy domestic debt burden. Any significant borrowing from the Central Bank would quickly fuel growth of the money supply, given that reserve money comprises only 12 percent of GDP and that the Central Bank lacks instruments to mop up liquidity. So, the government must avoid domestic borrowing for the budget if the Central Bank of Liberia is to control the growth of money supply. Exchange rate policy is circumscribed because the Central Bank has very little capacity to intervene in the foreign exchange market. Its capacity to sell foreign exchange is limited because its foreign reserves are small (the Central Bank's net foreign exchange reserves were only US\$36 million in December 2007).

D. MEDIUM- TO LONG- TERM PROSPECTS FOR THE ECONOMY

1.17 The economy has strong potential for growth in the medium to long term, although in the short run growth may be constrained by the global economic slowdown. Economic growth commonly recovers in post-conflict countries, even when there is no significant increase in investment. Growth is driven by a recovery of capacity use and improvements in factor productivity.¹² But there may be delays to this growth acceleration due to lags in large-scale investment programs and a fall in demand for exports, precipitated by the economic crisis. Growth is projected to accelerate over the medium term (9.2 percent on average during 2008–2012).

⁹ This estimate is based on only partially reconciled external debt data. With donor support, the authorities contracted an external financial advisor to reconcile commercial debt; the debt sustainable analysis is based on the advisor's initial estimates of commercial debt stock (estimated at US\$1.64 billion).

¹⁰ IDA and IMF 2008.

¹¹ This is calculated after the application of traditional debt relief mechanisms.

¹² Chen, Loayza, and Reynal-Querol 2007.

Table 1.3: GDP Growth and Inflation Projections, 2007–2012 (percent)

	2007 (actual)	2008 (estimate)	2009 (projection)	2010 (projection)	2011 (projection)	2012 (projection)
Real GDP growth	9.5	7.1	6.2	8.8	9.8	14.0
Real GDP growth (excluding mining)	7.5	5.3	5.6	7.4	6.8	6.8
Nominal GDP (\$ millions)	735	871	845	915	1,017	1,215
Consumer price inflation	11.7	14.0	0.4	4.5	5.0	5.0
GDP deflator	9.7	10.7	-4.8	-0.4	1.1	6.2
Slower real GDP growth projection (excluding mining)	3.6	5.4	4.8	4.8

Source: IMF, Article IV Consultation, 2008.

1.18 **The projections shown in table 1.3 are subject to uncertainty, as the effects of the global financial slowdown are hard to predict.** Thus, it is prudent to include an alternative scenario based on slower growth of real GDP. In this scenario, real GDP growth, excluding the mining sector, is two percentage points lower than the baseline throughout the projection period. The slower growth scenario is also shown in table 1.3.

1.19 **There are several potential sources of growth in the Liberian economy.** In the short to medium term, an expansion of demand should be sufficient to boost output by bringing back factors of production that are unemployed or underused. Although it is unlikely that there is much underused real capital, there is widespread underemployment and unemployment.¹³ This labor could be used in labor-intensive food production, construction, and services as domestic demand expands. Aggregate demand would rise thanks to private consumption fueled by remittances and donor funding. But one constraint on a demand-driven recovery could be the availability of foreign exchange to fund a widening trade deficit. Some of the increase in demand will spill over into imports and depreciate the exchange rate.

1.20 **Eventually, capacity constraints will start to bind on a recovery driven only by domestic demand.** Over the longer term, an expansion of the economy's supply capacity will be necessary to sustain economic growth, which requires investment to rebuild the economy's productive capital and physical infrastructure. Strengthening human capital, through improvements in health and education, is also crucial to expanding economic capacity, although the payoff will take some time. Where then should this investment flow? What sectors are most attractive to new investment and what implications will investing in these sectors have on the wider economy? The four sectors with the most potential for growth over the medium to long term are timber, mining, agriculture, and services.

1.21 **Timber was at the forefront of the economic recovery in the second half of the 1990s.** By 2002, value added in the sector was US\$86 million. Most of the timber was exported. Timber production collapsed to only US\$2 million in 2005 because of the UN imposed sanctions on Liberia's timber exports, but sanctions were lifted in 2006. The Forestry Development Authority projects that timber production and exports could climb to 750,000 cubic meters by 2012, which would bring timber production back to near the level reached in 2002 (809,000 cubic meters). But developments in this industry are subject to

¹³ Preliminary data from ILO, based on the 2007 CWIQ, estimates the labor force at 1.1 million and an unemployment rate of about 5.5 percent. Among the active labor force, only an estimated 170,000 employees are working in the formal sector.

some uncertainty due to the economic crisis and falling investor interest, as well as ongoing discussions about carbon credit schemes and alternative methods of ensuring revenue growth while preserving a greater share of Liberia's forests. A recovery of timber production would contribute to job creation, but logging must be carried out on a sustainable basis if the industry is to have a long-term future. Growth in agriculture is expected to remain fairly steady at 5-7 percent, but as it is about 40 percent of GDP and employs a high share of the labor force, its impact on poverty reduction could be significant. Service sector growth will be boosted by further growth in domestic demand.

1.22 Mining, primarily of iron ore, was the largest sector of the economy before the civil war. During the war, production facilities and rail infrastructure needed to transport the iron ore from the mines to port were destroyed and production ceased. But the long-term prospects for mining are promising, and Liberia has deposits of gold and diamonds. The government has signed a Mineral Development Agreement with Arcelor Mittal for a US\$1.5 billion investment over 20 years to rehabilitate an iron ore mine, with its related infrastructure (a railroad and port facilities), in Nimba County. This mine is projected to eventually produce about 18 million metric tons of iron ore a year.¹⁴ Production is expected to start in 2010 after being postponed due to the economic slowdown. The government has also reached an agreement with China Union for developing a second iron ore mine in Bong County, with projected investment of US\$2.6 billion. The country is tendering a third iron-ore mine in western Liberia, and several other areas are under exploration. Diamond mining has been restricted to small-scale alluvial mining; large-scale diamond mining may not be commercially viable. In addition, a gold mine at Bea Mountain may be developed over the medium term.

1.23 Service sector growth will be boosted by further growth in domestic demand. This includes public services, construction, private consumption, and the services inputs required to support the timber and mining industries (such as transport).

1.24 Growth in extractive industries and commercial agriculture may be significantly affected by falling global demand for primary products, owing to the global economic slowdown. After the record high prices for commodities in 2007 and early 2008, prices for Liberia's main export commodities have fallen sharply. In addition to the direct effects of falling export earnings, this may also cause a decrease in investments in these sectors.

E. LONG-TERM STRUCTURAL CHANGES

1.25 If all of the potential mining investments are eventually undertaken, they will give a huge boost to export earnings, GDP, and government revenue in the long term. The value added from the Arcelor Mittal iron ore mines plus the two other potential iron ore mines could exceed the current level of GDP. Export earnings would increase severalfold. Even if some of the export earnings from mining are repatriated, there will still be a large increase in domestic demand and a consequent appreciation of the real exchange rate. As a result, the structure of the economy outside of the mining sector could shift toward the production of non-traded goods—such as construction and services for the domestic economy.

¹⁴ Maximum production of 18 million metric tonnes a year from Mittal's iron ore mine is projected to be achieved after seven years of operation. Valued at today's world iron ore prices, this level of production would be worth almost US\$1 billion a year. But world iron ore prices have begun falling and are expected to drop further due to the global economic slowdown.

1.26 **The boom in the mining sector is unlikely to precipitate the “Dutch Disease” in Liberia, at least not in the short to medium term.** First, the level of employment in the mining sector is likely to remain a fairly small proportion of the labor market. Consequently, a tightening of the labor market with the upward pressure on real wages is unlikely in the short to medium term. Second, although the exchange rate is likely to appreciate, a sharp appreciation of the exchange rate is not expected because the economy is significantly dollarized (US dollars account for about 90 percent of the money supply). Indeed, the increased income from the mining boom could spur domestic demand for manufacturing and agricultural tradeables, thereby promoting a greater supply response for exports in the medium to long term. Third, since the Liberian economy is relatively open (trade is almost 100 percent of GDP) and import dependent, a significant proportion of the foreign exchange from the boom would likely be spent on imports. This would lessen the pressure on money supply and domestically produced goods. Finally, the government’s proactive stance on fiscal management of the resources from the potential boom sector, its emphasis on the more equitable distribution of the rents from the mining sector, and its strategy to diversify the economy (including the non-tradable sectors) would help prevent the “Dutch Disease” effect.

1.27 **The natural resource booms in Liberia in the 1960s and 1970s did not translate into equitable growth and poverty reduction.** To avoid a repeat of this, the government should provide a stable and business-friendly environment for the private sector. Attracting private investment into the non-tradable sectors and supporting the development of backward links from the natural resource industries will be critical for job creation. It is important to maximize the government rents earned from mining in order to maximize public investment in developing human resources, especially improving public education and health services. This will lead to improvements in labor productivity and help raise real wages.

F. RESOURCE MOBILIZATION AND FISCAL SPACE

Framework

1.28 **Fiscal space refers to the potential for mobilizing budgetary resources for public spending on policy priorities (such as promoting economic growth and reducing poverty) without jeopardizing macroeconomic stability or fiscal sustainability.** The term was first used by some Latin American and European governments that argued that higher fiscal deficits were needed for expanding public investment in infrastructure to stimulate growth.¹⁵ It has since been used in a wide range of countries. Projections of fiscal space can also be compared with estimates of expenditure requirements to meet policy priorities, evaluate possible budget shortfalls, and guide fiscal policy planning.

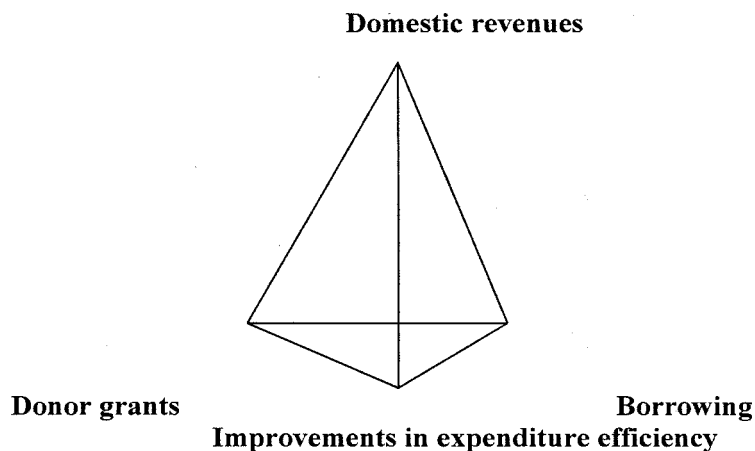
1.29 **Fiscal space can be generated from four main sources, sometimes referred to as the fiscal diamond.** These are: increases in domestic revenue, increases in donor grants, sustainable public borrowing, and improvements in expenditure efficiency. Additional domestic revenue can be mobilized through tax policy reforms, tax administration reforms, and the natural income elasticity of the tax system. Evaluation of borrowing includes domestic borrowing, seignorage, and external borrowing.

1.30 **Projections for fiscal space should be realistic and consistent with the government’s economic and social development objectives.** For example, projections for domestic revenue mobilization should not incorporate tax rate increases, which would undermine the objectives for economic growth by reducing incentives for saving or

¹⁵ Heller 2005.

investment or distorting resource allocation. Fiscal space projections can incorporate feasible policy reforms, which create fiscal space. Thus, the projection shows what is possible if good policies are adopted, rather than simply projecting resources based on an unchanged policy environment.

Figure 1.2: The fiscal diamond



1.31 **The fiscal space projections for Liberia take the 2007/08 budget outturn as the base.** Projections for the four components of the fiscal diamond over the next four fiscal years (up to 2011/12) are built on this base. Wherever possible, existing macroeconomic and fiscal projections are incorporated; examples include the IMF's macroeconomic projections and the projections related to external debt in the Debt Sustainability Analysis. Although fiscal space projections are often formulated in terms of percentage of GDP, nominal US dollars are used because GDP itself is projected to grow rapidly over the forecast period; hence much of the expansion of fiscal space occurring over the medium term would not be apparent if formulated in terms of percentage of GDP. The nominal US dollar projections are then converted into real US dollar projections by applying a projection of the government expenditure deflator.

Tax and Non-tax Revenues

1.32 **Domestic revenues provide the bulk of budget resources in Liberia.** They come primarily from taxes on international trade, business and employment income, and to much less extent, domestic sales and excise taxes. Revenues rely too heavily on import taxes, which contributed over 40 percent of total revenue in 2007/08. Income taxes have also risen rapidly and contributed 27 percent of total revenue in 2007/08. Consumption taxes contribute less to revenue than would be optimal because of the narrow base and low rate (7 percent) of the general sales tax. Petroleum taxes, which comprise customs duties and a sales tax, contribute relatively little to total revenue. The combined tax rate is low and tax exemptions are ubiquitous. Non-tax revenues have been relatively unimportant in recent years but will become more important when the timber (stumpage fees) and mining (royalties) industries recover.

1.33 **The government is implementing many of the reforms recommended by the IMF on tax policy and tax administration.** The IMF technical assistance mission in 2007 and 2008 concluded that although Liberia has established a sound tax system and is making good reform progress, revenue administration remains weak and the tax system still suffers some

deficiencies. The deficiencies include the small share of indirect taxes in total revenue and the widespread granting of tax and duty exemptions.¹⁶ Table 1.4 lists some of the ongoing and planned tax policy reforms recommended by the IMF missions and the estimated revenue impact of these reforms.

1.34 Alongside tax policy reforms, programs to strengthen tax and customs administration continue.¹⁷ The domestic tax administration is being restructured into departments which will focus on the type of taxpayer. Amendments are being proposed for the Liberian Revenue Code, and procedures are being developed to facilitate registration of taxpayers, filing of tax returns, and payment of taxes. Risk-based systems for verifying taxpayers' compliance with their obligations are being developed, and an appeals process is being set up. A stronger tax administration should generate more revenue over time, but gains will be limited in the short term.

Table 1.4: Recommended Reforms to Tax Policy

IMF Fiscal Affairs Department recommendation	Status	Estimated revenue impact (US\$ millions)
Reduce top marginal corporate income tax rate from 35% to 30%	Proposed in the new revenue code, which is expected to be passed in early 2009	-0.9
Reduce top marginal personal income tax rate from 35% to 30% (for further future reduction to 25%)	Proposed in the new revenue code, which is expected to be passed in early 2009	-0.3
Reduce the number of tax brackets for personal income tax and raise threshold	Proposed in the new revenue code, which is expected to be passed in early 2009	-0.2
Reduce presumptive tax from 4% to 2%	Effective April 2008	-0.1
Raise general sales tax rate from 7% to 10%	Will be raised by 1%-age point per year, starting in 2008/09	5.2
Base for general sales tax should include duty and excise	On hold (except for airline tickets)	1.8
Increase excise on alcohol to 35%-50%	Not implemented	0.4 +
Harmonize tariffs with Economic Community of West African States common external tariff	Will be phased in over the medium term	Not clear, but probably not significant
Reduce customs administration fee from 3% to 1.5% and apply to all imports	Under implementation	4.2

Note: The reforms have been recommended by IMF technical assistance missions, which also estimated the impact on revenue.

Source: Muzondo et al. 2006; Muzondo et al. 2007; Ministry of Finance, Draft Liberia Revenue Code 2008.

1.35 As noted above, revenues have recovered very strongly since 2003/04. The 256 percent growth in revenue over four years outstripped growth of nominal GDP. As a result, the revenue to GDP ratio has risen from 13 percent of GDP in 2002/03 to 25 percent in 2007/08. The recovery has been led by trade taxes, which have increased by 235 percent in this period due to the rapid growth of imports and stronger enforcement by customs (curbing the abuse of fuel duty exemptions and improving pre-shipment inspections). Income taxes have quadrupled in the last four years (albeit from a very low base), with the recovery of formal sector activity. In contrast, non-tax revenues have stagnated, mainly because of the loss of stumpage fees following the collapse of timber exports.

¹⁶ Kloeden et al. 2007; Muzondo et al. 2006.

¹⁷ Story et al. 2006; Kloeden et al. 2007.

1.36 The tax revenue to GDP ratio of 25 percent in 2007/08 is high compared to the 16 percent average for low-income Sub-Saharan economies. This is surprising given that tax rates are not especially high, exemptions are common, and tax and customs administration are uneven. Liberia's tax effort appears much stronger than that of other Sub-Saharan African countries with respect to trade taxes. Liberia collected 11.2 percent of GDP in trade taxes in 2007/08, which is above the Sub-Saharan African average. Liberia's tax effort also appears to be strong in income taxes, which in 2007/08 were 7 percent of GDP. One likely explanation for the seemingly strong tax effort is an underestimation of nominal GDP.

G. REVENUE PROJECTIONS

1.37 The methodology for making medium-term revenue projections uses the 2007/08 revenue outturn as a base. Projections are made for each of the main individual revenue handles, shown in table 1.5. For each revenue handle, the projection incorporates the projected real growth in the revenue base, the projected change in price for ad valorem revenue handles, the estimated impact of tax policy changes where relevant, income elasticity where relevant, and potential tax administration gains.

1.38 The real growth of GDP (excluding mining¹⁸) is used as a proxy for growth in the revenue base for all income taxes, taxes on immovable property, domestic taxes on goods and services, entrepreneur income, transfers from enterprises and public institutions, fees and charges, and incidental sales of goods and services (see table 1.3).¹⁹

1.39 The price change for all income taxes and for the entrepreneur and property income of government is proxied by the change in the GDP deflator. The price change for domestic taxes on goods and services, tax on immovable property, administrative services charges, and incidental sales of goods and services is proxied by the consumer price inflation. No price change is included into projections for fines, stumpage fees, and related charges.

1.40 For international trade taxes, the growth in the base is projected in nominal terms and proxied by the nominal growth of imports or exports. Nominal growth in the taxable import base is proxied by nominal growth in GDP, excluding the mining sector. Export duties levied on timber exports are taken from the financial forecast of the Forestry Development Authority.

1.41 An income elasticity of 2 percent a year is incorporated into the projections for all income taxes. These taxes should be naturally income elastic and have displayed very strong buoyancy over the last four years. A gain of 1 percent a year is applied to all tax handles from 2008/09 onward to reflect the revenue gains from the planned tax and customs administration reforms. Maritime revenue, which has been relatively stable over the last five years, is projected at a constant US\$12 million per year, the average of the last five years.

1.42 Projections for non-tax revenue from timber, which comprises stumpage fees and related charges, are taken from the financial forecast of the Forestry Development Authority.

1.43 The following tax policy reforms are incorporated into the revenue projections:

¹⁸ Mining is excluded because investments will be long term. Beyond that, corporate income taxes will be low at first because deductions and mining inputs are not taxable.

¹⁹ Real growth in GDP for the fiscal year is calculated as the average of the two real growth rates for the relevant calendar years shown in table 1.3.

- The top marginal rate of income tax is reduced from 35 percent to 30 percent in 2009. The reduction is not projected to have any impact on labor supply or pre-tax corporate profits.
- The threshold for payment of personal income tax is raised in 2008/09, at a cost of US\$0.2 million in lost revenue.
- The general sales tax rate is increased from 7 percent to 8 percent in 2008/09, to 9 percent in 2009/10, and to 10 percent in 2010/11. Demand for consumer goods (the tax base) is reduced by the tax-induced price change. It is assumed that all of the tax increase is passed on to consumers and that the average price elasticity of demand for consumer goods is -1 .
- Excise duties on alcohol are increased to 35–50 percent in 2008/09, which is projected to raise US\$0.4 million.
- All specific rate taxes and fees (such as customs duty and sales tax on petroleum products) are increased in line with consumer price inflation from 2008/09 onward, with the exception of court fines and Forestry Development Authority stumpage, land rental, and other fees.

1.44 The outturns for 2007/08 include the budgeted extraordinary revenue payments of US\$15 million from Arcelor Mittal and US\$5.6 million of license fees from Global Systems for Mobile Communication (GSM) companies, both of which are not repeated in future years. The other component of extraordinary revenue—payments of overdue and outstanding taxes—is projected at 2 percent of the previous year’s tax revenue in each year of the forecast period.

1.45 A US\$3 million payment to the Special County Development Fund has also been made by Arcelor Mittal in each year beginning in 2007/08. The resumption of large scale iron ore mining operations will generate substantial royalty and income tax revenues for the government in the long term, but most of these revenues will fall outside of the timeframe covered here.²⁰ Income tax is not projected to become payable until several years after production begins, for the reasons noted above, and so is not included in the forecast period covered here.

1.46 Revenues are projected to increase sharply between 2007/08 and 2011/12. But only after 2011/12 will taxes paid by the mining sector start to increase rapidly and boost the revenue to GDP ratio. Table 1.5 shows the revenue projections over the four year period. Total revenue is projected to rise in nominal terms by 80 percent over the four years, from US\$201 million in 2007/08 to US\$361 million in 2011/12. Revenue jumped by 37 percent in 2007/08, driven by the collection of US\$20 million in one-off extraordinary revenues. It is expected that revenues will remain buoyant in 2008/09 as a result of continued signing fees paid by mining and forestry concessionaires. As a share of GDP, revenue jumps from 21.8 percent in 2006/07 to 25.1 percent in 2007/08, and to 25.9 percent in 2009/10. It falls to 24.1 percent by 2011/12. The sharp increase in revenue to GDP ratio is a result of strong tax growth and the large extraordinary revenue from the mining and forestry sectors in 2007/08, 2008/09, and 2009/10. Taxes on international trade continue to contribute the largest share of

²⁰ The amount of revenue the government could earn from the Mittal Steel iron ore mine is sensitive to the world price of iron ore. In 2007 the price reached historically high levels, and had it remained at these levels over the long term, the government could have generated revenues of around \$200 million a year by the seventh year of the project (about 2014). Prices have begun to decline, and if world prices continue to decline in line with the projections in the WEO forecast, government revenues will be much lower. By year seven they will amount to about \$20 million and will only reach a peak of around \$50 million after more than 20 years of the project (Daniel et al, 2007: 60-61).

revenue and stay relatively constant at 40–45 percent of total revenue. The major change in distributing revenue is the large increase in the share of non-tax revenue—from 5 percent of total revenue in 2006/07 to 20 percent in 2011/12—driven mainly by royalties, county development fund revenues paid by Arcelor Mittal, and the recovery of stumpage fees and related charges from timber production.

Table 1.5: Projected Revenues, 2008/09–2011/12, and Outturn, 2006/07–2007/08
(US\$ million)

	2006/07 outturn	2007/08 outturn	2008/09 projection	2009/10 projection	2010/11 projection	2011/12 projection
Revenue	146.7	201.2	240.3	275.3	307.4	361.3
Tax	138.8	166.1	181.9	209.4	243.0	286.9
Taxes on income and profits	42.5	54.2	56.4	60.3	66.8	75.7
Personal income tax	19.2	24.6	26.8	28.6	31.7	35.9
Corporate income tax	11.5	26.9	26.9	28.8	31.9	36.1
Property taxes	0.9	1.2	1.4	1.5	1.7	2.0
Domestic tax on goods and services	14.3	16.5	20.6	23.7	28.0	31.7
Goods and services tax	6.1	6.0	7.9	9.8	12.2	13.8
Maritime	11.8	14.0	12.0	12.0	12.0	12.0
Tax on international trade	69.2	80.2	91.5	111.8	134.5	165.6
Non-tax revenue	7.9	35.2	58.4	65.9	64.4	74.4
Entrepreneur and property income	1.8	3.4	16.3	30.4	44.4	48.8
Stumpage and related charges	0.1	1.3	14.0	28.0	41.9	46.0
Fees and charges	5.6	6.1	6.9	7.5	8.3	9.2
Special county development fund mittal	0.0	3.0	3.0	3.0	3.0	3.0
Extraordinary revenue	0.5	22.6	32.2	23.7	4.2	4.9
Mittal	0.0	15.0	20.0	20.0	0.0	0.0
Global Systems for Mobile Communication licenses	0.0	5.6	8.9	0.0	0.0	0.0
Mineral royalties (mittal steel)	0.0	0.0	0.0	1.4	4.4	8.5
Revenue/GDP	21.8%	25.1%	25.7%	25.9%	24.8%	24.1%
Tax/GDP	20.6%	20.7%	19.5%	19.7%	19.6%	19.1%
Non-tax revenue/GDP	1.2%	4.4%	6.3%	6.2%	5.2%	5.0%
Growth in revenue		37.1%	19.4%	14.5%	11.7%	17.5%

Source: Authors' projections.

1.47 **The growth of revenue over the medium term is driven primarily by inflation and growth in GDP, imports, and exports.** Revenues in 2011/12 are higher than in 2007/08 in absolute terms by US\$160 million, of which US\$95 million is directly attributable to non-mining GDP growth and the indirect effect of GDP growth on the real growth of imports. The recovery of the timber industry contributes US\$46 million through growth in stumpage fees and related charges and customs duties on timber exports. Mining related revenues contribute US\$8.5 million. Tax administration reforms generate about US\$5 million and the income elasticity of income taxes contributes US\$4 million. The net impact of tax policy changes is almost neutral: the gains of about US\$6 million from increased general sales tax rates are offset by losses due to the reduction in the top marginal income tax rate.

1.48 **The revenues in table 1.5 are shown in nominal terms.** After being deflated to derive a projection of growth in real terms, total revenues are projected to grow by 48 percent between 2007/08 and 2011/12, compared with 80 percent growth in nominal revenues.

Table 1.6: Revenue Projections, 2007/08-2011/12 with Lower GDP Growth (US\$ million)

	2006/07 outturn	2007/08 outturn	2008/09 projection	2009/10 projection	2010/11 projection	2011/12 projection
Revenue	146.7	201.2	201.7	232.8	271.5	317.2
Tax	138.8	166.1	179.2	202.5	231.7	270.9
Non-tax revenue	7.9	35.2	22.5	30.2	39.7	46.3
Revenue/GDP	21.8%	25.1%	21.6%	21.9%	21.9%	21.2%

Source: Authors' projections.

1.49 **Using a lower growth estimate and assuming delays to the development of the mining and forestry sector yields substantially lower revenue estimates.** By 2011/12 the slower growth and delayed developments in forestry and mining reduce total revenue by US\$44 million, to US\$317 million compared with US\$361 million in the higher growth scenario. Since the revenue projections are sensitive to the growth rate of real GDP and projections of the latter are inevitably clouded by much uncertainty, an alternative scenario that incorporates the lower GDP growth projections is shown in table 1.3. In addition to lower growth, this second revenue scenario also assumes delays to extracting iron ore by one year and slower concessioning of forestry resources. Import growth rates are also lowered in line with the lower real GDP growth, holding the import to GDP ratios constant. Inflation and the GDP deflator are unchanged from those used in the revenue projections in table 1.5. The impact of the lower real GDP growth projections and slowdown in mining and forestry are summarized in table 1.6.

Grants

1.50 **Liberia has received grants from donors averaging more than US\$300 million a year in the last three years.**²¹ But only a small share of these resources has been channelled through the budget. The government received US\$1.5 million in budget support in 2006/07 and US\$5.7 million in 2007/08. Some project aid is channelled through the government's systems, with the projects implemented by line ministries, but is not recorded in the budget estimates or in fiscal reports, making it difficult to estimate the magnitude of this. Unfortunately, while a system is being developed for recording donor aid commitments and disbursements, this system is not yet fully operational.

1.51 **A large share of the aid received by Liberia has been spent outside the government budget because much of it is emergency humanitarian aid and because donors lack confidence in the capacity of public institutions to effectively manage aid.** But over the medium to long term, the objective of donor aid is likely to shift away from purely emergency humanitarian aid and toward more conventional developmental assistance, such as infrastructure projects, which are normally implemented by governments. This should encourage donors to channel a larger share of their aid through the government budget, especially if the capacity of the public service to absorb aid is strengthened. Furthermore,

²¹ This figure does not include any of the approximately \$700 million a year which is spent on peacekeeping operations.

multi-donor groups have been established to coordinate aid programs in key sectors, including health, education, and infrastructure.

1.52 There are many difficulties obtaining forward-looking projections of aid from donors in developing countries. Future donor aid budgets are subject to uncertainty, particularly because many developed countries are facing fiscal constraints, which may affect bilateral aid levels. And it is difficult to identify a uniform definition of aid applicable to all donors. Since only partial projections from some donors are available, any quantitative projections of grant aid would be essentially speculative and are omitted from this chapter. Projections of donor aid flows to Liberia should improve with the establishment of the aid management unit within the Ministry of Finance, which has recently begun to collect aid data. In the medium term, it should be possible for the government to channel more aid through the budget, but in the short-term much of the donor assistance will continue to take the form of project grants.

Government Borrowing and Debt Servicing

1.53 In principle, fiscal space can be created by government borrowing if it is consistent with debt sustainability and macroeconomic stability. But the scope for new borrowing in Liberia is heavily circumscribed by the government's unsustainable external and domestic debt burdens and by the lack of macroeconomic space for domestic borrowing. The government has undertaken no new domestic borrowing since 2002/03 in order to protect macroeconomic stability. The government has little creditworthiness to issue domestic debt to the commercial banks or the nonbank private sector because it already has outstanding domestic debt and arrears estimated at over US\$300 million in 2007. So, any domestic financing of the budget would have to rely mainly on credit from the Central Bank of Liberia. But because reserve money is very limited—less than 12 percent of GDP at the end of 2007—and the Central Bank lacks instruments to sterilize injections of reserve money, any government borrowing from the Central Bank would jeopardize the Central Bank's control of the money supply. So, it is prudent for the government to avoid any domestic financing of the budget over the medium term.

Domestic Debt Servicing

1.54 The government will need to find resources for paying off its verified domestic debts in a phased manner over the medium to long term. An exercise to verify domestic claims on government was conducted in 2006. Of more than US\$900 million of assessed claims, US\$304 million were assessed as valid (of which US\$261 million comprised claims by the Central Bank and US\$24 million comprised salary arrears), US\$317 million were assessed as contestable (mainly because of inadequate documentation to prove validity), and US\$292 million were rejected.

1.55 The government's domestic debt strategy is to repay the valid claims and any of the contested and rejected claims that are proved valid. Except for the debts owed to the Central Bank, claims will be discounted, with the rate of discount varying according to the size of the claim (larger claims will be subject to a larger discount). The valid debt to the Central Bank and other financial institutions will be restructured into securities with a face value of US\$278 million, a maturity of 30 years, a grace period on principal repayments of 10 years, and an interest rate that increases every five years for the first 15 years and is then held constant. So, in the first five years the servicing of debt to financial institutions will comprise only the low interest rates, amounting to US\$2.4 million a year, but debt servicing

costs will rise sharply after 10 years when principal repayments become due, to around US\$19 million. The interest costs of servicing the debt to financial institutions during 2007/08–2011/12 are shown in table 1.7.

Table 1.7: Projected Domestic Debt Servicing Costs, 2007/08–2011/12 (US\$ millions)

	2007/08	2008/09	2009/10	2010/11	2011/12
Interest on securities issued to Central Bank of Liberia	2.26	2.26	2.26	2.26	2.26
Interest on securities issued to other financial institutions	0.17	0.17	0.17	0.17	0.17
Payment of other claims (vendors, salaries, and so on)	9.5				
Payments into Domestic Debt Trust Fund		9.6	11.0	12.5	13.8
Total	12.7	12.1	13.5	14.9	16.3

Source: Republic of Liberia 2007 (42), IMF.

1.56 **The government plans to establish a Domestic Debt Trust Fund, into which appropriations from the budget will be made, to provide funds for clearing arrears and servicing debt.** It has been proposed that the government should allocate 5 percent of total revenues to the trust fund. The projected payments into the fund shown in table 1.7, for 2008/09–2011/12, are derived by multiplying the projected revenues in table 1.5 by 5 percent. Whether these payments are sufficient to cover debt payments in the medium term or whether surpluses are accumulated that could be used to fund debt service payments will depend on how large a share of contestable and rejected claims are proved valid.

External Finance

1.57 **Even with HIPC debt relief provided by all creditors, the government will face some increase in external debt servicing costs since the country was not servicing its debt prior to entering HIPC and only made token payments of US\$1.2 million a year.**²² Without further exceptional support for debt service payments, the expected debt service after HIPC would rise to an average of about US\$80 million a year, as shown in table 1.8. As this is clearly unaffordable, the high level of debt service payments due during the interim period requires further exceptional deferral of payments and that creditors and donors provide additional debt relief. Most of the bilateral creditors have agreed to provide relief beyond that required under the HIPC initiative. The government anticipates that external debt service will therefore be limited to a maximum of 1 percent of GDP during the interim period, which amounts to between US\$7 million and US\$12 million a year. Once the completion point is reached, the provision of HIPC and Multilateral Debt Relief Initiative (MDRI) will reduce the debt servicing burden to levels that can be met without placing an excessive burden on the budget.

²² This debt service was being paid on IMF, IDA, and AfDB loans and paid into a suspense account.

Table 1.8: Projected Annual Debt Service After Heavily Indebted Poor Country (HIPC), Multilateral Debt Relief Initiative (MDRI), and Additional Bilateral Debt Relief (US\$ million)

	2007/08	2008/09	2009/10	2010/11	2011/12
Total debt service after HIPC and MDRI debt relief	94.2	73.4	70.2	25.4	10.3
Multilateral	2.8	5.7	7.1	5.3	2.3
Official bilateral	56.3	50.2	45.5	13.8	3.7
Commercial	35.1	17.4	17.4	6.0	3.8
Total debt service after HIPC, MDRI, and additional bilateral debt relief	92.6	68.4	63.6	20.6	8.9

Note: Projections assume the decision point is reached in early 2008 and completion point in late 2010.

Source: IDA and IMF 2008, table A4.

Improving Expenditure Efficiency

1.58 **Achieving expenditure efficiency improvements will require public financial management (PFM) reforms recommended in this report, which require a medium- to long-term perspective.** It is not clear that significant efficiency gains can be generated in the four-year timeframe of these projections. That fact, along with data limitations, means that efforts to quantify potential gains are not very useful.

H. SUMMARY OF FISCAL SPACE PROJECTIONS AND THEIR IMPLICATIONS

1.59 **If economic growth accelerates over the medium term, increased revenue mobilization will generate substantial fiscal space by 2011/12, with revenues growing by 80 percent (or US\$160 million) in nominal terms compared to the 2007/08 outturn.** Higher debt servicing, however, will reduce the amount of fiscal space available. Domestic debt servicing may require up to US\$16 million by 2011/12. External debt servicing requirements are still subject to much uncertainty because of the need to mobilize additional debt relief over and above that given under the HIPC initiative. But the government expects that they will be limited to a maximum of 1 percent of GDP during the Poverty Reduction Strategy period. There will be almost no scope for mobilizing budget resources from domestic or external borrowing over the medium term.

1.60 **Revenue growth may be lower than expected if growth prospects are not realized and if there are further delays to the extraction of iron ore and forestry products.** Since the impact of the global economic slowdown on Liberia's growth is uncertain, revenue projections are tentative. If growth is two percentage points lower than projected, iron ore production is delayed by one year, and forestry extraction is slower than expected, then revenue estimates fall to US\$317 million by 2011/12. This represents a growth in revenue of 58 percent in nominal terms and 28 percent in real terms over the 2007/08 outturn.

1.61 **No projections were made of the fiscal space that could be generated from donor grants or improved spending efficiency.** But the fiscal space projections can be used to estimate the resource shortfall between the projected budget resources for primary expenditures and the estimates of public expenditure requirements. If the requirements are to be fully funded, the resource shortfall would then have to be filled through grants, additional debt relief, and expenditure efficiency improvements.

1.62 **The full Poverty Reduction Strategy, completed in April 2008, includes a costing chapter, which lays out the country's anticipated funding needs for the fiscal years 2008/09–2010/11.** It includes anticipated expenditure for all core poverty-related sectors in line with the Poverty Reduction Strategy pillars, including security, economic revitalization, governance and rule of law, and infrastructure and basic services. It is anticipated that much of this expenditure will be expended outside the government budget, through different project and pooled funding arrangements.

Table 1.9: Estimated Cost by Pillar, 2008/2009–2010/2011 (US\$ million)

	2008/09	2009/10	2010/11
Poverty Reduction Strategy costing requirements (total)	550	536	526
Peace and security	107	75	71
Economic revitalization	48	49	44
Governance and rule of law	74	77	73
Infrastructure and basic services	321	335	338
Government administrative costs (non-Poverty Reduction Strategy expenditure)	108	110	108
Total expenditure requirement	658	646	634
Primary budget resources	240	275	307
Resource gap	418	371	326
Total expenditure as % of GDP	70%	64%	52%

Source: Expenditure estimates: PRSP 2008; Revenue estimates: authors' projections.

1.63 **The core Poverty Reduction Strategy (PRS) spending needs are estimated at US\$550 million in 2008/09 (compared with the US\$132 million allocated in the budget).** This will fall slightly to US\$526 million by 2010/11 (table 1.9).

1.64 **In addition to these core poverty reducing spending requirements, many other government administrative costs will have to be financed in order to maintain the state structure, such as financing of the legislature, Ministry of State, and debt service.** The PRS estimates that 45 percent of government revenues will be dedicated to non-PRS expenditures in 2008/09, falling to 35 percent of total revenues by 2010/11, for a total of approximately US\$110 million a year.

1.65 **In current prices, total requirements for expenditures on PRS and public administrative costs are estimated at US\$650 million a year over the PRS period (2008/09–2010/11).** This is about 70 percent of projected GDP for 2008/09, falling to 52 percent of GDP by 2010/11. The resource shortfall is US\$418 million in 2008/09 and falls to US\$326 million by 2010/11—assuming that creditors and donors provide additional debt relief or resources to enable the government to avoid any substantial increase in its external debt servicing burden in line with the government's projections. This shortfall could be funded largely by donor grants. Initial estimates for the PRS suggest that donor commitments are already substantial for the PRS period. The resource shortfall could also be funded, at least partly, by improving expenditure efficiency. Given that the noncore expenditures comprise 62 percent of primary expenditures in the 2007/08 budget, there appears some

scope for making allocative efficiency gains by shifting budgetary resources from the noncore to the core spending requirements over the medium term.

I. CONCLUSIONS AND RECOMMENDATIONS

1.66 Achieving and sustaining rapid economic growth should be the policy priority for the government and its donor partners over the medium term. It should be possible in the short to medium term to accelerate GDP growth simply by ensuring that aggregate demand is sufficiently buoyant, given that there is widespread unemployment, and is supported by adequate inflows of foreign exchange to meet the growing import requirements. There is a strong case for maintaining or even increasing donor aid to support economic activity. Rapid economic growth will generate more income and employment and is crucial for boosting government revenues.

1.67 The government should continue to maintain macroeconomic stability. It should maintain prudent fiscal policies, avoid deficit financing, and implement an appropriate debt-management strategy. It should also continue pursuing long-term growth objectives over immediate gains in revenue, to ensure that pro-poor growth is sustained.

1.68 Over the long term, sustainable economic growth will depend on attracting private investment, rebuilding the country's infrastructure, and supporting human capital development. A favorable investment climate can be developed by streamlining business procedures, implementing planned tax reforms and tax administration reforms, and improving the management and infrastructure of Liberia's ports.

1.69 Despite the projected growth in revenue over the next five years, there will be large resource shortfalls because the requirements for public expenditures are greater than the resources available to fund them. Poverty-reducing expenditure requirements are estimated at about 300 percent higher than the allocation to these expenditures in the 2008/09 budget. Attracting more donor aid and improving expenditure efficiency will therefore be crucial if the government is to fund its core poverty-reducing spending requirements. Donors should begin to channel increased funding through national systems, either through direct budget support or by contributing to pooled funds. Most donor financing is currently project based and implemented outside of government agencies, which makes coordination and management of public development programs challenging.

2. PUBLIC FINANCIAL MANAGEMENT SYSTEM

A. INTRODUCTION

2.1 **Liberia's public financial management system has improved markedly since 2006 through an ambitious reform agenda agreed between the government and the international partners.** But many of Liberia's financial management structures are transitional, designed to strengthen central controls, curb corruption, and enable centralized planning during reconstruction. So, there is a need to shift toward longer-term and more sustainable solutions in some areas and to continue to implement, fine-tune, and entrench new systems. Note that the authorities are rebuilding an extremely weak and outdated public financial management system, which deteriorated markedly during the civil conflict. Reform efforts thus need to focus on getting the basics right, rather than introducing sophisticated reforms or systems that may absorb a large share of the government's scarce resources and human capacity.

2.2 **This chapter provides an analysis of Liberia's public financial management system.** It starts with a summary of the findings of a 2007 Public Expenditure and Financial Accountability (PEFA) analysis. This is the first systematic baseline assessment of the performance of the public financial management (PFM) system in Liberia in the post-war era, which identifies its key strengths and weaknesses. The chapter then provides a detailed analysis of recent PFM reform progress and identifies remaining areas in need of strengthening through a review of eight key dimensions that promote good PFM outcomes: the legal framework, budget preparation, budget execution and control, procurement, accounting and auditing, external oversight, debt management, and donor practices.

B. OVERALL ASSESSMENT OF THE PUBLIC FINANCIAL MANAGEMENT SYSTEM

2.3 **A comprehensive Public Expenditure and Financial Accountability Assessment was carried out in late 2007 by representatives from the African Development Bank, Department for International Development, International Monetary Fund, United Nations Development Programme, Swedish National Auditing Office, and World Bank, in collaboration with Liberian authorities.** The PEFA assessment was reviewed by the PEFA Secretariat. It covers 2004/05–2006/07 and builds on the analytics undertaken by various development partners over the last five years. The assessment benefited from input from key civil servants, ministers, legislators, and PFM advisors working in the Ministry of Finance.

2.4 **The assessment used the Public Expenditure and Financial Accountability performance measurement framework.** This framework, used by about 80 countries, tracks country PFM performance over time. It comprises 28 high level indicators that assess the functioning of the PFM system components and 3 indicators that assess donor performance. Each PEFA indicator is given a rating from A (highest) to D (lowest). Note that the PEFA scorings look at practices over past years, and thus do not fully capture ongoing reform progress. The scores aim to provide a baseline that will allow for comparison with performance in future years (see annex 2 for a more detailed presentation of the PEFA framework).

2.5 **Table 2.1 presents the ratings against each of the 31 PEFA indicators for Liberia.** In general, the scores are consistent with other post-conflict countries in Africa, such as Sierra Leone. There is 1 A score, two B scores, 10 C scores, and 15 D scores, with three

PEFA indicators receiving no score. Considering Liberia's outdated institutional system for PFM and the severe stress to which it has been subjected because of the civil war and economic collapse, the scores are relatively strong and reflect improvements since the end of the civil war.

2.6 The processes for budget execution, reporting, and auditing scored especially poorly, along with the practices of donors. Budget outturn, comprehensiveness, and transparency received slightly better scores on average, particularly for revenue and expenditure performance, budget classification, and access to fiscal information. The indicators that were almost all consistently poor, with scores of D/D+, reflected remaining weaknesses in tax collection, payroll controls, quality and timeliness of annual financial statement, and internal and external audit. Good scores were given for budget classification, availability of information on resources received by service delivery units, and expenditure and revenue outturn compared with original approved budgets. Two PEFA indicators about the financial information provided by donors and the proportion of aid managed by using national procedures both received scores of D+.

2.7 The poor PEFA scores suggest substantial scope for improving the PFM system, provided that sufficient resources and sustained efforts are dedicated to this objective and that there is strong political support for PFM reforms. Many important reforms are already in progress and starting to show results, but the PEFA assessment focuses on the previous fiscal year (2006/07) and so does not necessarily capture ongoing reform efforts. And the PEFA framework is a standardized assessment tool, which does not fully account for the transitional systems that were established in post-conflict Liberia due to eroding institutional capacity (such as the Cash Management Committee, cash-based budgeting, and the large scale of donor project financing). Annex 2 provides a description of the PEFA indicators and the reasons for the scores.

**Table 2.1: Summary of 2007 Public Expenditure and Financial Accountability
(PEFA) Performance Scores**

A. Public financial management outturns: Credibility of the budget		Scores Sierra Leone	Scores Liberia
PI-1	Aggregate expenditure outturn compared with original approved budget	B	B
PI-2	Composition of expenditure outturn compared with original approved budget	C	D
PI-3	Aggregate revenue outturn compared with original approved budget	B	A
PI-4	Stock and monitoring of expenditure payment arrears	No Score	D+
B. Key cross-cutting issues: Comprehensiveness and transparency			
PI-5	Classification of the budget	A	C
PI-6	Comprehensiveness of information included in budget documentation	C	C
PI-7	Extent of unreported government operations	No Score	D+
PI-8	Transparency of intergovernmental fiscal relations	B	No score
PI-9	Oversight of aggregate fiscal risk from other public sector entities	C	D
PI-10	Public access to key fiscal information	B	C
C. Budget cycle			
C(i) Policy-based budgeting			
PI-11	Orderliness and participation in the annual budget process	C+	B
PI-12	Multiyear perspective in fiscal planning, expenditure policy, and budgeting	D+	D+
C(ii) Predictability and control in budget execution			
PI-13	Transparency of taxpayer obligations and liabilities	C+	C
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C	C
PI-15	Effectiveness in collection of tax payments	D+	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	C+	C+
PI-17	Recording and management of cash balances, debt, and guarantees	C+	C+
PI-18	Effectiveness of payroll controls	D+	D+
PI-19	Competition, value for money, and controls in procurement	C	D+
PI-20	Effectiveness of internal controls for non-salary expenditure	C+	C+
PI-21	Effectiveness of internal audit	D+	D+
C(iii) Accounting, recording, and reporting			
PI-22	Timeliness and regularity of accounts reconciliation	C	D
PI-23	Availability of information on resources received by service delivery units	A	D
PI-24	Quality and timeliness of in-year budget reports	C+	C
PI-25	Quality and timeliness of annual financial statements	D+	D
C(iv) External scrutiny and audit			
PI-26	Scope, nature, and follow-up of external audit	D+	D
PI-27	Legislative scrutiny of the annual budget law	C+	C+
PI-28	Legislative scrutiny of external audit reports	D+	No score
D. Donor practices			
D-1	Predictability of direct budget support	C+	No score
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D+	D
D-3	Proportion of aid that is managed by use of national procedures	D	D

C. LEGAL FRAMEWORK

2.8 The legal and regulatory framework for PFM in Liberia is contained in the Executive Law of 1972 and the Revenue Code of Liberia Act of 2000; amendments have been made to them over the past years. The Public Procurement and Concessions Commission was established through the Public Procurement and Concessions Act of September 2005. An act of the national legislature established the General Auditing Office as an autonomous agency within the executive branch of the government. The 1986 Constitution of the Republic of Liberia made provision for the legislature to create the General Auditing Commission. The commission is placed under the legislative branch, giving it independence from the executive.

2.9 The existing PFM legal and regulatory framework needs to be developed comprehensively. In accordance with section 2204 of the Revenue Code of Liberia Act 2000, the Ministry of Finance has developed and the cabinet has approved a set of 54 interim financial rules that cover mainly expenditure controls. But these rules are not sufficiently comprehensive as they do not cover the whole PFM cycle. They also do not provide clarifications of reporting requirements or of roles and responsibilities for managing public funds. Organizational structures need to be specified with clear roles and responsibilities as well. Other elements to be developed within a PFM framework include establishing internal controls, institutionalizing the internal audit function, formalizing reporting requirements, and establishing a code of conduct for public officials.

2.10 Assisted by the International Monetary Fund, the World Bank, and other donors, the government has developed a new public financial management act, with enabling regulations and operational manuals. This new act addresses the discussed issues by covering the whole PFM cycle—budget planning, procurement, accounting, reporting, and external oversight. The act has been submitted to the parliament for approval in January, 2009. The new framework will feature:

- Organizational structures with clear roles and responsibilities for all those involved, ending the fragmentation of responsibility for preparing and implementing the budget.
- Internal controls and an institutionalized internal audit function.
- Formalized reporting requirements.
- Coverage of the entire PFM cycle, including budget planning, procurement, accounting, reporting, and external oversight.

D. BUDGET PREPARATION

2.11 The institutional responsibilities for preparing and implementing the government budget have been fragmented, with no single agency having overall responsibility for control and coordination. The Ministry of Finance (MoF) has the responsibility for revenues, treasury functions, and, since late 2005, the implementation of the cash management system. Until August 2008, the Bureau of the Budget (BoB), which was independent from the MoF, had the responsibility for preparing the full budget. Legislation was recently passed for merging the bureau with the MoF, and the two are planning the merger, which will simplify and improve coordination of the budgeting process and budget execution. There have also been marked improvements in budget preparation coordination in past fiscal years, with the establishment of the Budget Committee, which

includes representatives from MoF, BoB, Ministry of State, Ministry of Planning, Civil Service Agency, and General Service Agency. The Budget Committee provides oversight of the budget process and advice to the Cabinet on policy proposals and the strategic direction of the budget. The recurrent and investment budgets have been merged into a single budget, which has helped to simplify the budgeting process. Ministries and agencies are engaged early in the budget process through a budget circular setting out guidelines for budget preparation, sent out by the BoB. The legislature's role in the budget review process, however, needs strengthening. Capacity building efforts and greater communication between the legislature and executive are required to ensure that the legislature can perform its oversight role and review and pass the budget in a timely manner.

Budget Timeliness, Comprehensiveness, and Policy Linkage

2.12 Although the timeliness of enacting the budget has improved modestly, late passage continues to pose challenges to the government. Budgets in recent years were approved between two and three months into the beginning of the new fiscal year. The legal framework governing the budget calendar can be improved. The Revenue Code does not stipulate a deadline for submission of the budget estimates to the legislature and there is no provision for the MoF to operate on a special warrant in the event of a delay in approving the budget. These omissions are expected to be rectified with the new PFM Act, now undergoing legislative review.

2.13 While the comprehensiveness of the budget document improved in the current fiscal year, it does not provide a complete overview of the government's fiscal operations. The budget circular contains policy priorities, fiscal policy objectives, recommendations for budget preparation, and lists of key activities. The budget documents for 2007/08 and 2008/09 contain more detail than in previous years, including preliminary revenue forecasts and the first claims on these revenues. In addition, the recurrent and development budgets were merged into a single budget starting in 2006/07.

2.14 The government has limited extra-budgetary expenditures to an estimated 1-2 percent, but some critical fiscal information is still missing.²³ First, the budget lacks data on the debt stock and financial assets, both of which should include details at least for the beginning of the current year. Second, the budget does not contain information on the prior year's budget outturn, presented in the same format as the budget proposal. Third, there is no information on the implications of new policy initiatives or estimates of the budgetary impact of major changes in policy or expenditure programs. Fourth, the large volume of aid resources are mainly channeled outside of the national budget and not adequately reported in the budget or in a separate aid database. Total aid flows are estimated at 100–200 percent of government resources. They have a large impact on macro and fiscal conditions and pose a challenge to coordinating and managing public services. Finally, the budget classification system does not comply with international standards; the items of expenditures are currently being revised with support from the World Bank and the United States Agency for International Development.

2.15 The link between the budget and the government's policy objectives has been strengthened through a shift toward a rudimentary program budgeting approach. This is in line with the Interim Poverty Reduction Strategy for the 2007/08 fiscal year, which

²³ Section 2206 of the Revenue Code stipulates the form and details to be contained in the budget document as determined by the President.

defined the government's spending priorities in areas such as health, education, public works, and agriculture. The completed full Poverty Reduction Strategy (PRS) (April 2008), which included a costing chapter, laid the basis for the 2008/09 budget. Although the 2007/08 and 2008/09 budget documents have improved markedly compared to earlier years, the absence of a program segment in the chart of accounts limits directly linking expenditure reports to PRS objectives.

Budget Predictability

2.16 Despite recent improvements, the government's ability to produce a macroeconomic framework needs to be strengthened. Its ability to project revenues and expenditures remains limited and relies heavily on estimates from the International Monetary Fund (IMF). The MoF is developing a medium-term fiscal framework, which will address some of these shortcomings by setting the broader parameters for macroplanning. But further capacity building is necessary to strengthen the capacity of the macrofiscal unit of the MoF and the revenue department to develop independent projections and regularly reassess and revise projections.

2.17 Revenue projections have improved recently and the 2007/08 budget for the first time included some description of the macroeconomic framework. The process of estimating tax revenue is well structured. Sector ministries and agencies submit revenue estimates to the MoF where various tax- and duties-collecting units—such as the Bureau of Customs and Excise, the Large Taxpayer Unit, the Medium Taxpayer Unit, and the Small Taxpayer Unit—submit formal revenue estimates. The MoF uses a mix of tax ratio scenarios and trend analysis to forecast and fine tune the assumptions and estimates. The process considers fiscal year historical performance, including pre-shipment inspection statistics, policy measures, and other applicable macroeconomic forecasts (such as GDP growth estimates).

2.18 Expenditures need to be more carefully projected during budgeting. The estimate of recurrent expenditures for each ministry is usually determined by the previous year's budget, with some indexing for inflation and wages. This process does not allow room to reassess the government's recurrent expenditure priorities, as determined by the Poverty Reduction Strategy (PRS). Capital expenditure financed by the budget is largely directed toward the acquisitions of equipment and vehicles. But the most important part of the investment expenditure is not incorporated into the budget because it is externally funded by donors.

2.19 Given the cash budgeting system, the wage bill projection is consistent with the budget ceilings, and no arrears accumulate. The budget circular recommends that estimates of payroll expenditures be calculated on the basis of the number of employees as of December 31 of the previous fiscal year. The line ministries prepare their wage bill estimates for the coming year for submission to the Department of the Budget. The payroll and professional service fees from the preceding fiscal period are used as a baseline to determine personnel costs for the next fiscal year.²⁴ The cost of consultancies, professional services, and vacant positions that are expected to be filled are factored into the personnel cost estimates. So, the wage bill estimates are based on the database and on recruitment plans. Remaining

²⁴ The Department for International Development is funding a Civil Service Capacity Building project through consultancy services from Adam Smith International. Manpower hearings, and position controls are planned.

wage arrears come from the transitional period, and there has been no recent accumulation of arrears. Including staffing levels in each unit should help identify skill gaps in the units.

2.20 There are some limits to a proper assessment of the wage bill. There are two databases of civil servants, one at the Civil Service Agency and one in the Electronic Data Processing Unit in the Ministry of Finance. While these databases are relatively consistent, they require regular reconciliation exercises to ensure consistency. Adding and removing names from the civil servant database remains slow and unstructured. A major problem is that allowances are not based on clear guidelines. Lacking a consistent classification system has even led to employees being paid at wrong grades. The government is working to address some of these problems with a Human Resource Information Management System, which will be linked to the Integrated Financial Management Information System.

Shift toward a Medium-Term Program Budget Framework

2.21 The government has indicated its desire to shift to a multi-year budget to help guide investment and development spending. At present, a one-year budget is prepared by the Ministry of Finance, and all appropriations lapse at the end of the fiscal year, except for such sensitive appropriations as the County Development Fund (which is transferred into an escrow account if unallocated in the current fiscal year). As part of the Poverty Reduction Strategy, the government undertook a three-year costing exercise, yielding costing estimates by fiscal year and sector required to meet the strategy objectives. It also estimated the budgetary resources needed to achieve the objectives and in doing so provided a first step to a multi-year budget. The costing exercise identified the multi-year financing gap that will affect the government's ability to rebuild the economic and social infrastructure needed for economic revitalization and poverty reduction. Another step toward multi-year planning is developing a medium-term fiscal framework, outlining changes to the broader macro conditions.

2.22 The Liberian government is encouraged to phase in elements of a multi-year budget framework over time, as capacity to manage the process is built. A multi-year program budget approach assumes certain prior conditions, notably a stable macrofiscal framework; technical capacity to define programs, establish performance indicators, and assess performance; and clear procedures and respect for prevailing regulations. It is recommended that the government ensure that:

- The macroeconomic analysis capacity within the MoF is strengthened to improve the predictability of the resource envelope and expenditure priorities.
- Strategies for key sectors (especially those with long-term planning and building cycles) are produced, medium-term objectives formulated, and related expenditure plans produced.
- There is a strong link between budgeted funds and the results as defined by measurable indicators.
- There is a system of information on performance.

Preliminary steps in critical sectors could be taken in pilot ministries by identifying programs and key performance indicators and reporting them in the budget document.

2.23 The Liberian government should set up a well-functioning system for selecting and managing public investments as domestic and external resources increase. This system should ensure that donors increasingly channel resources through the national budget.

An institutional arrangement is needed to ensure a first-level screening of all project proposals to ensure that they meet minimum criteria of consistency with the government's strategic goals. This will require formal and well-publicized guidance on the technical aspects of project appraisal, consistent with the technical capacity of ministries and departments. This guidance would define cost-benefit and cost-effectiveness criteria—with larger projects requiring more rigorous tests of financial and economic feasibility and sustainability. Upstream investment in training for project-evaluation techniques is important for an effective public investment system. Costs are generally incurred to maintain and operate assets created through public investment projects, and there should be consideration of how these costs should be funded. Evaluating completed projects is also desirable to ensure that learning and feedback from projects will create a positive dynamic for improvement.

Decentralization

2.24 The government is discussing the need to decentralize political power, decisionmaking, and government authority, but its approach to decentralization is cautious and gradual. During the PRS period, the government intends to undertake extensive consultations and begin developing a roadmap and policies for decentralization. Financial decentralization to ministries, agencies, and county administrations will be considered, but not in the immediate future, as capacity constraints, logistical challenges, and constitutional restrictions need to be addressed first. The decentralization of the procurement function, as specified under the PPC Act, helped increase ownership over the budget, while central controls are maintained through the payment process and Cash Management Committee approval requirements. In the short term, continued focus on financial management capacity building at the ministry and agency and county level will be pivotal, to gradually strengthen capacity for an increasingly decentralized financial management system.

E. BUDGET EXECUTION AND CONTROL

Cash Management

2.25 To ensure prudent cash management, ministries and agencies prepare monthly cash plans. The DoB releases allotments based on the cash plans, and the budget is executed based on the processes described in the "Recording, Accounting and Reporting" section below. The MoF does not consolidate its cash balances on a daily basis. Balances held on ministries' and agencies' bank accounts in the Central Bank and commercial banks are not included in the cash availability statement prepared for decisionmaking by the Cash Management Committee (CMCo). Cash availability is based on balances from the bank statement rather than from the cash book.

Budget Transfers

2.26 A Budget Transfer Act was passed in early 2008, amending section 2212 of the Revenue Code, to allow transfers of up to 20 percent between agencies. This represents an important improvement, although the limits remain high by international standards (normally between 5 and 10 percent).

Payroll

2.27 The Electronic Data Processing Unit processes the government payroll using the Government Accounting Payroll System for about 42,000 employees and retirees (civil

servants, teachers, police, military, and pensioners). Previously, civil servants from departments or districts were paid in bulk, but the government shifted to issuing individual checks to all civil servants, to clean up the payroll and ensure that payment reaches each civil servant. Some remuneration to employees, such as allowances, are paid outside the system, and there have been instances when checks were generated for names that are not in the system. The MoF is taking steps to bring the payments closer to the civil servants, by undertaking payment exercises through paymasters that distribute checks directly to employees in the county capitals. Cashiers from Central Bank travel with the MoF pay team to cash the checks, and logistical support is obtained from United Nations Mission in Liberia, at a cost. This means that civil servants only have to travel to their county capital to receive payment, instead of to Monrovia. Initially this strategy resulted in 2,000 unclaimed checks a month on average. However, the large number of checks issued is causing difficulties for the MoF in reconciling the payroll bank account.

2.28 The Civil Service Agency is planning to implement a biometric identification system to verify all civil servants who should be on the payroll. It also plans to rationalize the classification system to ensure consistency in basic pay for the job families and grades. This will be an important milestone before implementing the Human Resource Management Information System.

2.29 Supervisory controls over the payroll are weak. Controls exist for changes in personnel records and payroll, but the full integrity of the payroll cannot be ensured because changes are not adequately checked before the payroll is run. Audit trail reports, to show before and after details for changes and to track users, do not exist. A structured payroll audit to identify control weaknesses is not undertaken. But the county payment system has ensured that fewer ghost workers collect payment, as evidenced by the significant number of unclaimed checks each month.

Revenue Collection Procedures

2.30 Tax administration has undergone significant reforms in the past year, in line with IMF recommendations. The previous system of bureaus and the centralized collection unit for aged debt have been dissolved, and three new tax units (large, medium, and small taxpayer) now have their own collection and enforcement responsibilities. This has helped improve the accuracy of information on balances and adjustments resulting from payments, new assessments, and accruing interest and penalties. Records from the small taxpayer units, however, still may not be entirely reliable. The customs administration is being strengthened by establishing a customs one-stop-shop at the Freeport in Monrovia, although the premises are still awaiting full connectivity.

2.31 Transparency of taxpayer obligations is improving. Regulations for tax administration and procedure are contained in sections 50–74 of the Revenue Code, and notices for tax collection are displayed in conspicuous places at MoF. Executive Orders 2 and 8 of the National Transitional Government of Liberia provide that all tax and non-tax revenues should be paid directly to the Central Bank. The MoF has developed an in-house Bank Pay Slip and Flag Receipt System to handle the recording and accounting for revenue collections. The Bank Pay Slip is linked online to the pre-shipment office and the Central Bank. MoF can therefore project taxes due from goods arriving through the ports. By flagging receipts recorded in the Bank Pay Slip against lodgement in Central Bank of Liberia bank accounts, MoF can track assessments and collections. Procedure notices are also displayed in the MoF.

2.32 **There is room to improve effectiveness in collecting tax payments, although reconciliation efforts have been strengthened.** Most accounts are reconciled daily—including tax assessments, collections, arrears records, and receipts—by the Treasury and the Central Bank. Also, taxes assessed are reconciled against collections and payments through regular desk and issues-oriented audits. There are also semi-annual and annual comprehensive audits to verify that payments are consistent with taxes assessed. Taxpayer Delinquency Investigations are also conducted regularly to ensure tax compliance. Vendors are required to have a Tax Payer's Identification Number. The number should be used as a unique vendor code in the accounting system at MoF and linked to the Ministry of Commerce business registration system. It should also be a requirement for banks to open business accounts. Similarly, Social Security Numbers should be used to track payment of employment tax.

2.33 **Despite this progress, the amounts collected do not correspond to the recovery potential of the departments in charge of revenue collection.** The government still faces major problems, such as false declarations, under declarations, low compliance, and leakages. Although audits have been introduced, revenue recovery could be improved through a strengthened audit function. Fake receipts are also a serious threat to the receipt system. Tighter internal controls are needed. With an improved accounting system, receipts should be system generated and linked to a cash book used as the main reference for bank reconciliation. The government is trying to obtain receipts with security-related features.

F. PROCUREMENT

The Legal and Regulatory Framework

2.34 **The Public Procurement and Concessions (PPC) Act, which came into effect in January 2006, is Liberia's first significant step toward subjecting public sector contracts to meaningful competition.** Overall, the Act is comprehensive and provides a framework for a sound procurement system. But some aspects of the Act require amendment, including revising the thresholds (which are too low), changing the rules governing exploration licensing procedures, and clarifying the roles and responsibilities of the Public Procurement and Concessions Commission (PPCC). A committee has been established to review the Act and, with support from an external consultancy firm, is drafting an amendment to submit to the legislature in early 2009. In addition, the PPCC, with support from a consultancy firm, is developing detailed implementing regulations and manuals, with the aim of providing procuring entities with detailed instructions on the correct application of the law.

Institutional Framework and Management Capacity

2.35 **Procurement units and procurement committees have been set up, and the procurement staff are eager to comply with the Procurement Act.** But these procurement structures lacked the resources—including staff, basic computer systems, access to transport, and manuals and instructions—to operate effectively. Procurement directors in some entities lacked the technical capacity and authority to resist interference from other divisions in the procurement process.

2.36 **There is still some confusion over the roles and responsibilities within the Liberian public procurement system.** Some procuring entities do not recognize the need for a strict separation of functions between the procurement unit, which is the executing body,

and the procurement committee, which provides supervision. Evaluating proposals is sometimes done by members of the procurement committee. And in some ministries, procurement responsibilities are spread out over different units, with shopping being conducted by one unit and national competitive bidding by another, coordinated only at the level of the minister. The PPCC, whose primary function is to regulate the system and prevent departures from the procurement law, is routinely solicited to provide no-objections on procurement decisions, a function that is normally the responsibility of procurement committees and compromises the PPCC's neutrality as a regulator.

Procurement Operations and Market Practices

2.37 While Liberia's procurement law is basically sound, public procurement falls short of the high standard the law sets. For instance, not much has changed in actual shopping practices. Staffs of the procuring entities still go to three selected suppliers for written quotations on the spot instead of soliciting them through a written request. Shopping is still carried out for contracts far above the threshold of US\$2,000 stipulated in the schedule (although it is generally recognized as being too low).

2.38 National competitive bidding practices also need improving to conform to the Act. The advertisement contains a call for bids instead of inviting bidders to purchase the bidding documents at the cost of reproduction. So, bidders are deprived of important information that they should consider when preparing a bid. Consequently, important provisions—such as the delivery time, penalties for late delivery, and requirement for spare parts availability—are left to the contracting stage or are not addressed at all. The criteria for evaluation are also not specified.

2.39 Despite these shortcomings, there has been notable improvement in procurement practice in the past year. Procurement staff and committee members now have some grasp of the key requirements of the Act. The break in procurement performance came largely as a result of PPCC workshops given to the heads of procuring entities. This suggests that further targeted training would be highly beneficial. A more systematic training program for procurement officials is being developed with support from a consulting firm. Most of the interim procedures of the last fiscal year that were contrary to the provisions of the Act have been discontinued. There are strong indications of a change in attitude toward procurement and a change of habits in response to the Act.

2.40 The establishment of the Cash Management Committee in the Ministry of Finance has helped identify and overturn many breaches of the procurement law, as the committee returns vouchers that are not in compliance with the PPC Act. The Ministry of Finance has developed and issued a checklist with Cash Management Committee requirements to help ministries and agencies comply with procurement and payment procedures.

Private Sector Participation

2.41 Private sector representatives have responded positively to the Public Procurement and Concessions Act. They believe it will promote transparency, accountability, and equal opportunities for businesses in Liberia. But they noted that challenges remain. These include a lack of training in preparing bidding documents, the high cost of bidding documents and bid security, and poor access to credits from banks.

G. ACCOUNTING AND AUDITING

Accounting

2.42 **Section 2204 of the Revenue Code requires the government of Liberia to keep its books on a double entry and accrual basis of accounting.** But because of the absence of core skills and competencies, this provision is inappropriate at this stage in Liberia's development process and should only be considered after sufficient capacity has been established. In the interim, the system is operating on a cash basis of accounting.²⁵

2.43 **The government, on the advice of its donors, has set up a system to account for its revenues, expenditures, assets, and liabilities involving the Bureau of the Budget, Bureau of General Accounting, the Cash Management Committee, the Office of Comptroller General, the Central Bank of Liberia, and ministries, departments, and agencies.** The system has increased transparency and accountability, enabled initial budget policy targets to be met, and ensured that payment arrears are not accumulated.

2.44 **Each ministry and agency is responsible for submitting a monthly cash plan to the Department of the Budget (DoB), and the department prepares a monthly cash allotment based on the cash needs.** Copies of the cash allotment from the DoB are sent to the ministry or agency and the Bureau of General Accounting (BGA) for cross checking. Following receipt of its cash allotment from the Department of the Budget, the ministry or agency prepares a local purchase order. The purchase order—plus a purchase voucher, invoice, and copy of the DoB cash allotment—is then sent to the Bureau of General Accounting. After verifying compliance with procurement procedures, the BGA puts its seal on the local purchase order and returns the documents to the ministry or agency. This seal of verification allows the ministry or agency to proceed with procurement. On receipt of the goods and services, the ministry or agency forwards the sealed local purchase order, invoice, and other vouchers to the BGA, which then checks for conformity with code and other formalities. It also performs a physical audit when the goods and services are valued at US\$5,000 or more. A BGA report including all the supporting documentation is forwarded to the Cash Management Committee (CMCo) secretariat. The CMCo secretariat prepares a list of vouchers for payments to be approved by the CMCo, which includes the Ministry of Finance, the Ministry of Planning, the Ministry of State, and an externally recruited financial controller financed by the donor community. The CMCo also receives from the Comptroller General's office details of the government of Liberia cash balances with the Central Bank. After reviewing the list of vouchers for payment and considering the available cash balances, the CMCo prepares a list of approved payments. One copy of that list is forwarded to the Comptroller General for payments and distribution of the checks through paymasters, and another copy is forwarded to the Central Bank for verification.

2.45 **The accounting system is incomplete.** The system does not cover debt and contingent liabilities. As mentioned, transactions for investment expenditures financed by donors are not in the budget and not recorded in the accounting system.

2.46 **At the Bureau of General Accounting the processing of transactions is principally manual, although some procedures have been computerized using**

²⁵ There is only one Chartered Public Sector Accountant in the Bureau of General Accounting. There is an ongoing World Bank capacity building project within the Ministry of Finance for about 60 students that are undertaking an MBA program. The first batch is expected to graduate in early 2009 and will be posted within MoF and other ministries and agencies.

standalone spreadsheets. This naturally presents inconveniences for information dissemination. The government uses a single-entry method of accounting, and the accounting is on a cash basis. So, transactions and events are only recognized once cash has been received or disbursed.

2.47 There is a need to introduce a funds accounting system into the general accounting system so the government can track and report the activity of individual funds. The funds (General Fund, Special Revenue Fund, Capital Project Fund, and so on) should be sparingly used and carefully controlled by creating special appropriation accounts that provide a record of transactions financed by means of special resources.

2.48 There is a need for reform of the cash management system in the medium term. While the current arrangements have increased transparency and accountability in procurement, they represent a temporary measure designed as a part of the Governance and Economic Management Assistance Program to re-impose fiscal discipline while longer-term financial institutions are re-established. The government may want to plan for a more streamlined budget execution process with fewer steps in the payment process.

Information Systems

2.49 The information systems currently in place are fairly rudimentary. Different units within the Ministry of Finance (MoF) maintain separate spreadsheets, making reconciliation of fiscal data challenging and weakening the credibility of the government's financial reports. Financial reporting is expected to improve when the Integrated Financial Management Information System is implemented and the BoB merges fully with the MoF.

2.50 To improve the accounting system, the Ministry of Finance introduced the Liberia Expenditure Control and Accounting Program (developed in-house) and then transitioned to SunSystems, an interim data-capturing and reporting system. SunSystems does not provide a full accounting package and focuses primarily on facilitating financial reporting. It will be replaced by an Integrated Financial Management Information System (IFMIS). Implementation will begin with the core modules—budget execution and commitment control, and a general ledger that includes bank reconciliation and reporting.

2.51 SunSystems, and its predecessor, built a platform for implementing IFMIS by exposing key officials to a computerized environment. Use of these software programs has also improved the quality of reporting. But extensive change management and capacity building will have to be done to ensure that all stakeholders understand the objectives of the IFMIS implementation. The Deputy Minister for Expenditure has been designated as the IFMIS Champion and has established a number of IFMIS implementation committees. In addition, a change management advisor has been hired to help facilitate the change process. Drawn from key institutions, the teams will cover applications users, application management and support, and information and communications technology support to form the Government Implementation Team. The team will be required to work closely with the IFMIS vendor to ensure transfer of skills and knowledge required to maintain the system independently in the long term. A remuneration policy to retain these core skills should be developed. A new chart of accounts will need to be developed.

Financial Reporting

2.52 The government does not produce financial statements but has begun producing annual and quarterly fiscal reports that detail revenues, allotments, and expenditures of the various ministries and agencies. Financial statements have not been produced since before the war, and the current accounting procedures limit the government's ability to fulfill reporting requirements. Current legislation requires financial statements to be based on accrual accounts, which is not realistic under present cash budgeting procedures. This has been addressed in the new Public Financial Management Act, currently with the legislature. Given the government's inability to produce full financial statements, its annual fiscal reports—produced for 2005/06, 2006/07, and 2007/08—and quarterly outturn reports mark an important step toward increased transparency and accountability. The reports have been produced in a timely manner and are published in newspapers and on the MoF website.

2.53 Section 21.2 (c) of the Executive Law 1972 requires the Minister of Finance “to report the financial activities and financial position of the government to the President and to the legislature.” The new Public Financial Management Act stipulates that quarterly reports are to be submitted within 45 days of the end of the quarter, and a final account of the national budget is to be submitted within three months of the end of the fiscal year. Existing legislation does not stipulate any deadlines for reporting.

2.54 Special funds, such as the County Development Fund and departmental accounts transactions, are not disaggregated by economic or functional classification in fiscal reports. The County Development Fund was introduced in 2007/08 mainly to fund community-driven development projects. According to the guidelines for the management of the funds, transfers should be made to the County Development Fund bank accounts from which project activities are executed. The nature of these expenditures is not recorded in the fiscal reports by either economic or functional classifications—they are recorded solely as transfers. The MoF needs to develop procedures to capture these details when the counties start submitting returns to the Bureau of General Accounting. The chart of accounts will also need the required segments for these entries to be passed.

Internal Audit

2.55 The internal audit function in Liberia is weak. The role of internal audit in management control responsibilities should be better defined. Currently, internal audit functions combine the role of financial controller and financial police. The audit carries out both mandatory pre-controls before decisions are taken and special investigations ordered by ministers after the fact.

2.56 The 1972 Act assigned responsibility for internal audit to the Auditor General. This arrangement was enacted while the Auditor General Office was within the executive branch, but since the General Auditing Commission is now under the legislative branch, this arrangement is less appropriate. Internal audit is conventionally required to function as an aid to management and to have the resources, capacity, and independence to report directly to the chief executive of the entity. The Public Financial Management Act before the legislature is expected to provide a roadmap of revised institutional arrangements for internal audit and secure a border between external and internal audit functions.

2.57 At present, the majority of ministries do not have functioning internal audit units. These units exist within the ministries of Finance, State, Justice, General Service

Agency, Health and Social Welfare, and Lands, Mines, and Energy. The ministries of Public Works, Internal Affairs, and Education are setting up or revitalizing their internal audit units. None of these, however, have a clear mandate or reporting structure. The Ministry of Finance internal audit unit has an operational manual that was issued in May 2004, but not widely used. The General Auditing Commission has drafted a memorandum of understanding with the Institute of Internal Auditors²⁶ for the institute to partner in developing the internal audit function for the government. The memorandum of understanding proposes as a first step setting up a joint working group to assess the needs, timing, and overall approach to building this partnership. The goals are:

- Adopting and recognizing the Institute of Internal Auditors' International Professional Practices Framework as the authoritative guidance for internal auditors, thereby providing staff with globally-recognized standards by which to practice, and ensuring the independence and objectivity of the function.
- Helping establish an Institute of Internal Auditors in the country that can provide sustainability for training and building capacity in both the public and private sectors.
- Embracing professional competence through a hands-on training, certification, and continuing education program.

2.58 While it is useful that the General Auditing Commission is providing some guidance for establishing an independent internal audit function, the Ministry of Finance should take the responsibility for internal auditing under the executive. An internal audit strategy was recently completed by the Ministry of Finance, with input from the General Auditing Commission. This strategy helps specify the roles and mandates of internal auditors in relation to internal control systems. It is further buttressed in the proposed Public Financial Management Act. Internal audit regulations will need to be developed to implement the strategy.

H. EXTERNAL OVERSIGHT

The General Auditing Commission

2.59 Over the last three years, the government has taken important steps to establish an external audit function. Prior to 2005, the Auditor General was required to report to the President. This called into question the independence of the Auditor General and compromised his ability to monitor the executive branch. And because the Auditor General reported to the President, the legislature had no formal means of verifying the executive's use of budgetary resources. In 2005, the arrangements were changed. The General Auditing Commission, headed by the Auditor General, was created as an independent, autonomous body of the government by amending section 53.2 of the Executive Law 1972. The General Auditing Commission now reports to the legislature.

2.60 To strengthen the external audit function, capacity must be improved and the legislative framework refined. Legislative review is in progress, and the General Auditing

²⁶ The Institute of Internal Auditors represents the global profession of internal auditing, which has over 135,000 members in 166 countries. Its members agree to practice internal auditing in accordance with The Institute of Internal Auditors' Code of Ethics and the International Standards for the Professional Practice of Internal Auditing.

Commission is working to strengthen the capacity of its national auditors through training programs and technical assistance.

2.61 A five-year strategic plan for the General Auditing Commission is being developed. The plan will provide a focus for further building the capacity of the institution and form the basis for a convergence of support by donors and the government.

2.62 The International Organization of Supreme Audit Institutions code of ethics and auditing standards and the African Organization of English-speaking Supreme Audit Institutions audit manual and Quality Control Manual have been customized to local circumstances. These manuals and codes need time to be fully implemented.

2.63 The General Auditing Commission is introducing a more modern auditing technique. The first materiality and risk assessment (risk index) on a national level has been implemented to focus on key government institutions. Through the assistance of a human resource and a legal consultant, the General Auditing Commission has developed a series of human resources guidelines and forms, including a code of conduct, staff confidentiality forms, asset declaration, and conflict of interest forms.

2.64 The Auditor General is addressing the challenge of low human capacity. All staff from the General Auditing Commission were laid off and required to reapply for their jobs. A recruitment exercise was undertaken, with about 1,400 applicants. Nearly 1,000 applicants took a test in Monrovia and Gbarnga (Bong County) on general auditing and accounting; one third were successful. The commission interviewed 220 people and selected 92 to begin a training program in late 2007. To conduct external audits in 2008, the General Auditing Commission has contracted experienced auditors from neighboring countries to lead teams of Liberian auditors. By pairing Liberian auditors with more experienced auditors from other countries, the General Auditing Commission hopes to facilitate knowledge transfer.

2.65 The General Auditing Commission has recently completed a first set of external audits, including an audit of the Ministry of Finance. Further audit reports are currently under preparation. Annual fiscal outturn reports were prepared for 2005/06, 2006/07, and 2007/08. The General Auditing Commission made use of the 2006/07 outturn report to conduct a more comprehensive and reliable transaction-based audit for 2006/07. In the medium term, it will be necessary to introduce an Annual Attestation Audit to match the PFM development in Liberia. These efforts will need to be sustained and consolidated to institutionalize annual audits.

Legislative Scrutiny of the Annual Budget Law

2.66 Legislative scrutiny of annual budget law and financial statements is important to ensure transparency and accountability. The Ways and Means Committee in the legislature is responsible for scrutinizing the annual budget when it comes before the House of Representatives. However, the Ways and Means Committee of the House and the Senate lacks technical in-house capacity to analyze the budget and guide a meaningful debate. When the 2007/08 budget was submitted by the executive, the legislature asked the General Auditing Commission to review and provide technical comments.

2.67 Timely and complete annual reports of the financial status and affairs of all government agencies are required to be submitted to the President and the legislature pursuant to Section 2205 Chapter 22 of the Revenue Code of Liberia (Act of 2000). The

executive is also expected to submit the mid-year review of the budget to the finance committee of the legislature. At present, annual and quarterly fiscal reports are made publicly available on a timely basis, although the quality of these reports needs improvement, and the legislature's capacity to meaningfully scrutinize the reports is limited.

2.68 An act limiting the size of in-year budget transfers by the executive to 20 percent between ministries and agencies has recently been passed. But the budget document does not include information on spending against the budget in previous years. So, when assessing the budget, the legislature cannot confirm that expenditure in past years remained within the permitted limits.

Legislative Scrutiny of External Audit Reports

2.69 Timely consideration of audit reports from supreme audit institutions and follow-up on previous recommendations are important to hold the executive accountable. The executive is expected to report to the legislature in the form of an annual financial statement accompanied by an audit opinion from the General Auditing Commission. The Ministry of Finance is not producing financial statements but has published annual and quarterly fiscal reports, which are available to the legislature. The General Auditing Commission recently submitted a first set of audit reports to the legislature, based on the Ministry of Finance fiscal reports.

I. DEBT MANAGEMENT

2.70 Liberia's debt management capacity has been severely eroded by the decade and a half of civil conflict. The Liberian government has neither the technical personnel nor the systems to adequately record, analyze, and report on domestic and external debt. Consequently, Liberia's debt data records and reporting are incomplete, and information on commercial debt stock is based partly on creditors' claims. As part of its debt resolution strategy, the government—with support from the World Bank and the Swiss Agency for Development and Cooperation—hired financial and legal advisors to help establish a preliminary inventory of claims from external commercial creditors on Liberia. According to these estimates, Liberia's stock of external commercial claims at end-June 2007 was about US\$1.575 billion.

2.71 Since December 2007, Liberia has cleared substantial arrears to multilateral creditors (including the IMF, the World Bank, and the African Development Bank), which paved the way for reaching the Heavily Indebted Poor Countries Initiative decision point in March 2008.²⁷ At that time, Liberia qualified for US\$2.8 billion of debt relief in net present value terms.²⁸ Subsequently, in April 2008, Liberia reached an agreement with its Paris Club creditors under Cologne Terms that cleared Liberia's arrears toward these

²⁷ Arrears to the World Bank were cleared in December 2007 through a bridge loan that was repaid with the proceeds of a grant financed with an exceptional IDA allocation. Arrears to the African Development Bank Group were cleared in December 2007 through an operation under the post-conflict countries framework. Arrears to the IMF were cleared in March 2008 through a bridge loan that was repaid with new financing from the Poverty Reduction and Growth Facility and Extended Fund Facility.

²⁸ Such assistance is equivalent to a common reduction factor of 90.5 percent, the second largest common reduction factor thus far under the HIPC Initiative. See "Liberia, Enhanced Heavily Indebted Poor Countries (HIPC) Debt Initiative: President's Memorandum and Recommendation and Decision Point Document," February 27, 2008, IDA/R2008-0038.

creditors. In addition, on an exceptional basis, the Paris Club creditors granted Liberia a deferral of all payments falling due until end-December 2010.

2.72 The government has begun implementing its domestic debt resolution strategy, finalized in January 2007. The strategy addresses the approximately US\$300 million of valid domestic claims, including payments to the Central Bank of Liberia and salary arrears to civil servants. Given the extremely limited fiscal space in the face of the significant development needs (including for investment in infrastructure and delivery of key social services), it is expected that repayment of the domestic debt will be stretched out over 30 years.

2.73 In June 2008 the government formed a comprehensive debt management strategy. The strategy is focused on three key objectives: reducing and rationalizing Liberia's external debt by end-2009; rebuilding the institutional capacity to monitor debt levels, analyze debt sustainability and risks, and service debt in a timely manner; and building the foundation for Liberia to begin contracting limited amounts of highly concessional targeted finance to support its development programs and over the long-term re-entering international financial markets. The government has established a debt management unit within the Ministry of Finance and is training personnel and acquiring a modern debt-management system. The debt management responsibilities of the MoF should be clarified and software tools for debt management, such as the Commonwealth Secretariat Debt Recording and Management System, should be introduced.

J. DONOR PRACTICES

2.74 Information on donor funded projects, as stated earlier, is not included in the budget. Indeed, there is no database of all aid flows into the country. The absence of a project database impairs efficient allocation of limited resources, since programs that may already have been funded by direct donor support could be duplicated by the government or by another donor. It is crucial to have a database of all projects to be used by the government and donors to improve coordination of their interventions. The Ministry of Finance has established an Aid Management Unit to improve reporting of aid flows and to track alignment with the Poverty Reduction Strategy. The Aid Management Unit, in collaboration with the Liberian Reconstruction and Development Committee and the Ministry of Planning and Economic Affairs, has begun to develop a database for aid management. As part of the budget preparation process, ministries and agencies should provide information on donor funded projects executed through them.

2.75 While aid-tracking mechanisms are instituted, the MoF should request donors to provide information on funds for government-executed projects committed by sector for the next three years, as well as the amount disbursed to date. The MoF should work with the executing agencies to ensure that financial returns are submitted and reconciled against the project bank accounts.

2.76 The central Project Financial Management Unit in the MoF could be used for a greater volume of donor-funded projects. This will ensure standardization of management of all project funds and aid the eventual transition from direct donor support to donor funding going through the budget, as the Paris Declaration recommends. There have been some improvements in this direction. The majority of World Bank and African Development Bank funds are now managed by the Project Financial Management Unit, and the education pooled fund being established may use the Unit for financial management.

K. CONCLUSIONS AND RECOMMENDATIONS

2.77 The public financial management system in Liberia has improved markedly since 2006, but it is in need of further reform and strengthening. The legal and regulatory framework for public financial management should be revised to clarify the roles and responsibilities of different public agencies, establish internal controls, institutionalize the internal audit function, and formalize reporting requirements. A public financial management act before the legislature is expected to rectify the deficiencies in existing legislation.

2.78 A budget document is needed that provides a comprehensive overview of the government's fiscal operations. This would include:

- Information on the prior year's budget outturn (presented in the same format as the budget proposal).
- Data on both the debt stock and financial assets, with details for at least the beginning of the budget year.
- Consideration of the implications of new policy initiatives and estimates of the budgetary impact of major changes in policy or expenditure programs.

2.79 While the government would like to move toward a medium-term expenditure framework, it is advised to gradually phase in elements of such a framework. As a part of the Poverty Reduction Strategy, a costing exercise was undertaken. This important first step toward medium-term budgeting will help guide and ensure policy-based budgeting over the course of the Poverty Reduction Strategy period. The government is also developing a medium-term fiscal framework, which will help provide broad parameters for budgetary planning. The government should also ensure that:

- The macroeconomic analysis capacity within the MoF is strengthened.
- Strategies for key sectors are produced, medium-term objectives are formulated, and related expenditure plans are produced.
- There is a strong link between budgeted funds and the results as defined by measurable indicators.
- A system is introduced to measure performance.

2.80 The Liberian government should set up a system for selecting and managing public investments. An institutional arrangement is needed for a first-level screening of all project proposals to ensure that they meet minimum criteria of consistency with the government's strategic goals. Upstream investment in training for project-evaluation techniques is important for a public investment system. There should be consideration of the funding needed to maintain and operate assets created through public investment projects. An ex-post evaluation of completed projects is also desirable to ensure that there is learning and feedback from projects that will create a positive dynamic for improvement over time.

2.81 The personnel databases in the Civil Service Agency and the Electronic Data Processing in the Bureau of General Accounting should be rationalized. This will produce more accurate personnel expenditure projections and promote more consistent classifications. A biometric identification system to verify all civil servants on the payroll and

a Human Resource Management Information System will also be important for developing the Integrated Financial Management Information System.

2.82 Tax administration needs to be improved. Amounts collected should correspond to actual recovery potential of the departments in charge of revenue collection. Collecting tax payments should be more effective, and fake receipts should be addressed by tighter internal controls.

2.83 The momentum from passing the Public Procurement and Concessions Act should be used. This will require a comprehensive set of implementing regulations and manuals. Procuring entities should be provided with detailed instructions and increased capacity on the correct application of the law. Efforts to strengthen the ability of private sector operators to meet the requirements of the Act are also needed, including by providing training and reducing the cost of bidding. Efforts are also needed to improve the scope and quality of public procurement reporting.

2.84 The cash management system should be reformed. While the current arrangements have re-imposed fiscal discipline and increased transparency and accountability in the budget process, they represent a temporary measure designed as a part of the Governance and Economic Management Assistance Program while longer-term financial institutions are re-established. The government may want to consider planning ahead for a more streamlined budget execution process in the future.

2.85 The benefits brought about by the introduction of the Liberia Expenditure Control and Accounting Program and SunSystems should be expanded by the timely introduction of an Integrated Financial Management Information System. Implementation should focus on a simple and basic system that will not sap scarce resources, by beginning with implementing a few core modules.

2.86 The internal audit function needs to be developed further. There is a need for a systematic and disciplined approach to evaluating risk management, control, and governance processes. The Public Financial Management Act being drafted would provide a roadmap of revised institutional arrangements for internal audit and secure a border between internal and external audit functions.

2.87 The external oversight function is weak but is undergoing significant reform and capacity building. Extensive reform and capacity building efforts are under way at the General Auditing Commission, and audit reports are expected in the current fiscal year. These efforts should be sustained and consolidated to ensure that annual audits are institutionalized. Training and support to the legislature is required to enable it to perform its oversight role by reviewing financial statements and audit reports.

2.88 The debt management department of the Ministry of Finance requires additional capacity and tools. As the Heavily Indebted Poor Countries process is unfolding, the government has begun to deal with an unsustainable debt burden (and 20 years of default). But there is also a need to build capacity within the MoF to institute regular debt-management practices and ensure that the debt burden is analyzed during budget preparation. Legislation is needed to specify the debt-management responsibilities of the MoF. Debt software tools are needed in combination with capacity building of the debt management staff to analyze the debt and produce high quality reports.

2.89 **A complete overview of Liberia's public finances should include information on donors' activities.** A project database, detailing all donor-funded projects, should be developed. This would require the ministries to declare all direct-donor funding for government-implemented projects and donors to report all funding they provide in Liberia. The central Project Financial Management Unit in the MoF could be used for a greater volume of donor-funded projects and thus ensure standardization of all project funds management.

3. PUBLIC EXPENDITURE ANALYSIS

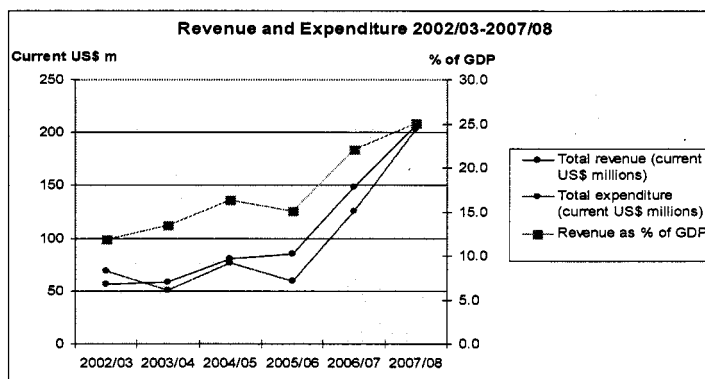
A. INTRODUCTION

3.1 In this chapter we examine the reliability of the budget as an instrument for the government's policy objectives, by analyzing expenditure outturns in relation to the original budget and how strategic and efficient resource allocation is. We also discuss donor resources and their contribution to overall public service delivery. We assess operational efficiency in aggregate terms across the government budget, before reviewing operational arrangements from a sectoral perspective in Chapter 4. We also consider the economic composition of expenditure, with an emphasis on the balance between investment and recurrent expenditure.

Overall Revenue Trends

3.2 Revenues have recovered very strongly since 2002/03, growing by 263 percent in nominal terms over the past five years from US\$57 million in 2002/03 to US\$207 million in 2007/08. This represents an average annual real revenue growth rate of 21 percent and translates into a significant increase in the ratio of revenue to GDP. Revenues were 12.7 percent of GDP in 2002/03 as a result of the low level of revenue, the very low inflows of grant aid to the budget,²⁹ and the government's inability to borrow because of its unsustainable external debt burden and the very shallow domestic financial market. Revenues have since grown to about 25 percent of GDP in 2007/08 as a result of measures taken to improve tax administration by expanding pre-shipment inspection of imports, abolishing noncash payment of taxes, and enforcing revenue centralization. The recent recovery of revenues has taken place even though Liberia has yet to begin collecting revenue from the forestry sector—due to the United Nations ban on timber exports, which was lifted first in 2006.

Figure 3.1: Revenue and Expenditure Growth, 2002/03–2007/08



Source: Ministry of Finance, Annual Fiscal Reports, 2004/05–2007/08; IMF, Article IV Consultations, 2008.

Expenditure Trends

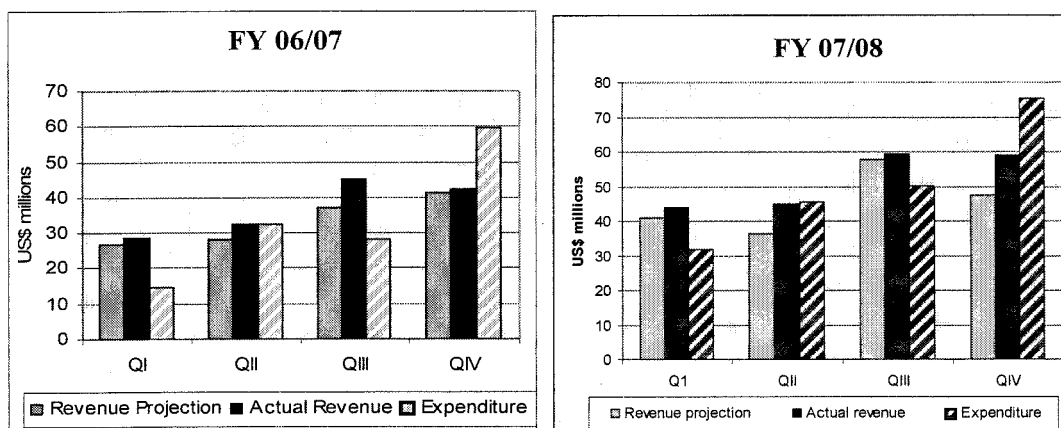
3.3 Expenditure in Liberia has risen rapidly since 2004/05, as the government's revenue base has recovered. Expenditure grew by an average of 23 percent a year over the

²⁹ Most aid is disbursed outside of the budget.

past five years, from US\$69 million in 2002/03 to US\$203 million in 2007/08. Liberia is operating under a cash budget policy, where borrowing to finance the budget deficit is not permitted. The government ran small surpluses in 2005/06 (0.6 percent of GDP), 2006/07 (2.0 percent of GDP), and 2007/08 (2.4 percent of GDP).

3.4 Expenditure has not been evenly paced over the course of the budget year, which suggests that improved planning could increase expenditure efficiency. The rate of expenditure has been low in the beginning of each fiscal year and rapid toward the end. In 2006/07, expenditure in the last quarter was almost four times higher than expenditure in the first quarter (figure 3.2). This is a result of many factors, including late passage of the budget, which prevented any spending in July and August; the constraints of cash-based budgeting, which allow for large capital purchases to be made only toward the end of the year when sufficient cash balances have accumulated; under-projection of revenues, which has resulted in passing supplemental budgets in the second half of the fiscal year; and capacity constraints within the ministries and agencies to comply with new procurement requirements and Cash Management Committee controls. When these controls were first introduced it was not unusual for 50 percent of vouchers to be returned to the ministries due to errors or lack of supporting documentation. So, there is room to increase expenditure efficiency through improved procurement planning, improved sequencing of activities, and an eventual transition away from a cash-based budget.

Figure 3.2: Quarterly Revenue and Expenditure Patterns, 2006/07–2007/08



Source: Ministry of Finance, Annual Fiscal Reports, 2006/07–2007/08.

3.5 Budget performance in the past two fiscal years shows some discrepancies between the original budget and expenditure. Expenditure in the general administrative services category exceeded the original budgets by 13 percent in 2007/08 and 33 percent in 2006/07. Its share of total expenditure was consistently underestimated in budget estimates. Conversely, transfers to other institutions and general claims were significantly lower than budgeted. The large budget variances are partially explained by the passage of supplemental budgets in 2006/07 and 2007/08, which influenced allocation patterns (the revised budget estimates are included in table 3.1). But budget variance also results from transfers between budget lines, after review and approval by the Budget Committee. In 2008 an Act was passed to limit to 20 percent in-year budget transfers between ministries and agencies without legislative approval. Prior to this law, there were no legal restrictions on in-year budget transfers.

**Table 3.1: Variation between Original Budget and Expenditure, 2006/07–2007/08
(functional classification)**

Budget versus actuals by functional classification								
	2006/07 (US\$ millions)				2007/08 (US\$ millions)			
	Original budget	Revised budget	Actual	Percent variation	Original budget	Revised budget	Actual	Percent variation
General administrative services	33.6	36.5	44.7	33%	52.9	55.2	59.5	13%
Security services	18.1	18.8	22.1	22%	27.2	27.7	28.4	4%
Social and community services	31.0	32.1	36.1	16%	52.7	56.2	55.8	6%
Economic services	10.7	10.8	11.0	3%	14.2	14.2	14.0	-1%
Other institutions and entities and claims	36.5	36.8	20.9	-43%	52.4	56.1	45.6	-13%
TOTAL	129.9	135.0	134.7	4%	199.4	209.4	203.3	2%

Source: Ministry of Finance, Annual Fiscal Reports, 2006/07–2007/08; National Budget 2006/07–2007/08.

3.6 **Variation analysis by economic classification shows modest variations between budgeted and actual expenditure in 2007/08.** Expenditure on personnel and goods and services exceeded the budgeted amounts by 7 and 11 percent, respectively, while debt service payments were significantly lower than planned. In 2006/07 there were significant discrepancies between the budget and final reported outturn, with expenditure on personnel falling short of the budget by 27 percent, while transfers and subsidies exceeded the budget by 19 percent. But this may be a result of poor reporting. The annual fiscal outturn report for 2006/07 includes a column titled “other,” which covers US\$34 million of expenditures not yet reconciled at the time of report completion.

**Table 3.2: Variation between Original Budget and Expenditure, 2006/07–2007/08
(economic classification)**

Budget versus actuals by economic classification						
	2006/07 US\$ m			2007/08 US\$ m		
	Budget	Actual	Percent variation	Budget	Actual	Percent variation
Personnel services	44.6	32.7	-27%	67.5	72.5	7%
Goods and services	39.7	33.4	-16%	59.8	66.4	11%
Transfers and subsidies	14.5	17.3	19%	32.7	32.2	-2%
Debt payments	12.6	0.0	-100%	18.2	11.1	-39%
Capital expenditure	18.6	17.2	-8%	21.1	20.7	-2%
Other		34.1	-			
TOTAL	129.9	134.6	4%	199.3	202.9	2%

Source: Ministry of Finance, Annual Fiscal Reports, 2006/07–2007/08; National Budget 2006/07–2007/08.

Donor Expenditure

3.7 **An analysis of public expenditure patterns in Liberia is incomplete without some understanding of donor-financed expenditure patterns.** Given Liberia’s low implementation and financial management capacity, donors have been hesitant to provide budget support. Most financing has been project-based and executed by nongovernmental organizations, private contractors, and special Project Implementation Units within line

ministries. Availability of data on aid flows is poor, and only estimates of total donor-financed expenditure are available.

3.8 Total official development assistance was estimated at US\$357 million for 2007,³⁰ or more than twice the government's expenditure in the same period. Liberia's official development assistance to GDP ratio is one of the highest in the world. This excludes assistance from the U.S. Department of Defense of almost US\$60 million annually year and the United Nations Mission in Liberia's peacekeeping operations. In addition to official development assistance, Liberia receives significant support for the social sectors from private foundations, including the Soros Foundation, the William J. Clinton Foundation, and the Bill & Melinda Gates Foundation. The largest donor is the United States government, which provided almost US\$100 million in 2007. The combined contribution of the United Nations agencies amounted to almost US\$90 million, and the World Bank's contribution of about US\$40 million represented the third largest contribution. Given the ratio of external assistance to public resources, it will be difficult for the government to improve allocative efficiency and ensure alignment with the Poverty Reduction Strategy unless improved and disaggregated aid data is collected and analyzed.

B. ALLOCATION OF RESOURCES

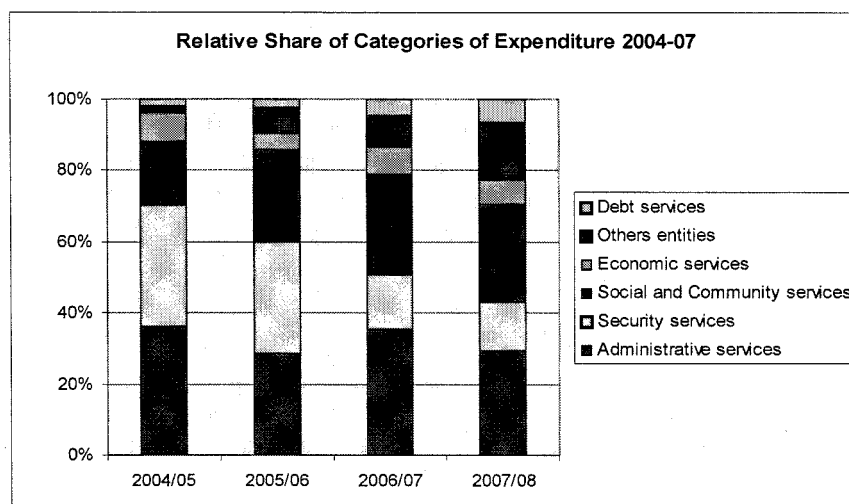
3.9 Government expenditures can be classified under six functional classification headings. These headings are:

- *General administrative services:* public administration, management of the economy, administration of internal affairs and external relations, and national legislature.
- *Security services:* justice and law enforcement, safety and national security expenditures.
- *Social and community services:* government services such as education, health, youth affairs, gender, and public works.
- *Economic services:* spending to support activities such as agriculture, forestry, commerce, mines, industry, telecommunications, and energy.
- *Institutions and entities:* transfers to commissions, agencies, and state-owned enterprises.
- *Other general claims:* debt payments and transfers to other organs of government.³¹

³⁰ Paris Declaration Survey 2007.

³¹ This category includes the County Development Fund allocations.

Figure 3.3: Share of Total Government Expenditure by Functional Classification, 2004/05–2007/08



Source: Estimates based on Ministry of Finance Annual Fiscal Reports.

Table 3.3: Functional Classification of Public Expenditure as a Percentage of Total Expenditure, 2004/05–2007/08

	2004/05	2005/06	2006/07	2007/08	Average
Administrative services	36.3	28.6	35.4	29.3	32.4
Security services	33.8	31.4	15.4	14.0	23.7
Social and community services	18.1	25.9	28.1	27.4	24.9
Economic services	7.8	4.4	7.7	6.9	6.7
Other entities	2.1	7.4	8.6	15.9	8.5
Debt services	1.8	2.3	4.7	6.5	3.8
Total	100.0	100.0	100.0	100.0	100.0

Source: Estimates based on Ministry of Finance Annual Fiscal Reports.

Table 3.4: Functional Classification of Public Expenditure in Percentage of GDP, 2004/05–2007/08

	2004/2005	2005/2006	2006/2007	2007/2008	Average 2004/07	Share 04/07
Administrative services	6.0	3.2	7.1	7.7	6.0	32.4
Security services	5.6	3.5	3.1	3.7	4.0	23.7
Social and community services	3.0	2.9	5.6	7.2	4.7	24.9
Economic services	1.3	0.5	1.5	1.8	1.3	6.7
Other entities	0.4	0.8	1.7	4.2	1.8	8.5
Debt services	0.3	0.3	0.9	1.7	0.8	3.8
Total	16.6	11.2	20.0	26.2	18.5	100

Source: Estimates based on Ministry of Finance Fiscal Reports.

3.10 Spending on general administrative services has made up at least one-third of government expenditures for 2004/05–2007/08, but fell modestly in 2007/08. The category represented 6 percent of GDP in 2004/05, 3.2 percent in 2005/06, 7.1 percent in

2006/07, and 7.7 in 2007/08. Certain items within this category have risen sharply, including expenditure on the legislature, which rose from 5.5 percent of total expenditure in 2005/06 to 7.7 percent in 2007/08.

3.11 Security services expenditures have steadily decreased, from 5.6 percent of GDP in 2004/05 to 3.7 percent in 2007/08. As a proportion of total government expenditures, they declined from 34 percent in 2004/05 to 14 percent in 2007/08. But donor contributions mask the true volume of security expenditure. Defense expenditure was drastically reduced to 14 percent of total expenditure in 2007/08, but most of the costs for armed forces are financed by the United States government and not channeled through the national budget.

3.12 Social and community services, mainly education and health, have been the main beneficiaries of a remarkable shift in government spending, increasing as a share of total expenditure from 18.1 percent in 2004/05 to 27.4 percent in 2007/08. The increase reflects the government's emphasis on human resources development and represents an alignment with Poverty Reduction Strategy objectives. In addition, a large proportion of donor aid is channeled to these sectors, which is not reflected in the national budget.

3.13 Despite the emphasis that the Poverty Reduction Strategy and the interim strategy have put on growth and job creation for poverty reduction, economic services received only a modest share of government spending between 2004–07. Spending on this sector fluctuated between 4.4 and 7.8 percent of total expenditures. Expenditures peaked at 1.8 percent of GDP in 2007/08. Expenditure on agriculture, which is listed as a Poverty Reduction Strategy priority, rose from 0.9 percent of total expenditure in 2004/05, to 2.6 percent in 2006/07, before falling to 1.8 percent in 2007/08. Meanwhile, the expenditure on institutions, entities, and other general claims increased as a percentage of total expenditure from 2.1 percent in 2004/05 to 15.9 percent in 2007/08 as a result of increased debt service payments and the inclusion of County Development Funds (transferred to county authorities) under this rubric. (For more detailed data see annex 1, table A.1.)

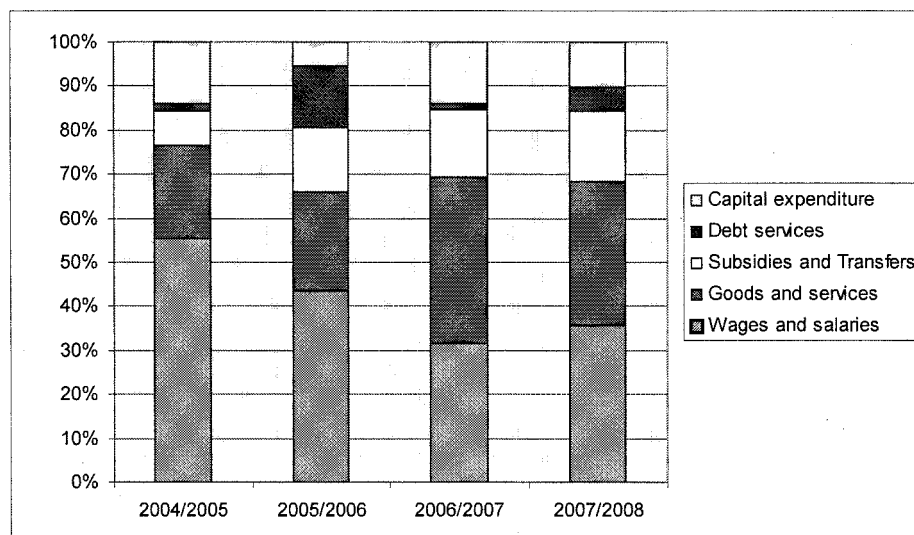
Operational Efficiency

3.14. Expenditures can be classified as either recurrent or capital expenditure. Recurrent expenditure includes wages and salaries, other goods and services (including non-wage operation and maintenance), interest payments, and subsidies and other current transfers. Capital expenditure covers payment for the purchase or production of new or existing durable goods.³²

3.15 Overall, government expenditure has become progressively more efficient in the post-war period, with a decreasing share of expenditure on wages and salaries and an increasing share of expenditure on goods and services. The rapid rise in revenue enabled the government to increase productive expenditure without having to reduce expenditure on wages, salaries, and other administrative costs.

³² Pradhan 1996; World Bank 2005.

**Figure 3.4: Share of Total Government Expenditure by Economic Classification
2004/05–2007/08**



Source: Estimates based on Ministry of Finance Annual Fiscal Report.

Table 3.5: Economic Classification of Public Expenditure, as a Percentage of Total Expenditure, 2004/05–2007/08

	2004/05	2005/06	2006/07	2007/08	Average
Wages and salaries	55.4	43.4	31.8	35.7	41.6
Goods and services	21.0	22.7	37.5	32.7	28.5
Subsidies and transfers	7.8	14.5	15.4	15.9	13.4
Debt services	1.8	13.9	1.3	5.5	5.6
Capital expenditure	13.9	5.4	14.1	10.2	10.9
Total	100.0	100.0	100.0	100.0	100.0

Source: Estimates based on Ministry of Finance Annual Fiscal Reports.

**Table 3.6: Economic Classification of Public Expenditure,
2004/05–2007/08 (percent of GDP)**

	2004/2005	2005/2006	2006/2007	2007/2008	Average 2004/07	Share 04/07
Current expenditure	14.3	12.1	16.6	23.5	16.6	89.1
Wages and salaries	9.2	5.5	6.1	9.3	7.6	41.6
Goods and services	3.5	2.9	7.2	8.6	5.5	28.5
Subsidies and transfers	1.3	1.9	3.0	4.1	2.6	13.4
Debt services	0.3	1.8	0.3	1.4	0.9	5.6
Capital expenditure	2.3	0.7	2.7	2.7	2.1	10.9
Total	16.6	12.8	19.3	26.1	18.7	100.0

Source: Estimates based on Ministry of Finance Annual Fiscal Reports.

3.16 The central government's expenditures on wages and salaries declined from 55.4 percent of total spending in 2004/05 to 31.8 percent in 2006/07 and rose to 35.7 percent in 2007/08. The change was facilitated by increased revenues. It also reflected improved

government control over the wage bill and gains from efforts to remove “ghosts” from the payroll. A rising share of wages and salaries in 2007/08 reflects the salary increases granted to civil servants in response to the extremely low wage structure.

3.17 The number of employees has been reduced by almost 30 percent, from 49,856 to 34,995,³³ between January 2006 and September 2007. Monthly pay for the lowest paid civil servants has risen from a base of US\$15 in 2005/06 to US\$30 in 2006/07, US\$55 in 2007/08, and US\$70 in 2008/09. While this falls short of a living wage and is clearly insufficient to attract qualified technical staff,³⁴ it has signaled the direction of the government’s civil service reform strategy. As the government is committed to salary increases and deconcentration of wages, personnel expenditure is likely to remain constant, or increase modestly, as a proportion of total expenditure in the medium term. The Civil Service Reform Strategy (2008) expresses the government’s intention to raise wages in line with available resources, thereby maintaining fiscal balance.

3.18 Expenditure on goods and services increased as a proportion of total expenditure from 21 percent in 2004/05 to 37.5 percent in 2006/07 and fell to 32.7 percent in 2007/08. This expenditure category declined from 3.5 percent of GDP in 2004/05 to 2.9 percent in 2005/06 before increasing significantly to 7.2 percent in 2006/07 and 8.6 in 2007/08. Expenditure on goods and services is driven by the need to make available a minimum of supplies (office goods, computers, furniture, and so on) to enable public administrators to provide basic services. Despite this significant increase, though, spending on goods and services is still insufficient to meet the needs of the line ministries, and supply shortages are common.

3.19 Transfers and subsidies to public enterprises, commissions, local governments, and other recipients increased as a percentage of total expenditure from 7.8 percent in 2004/05 to 15.9 percent in 2007/08. This represents an increase from 1.3 percent of GDP in 2004/05 to 4.1 percent in 2007/08. This is in part due to new commissions that receive monthly transfers and a rise in direct transfers to ministries and agencies for operating expenses. Transfers and subsidies were high at US\$32 million in 2007/08, as the government finances a large number of permanent and transitional commissions with specific functions (Truth and Reconciliation Commission, Governance Commission, and so on) and subsidizes some agencies and state-owned enterprises that are not yet generating revenue. The efficiency of this expenditure is hard to assess because transfers and subsidies can cover any type of expenditure (salaries, goods and services, or capital expenditure).

3.20 Interest on public debt increased as Liberia began clearing domestic arrears. As a proportion of total spending, this expenditure category has increased from 1.8 percent in 2004/05 to 5.5 percent in 2007/08. This is due to arrears payments to civil servants and the government’s decision to progressively normalize financial relations with the private sector and external official creditors.

3.21 Capital expenditure was 2.3 percent of GDP in 2004/05 and was only slightly higher at 2.7 percent in 2007/08. But there has been a reallocation of resources toward more growth-supporting spending, compared to previous years when capital expenditure was

³³ Number of personnel on Government of Liberia payroll (Liberia Civil Service Agency 2007).

³⁴ Low-skilled workers in the nongovernmental organization sector are paid about US\$200 a month (World Bank, ESES 2007).

mostly security expenditure for war and transition. Additionally, much of the nation's public investment is donor-financed outside of the national budget.

C. CONCLUSION AND RECOMMENDATIONS

3.22 Budgeted expenditures have risen rapidly since 2004/05 as the government's revenue base has recovered. The positive effects of increased public resources are evident across sectors, as the functions of the state are gradually re-established after 14 years of civil conflict. While government revenue remains insufficient to meet Liberia's reconstruction needs and the country remains heavily dependent on donor resources, the economic and fiscal recovery is strengthening the government's coordinating and regulatory roles and improving basic social services.

3.23 The government ran small cash surpluses in 2005/06, 2006/07, and 2007/08, and expenditure has been unevenly paced. Expenditure has been low in the beginning of each fiscal year and rapid toward the end of the year for a number of reasons, including the constraints of cash-based budgeting, which allow for large capital purchases to be made only toward the end of the year when sufficient cash balances have accumulated; under-projection of revenues, which has resulted in the passing of supplemental budgets in the second half of the fiscal year; and capacity constraints, particularly in previous years, within the ministries and agencies to comply with new procurement requirements and Cash Management Committee controls. Thus, there may be room to increase the expenditure efficiency with better procurement planning, improved sequencing of activities, and an eventual transition away from a cash-based budget. In 2005/06, 2006/07, and 2007/08 the original budget estimates deviated significantly from final expenditure, largely due to mid-year budget revisions and the passing of supplemental budgets. These discrepancies decrease the predictability of the budget and may increase greater discretion in budgetary allocations, as mid-year revisions and supplemental budgets usually undergo less thorough public scrutiny than the annual budgeting exercise.

3.24 Major shifts have taken place in allocating expenditures classified by function between 2004/05 and 2007/08, reflecting increased attention to Interim Poverty Reduction Strategy and Poverty Reduction Strategy priorities. The main beneficiaries of this shift are social and community services (of which education, health, and social welfare are the largest sectors), whose share of the budget rose from 18 percent in 2004/05 to 27 percent in 2007/08. Debt servicing has also received a larger share of the budget, rising from 1.8 to 6.5 percent of total expenditure over the same period. In contrast, administrative and security services saw their shares of the budget fall, from 36 percent to 29 percent and from 34 percent to 14 percent, respectively. The share of economic services fell from 36 percent to 29 percent.

3.25 There have also been positive shifts in the composition of expenditures by economic classification. The share of wages and salaries in the budget declined from 55 percent in 2004/05 to 36 percent in the 2007/08 budget, while that of goods and services increased from 21 to 33 percent. The reduction in the share of the budget allocated to the wage bill was partly made possible by purging ghost workers from the payroll. The number of employees declined by nearly 30 percent since 2006. As detailed in the Civil Service Reform Strategy (2008), the government intends on a gradual pay and pension reform, which will include raising salaries and decompressing the salary scale. While the pay reform will be based on availability of public resources, it is likely to exceed the gains made from cleaning the payroll. Thus the budgetary personnel category is unlikely to fall further. The budget has

also seen a reduction in investment expenditure, which fell from 14 percent to 10 percent. While this is partly due to donors contributing most of the public investment expenditure outside of the national budget, the government's spending on capital investment will have to rise substantially if it intends to contribute to rebuilding infrastructure.

3.26 Liberia's public expenditure patterns cannot be fully assessed without considering donor assistance. Total official development assistance was estimated at US\$357 million for 2007,³⁵ or more than twice the government's expenditure in the same period. This excludes assistance from the U.S. Department of Defense of almost US\$60 million annually year and the United Nations Mission in Liberia peacekeeping operations. The government should begin collecting disaggregated data on donor flows to improve allocative efficiency and ensure alignment with the Poverty Reduction Strategy.

3.27 While Liberia's post-war progress to date is commendable, ensuring that additional resources are devoted to Poverty Reduction Strategy policy objectives will be important, as the resource envelope continues to grow in the medium term. As seen in many resource-rich countries, there are risks that increased public resources will fuel greater public consumption at the center, to the benefit of the highest income groups. Increased budget monitoring and analysis will need to be performed to ensure that the budget is contributing to stated objectives. Specifically, administrative and personnel expenditure should be aligned with the Civil Service Reform Strategy; resources should shift to investment expenditure, particularly in infrastructure, and to support operation and maintenance of new physical investments; and greater attention should be given to economic sectors with large employment potential, such as agriculture, which is underfunded. These are some of the top priorities reflected in the Poverty Reduction Strategy, which focus on economic sectors under Pillar 2: economic revitalization, Pillar 3: governance and rule of law, and Pillar 4: infrastructure and basic services. In addition, improvements in data availability, reporting, and dissemination will be crucial for holdings elected officials accountable by monitoring that the use of public financing is aligned with the Poverty Reduction Strategy.

³⁵ Paris Declaration Survey 2007.

4. SECTOR EXPENDITURE REVIEWS

4.1 **This chapter presents an analysis of the levels, trends, efficiency, and effectiveness of public expenditures in the health and education sectors in Liberia.** The chapter examines the status of policies and strategies in each sector, service delivery performance, allocative and operational efficiency of expenditures, and geographical and gender disparities.

A. HEALTH SECTOR EXPENDITURES

Introduction

4.2 **This section examines the distribution and management of health expenditures in Liberia.** It assesses the adequacy of aggregate funding for the health sector in Liberia and trends over recent years; analyzes the distribution of health expenditures and alignment with health sector priorities, in order to identify scope for efficiency gains; and examines the equity of health expenditures and provides recommendations for improving their distribution to help promote broad-based poverty reduction.

4.3 **While Liberia's healthcare system shares many features with those of other least developed countries, the country's post-conflict context poses additional challenges.** A public expenditure review during this phase of Liberia's post-war reconstruction is to inform the public policy debate as Liberia reforms institutions and public financial-management systems. It also sheds light on the important role of donor funding for basic services and thereby highlights the importance of managing and coordinating external resources efficiently to maximize sustainable health outcomes during this critical phase.

4.4 **Public expenditure reviews at this stage in Liberia's post-conflict development process are significantly constrained by the limited availability and quality of data in the health sector.** Results from the Liberia Demographic and Health Survey³⁶ and Core Welfare Indicator Questionnaire³⁷ provide new and improved data on health status and access to health services. But they must be treated as preliminary, as they are still being discussed and reconciled against earlier data. Similarly, sector expenditure data is poor. Analysis is difficult because of the large volume of external assistance, most of which is channeled outside of the budget and is poorly recorded. Expenditure analysis includes 2007/08 fiscal data but is focused on 2006/07 as the primary fiscal year of analysis, as detailed data for 2007/08 was not yet available at the time of completion of this study.

Objectives of the Health System

4.5 **The health sector is included under the Infrastructure and Basic Services pillar of the Poverty Reduction Strategy (and previously under the interim strategy).** The strategy strongly commits to the provision of health services. A National Health Policy for 2007-2011 is being implemented, which focuses on expanding access to a basic package of healthcare services through investments in infrastructures, human resources, and decentralized management. The

³⁶ Liberia Demographic and Health Survey 2006/07.

³⁷ CWIQ 2007.

government aims to ensure access to a basic package of health services in 70 percent of all clinics by 2010. The basic package standardizes prevention and treatment services throughout the health system to ensure that all individuals receive the same package of care.

4.6 The basic package of health services is a minimum package to be made available as an integrated whole. Rather than an assortment of vertical and parallel programs, it focuses on six national health priorities: maternal and newborn care, child health, reproductive and adolescent health, communicable disease control, mental health, and emergency care. For the duration of the National Health Policy period (2007–2011), the government will suspend user fees at public healthcare facilities to ensure universal access to the package. The government also aims to decentralize the management of healthcare provision to the county level.

Health Service Delivery

4.7 The central government's contribution to the health sector is split among several institutions: the Ministry of Health and Social Welfare (MOHSW), the John F. Kennedy Medical Center, the Institute of Biomedical Research, and the Phebe Hospital. The Phebe Hospital has only recently received its own allocation, though it had received transfers from the MOHSW in the past. All institutions receive monthly transfers directly from the Ministry of Finance, and liquidate the funds at the end of each month. The MOHSW provides policy and strategy oversight to these institutions, but not financial oversight.

4.8 MOHSW's departments include: health services; planning, research and development; social welfare; and administration. Within these departments, many divisions, as well as hospitals and health centers, receive monthly transfers from the MOHSW, which they liquidate by presenting receipts of expenditure. This liquidation process has been problematic, so disbursement of these transfers is often stalled.

4.9 The government is only one among many public healthcare providers in Liberia. The majority of health expenditure is channeled through nongovernmental and other organizations, which provide direct support to government clinics and hospitals. Government oversight of these nongovernmental organizations and related programs is weak, and no consistent financial reporting to the MOHSW takes place—although coordination efforts are improving.

4.10 MOHSW is developing an Office of Financial Management (with support from the Department for International Development), which is addressing accounting and financial control. It is also rebuilding the resource mobilization capacity in the External Aid Unit within the Department of Planning, Research, and Development. A pooled fund for health has been established, to be managed by the Office of Financial Management, and it is hoped that donors will increasingly channel their support to the health sector through the pooled fund. Through these measures, the MOHSW aims to better oversee and coordinate health financing and thereby better allocate resources toward the basic package of health services.

Health Status

4.11 Liberia's population is estimated at 3.5 million, with an annual growth rate of 2.1 percent. Average life expectancy at birth is estimated by WHO (2006) at 42 years—44 years for

women and 39 years for men. Liberia's health status remains poor in regional comparison, and the country is unlikely to reach many of the Millennium Development Goals due to the deterioration in health status during the 14 years of civil war. But there have been improvements in health status since the end of the war. Total fertility rates have dropped significantly from an estimated 6.6 births per woman in 1986 to 5.2 in 2007. Yet considerable differences remain between fertility rates in rural areas (6.2 births) and urban areas (3.8 births). The use of modern family planning methods among women remains low at 11.4 percent.³⁸

4.12 Based on data from the 2007 Liberia Demographic and Health Survey, the infant mortality rate is estimated at 72/1,000 live births, compared to 117/1,000 in 1999/2000. This is below the Sub-Saharan Africa average of 102/1,000 live births. The under-five mortality rate decreased from 194 to 111 per 1,000 live births, which compares favorably with the Sub-Saharan Africa average of 171/1,000 live births, although the methodology used to estimate the mortality rate was different in 1999/2000 and 2007. These figures should be interpreted with caution, however, because of the high level of displacement or heaping of births in 2000. Child nutrition is poor. an estimated 19 percent of children under-five years are undernourished, 7 percent are wasted, and 39 percent are stunted.³⁹

4.13 Malaria, acute respiratory infections, diarrhea, tuberculosis, sexually transmitted diseases, worms, skin diseases, malnutrition, and anemia are the most common causes of ill health. Malaria accounts for more than 40 percent of outpatient attendance and up to 18 percent of inpatient deaths. Diarrheal diseases are the second leading cause of morbidity and mortality. HIV prevalence estimates vary widely, but the latest estimates from the 2007 Liberia Demographic and Health Survey place the prevalence rate at 1.5 percent—significantly lower than the previous estimate of 5.2 percent, which was based on sentinel surveillance among pregnant women. Given that prevalence rates are significantly higher in some neighboring countries (Côte d'Ivoire's is 7 percent), Liberia faces the risk of an increase in HIV/AIDS.

4.14 Access to water from improved water sources is 51 percent,⁴⁰ a significant improvement from 2005 estimates of 24 percent. Nationwide, 39 percent of households have access to sanitation but significant rural and urban disparities exist—with sanitation available to 60 percent of urban residents but only 30 percent of rural residents.⁴¹

4.15 There are 354 functioning health facilities in Liberia, including 18 hospitals, 50 health centers, and about 286 health clinics.⁴² The government estimates that about 500-550 health facilities will be needed for all communities to be within a 10 km radius of a health facility. On average, it takes almost three hours for members of rural households to reach the closest health facility.⁴³ According to the 2006 Rapid Assessment of the Health Situation in Liberia, there were about 4,000 full-time and 1,000 part-time staff, including 122 physicians, 668 nurses, 297 midwives, and more than 3,000 other trained and untrained health professionals. This

³⁸ Liberia Demographic and Health Survey 2007.

³⁹ Liberia Demographic and Health Survey 2007.

⁴⁰ CWIQ 2007.

⁴¹ CWIQ 2007.

⁴² RAR 2006.

⁴³ CWIQ 2007.

is less than one-third of the total health workforce of 14,000 recommended by WHO for a country with Liberia's population.⁴⁴

Health Expenditure

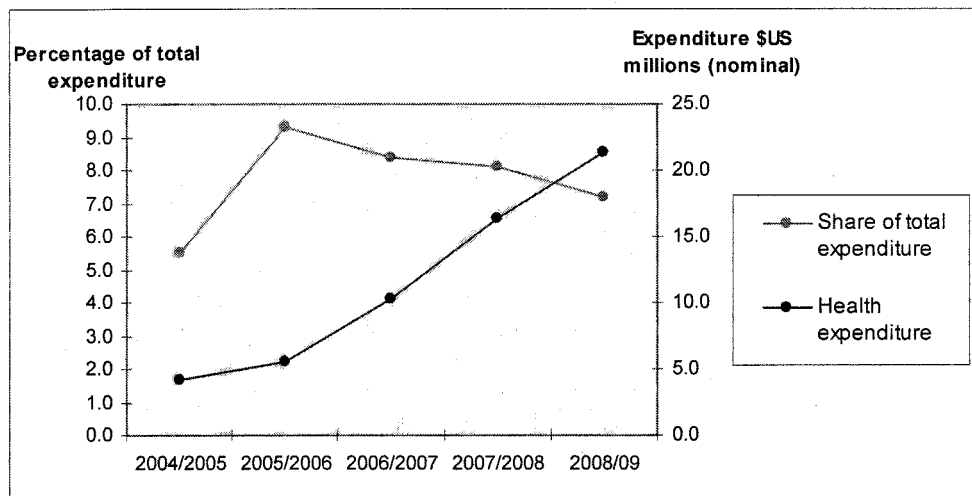
4.16 This section examines the total amount of expenditure on health from the government, international donors, and private contributions and compares this to key economic and fiscal indicators. With a focus on government expenditure, it examines the breakdown of health expenditure by program and over time.

4.17 One of the most striking features of health expenditure in Liberia is the rapid expansion of the health sector in the post-war period. Access to healthcare fell markedly during the Liberian civil war. Public expenditure on social services reached an extreme low-point toward the end of the war in 2002/03, as government resources dwindled and aid flows contracted. Since 2004/05 public expenditure, especially health expenditure, has increased rapidly.

Government Health Expenditure

4.18 In line with the increase in government revenues, spending for health since 2004/05 increased from US\$4.2 million (5.5 percent of total spending) to US\$16.7 million in 2007/2008 (8.1 percent of total spending). Spending is projected to increase to US\$21.4 million in 2008/09 but will drop as a proportion of total spending to 7.2 percent. There is a similarly positive picture in per capita public health spending, with a steadily rising value from US\$1.3 in 2004/05 to US\$3.4 in 2006/07 and US\$4.8 in 2007/08.

Figure 4.1: Evolution of Public Expenditure on Health, 2004/05–2008/09



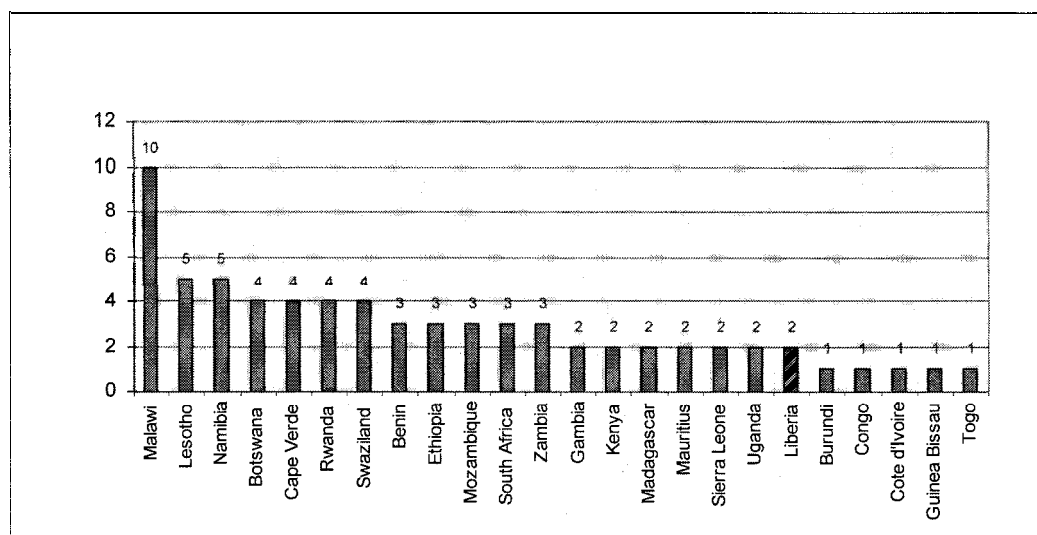
Source: Ministry of Finance, Annual Fiscal Reports, 2005/06–2007/08.

4.19 In relation to GDP, government expenditure on health more than doubled from 0.9 percent to 2 percent between 2004/05 and 2007/08. But this remains fairly low compared with other post-war countries, such as Mozambique (3 percent in 2004) and Rwanda (4 percent in

⁴⁴ CWIQ 2007.

2004) (figure 4.2). Compared with Sub-Saharan Africa, Liberia's government health expenditure in proportion to GDP is around the average. However, it is worth noting that compared with many other developing countries, Liberia receives little budget support. Given the limited amount of donor project financing captured by the budget, little external assistance for the health sector it is captured in the budget, thus understating the public per capita health expenditure.

Figure 4.2: Public Health Expenditure as % of GDP in Sub-Sahara African Countries, 2004-07



Source: World Bank, HNP data from 2004 for Africa compared against Ministry of Finance 2006/07 expenditure for Liberia.

4.20 **In addition to an increase in resources dedicated to health expenditure, the budget implementation rate has improved over the past three years.** The budget implementation rate increased from 66 percent in 2004/05 to 98 percent in 2007/08. Poor implementation rates in previous years are a reflection of high levels of in-year budget transfers (especially during the National Transitional Government of Liberia period) and low absorptive capacity, especially in 2005/06 when new public procurement regulations came into effect.

Table 4.1: Health Expenditure Implementation Rate, 2004/05-2007/08

Fiscal year	Budget (US\$ million)	Expenditure (US\$ million)	Expenditure (percent of budget)
2004/05	6.4	4.2	66%
2005/06	6.5	5.6	86%
2006/07	10.9	10.3	94%
2007/08	17.0	16.7	98%

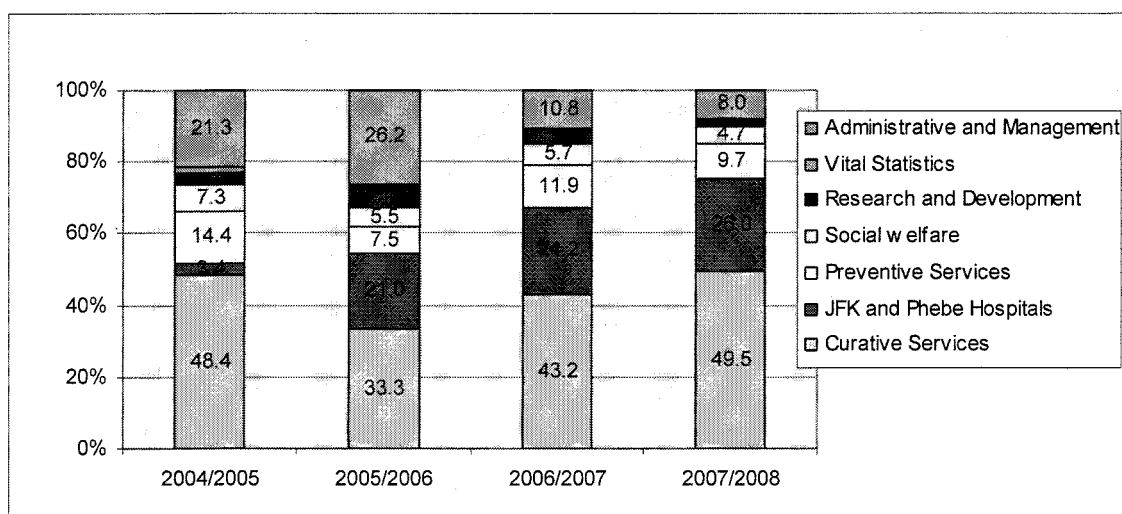
Source: Ministry of Finance, Annual Fiscal Reports, 2004/05-2007/08.

4.21 **Public health expenditure is almost entirely current expenditure, with only 5-10 percent of total sector expenditure dedicated to capital spending.** Capital spending doubled from a low base of US\$0.5 million in 2004/05 to US\$1.2 million in 2006/07 and then fell back to

US\$0.7 million in 2007/08. Low government capital health expenditure is justified by the fact that a large proportion of the external assistance is dedicated to important investment expenditure (with the majority of reconstruction costs for health clinics and hospitals externally funded). Government resources are used to pay salaries to ensure that the administrative health structure is supported and strengthened. (For more detailed data, see Annex 1, table A.2.)

4.22 **The estimated breakdown among the MOHSW’s different programs is shown in figure 4.3.** Expenditure over the past three years shows positive trends: curative services combined with transfers to the John F. Kennedy Medical Center and Phebe Hospital (which provide curative services) has remained the largest expenditure category and has increased as a proportion of expenditure since 2005/06. Administrative costs have decreased proportionately, indicating that the increase in health resources over the past years has been devoted to service provision rather than an increase in the administrative structure.

Figure 4.3: Health Expenditure by Program, 2004/05–2007/08 (percent share)



Source: Estimates based on Ministry of Finance, Annual Fiscal Reports and National Budgets, 2004/05–2007/08.

4.23 **Analyzing expenditure by economic classification shows that in 2006/07 about 29.8 percent of the current health budget was spent on wages and salaries, while 37 percent was spent on goods and services.** The wage bill has remained relatively constant over time, while expenditure on goods and services almost doubled in proportion to total expenditure between 2004/05 and 2006/07. But the economic classification system masks costs in the transfer category, making it hard to draw conclusions from this data. In most years, more than 50 percent of health expenditure was classified as transfers. Transfers include payments to the three non-MOHWS agencies, and these transfers do not capture how the funds are allocated (between wages, goods and services, and so on). Transfers also include payments to MOHWS clinics throughout the country for operation and maintenance costs.

Table 4.2: Distribution of Public Health Spending by Economic Type, 2004/05–2007/08

Year		2004/2005	2005/2006	2006/2007	2007/2008
Current expenditure as percent of total expenditure		87.4	90.8	88.8	95.2
As percent of total current expenditure	Wages and salaries	29.3	16.5	29.8	23.3
	Goods and services	18.9	24.7	37.0	19.9
	Subsidies and transfers	51.8	58.8	33.2	56.8
Capital expenditure as percent of total expenditure		12.6	9.2	11.2	4.8
Total		100.0	100.0	100.0	100.0

Source: Ministry of Finance, Annual Fiscal Reports, 2004/05–2007/08; National Budget, 2004/05–2007/08.

External Resources

4.24 **As noted, donor assistance constitutes a large proportion of Liberian health expenditure.** Many of these resources are disbursed directly to nongovernmental organizations and contractors rather than through the MOHSW. It is important to fully account for external assistance in addition to government resources. Otherwise, there is danger of duplicating spending and wasting scarce financial and physical resources. To be fully effective, policy and planning in the health sector require a view of the expenditure flows both in total and by components.

4.25 **The total external contribution to the health sector is hard to quantify.** Multilateral and bilateral donors committed US\$89 million to the health sector through the results-focused transitional framework (January 2004–March 2006), or roughly US\$40 million a year. The MOHSW estimates that external assistance to the health sector was US\$45 million in 2006/07 (although these estimates exclude some of the private aid flows contributed by nongovernmental and faith-based organizations). Future commitments for 2007/08–2010/11 suggest that US\$90–120 million a year in external aid will be provided to the Liberian health sector.

Private Expenditure

4.26 **Despite increasing public funding for the health sector, private health expenditures remain significant.** Data from the 2007 CWIQ indicate that in more than half of all cases, households seeking healthcare in the month prior to administering the questionnaires reported paying for the services. More than 40 percent of those who did not seek healthcare during their last illness reported cost as the main barrier to access. Total private expenditure on healthcare in 2006/07 is estimated at US\$15.5 million (US\$4 per capita), 51 percent higher than government health expenditure during the same period. Health expenditure represents about 2 percent of average household expenditure. Private health expenditure is primarily for drugs (40 percent), medical treatment (24 percent), and consultations (21 percent) (table 4.3).

Table 4.3: Distribution of Household Spending for Health, 2007

	Household spending (US\$ million)	Percentage of total spending
Drugs	6.2	40
Medical treatment	3.7	24
Consultations	3.3	21
Others	2.3	15
Total	15.5	100

Source: Estimates based on 2007 CWIQ survey.

Reconstructing the Resources Mobilized for Health

4.27 Table 4.4 presents a reconstruction of the health resources and expenditure available for the 2006/07 fiscal year. Total expenditure on health is estimated at US\$70.8 million, of which US\$10.3 million was from government sources, US\$45 million from donor sources, and US\$15.5 million from private sources (households). This means that government funding represents only 14.5 percent of total spending on health, while contributions from donors account for 63.6 percent and contributions from households account for 21.9 percent.

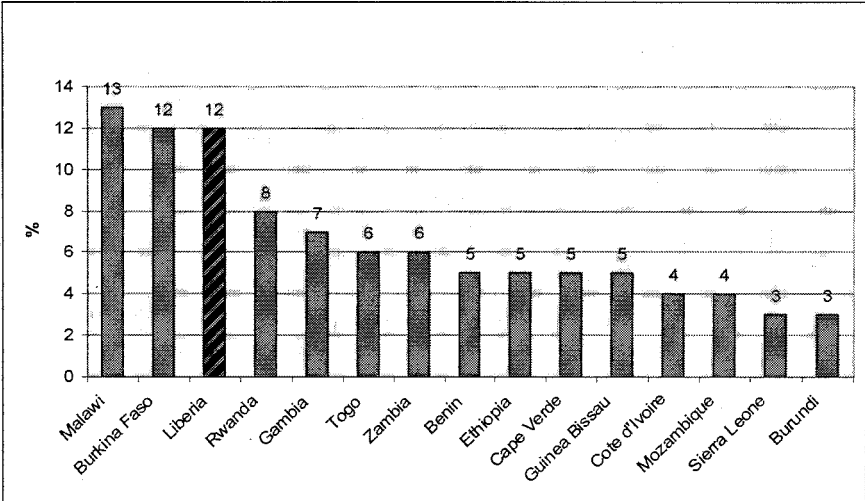
Table 4.4: Resources Mobilized for the Health Sector, 2006/07 (US\$ million)

	Public		Private		Total
	Government	External donors	Total	Household contributions	
GDP	614				
Government spending	134.6				
As percent of GDP	20.0				
Donor support		300			
Total public resources	134.6	300	434.6		
Total private resources				789.1	
Total resources	134.6	300	434.6	789.1	1223.7
Percentage distribution					
<u>Public spending on health</u>					
Domestic sources	10.3				
Donor sources		45			
Total			55.5		
As percent of GDP	1.7	7.3	9.0		11.5
<u>Private resources for health</u>					
As percent of public spending on health				15.5	
As percent of government spending on health				27.9	
				147.6	
Total resources for health	10.3	45	55.3	15.5	70.8
Percentage distribution	14.5	63.6	78.1	21.9	100.0
Percentage total resources	7.7	22.5	12.8	2.0	6.4

Source: Ministry of Finance, Fiscal Report 2006/07; IMF, Article IV Consultation, 2008; CWIQ 2007.

4.28 **Liberia’s total health expenditure is 11.5 percent of GDP, which is high compared with other low-income African countries.**⁴⁵ Liberia’s per capita spending on health, US\$20, is similar to significantly more developed countries, such as Kenya, Malawi, Uganda, and the Gambia. Spending is significantly higher than in many neighboring countries at a similar developmental level, such as Sierra Leone (US\$7) and Guinea-Bissau (US\$9). This partly reflects Liberia’s large health investment needs, as much of the health infrastructure was destroyed during the war. Thus, Liberia’s per capita expenditure may mask low expenditure on curative services. It can also reflect the country’s likely underestimated GDP figures.

Figure 4.4: Total Health Expenditure as Percent of GDP, 2004–07

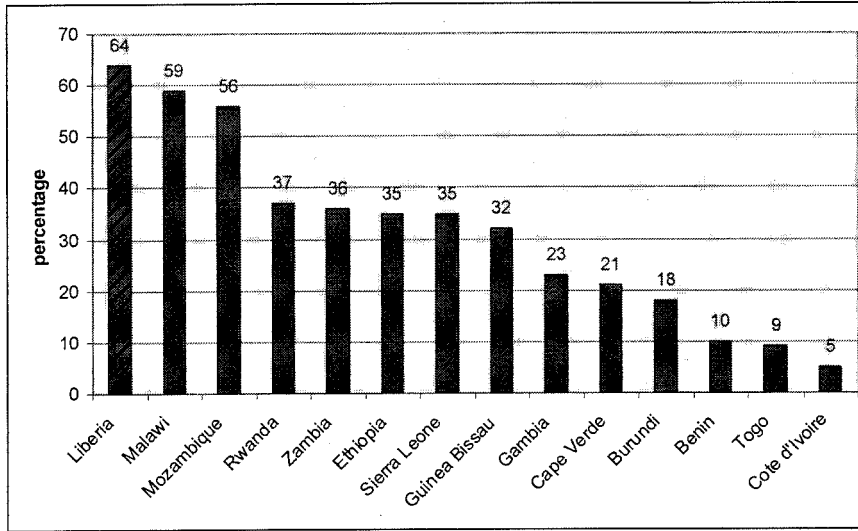


Source: HNP data from 2004 compared against Ministry of Finance 2006/07 expenditure for Liberia.

4.29 **In proportion to total health expenditures, external resources for health are higher in Liberia than in any other African country** (figure 4.5). Donor contributions are expected to remain high in the short term, but may decrease in the medium to long term. Additionally, it is expected that funds will increasingly be channeled through the government’s budget as opposed to directly to nongovernmental organizations. This will put pressure on the MOHSW to increase its financial management capacities and improve service delivery or increase its capacity to directly contract nongovernmental organizations to continue service provision. It may also create potential for gains in expenditure efficiency, as greater economies of scale can be used, resources can be pooled, and management structures merged, since there may be less need for many small implementing agencies, each with their own management and administrative structures.

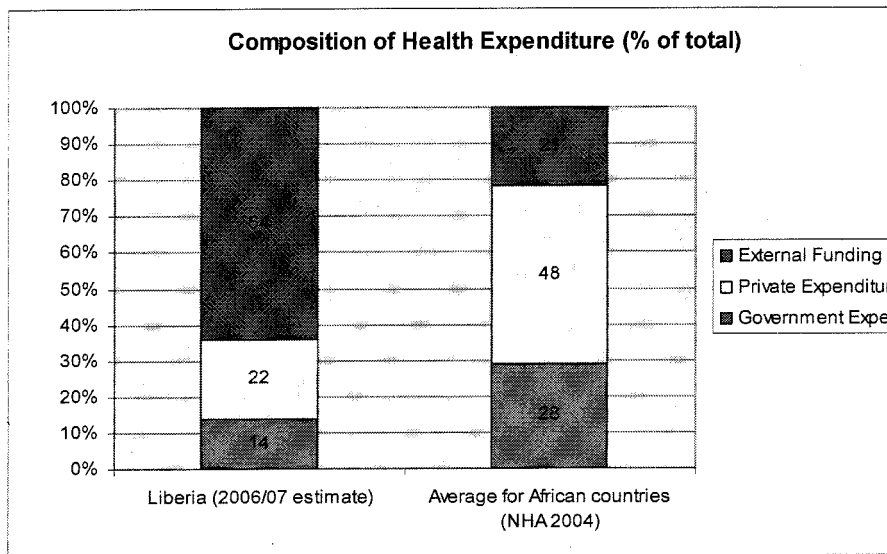
⁴⁵ World Bank; HNP.

Figure 4.5: External Assistance as a Percentage of Total Health Expenditure



Source: HNP data from 2004 compared against Ministry of Finance 2006/07 expenditure for Liberia.

Figure 4.6: Composition of Health Expenditure (percent of total)



Source: HNP data from 2004 compared against Ministry of Finance 2006/07 expenditure for Liberia.

Equity of Health Expenditures

4.30 **The goal of the government is to develop an efficient and affordable health system for all Liberians.** Equity of healthcare delivery is analyzed in terms of regional disparities and income disparities in access to healthcare. The analysis is divided into three main sections; the first two examine inequalities in public spending on health, access to health facilities, and

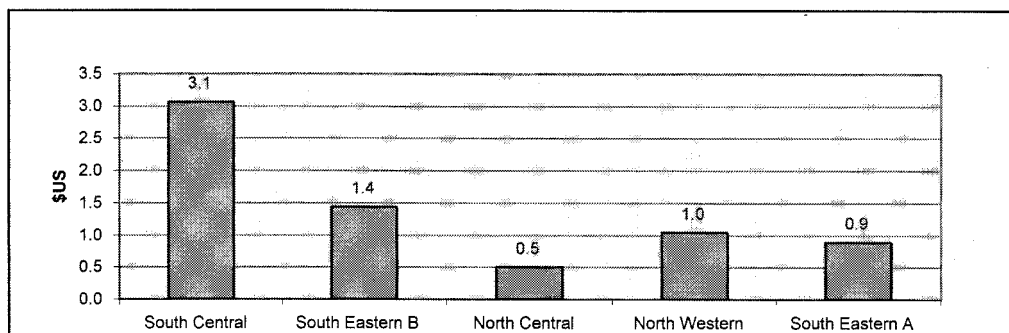
availability and quality of health personnel across different regions; and inequalities in household expenditure on health. The third section provides a benefit incidence analysis of public spending.

Equity of Government Health Expenditure

4.31 **One important area of expenditure analysis is the regional distribution of public spending in health.** Liberia's financial information system does not allow for a direct analysis of regionalization, as most expenditures are centralized. The only level of care that can be compared across regions is curative services. The average per capita spending at the curative care level varied from US\$0.5 in North Central to US\$3.1 in South Central in 2006/07.

4.32 **Per capita allocation of public expenditures is highly regressive, with a proportionally greater share of expenditure on curative care in relatively richer regions.** Ranking the regions by descending poverty incidence shows that South Eastern A (76.7 percent) is the poorest region, followed by North Western (76.3 percent), North Central (68.1 percent), South Eastern B (67.2 percent), and finally South Central (58.9 percent). As shown in figure 4.7, South Central, which has the lowest poverty incidence, has the highest per capita expenditure on curative services.

Figure 4.7: Per Capita Public Expenditures on Curative Services, 2006/07 (by region)



Source: Calculations based on National Budget and Ministry of Finance, Annual Fiscal Reports, 2006/07.

4.33 **Access is one of the main reasons for not seeking care, especially in rural areas.** In table 4.5, access is measured by the distance from the nearest health facility. The data give the average time it takes to reach various types of facilities. At the national level, health clinics are on average two hours walking distance from the household. In rural areas it takes almost three hours on average to reach the nearest clinic or hospital, compared with an average walking distance of 30 minutes in urban areas.

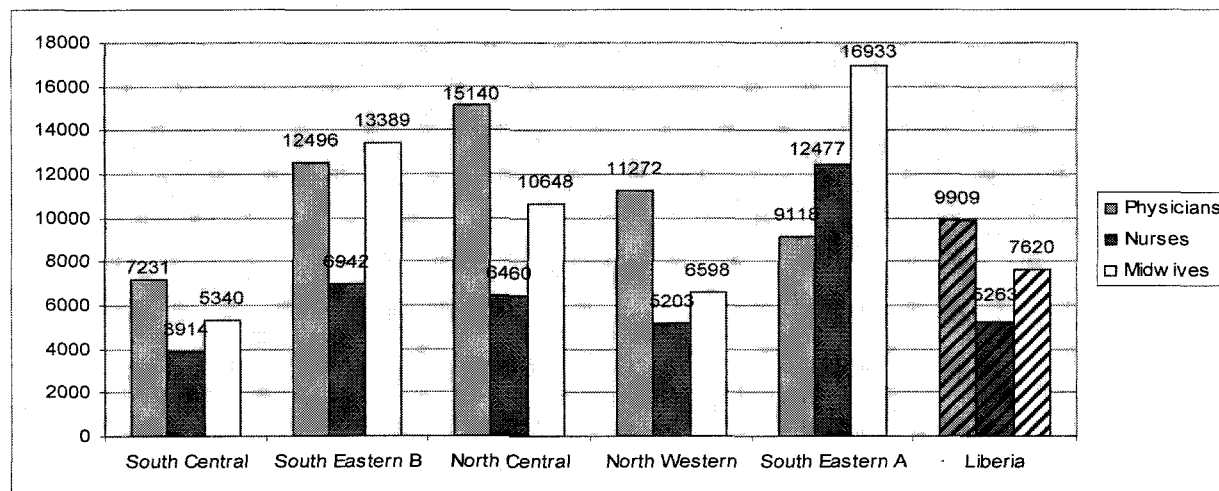
Table 4.5: Time to Nearest Infrastructure, 2007 (minutes)

	Residence Area		Quintile					Total
	Urban	Rural	Q1	Q2	Q3	Q4	Q5	
Supply of drinking water	9.7	8.4	11.4	8.4	8.9	7.5	8.4	8.8
Food market	23.2	179.1	162.8	161.0	167.6	113.5	71.0	129.8
Public transportation	12.8	161.7	145.7	140.4	152.0	77.2	77.5	114.6
Health clinic/hospital	29.6	151.6	124.8	143.4	145.4	99.5	71.0	113.0
All season road	16.7	333.6	167.9	322.8	323.8	227.8	153.2	233.3
Any road (vehicle)	6.1	33.0	31.7	26.6	25.0	21.4	20.5	24.5

Source: Tsimpo and Wodon 2007.

4.34 Another way to measure equity of health expenditure is to review disparities between regions in the availability and quality of health personnel. Liberia has been unable to sustain networks of physicians and qualified midwives in the poorest regions of the country. The richest region of South Central, with 38 percent of the population, has 53 percent of the country's physicians, and a ratio of 7,231 inhabitants per physician. In contrast, in North Central, the population to physician ratio reaches 15,140. The distribution of midwives and nurses among regions is likewise unequal (figure 4.8).

Figure 4.8: Population per Technical Health Personnel Ratio by Region and Category



Note: Includes full time and part time employees.

Source: MOHSW 2006.

Household Expenditure on Health

4.35 Table 4.6 provides data on private healthcare spending by households. The largest expenditure in terms of the share of total spending for health is for drugs (39.2 percent of total spending). This is followed by spending for medical treatment (injections, bandages, and so on), at 25.8 percent, and spending for consultations, at 22.3 percent. As a share of total expenditure,

table 4.7 shows that health spending has a higher cost for the poor. But in absolute value, more affluent households tend to spend significantly more on average.

4.36 On a per capita basis, households in the top decile of the population (ranked according to consumption per equivalent adult) spend almost eight times as much as households in the bottom decile. The total private spending for health is estimated at US\$15.5 million.

Table 4.6: Structure of Household's Expenditure on Health, 2006/07

	Residence Area		Quintile					Total
	Urban	Rural	Q1	Q2	Q3	Q4	Q5	
Purchase of drugs	39.8	38.3	44.5	35.6	43.2	36.5	39.2	39.2
Consultation by traditional practitioner	4.2	0.8	2.9	1.6	5.3	2.4	2.0	2.7
Vaccination costs	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Medical consultation	20.9	24.1	18.9	24.5	18.1	24.6	22.7	22.3
Medical treatment (injection, bandages)	23.5	28.8	23.1	26.5	24.6	26.7	26.1	25.8
Purchase of traditional medications	6.6	1.6	5.4	5.6	5.6	4.3	3.3	4.4
Radiology, EKG, scanner, tests	0.8	1.3	1.6	0.7	0.9	1.1	1.1	1.0
Hospitalization	4.1	5.1	3.6	5.5	2.3	4.4	5.5	4.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Share of health in total consumption	1.9	1.9	2.1	2.3	2.0	2.0	1.6	1.9

Source: Tsimo and Wodon 2007.

Table 4.7: Household Expenditure on Health, 2006/07

Deciles	Total population	Total expenditure (US\$ millions)	Total expenditure in health (US\$ millions)	Per capita expenditure (US\$ millions)	Per capita expenditure in health (US\$ millions)	Share of health in total Expenditures (US\$ millions)
1	270,469	20.6	0.458	76.0	1.7	2.2
2	270,582	35.5	0.693	131.4	2.6	1.9
3	270,477	46.1	1.018	170.4	3.8	2.2
4	270,761	54.9	1.292	202.6	4.8	2.4
5	269,714	63.4	1.235	234.9	4.6	1.9
6	271,127	74.3	1.560	274.2	5.8	2.1
7	270,714	83.7	1.597	309.1	5.9	1.9
8	269,729	99.0	1.965	366.9	7.3	2
9	271,538	121.4	2.072	447.2	7.6	1.7
10	270,273	223.1	3.608	825.4	13.4	1.6
Total	2,705,385	821.9	15.500	303.8	5.7	1.9

Source: Tsimo and Wodon 2007.

4.37 An analysis of the benefit incidence of public spending for health shows that for most public facilities, public spending for health seems to be allocated in roughly similar proportions to the various household groups ranked by expenditure decile (as shown in Annex 1, figure A.1). For private service providers, traditional healers tend to be used more

frequently by the poor, and other types of providers are used more frequently by the better off. Public spending for health does not appear to be regressive probably because in Liberia a large share of health services are provided by private institutions, which tend to be used more frequently by better off households. (For more detailed data please see Annex 1, table A.3).

Conclusions and Recommendations

4.38 Health expenditure has grown rapidly in the post-war period. Per capita health expenditure is estimated at US\$20 for 2006/07, which is high for Liberia's development status. Donor funding accounts for an estimated 64 percent of total health expenditure, which is well above the average for low-income countries and reflects Liberia's large reconstruction needs in the health sector after 14 years of civil war.

4.39 In the medium term, the government should demonstrate a strong commitment to the health sector as a part of its strategy to improve human capital for Liberia's development. In 2007/08 government expenditure on health was 8.1 percent of total expenditure, which is significantly lower than the 2015 Abuja target of 15 percent. As Liberia moves toward implementing a medium-term expenditure framework, this increased commitment to health must be reflected in the government's medium-term planning.

4.40 There is a continued need for capital investments in the health sector. Government expenditure is almost entirely recurrent expenditure, while most capital costs are carried by donors. The government should develop a capital investment plan as part of its Public Sector Investment Program in the context of its medium-term expenditure framework, outlining construction and reconstruction priorities, to ensure a more systematic approach to investment expenditure and to increase national ownership.

4.41 Health services are not equitably distributed across regions. The ratio of persons per physicians in the richest region of the country is less than half that in the poorest. Total expenditure on curative services is more than three times as high in the relatively richer South Central region, compared to the poorest South Eastern region. The government needs to increase distribution of health resources to the more remote regions of the country, both to improve Liberia's health status and to build public trust in state services.

4.42 Donor commitments, which are already at a high level, should be maintained in the medium term and rise in real terms in line with GDP growth. Liberia will continue to depend heavily on external financing in the medium term until domestic resources are sufficient to maintain constant expenditure levels. Donors are also encouraged to improve harmonization and predictability of aid—for instance, through pooled funding mechanisms, such as the recently established Health and Welfare Pooled Fund, supported by the Department for International Development.

4.43 The government's health program should be secured by introducing alternative sources of domestic funding, such as contributory health insurance and other prepayment mechanisms, rather than relying so heavily on out-of-pocket payments. The government is encouraged to develop such programs as soon as possible.

4.44 **Although health financing will increasingly be channeled through national structures, the government should continue to use the services of nongovernmental organizations and private providers, through formal contracting arrangements.** This will require strengthened financial management, procurement, and monitoring and evaluation of the ministry. With support from development partners, the government is developing a system where continued financing for organizations or contractors is contingent on satisfactory performance.

4.45 **The government has rightly made a basic healthcare package, which targets vulnerable populations, its first priority.** But there is a need to continue expanding and developing secondary and tertiary care and to strengthen the referral system. Continued emphasis should be placed on human resource development, both through further recruitment and training opportunities, and improved remuneration.

B. EDUCATION SECTOR EXPENDITURES

Introduction

4.46 **This section analyzes education expenditure patterns against performance.** It focuses on an analysis of trends in education expenditure, distribution of resources within the sector, and equity of access to educational resources.

4.47 **Liberia has increased access to education since the end of the war, as evidenced by rises in both gross and net enrollment rates.** Both government expenditure and donor support for education have increased rapidly. While the performance of the education sector is improving, continued growth in resources will be necessary to sustain an increase in access and quality of services. Efficiency should also be increased by allocating more resources to primary education. Issues of equity require a focus on programs that encourage girls to stay in school past the primary level and a more equitable regional distribution of educational resources. While this chapter focuses on government expenditure, a full picture of educational expenditure in Liberia cannot be achieved without an analysis of donor expenditure. Unfortunately, data on donor expenditure is poor, and even aggregate figures are limited. Improved data on donor aid flows are necessary to fully analyze the efficiency of public expenditure and ensure optimal resource allocation.

4.48 **The education system in Liberia is composed of primary, secondary, and tertiary levels.** Pre-primary education covers three years, followed by six years of primary education (grades 1 to 6). Secondary education consists of three years of junior secondary high school, followed by three years of senior secondary high school. Vocational and technical education and training are available in some secondary high schools, as well as at some tertiary educational institutions. The tertiary levels encompass junior colleges (baccalaureate and graduate levels), university colleges and universities (Cuttington University College and the University of Liberia), and polytechnics. Partnership is a strong aspect of education and training services in Liberia, with numerous private sector, community-based, faith-based, and concession-sponsored organizations providing education and training services alongside government educational institutions.

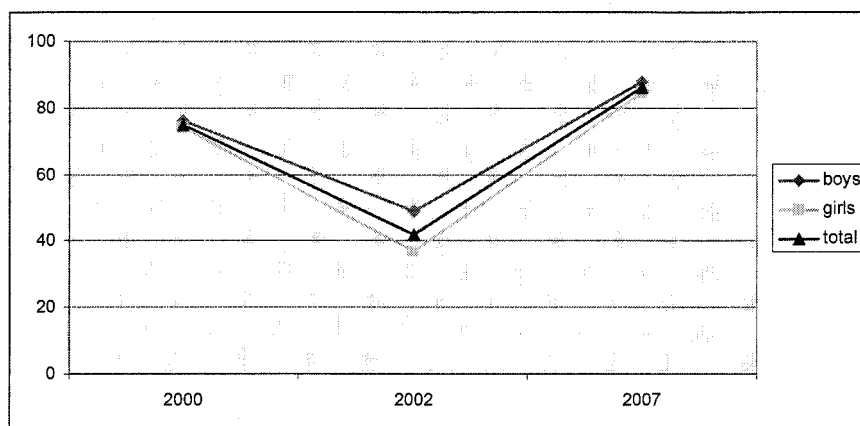
4.49 **The results from the 2005/06 school census show that there are a total of 3,855 schools with over a quarter concentrated in Montserrat County.** Just over half of these schools are public. About 17 percent are private for-profit schools, three-fourths of which are located in Montserrat. Overall, only slightly more than half of all students go to government schools, with private for-profit schools serving more than a third of the students, and religious and community schools serving the remainder.

4.50 **The Ministry of Education is responsible for the overall administration and management of education and training.** The Minister of Education is assisted by three deputy ministers responsible for administration, instruction, and planning and development. According to the 2002 Education Law, the Ministry of Education has a strong decentralized management structure with education offices at county and district levels. In practice, however, because of the strong residual effect of the years of conflict, decisions are mostly made at the national level and instructions passed on to the counties and districts. There are 15 county education offices, each headed by a county education officer with a support staff, and 86 district education offices each headed by a district education officer.

Primary and Secondary School Enrollment

4.51 **The gross enrollment rate at the primary level increased from 72.7 percent in 2000 to 86.3 percent in 2007.** The lack of proper infrastructure, teachers, and security in the country and the high cost of education (linked to user fees) for families led to a sharp decline in enrollment in 2002, especially for girls.⁴⁶ To stem this decline, the 2002 Education Law made primary education free and compulsory, but resources were lacking to fully implement this law.

Figure 4.9: Gross Enrollment Rates in Primary Education



Source: CWIQ 2007; Ministry of Education 2005.

4.52 **A return to peace and renewed efforts by the government since 2006 to promote school enrollment have increased gross primary school enrollment by almost 50 percent between 2002 and 2007.** Many children and youth with limited exposure to formal education have returned to school, which also explains the discrepancy between net and gross enrollment rates. A school census from 2005/06 suggested that only 15 percent of students in the first year

⁴⁶ National Policy for Girls Education, Ministry of Education, 2005.

of primary school were of the right age (6–7 years old), while half the students were 11–20 years old.

4.53 **The gross enrollment rate at the secondary level has also increased steadily, from an estimated 32 percent in 2000 to 51.3 percent in 2007.** The big discrepancy between 2007 net and gross secondary school enrollment (15.2 percent versus 51.3 percent) suggests that many secondary school children are above the official secondary school age.

Table 4.8: Net and Gross Enrollment Rates, 2007

Education level	Age range	Net	Gross
Primary	6-11	37.3	86.3
<i>Male</i>	6-11	37.5	88.0
<i>Female</i>	6-11	37.1	84.5
Secondary	12-17	15.2	51.3
<i>Male</i>	12-17	16.0	57.2
<i>Female</i>	12-17	14.2	44.7

Source: CWIQ 2007.

Tertiary and Vocational Education

4.54 **In 2007, 1,400 students graduated from the University of Liberia.** The unit cost at the University is US\$242 (2007/08), twice Liberia's GDP per capita. This figure is comparable to most other Sub-Saharan African countries. In contrast, for middle- to high-income countries, the average is about 30 percent of GDP per capita.

4.55 **Before the war, Liberia had a number of public vocational/technical institutions, but few have been resuscitated and they receive little government support.** Much vocational education today is provided by nongovernmental organizations and church groups. There are many testing and certification standards and weak links between vocational training and private sector skill requirements.

Teacher Supply

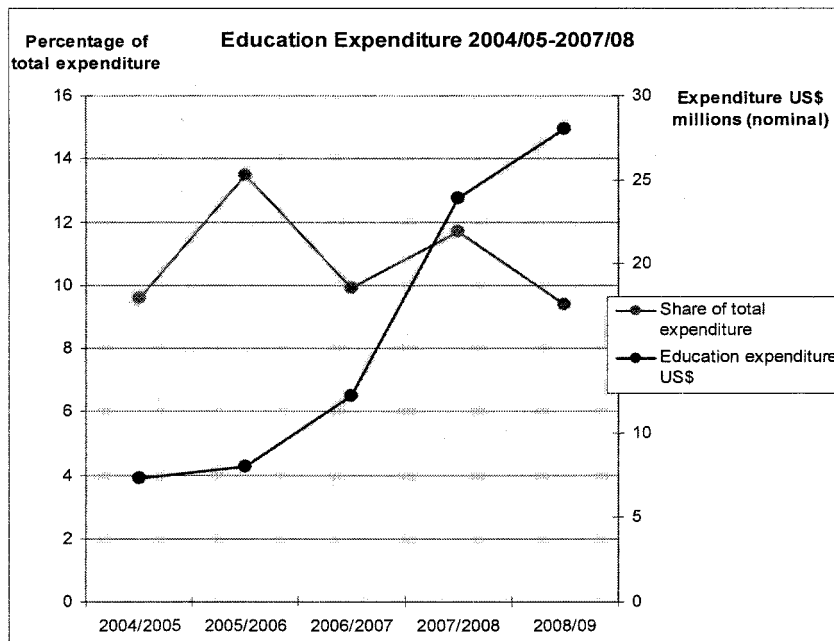
4.56 **There are about 28,000 teachers in Liberia, and about half (46 percent) work in public schools.** Over 60 percent of all public school teachers are unqualified. At present, teachers are only being recruited to replace those who leave. But the rapid expansion of primary enrollment and the plight of volunteer teachers—many of whom have been teaching for years without pay—will soon require the recruitment of teachers into the public sector.

Total Public Expenditure on Education

4.57 **Government expenditure on education accounted for between 1.6 percent and 3.2 percent of GDP between 2004/05 and 2007/08.** This compares unfavorably with other post-war countries such as Burundi (5.1 percent in 2005), Rwanda (3.8 percent in 2005), Mozambique (3.7 percent in 2004), and Sierra Leone (3.8 percent in 2005). The figures for other countries in Sub-Saharan Africa range from 0.6 percent of GDP (Equatorial Guinea in 2002-03) to 13.8 percent (Lesotho in 2005).

4.58 **Education expenditure has increased sharply, from US\$7.3 million in 2004/05 to US\$23.3 million in 2007/08.** Education expenditure is expected to increase to US\$28.0 million in 2008/09. This represents an average increase in real spending for education of 26 percent per year. This mirrors the increase in total government expenditure (which increased from US\$76.3 million in 2004/05 to US\$203.4 million in 2007/08), meaning that the share of total expenditure allocated to education has remained relatively steady at around 10-12 percent. This is still low compared to other African countries and far below the Education For All Fast Track Initiative benchmark of 20 percent.

Figure 4.10: Evolution of Government Expenditure on Education, 2004/05–2008/09



Source: Ministry of Finance, Annual Fiscal Reports, 2004/05–2007/08.

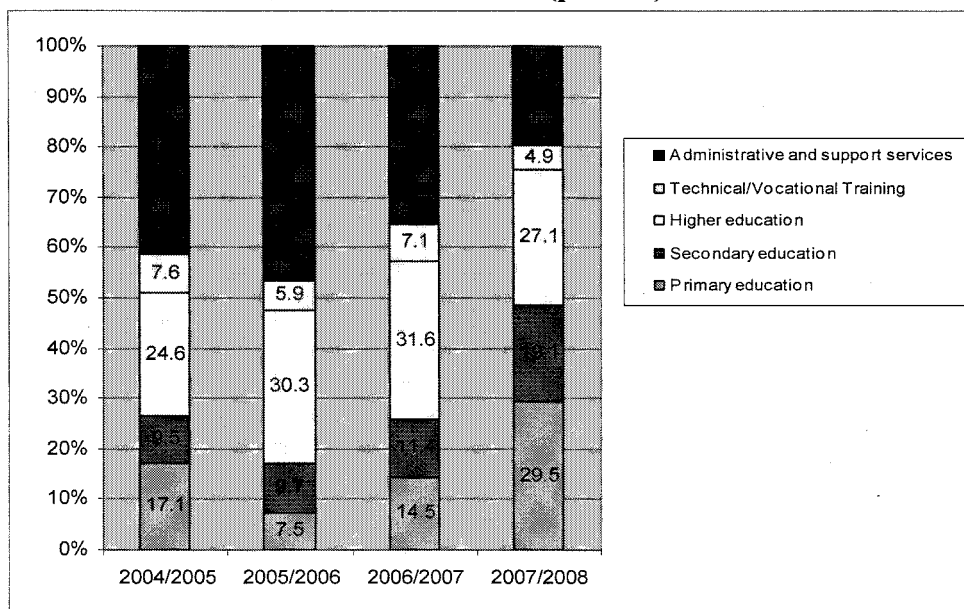
Distribution of Government Expenditure by Level of Education

4.59 **About 14.5 percent of all government resources for education went to primary education (including pre-primary level) in 2006/07 (figure 4.11).** The priority given to this sub-sector decreased between 2004/05 and 2005/06—with a reduction in resources from 17.1 percent to 7.5 percent, but with an increase to 14.5 percent in 2006/07. Preliminary estimates based on the budgetary allocation for 2007/08 suggest that the share to primary education will have increased to 29.5 percent.

4.60 **The share for secondary education increased from 9.5 percent in 2004/05 to 11.4 percent in 2006/07 and to 19.1 percent in 2007/08.** The share for the tertiary level increased from 24.6 percent in 2004/05 to 31.6 percent in 2006/07. Estimates for 2007/08 indicate that the share of spending on tertiary education decreased to 27.1 percent. Finally, the allocation to technical and vocational education decreased substantially from 7.6 percent in 2004/05 to 4.9 percent in 2007/08.

4.61 The final category for expenditure is administrative and support services. Expenditure in this category decreased between 2004/05 and 2006/07 in relative terms, comprising around -- percent of the total expenditure on education in 2006/07. Allocations for 2007/08 show a further reduction to 19.4 percent.

Figure 4.11: Share of current Expenditure by Level of Education, 2004/05–2007/08 (percent)



Source: Ministry of Finance, Annual Fiscal Reports, 2004/05–2007/08; National Budget, 2004/05–2007/08.

Household Contributions to Education Financing

4.62 Parents who send their children to private school pay significantly higher school fees. Those with children in government and government-assisted schools report spending on fees, even though tuition fees were officially abolished in all primary schools in 2002. In this section, data from the 2007 Core Welfare Indicators Questionnaire (CWIQ) survey are used to explore the magnitude of household spending on education.

4.63 In 2006/07 total private spending for education was estimated at US\$27 million, significantly higher than the total public expenditure on education of US\$12.2 million in the same year. Table 4.9 provides data on private education spending by household, for those households that have at least one child enrolled in school. The total amounts that households spend on primary and secondary education are larger than the amount the government spends. For higher education, the contribution of households is about the same as that of the government, constituting 51.8 percent of total spending.

Table 4.9: Household Spending on Education by Level, 2006/07

	Household spending (US\$ millions)	Government spending (US\$ millions)	Total spending (US\$ millions)	Share financing by households (percent)
Primary education	11.6	3.5	15.1	76.8
Secondary education	9.4	3.1	12.5	75.1
Higher education	6.0	5.6	11.6	51.8
Total	27.0	12.2	39.2	68.9

Source: Estimates based on the 2007 CWIQ survey.

4.64 **The largest expenditure for education is for school fees at the primary school level.** School fees for secondary education also absorb a large part of the private education budget of families, as do school uniforms (table 4.10).

Table 4.10: Distribution of Household Spending for Education, 2007

	Household spending (US\$ millions)	Percentage of total
Uniforms	5.0	18.6
Books	0.8	2.8
Notebooks	1.6	6
Bags and knapsacks	0.9	3.4
Fees pre-school	2.1	7.7
Fees primary school	6.5	23.9
Fees general secondary school	5.9	21.9
Fees technical secondary school	0.3	1.1
Fees higher education	2.8	10.3
Professional	0.4	1.4
Other	0.8	2.9
Total	27	100

Source: Estimates based on 2007 CWIQ survey.

The Contribution of External Donors to Education Financing

4.65 **It is difficult to estimate the contribution of external donors to education financing in Liberia.** External aid to Liberia is estimated to be higher than total government expenditure, making it hard to estimate the total resource envelope for education. Much donor support is channeled outside the budget and directly to implementing agencies. A survey conducted to capture all the disbursements for education estimated that donors' disbursements to the sector in 2006/07 were US\$38 million, more than three times the amount of government spending (table 4.11).

Table 4.11: Development Partners and Nongovernmental Organizations' Current and Projected Assistance for Education (US\$ million)

Organization	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Save The Children	0.16	0.16	0.16	3.12	0.50	0.50
UN Educational, Scientific, and Cultural Organization	0.00	0.00	0.67	0.00	0.00	0.00
UN World Food Programme	5.02	11.28	23.73	10.86	15.51	15.51
UN High Commissioner for Refugees	0.00	0.00	1.05	0.00	0.00	0.00
World Bank	0.00	0.19	1.14	0.99	0.00	0.00
European Union	-	-	1	-	-	-
United States Agency for International Development	-	-	8	-	-	-
UN Children's Fund	-	-	2	-	-	-
TOTAL	5.18	11.63	37.76	14.96	16.01	16.01

Source: Education Donors survey 2008.

4.66 **Table 4.12 presents an estimate of the resources and expenditure for 2006/07.** Total expenditure on education is estimated at about US\$77.2 million, of which US\$12.2 million came from government sources, US\$38 million came from donor sources, and US\$27 million came from private sources (households). This means that government funding represents only 15.8 percent of total spending on education, with contributions from donors accounting for about 49.2 percent and contributions from households for 35 percent.

Table 4.12: Resources for Education, 2006/07 (US\$ million)

	Public			Private	
	Government	External	Total	Household	Total
GDP	614				
Government spending	134.6				
As percent of GDP	20				
Donor support		300			
Total public resources			434.6		
Total private resources				789.1	
Total resources	134.6	300	434.6	789.1	1223.
Percentage distribution	11.0	24.5	35.5	64.5	100.0
Public spending on education					
Domestic sources	12.2				
Donor sources		38			
Total	12.2	38	50.2		
As percent of GDP	2.0	6.2	8.2		
Primary education (including pre-	3.5	23	26.5	11.6	38.1
Secondary education	3.1	11	14.1	9.4	23.5
Higher education	5.6	4	9.6	6	15.6
Private resources for Education				27	
As percent of public spending on				51.7	
As percent of government spending on				221.3	
Total resources for Education	12.2	38	50.2	27	77.2
Percentage distribution	15.8	49.2	65.0	35.0	100.0
Percentage total resources	9.1	12.7	11.6	3.4	6.3

Source: Ministry of Finance, Annual Fiscal Reports, 2004/05–2007/08; Education donor survey 2008; CWIQ 2007.

Detailed Analysis of Education Expenditure in 2006/07

Salary and Non-Salary Expenditure

4.67 **Salary expenditures made up 23.4 percent of total public spending on education in 2006/07.** But this masks the true proportion of personnel costs, as a significant proportion of transfers and subsidies, which accounts for 49 percent of the education budget, are spent on personnel.

4.68 **The major components of non-salary expenditure are transfers and subsidies (49%) and goods and services (23%).** Capital expenditure accounts for only 5 percent of the education budget.

Estimates of the Unit Cost

4.69 **The cost per student (unit cost) from government resources is shown by levels in table 4.13.** For primary education, the cost was about US\$6.9 per student in 2007, an equivalent of 4 percent of GDP per capita. Note that unit costs gradually increase with higher levels of schooling. But since a large proportion of education expenditure is from external sources and not accounted for in the budget, it is hard to estimate the total unit cost. The differences in unit cost by level of education may be less pronounced if external sources were included.

Table 4.13: Unit Cost Estimates for Education by Level, 2006/2007

	Primary education	Secondary education	Higher ^a education	Overall
Education current expenditure (in US\$ millions)	3.3	3.0	5.3	11.7
Number of students in public schools	482470	35322	19111	536903
Unit cost (in \$US)	6.9	84.5	279.7	21.8
Unit cost as a % of per capita GDP	4	49.3	163	12.7
Ratio of unit cost to primary	1	12.2	40.3	-

a. Number of students in the University of Liberia, at around 15,289, is assumed to represent 80 percent of total number of students in public schools in the higher education level.

Source: CWIQ 2007.

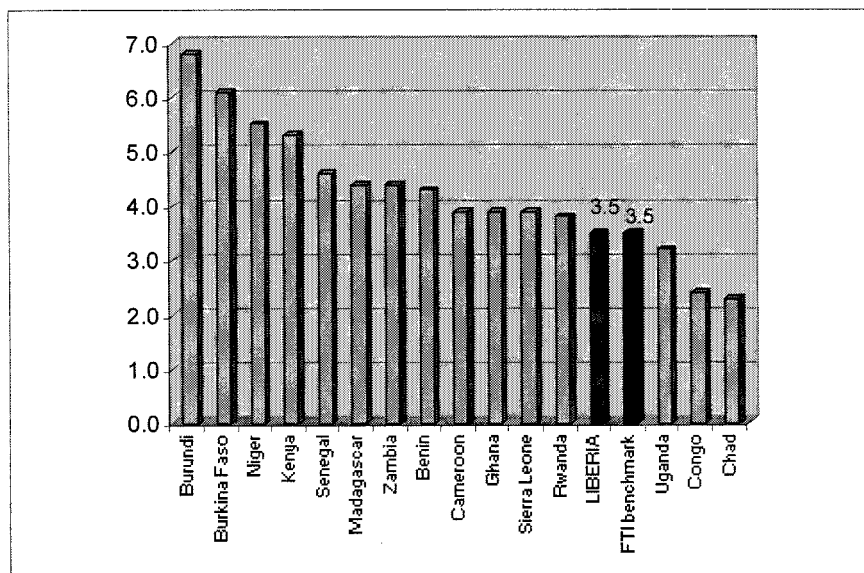
Table 4.14: Comparisons of Unit Cost as a Percentage of GDP Per Capita in Selected Sub-Saharan African Countries, by Level (%)

Primary education		Secondary education		Higher education		All levels	
Burkina Faso	31.5	Burundi	73.3	Lesotho	1145.7	Lesotho	34
Lesotho	25.1	Lesotho	50.8	Eritrea	1082.5	Botswana	33
Kenya	24.2	LIBERIA	49.3	Botswana	438.4	Senegal	32.8
Senegal	21.0	Botswana	40.2	Rwanda	404.5	Burkina Faso	32.1
Cape Verde	20.3	Senegal	40.1	Burundi	348.8	Burundi	31.3
Burundi	19.1	Ghana	34.4	Chad	333.9	Kenya	28.8
Ethiopia	17.7	Uganda	34	Kenya	284.5	Ghana	24.8
Seychelles	16.7	Chad	28	Senegal	270.2	Cape Verde	24.1
Botswana	15.7	Cape Verde	26.4	Congo	245.7	Seychelles	22
South Africa	14.3	Kenya	24.1	Ghana	209.4	Eritrea	20.7
Ghana	12.8	Benin	21.2	Benin	200.9	Benin	17.8
Mauritius	11.8	Mauritius	19.7	Burkina Faso	192.6	South Africa	17.6
Benin	11.5	Burkina Faso	19.6	Uganda	188.9	Rwanda	17.2
Uganda	11.3	Congo	18.2	Madagascar	175	Mauritius	17
Eritrea	11.1	Seychelles	17.7	Zambia	168.2	Uganda	15.1
Madagascar	8.4	South Africa	17.6	LIBERIA	163	Congo	14.6
Chad	6.8	Eritrea	15.2	Cape Verde	74.5	LIBERIA	12.7
Cameroon	6.1	Zambia	8.2	Cameroon	66.6	Chad	12.4
Zambia	5.4	Ethiopia	7.9	South Africa	50.1	Zambia	11.3
LIBERIA	4.0	Cameroon	2.6	Mauritius	36.9	Cameroon	6.6
Congo	3.4	Equatorial Guinea	2.4				
Equatorial Guinea	0.9						

Source: UNESCO Institute for Statistics Global Education Digest.
(<http://stats.uis.unesco.org/ReportFolders/reportfolders.aspx>).

4.70 The average salary of teachers is the first factor in the unit cost of education. Figure 4.12 compares average teacher salaries at the primary level in relation to GDP per capita in Liberia with other countries. The Fast Track Initiative benchmark for teacher salaries in primary schools—based on the structural parameters in countries demonstrating the best performance in the goal of universal completion of primary school—is 3.5 times the GDP per capita. Liberia is at the benchmark level, with primary teacher salaries at 3.5 times the GDP per capita. But due to Liberia's low GDP per capita, in absolute terms Liberian primary and secondary teacher salaries are low, at about US\$55 a month, insufficient to attract secondary school graduates to pursue teaching degrees.

Figure 4.12: Ratio of Average Teacher Salary to GDP per Capita in Sub-Saharan Africa, 2007



Source: UNESCO Institute for Statistics Global Education Digest (<http://stats.uis.unesco.org/ReportFolders/reportfolders.aspx>);

4.71 **The second important factor in the unit cost is the pupil-teacher ratio at the school level.** In Liberia, the pupil-teacher ratio is estimated at 28 in primary school and 13 in secondary. A comparison with other Sub-Saharan African countries and with the Fast Track Initiative benchmark indicates that the pupil-teacher ratio in Liberia's primary schools is on the low side and less than the benchmark of 40. For secondary education, the pupil-teacher ratio in Liberia is also much lower than that of the comparator countries.

4.72 **The comparisons of education unit costs above suggest that Liberia's public education expenditure per student is extremely low in absolute terms and low in relationship to per capita GDP.** But significant donor aid for education is not accounted for in the government budget and is not reflected in the unit cost estimates. Given that average classroom size is relatively small in proportion to other African countries, Liberia's low unit cost reflects low teacher salaries and insufficient expenditure on educational resources. This has negative effects on the quality of education and on the ability of students to absorb teaching.

Table 4.15: Pupil to Teacher Ratio in Sub-Saharan Africa, 2004–2006

Primary education		Secondary education	
Congo	83	Ethiopia	54
Ethiopia	72	Eritrea	51
Chad	63	Chad	34
Sierra Leone	61	Congo	34
Madagascar	54	Zambia	34
Uganda	52	Kenya	32
Zambia	51	Burkina Faso	31
Burundi	49	South Africa	31
Cameroon	48	Sub-Saharan	28
Eritrea	48	Lesotho	27
Benin	47	Senegal	26
Burkina Faso	47	Cameroon	25
Sub-Saharan	45	Benin	24
Lesotho	42	Cape Verde	23
Senegal	42	Uganda	21
Fast Track Initiative benchmark	40	Ghana	20
Kenya	40	Burundi	19
South Africa	36	Mauritius	17
Ghana	35	Botswana	14
LIBERIA	28	LIBERIA	13
Cape Verde	26	Seychelles	13
Botswana	25		
Mauritius	22		
Seychelles	14		

Source: UNESCO Institute for Statistics Global Education Digest
<http://stats.uis.unesco.org/ReportFolders/reportfolders.aspx>.

Equity of Spending in Education

Disparity in Schooling

4.73 **Disparities exist in schooling.** Girls, rural children, and children in poorer households all have a lower likelihood of participating in formal education at primary and secondary levels. The reasons for these disparities are not always the same across groups. In some cases, disparities in enrollment rates result from disparities in initial access to schooling. In other cases, they result from higher drop-out rates among children from vulnerable groups.

4.74 **Age specific enrollment rates show a clear differential by gender (figure 4.13).** According to the 2005 school census data, a gender divide does not emerge until age 15, with girls less likely than boys to be in school above age 15. There are two possible reasons for this divide. First, it is possible that females initially have equal access to education and then start to drop out faster when they reach age 15 and beyond. We observe respective dropout rates of 4.8 percent and 5.4 percent for males and females respectively at the senior secondary level, which corresponds to the age group 15–17 years. A second possibility is that there were gender disparities when the current over 15 cohort first entered school, and the subsequent cohorts did

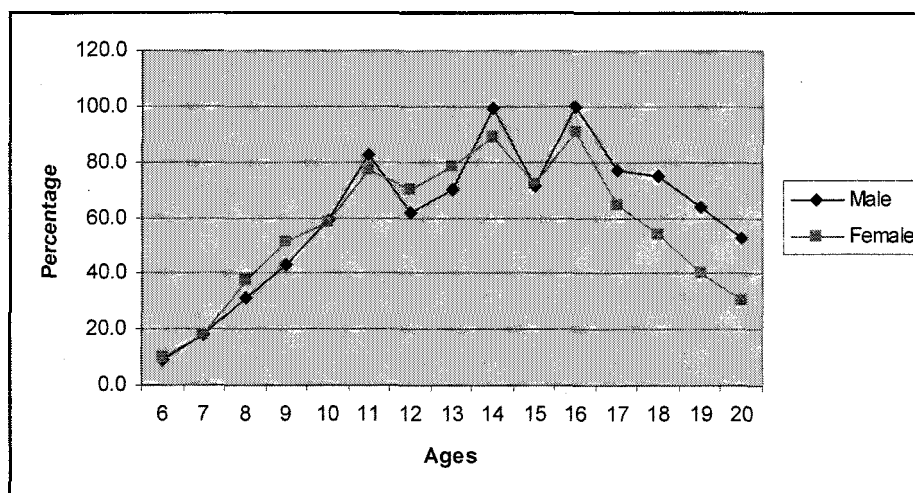
not have a gender disparity in initial access. If this is the case, then the current pattern of gender disparity will disappear over time.

Table 4.16: Age-Specific Enrollment Rates and out-of-school Children by Age Group (percent)

Age (years)	Male		Female		Total	
	Enrolled	Out-of-school	Enrolled	Out-of-school	Enrolled	Out-of-school
6-11	37	63	40	60	38	62
12-14	75	25	78	22	77	23
15-17	81	19	75	25	78	22

Source: Ministry of Education 2006; CWIQ 2007.

Figure 4.13: Enrollment Rates by Age and Gender



Source: Ministry of Education 2006; CWIQ 2007.

4.75 **Gross enrollment rates, a measure of education coverage, show that the more favored subgroups are male, urban children, and children from the highest consumption quintile.** For each of the groups, table 4.17 presents the parity index—the ratio of the gross enrollment rate of the lagging subgroup to that of the more favored subgroup. A parity index of 1 indicates perfect parity (that is, the two groups have the same gross enrollment rates). The gender gross enrollment rate parity index of 0.96 at the primary level as a whole implies that primary coverage for females is 96 percent as high as it is for males. It indicates high parity of the two groups at the primary level. At the secondary level the gender disparity is high with a parity index of 0.78 of that of males.

Table 4.17: Gross Enrollment Rates by Gender, Locality, Region, and Household Expenditure Quintile, 2007

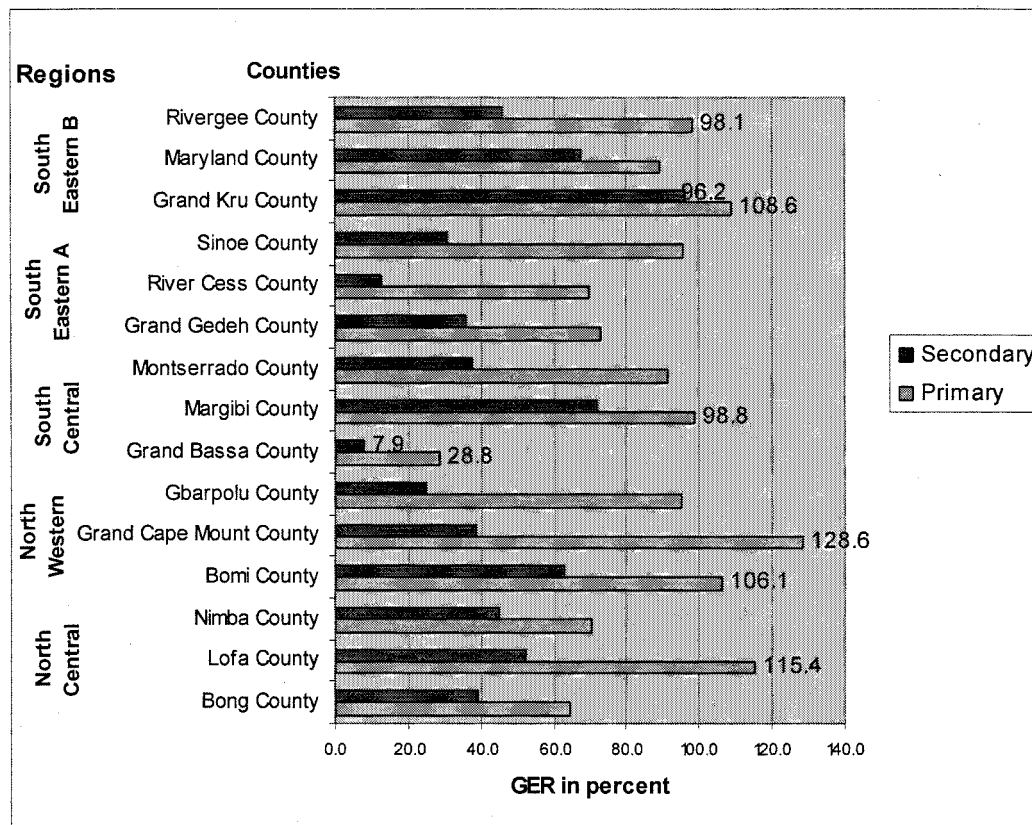
Liberia						
Primary	86.3					
Secondary	51.3					
By gender		Parity index				
	Male	Female	(Female/Male)			
Primary	88.0	84.5	0.96			
Secondary	57.2	44.7	0.78			
By locality and gender						
		Rural			Parity index	
	Total	Male	Female	(Female/Male)		
Primary	83.3	87.7	78.2	0.89		
Secondary	39.7	44.9	33.1	0.74		
		Urban			Parity index	
	Total	Male	Female	(Female/Male)		
Primary	93.1	88.7	97.4	1.10		
Secondary	74.4	86.8	63.7	0.73		
	Parity index (rural/urban)					
Primary	0.89					
Secondary	0.53					
By household expenditure quintile						
	Q1 (poorest)	Q2	Q3	Q4	Q5 (richest)	Parity index (poorest/richest)
Primary	77.8	86.5	87.5	86.6	94.3	0.83
Secondary	40.1	43.0	42.8	65.3	71.8	0.56

Source: CWIQ 2007.

4.76 Table 4.17 shows that the gap in each set of comparisons is smallest at the primary education level. The gap between the lagging group (female) and the favored group (male) broadens rapidly as the level of education rises. The gap between the rural area and the urban area is also higher at the secondary level. Furthermore, there is a clear gradient in educational coverage by household expenditure quintile, with children from poorer households less likely to be enrolled in school in the primary and, even more, secondary levels.

4.77 At the county level, primary gross enrollment rates are high for Grand Cape Mount, Lofa, Grand Kru, Bomi, Margibi, and River Gee and very low for Grand Bassa (value of 28.8). The parity index between the highest (Grand Cape Mount) and the lowest (Grand Bassa) is 0.22 for primary education. It is even lower at the secondary level with parity index of 0.08 between Grand Bassa and Grand Kru (figure 4.14).

Figure 4.14: Gross Enrollment Rates by County, 2007



Source: CWIQ 2007.

4.78 The majority of new primary school entrants are not of the official age of six years. The gross intake rate is the ratio of new entrants in primary grade 1, regardless of age, to those who are at the official age of entry for primary grade one (6 years). The gross intake rate for primary school grade 1 is about equal among boys (80.5%) and girls (77.1%). The rate tends to overestimate the share of children in the age cohort entering primary grade 1 because of the inclusion of multiple age cohorts in the numerator. The net intake rate is similar to the gross intake rate but only includes new entrants who are at the official age for primary grade 1. The net intake rate is 9 percent for male and 8.8 percent for female. The big differences between the gross and net intake rates for both sexes confirms that the majority of new primary school entrants are not of the official age.

Disparity in Household Expenditure on Education

4.79 The unit cost of household spending on primary and secondary education is higher for the richest quintile than for the poorest quintile (table 4.18). On average, households spend more than the government per primary and secondary student, but less than the government on higher education. But poorer households spend more in relation to their overall household expenditure. Figure 4.15 shows the differences from the poorest to the richest

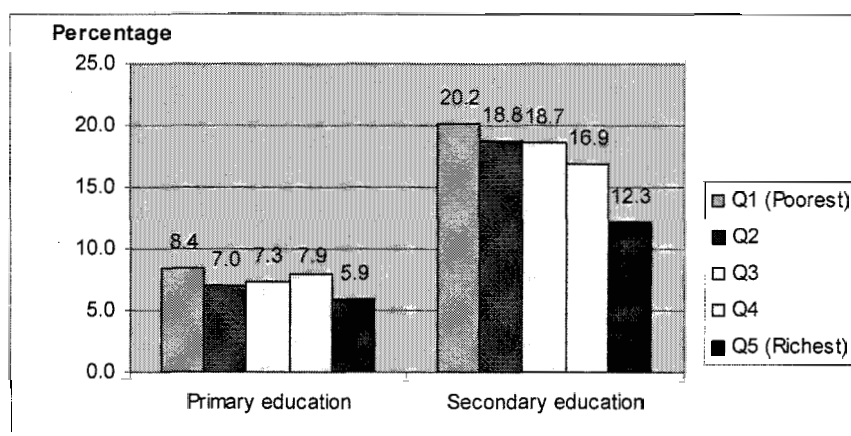
households in per student expenditure on primary and secondary education as a share of per capita household expenditure.

Table 4.18: Per Student Expenditure on education, by Quintile and Level of Education, 2007 (US\$)

	Q1 (Poorest)	Q2	Q3	Q4	Q5 (Richest)	Unit cost household spending on education	Unit cost government spending on education
Primary education	8.3	12.5	17.9	25.8	35.8	19.9	6.9
Secondary education	20.1	33.6	45.6	54.9	74.8	48.2	84.5
Higher education	307.9	381.6	210.3	171.1	180.4	199.2	279.7
Total	13.8	20.9	29.7	41.6	57.6	33.4	21.8

Source: CWIQ 2007.

Figure 4.15: Per Student Spending on Primary and Secondary Education as a Percentage of Per Capita Household Spending by Quintile, 2007

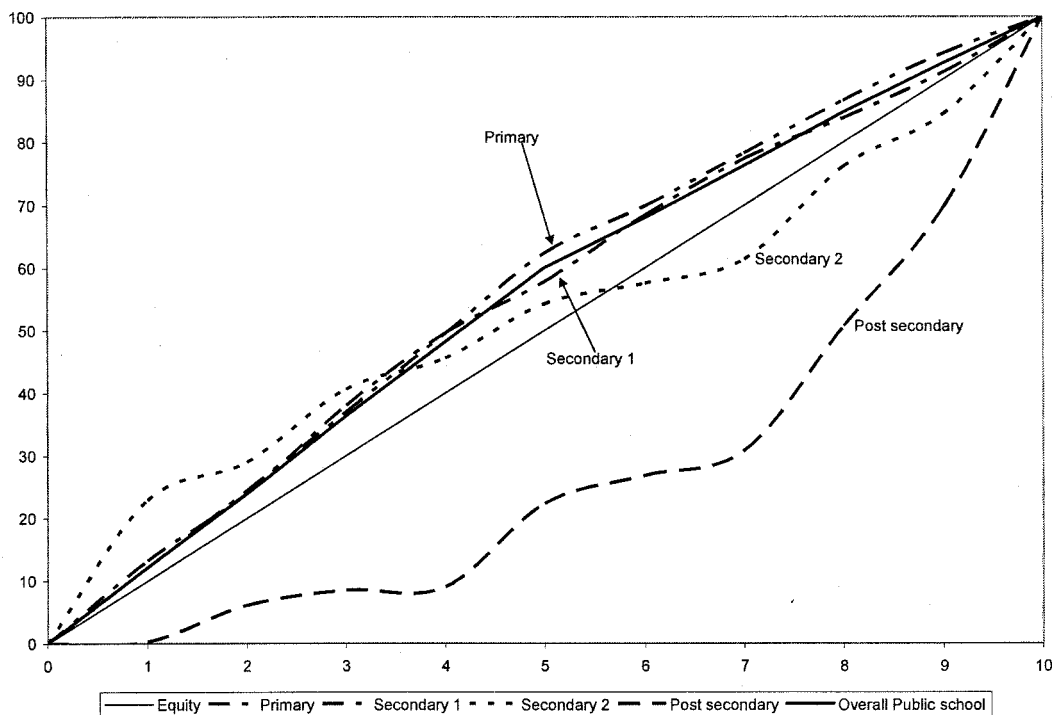


Source: Estimates based on CWIQ 2007.

Disparity in Public Expenditure on Education

4.80 A benefit incidence analysis conducted with the 2007 Core Welfare Indicators Questionnaire (CWIQ) data shows that public spending on education is pro-poor, with the exception of the post-secondary level, but gender and regional disparities are severe. Assuming the unit costs of enrollment are similar for all students attending a given cycle, the estimates of the number of students enrolled provide us with shares of total spending per cycle that are allocated to the various deciles. As shown in figure 4.16, at the primary, junior secondary, and senior secondary levels, public spending for education is allocated more to the poorest deciles than to the other deciles. At the post-secondary level, most of the public spending goes to students from the wealthier segments of the population. That public spending for education appears to be pro-poor is related to the fact that in Liberia a large share of students are enrolled in private as opposed to public schools, with the poor more likely to use public schools than those from better-off households.

Figure 4.16: Concentration curve of enrollment in public schools, 2007



Source: Tsimpo and Wodon 2007.

4.81 The CWIQ survey shows that public education expenditure distribution is gender biased. By combining information on the proportion of population groups accessing different levels of education (from the 2007 CWIQ survey) and the total expenditure on education by level, it is possible to determine how equitably public resources are distributed across groups. Table 4.19 shows the percentage of education resources benefitting different sub-groups, including male and female, those in urban and rural localities, and by region. For instance, males benefit from almost 70 percent of public education expenditure, while females benefit from the remaining 30 percent (largely due to the low female enrollment rates in and high proportion of public spending on tertiary education). Also, the locality and regional disparities are severe, with the majority of the 5 to 25 year olds who live in rural areas benefiting from only 38 percent of public education expenditure. Also, the South Central region benefits disproportionately compared with its share of the age cohort.

Figure 4.17: Disparity in Consumption of Public Education Resources, 2006/07

	Percentage share of education expenditure consumed by group (1)	Percentage share population aged 5-25 years (2)	Ratio(1)/(2)	Index of resources consumed
By gender				
Male	69.3	50.4	137.5	222.1
Female	30.7	49.6	61.9	100
By locality				
Urban	62.0	32.3	192.4	343.3
Rural	38.0	67.7	56.0	100
By region				
North Central	22.5	35.0	64.4	113.0
North Western	5.6	9.7	57.0	100.0
South Central	61.6	39.5	155.9	273.6
South Eastern A	5.6	8.9	62.8	110.3
South Eastern B	4.7	6.8	68.7	120.5

Source: Estimates based on CWIQ 2007 and Ministry of Finance, Annual Fiscal Report, 2006/07.

4.82 **The disparity by gender is expected to improve over time as the new cohort of girls 12 years of age and younger advance to higher levels of education.** Ensuring successful transitions to secondary schooling for this group of girls is vital for closing this gap. Only 27.4 percent of students at the tertiary level are female. Also, efforts to reduce disparities at the locality and regional levels will be needed to close the existing gap in access to education.

Efficiency on Spending in the Education Sector

Characteristics of Schools and Outcomes

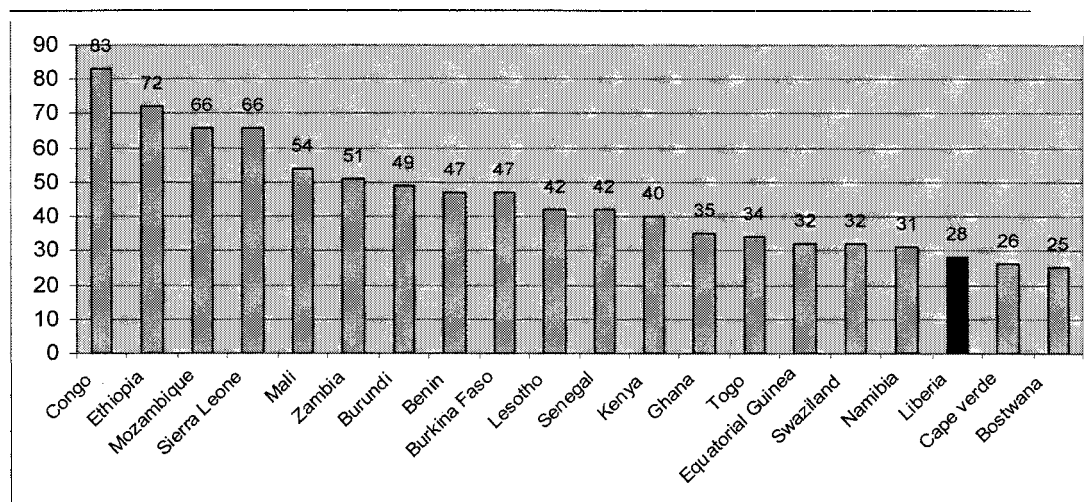
4.83 **There was an average of 28 pupils for every teacher at the primary level in Liberia in 2005/06 and 14 students per teacher at the junior secondary level.** These figures are low compared to other Sub-Saharan African countries. There are variations across the 15 counties; for example, the student-teacher ratio in Lofa is 105. More evenly distributed teacher deployment is needed in Liberia.

4.84 **In the school year 2005/06, there were around 17,442 teachers in primary school.** Female teachers make up around 12.9 percent of the primary school teaching force. Compared with the average of 38 percent for 20 other countries in Africa, Liberia has a low share of female teachers in primary schools. There is little regional variation in the share of female primary school teachers. About 22.7 percent of female primary school teachers are volunteers, and most are financed by community contributions.

4.85 **There are very large inequities in teacher distribution, with fewer teachers, and even fewer qualified teachers, in the rural counties.** At the primary level, Montserrado County

has a pupil to teacher ratio of 30, and 68 pupils per qualified teacher. By contrast Lofa County has a pupil to teacher ratio of 105 and 282 pupils per qualified teacher. Efforts to attract teachers to remote rural areas are needed, recruiting teachers locally and providing them with housing and salary incentives.

4.18: Primary Pupil to Teacher Ratio in Sub-Saharan Countries, 2005/06



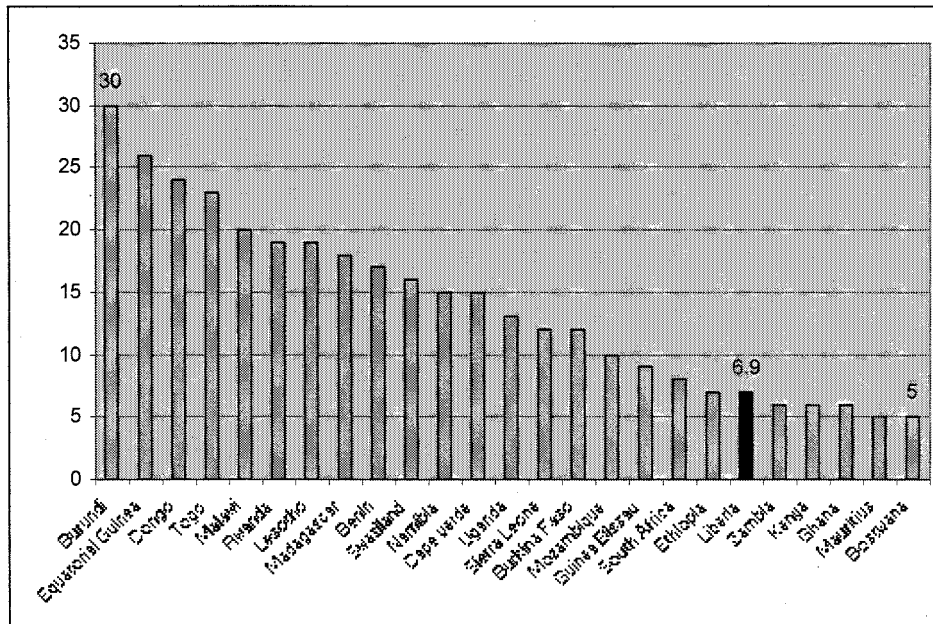
Source: UNESCO Institute for Statistics Global Education Digest, <http://stats.uis.unesco.org/ReportFolders/reportfolders.aspx>; Estimates based on 2005/06 school census

4.86 About 60.4 percent of primary school teachers (or about 10,526) are unqualified. Unqualified teachers are defined in Liberia as teachers without teaching certificates from recognized Teacher Training Institutions. Again there are significant differences across regions. The share of unqualified teachers is 81 percent in Sinoe County. Similar to the primary level, there are relatively high percentages of unqualified teachers in the junior and senior secondary schools, 44.8 percent, and 49.7 percent respectively.

4.87 Completion rates measure the proportion of children who attain schooling of a given grade. In Liberia the important milestones are completing grades six, nine, and twelve because they correspond to completing primary, junior secondary, and senior secondary school, respectively. The gross completion ratio refers to the number of students, regardless of age, completing the final year of each level of education, divided by the population of the official completion age of the level. The 2005/06 school census data yields a gross completion ratio for primary school of 91.9 percent, junior secondary school of 42.8 percent, and senior secondary school of 21.4 percent. But this indicator overstates actual completion performance since the gross completion ratio includes a large number of over-age students. There is disparity in the completion rates at all levels of education by county (annex table 3). While in Lofa, Grand Kru, and Montserrado the primary school gross completion ratio is over 100 percent, in Grand Cape Mount it is below 30 percent. Low completion rates are also observed at the junior secondary and senior secondary levels.

4.88 **Grade repetition rates and dropout rates are two important indicators for measuring student flow efficiency.** Liberia has average grade repetition rates of 6.9 percent in primary education. We observe a high level of repetition in grade 1. The repetition rates decrease with the grades. The secondary level is characterized by a fairly low repetition rate. Compared to other Sub-Saharan African countries, Liberia is on the lower side with an average of 5 percent, while in Burkina Faso the rate is 25 percent (figure 4.18). Still, this level is relatively high, especially in the lower grades, and reducing the repetition rate should be a policy concern of the government.

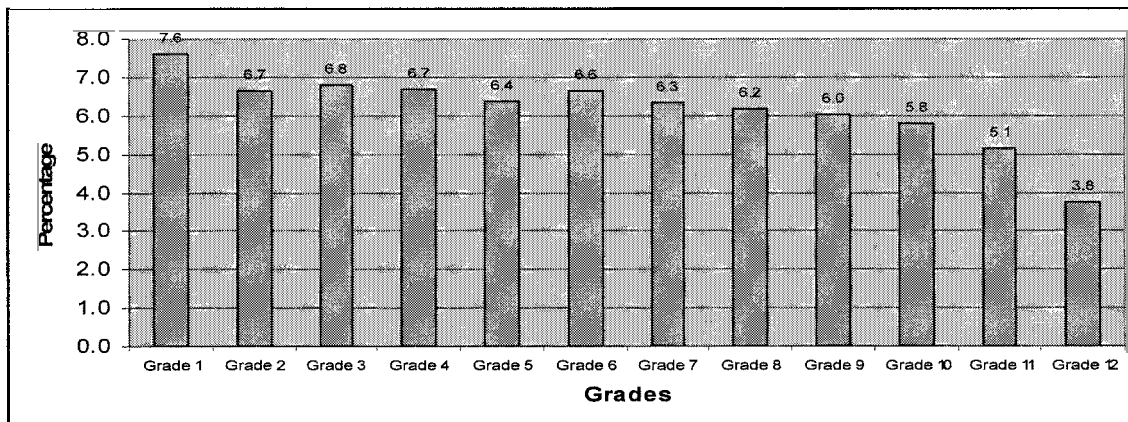
Figure 4.19: Primary Repetition Rates in Sub-Saharan African Countries, 2005/06



Source: Estimates based on 2005/06 school census.

4.89 **Dropout rates are high at grade 1 in primary education with a rate of 7.6 percent.** Further investigations are needed to identify the causes of high dropout rates. Dropout rates fall as children progress to higher grades and are lowest in the final year of senior secondary school, at 3.8 percent.

Figure 4.20: Dropout Rates in Primary and Secondary Levels, 2005/06



Source: Estimates based on 2005/06 school census.

Conclusion and Recommendations

4.90 **Enrollment figures suggest that access to education has improved significantly since the end of the civil war in 2002/03, with gross enrolment rates increasing from 72.7 percent in 2000 to 86 percent in 2007.** But large discrepancy remains in the gross enrollment rate of 86 percent and net enrolment rate of 37 percent, suggesting that many over-aged children and youth who missed out on years of school during the war have returned to school.

4.91 **In comparison to total government expenditure and in proportion to GDP, government expenditure on education in Liberia remains low, even compared with other post-conflict countries.** In this respect, Liberia is far from reaching the EFA Fast Track Initiative benchmark. Government distribution of education expenditure is also skewed, with Liberia spending an unusually small share of its budget on primary education and a very high share on tertiary education. In 2006/07, out of the total education budget, 14.5 percent was allocated to primary education, 11.4 percent to secondary education, 31.6 percent to tertiary education, 7.1 percent to technical/vocational training, and 35.4 percent to administrative and support services. Moreover, private households spent US\$27 million in 2006/07—more than twice the government’s expenditure on education—which places a considerable burden on poor households. This suggests that families place a high priority on educating their children.

4.92 **The rapid expansion in enrollments at the primary level means that many students in the coming years will require places in junior secondary education.** Currently, the junior secondary education system has the places neither to support the large influx coming through the system nor to sustain the numbers that should be coming through when the primary system stabilizes and achieves universal primary completion. The percentage share of expenditure for secondary education increased from 9.5 percent in 2004/05 to 11.4 percent in 2006/07. To adequately supply the resources needed for this sub-sector, allocation will need to be increased.

4.93 **The largest source of education expenditure comes from external aid.** These aid flows are very difficult to track, and only tentative data is available. It is estimated that US\$38 million was spent by donors on education (with a focus on primary education) in 2006/07, which

accounts for more than half of total education expenditure. Better monitoring and targeting of these resources may help to improve the efficiency of educational expenditure and outcomes.

4.94 Disparities in education exist. Female children, rural children, and children from less wealthy households all have lower likelihood of attending school. There are also important regional variations in access and quality of schooling. In general, access to primary school is fairly equitable, but disparities increase in secondary and tertiary education. At the primary school level, the parity index for female to male students is 0.96, and for rural to urban students is 0.89. However, these disparities increase at secondary level to 0.78 and 0.53 respectively. Gross enrollment rates also show high regional variation by county, with a rate of 29 percent in Grand Bassa, compared with 129 percent in Grand Cape Mount. More effort should be made to ensure that female and rural children have access to secondary and tertiary education. Resources could be distributed more equitably across the country to reduce regional variations in education access.

4.95 Because of the limited fiscal space, the government's strategy for education in the short-to-medium term should focus on:

- Improving the efficiency of the allocation and expenditure.
- Building a partnership with the private sector to increase resources.
- Ensuring that education and training are better aligned with labor market needs.

4.96 Budget allocations to the education sector should be based on a sector strategy. In the multi-year budget framework, the government should ensure that relatively more public resources are channeled to primary and junior secondary education, where the social returns are likely to be higher relative to those in upper secondary and tertiary education. In addition, when allocations are made to investments, they should indicate the long-term recurrent implications, like those of the regional training institutes. Some allocations toward basic education services (those that go beyond primary education) should be equity- or quality-based. As the majority of external funding is for primary education, increased capital spending is needed at the secondary education level to provide more schools and learning materials.

4.97 Greater resource efficiency could be achieved by lowering the dropout rate and grade repetition rates, especially in grade 1. Interventions should focus on improving quality, by improving teachers' qualifications and increasing accessibility to teaching and learning materials. The government is advised to reduce the pupil to teacher ratio by addressing large inequities in teacher distribution. This could be done by increasing local recruitment and providing teacher housing and salary incentives.

4.98 There is also the need to clean up the teacher payroll. The disruption and insecurity caused by the war resulted in many teachers leaving their posts, large numbers of replacement teachers (47 percent in Grand Cape Mount), and concern about the possibility of ghost teachers. Recent exercises have been conducted to clean the payroll, but discrepancies remain between school data, human resources data and Education Management Information System data, suggesting that the payroll is not yet completely clean.

4.99 **Further efficiency gains could come from decentralizing service delivery.** An initial step could be enhancing county education offices' capacity and improving school management for service delivery. Since the free and compulsory education policy has been implemented, schools no longer benefit from revenues to cover operational costs for minor maintenance and small material. School management committees do exist but are not fully functional. In many Sub-Saharan African countries, a system of direct flow of funds to schools for service delivery has improved the accountability and quality of service delivery. This system may be worth piloting in select counties. One additional benefit of this direct fund flow would be the need to strengthen local financial management systems, which is a prerequisite for accountability and transparency of public funds.

4.100 **In order to expand resources, the government should explore promoting public-private partnerships and cost recovery at the tertiary level.** This is in keeping with making expenditure more progressive by spending more at the primary and lower secondary levels. Different models of public-private partnership and cost recovery systems in other countries should be examined, particularly for tertiary education, where the unit costs are far higher than those for primary and secondary education.

4.101 **An important element of the strategic planning for education is to ensure that its outcomes are better aligned to the labor market needs of the country.** The public-private partnership should therefore go beyond investment in school plants or tuition. It should include consultations on curriculum development, life skills training, or other innovative ways of involving the private sector in managing the delivery of educational and training services.

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Annex 1: Public Expenditure Reviews, Tables, and Figures

Table A1.1: Functional Classification of Public Expenditure, in Percent of Total Expenditure, 2004/05–2007/08

	2004/2005	2005/2006	2006/2007	2007/2008	Average 2004/07
Administrative services	36.3	28.6	35.4	29.3	32.4
Legislature	5.8	5.5	8.5	7.7	6.9
Presidency	7.4	4.9	7	3.9	5.8
Economic, finance, budget, planning, and internal affairs	7.5	8.2	11.3	8.2	8.8
Information, culture affairs, & tourism	1.1	0.6	0.6	0.6	0.7
Liberia Inst. for Statistical and Geo-information	0	0	0.5	1.8	0.6
Others	14.6	9.4	7.5	7.1	9.7
Security services	33.8	31.4	15.4	14.0	23.6
Judiciary	4.6	4.8	5.5	3.9	4.7
Justice	5.6	7.6	6.7	6.0	6.5
Defense	18	14.2	1.5	1.8	8.9
Security	4.8	4.2	1.6	2.1	3.2
Investigation	0.8	0.6	0.2	0.2	0.4
Social and community services	18.1	25.9	28.1	27.5	24.9
Education	9	12.5	11.3	11.8	11.1
Health and social welfare	5.3	7	6.2	5.9	6.1
JFK medical center	0.2	2	1.6	1.9	1.4
Public works	1	1.5	4.7	4.7	3.0
Gender & development	0.5	0.6	0.6	0.5	0.5
Liberia Institute of Biomedical Research	0	0.3	0.1	0.1	0.1
Phebe Hospital & School of Nursing	0	0	0.5	0.2	0.2
Others	2.1	2.1	3.2	2.4	2.5
Economic services	7.8	4.4	7.7	6.9	6.7
Agriculture	0.9	0.5	2.6	1.8	1.5
Lands, mines and energy	0.9	0.9	1.4	1.5	1.2
Transport	0.7	0.4	0.7	0.5	0.6
Environment	0.2	0.2	0.2	0.2	0.2
Forestry	1.3	0.8	1.1	1.4	1.2
Others	4	1.6	1.6	1.3	2.1
Others entities	2.1	7.4	8.6	15.9	8.5
Debt services	1.8	2.3	4.7	6.5	3.8
Total	100	100	100	100	100

Source: Ministry of Finance.

Table A1.2: Government Expenditure on Health, 2004/05–2007/08

	2004/2005	2005/2006	2006/2007	2007/2008
Current US\$ millions				
Total health expenditure	4.2	5.6	10.3	16.7
Current	3.7	5.0	9.1	15.9
Capital	0.5	0.5	1.2	0.8
Constant 1992 US\$ millions				
Total health expenditure	3.5	4.2	7.2	10.8
Current	3.0	3.8	6.4	10.3
Capital	0.4	0.4	0.8	0.5
Health expenditure in% of GDP	0.9	1.0	1.7	2.3
Health current expenditure in% of GDP	0.8	1.0	1.5	2.2
Health expenditure in% of total government expenditure	5.3	6.9	7.7	8.2
Health per capita spending (current \$US)	1.3	1.7	3.0	4.8

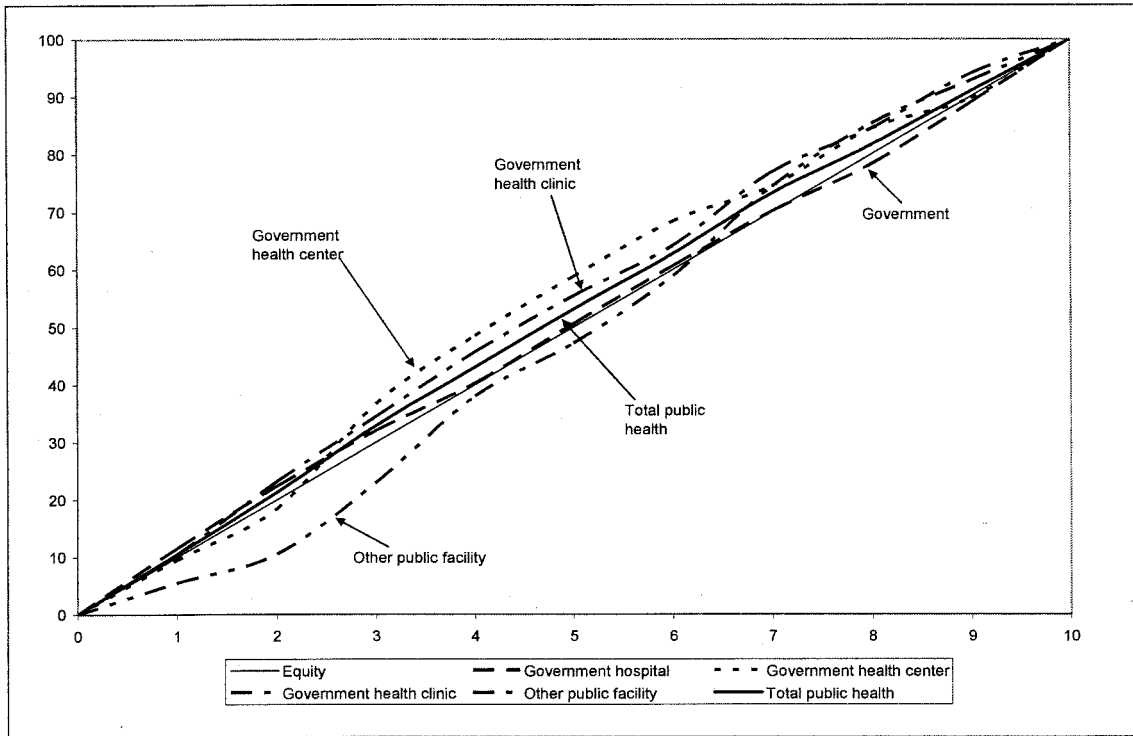
Source: Ministry of Finance.

Table A1.3: Benefit Incidence Analysis for the use of Health Care Facilities, Liberia 2007

Deciles	Public hospital	Public health center	Public health clinic	Other public facility	Private hospital or clinic	Number of consultations				Private doctor or dentist	Mobile clinic, black bagger, drug peddler	Other private facility	Traditional healer	Total public health	Total
						Pharmacy	Pharmacy or dentist	Mobile clinic, black bagger, drug peddler	Other private facility						
1	32236	7925	20622	2200	10483	4497	428	5033	712	8399	62983	92535			
2	30248	7449	24861	2037	10611	3948	1252	11594	707	7479	64595	100186			
3	27101	15236	22375	5027	13579	3644	1540	6814	948	9742	69739	106006			
4	22988	9857	22012	6039	19253	7725	1323	11102	844	6230	60896	107373			
5	28974	8568	19258	3715	23905	4883	2108	14287	1276	6285	60515	113259			
6	28003	8005	17100	4707	26742	8094	369	9353	479	8334	57815	111186			
7	26506	5040	25059	6231	27913	5142	511	9216	4634	5976	62836	116228			
8	22886	8313	14938	4414	23689	7848	1202	13435	921	4687	50551	102333			
9	29880	4412	18687	3002	29559	9570	2353	15344	1466	5213	55981	119486			
10	30841	8583	11828	2910	38713	8720	1809	6554	1418	8508	54162	119884			
Total	279663	83388	196740	40282	224447	64071	12895	102732	13405	70853	600073	1088476			
Share															
1	11.5	9.5	10.5	5.5	4.7	7.0	3.3	4.9	5.3	11.9	10.5	8.5			
2	10.8	8.9	12.6	5.1	4.7	6.2	9.7	11.3	5.3	10.6	10.8	9.2			
3	9.7	18.3	11.4	12.5	6.0	5.7	11.9	6.6	7.1	13.7	11.6	9.7			
4	8.2	11.8	11.2	15.0	8.6	12.1	10.3	10.8	6.3	8.8	10.1	9.9			
5	10.4	10.3	9.8	9.2	10.7	7.6	16.3	13.9	9.5	8.9	10.1	10.4			
6	10.0	9.6	8.7	11.7	11.9	12.6	2.9	9.1	3.6	11.8	9.6	10.2			
7	9.5	6.0	12.7	15.5	12.4	8.0	4.0	9.0	34.6	8.4	10.5	10.7			
8	8.2	10.0	7.6	11.0	10.6	12.2	9.3	13.1	6.9	6.6	8.4	9.4			
9	10.7	5.3	9.5	7.5	13.2	14.9	18.2	14.9	10.9	7.4	9.3	11.0			
10	11.0	10.3	6.0	7.2	17.2	13.6	14.0	6.4	10.6	12.0	9.0	11.0			
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0			

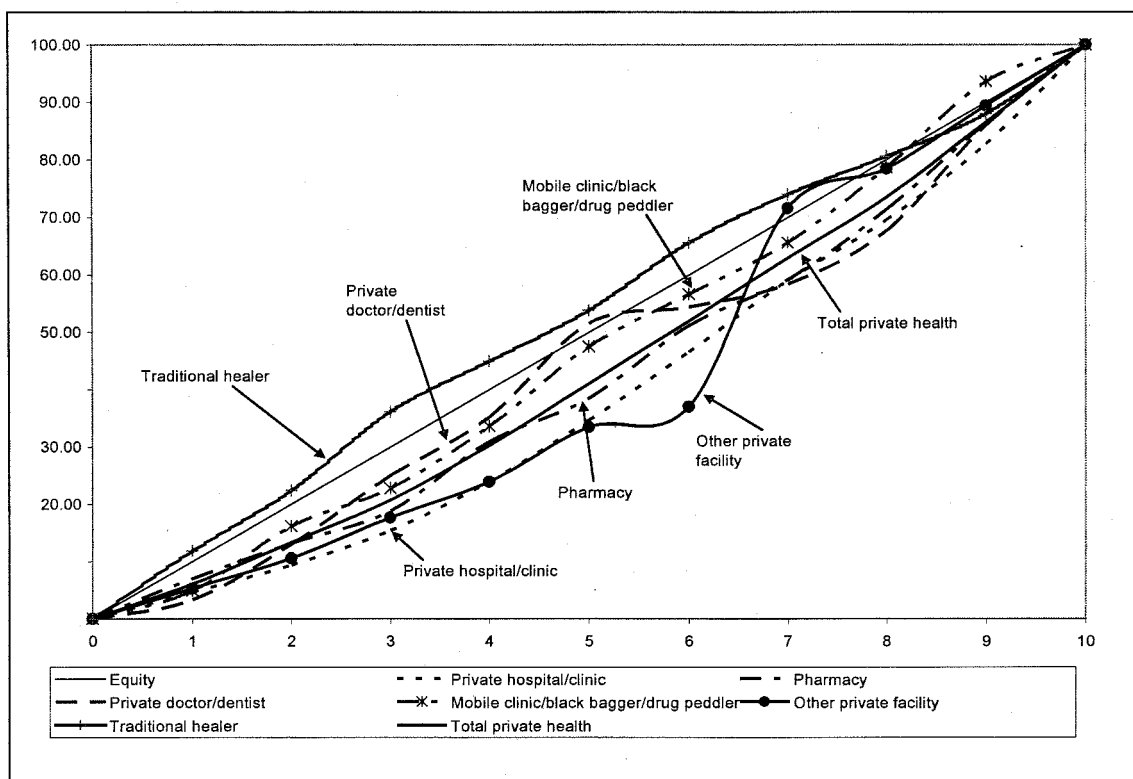
Source: Authors' estimates based on 2007 CWIQ survey.

Figure A1.1: Concentration Curves for use of Public Health Facilities, 2007



Source: Authors' estimates based on 2007 CWIQ survey.

Figure A1.2: Concentration Curves for use of Private Health Facilities, 2007



Source: Authors' estimates based on 2007 CWIQ survey.

Table A1.4: Government Expenditure on Education, 2000–2007

	2004/2005	2005/2006	2006/2007	2007/2008
Current US\$ millions				
Total education expenditure	7.3	8.0	12.2	23.9
Current	7.1	7.3	11.7	21.9
Capital	0.2	0.7	0.5	1.4
Constant 1992 US\$ millions				
Total education expenditure	6.0	6.1	8.6	15.1
Current	5.9	5.5	8.2	14.1
Capital	0.2	0.6	0.4	0.9
Education expenditure in% of GDP	1.6	1.5	2.0	3.2
Education expenditure in% of total government expenditure	9.6	13.5	9.9	11.7

Source: Ministry of Finance.

Table A1.5: Distribution of Current Expenditure by Level of Education and Type of Expenditure in 2006/07

	Personnel Expenditure		Goods and Services							Transfers					Total Cost In \$US millions
	Salary expenditure	Specialized operation and maintenance and supplies		Fuels and lubricants	Domestic and foreign travel expenses	Other goods and services	Total	Monrovia consolidated school system	University of Liberia	Free and compulsory primary education	Scholarships	Other transfers	Total		
		Training equipment tools	Text books											Others	
Primary education	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.7	0.1	0.3	1.6	1.7
Secondary education	0.2	0.0	0.0	0.1	0.0	0.1	0.2	0.5	0.0	0.0	0.0	0.1	0.3	0.9	1.3
Higher education	0.3	0.0	0.0	0.1	0.0	0.2	0.3	0.0	0.0	1.4	0.0	0.5	1.2	3.1	3.7
Technical/Vocational Training	0.1	0.2	0.0	0.1	0.0	0.3	0.6	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.8
Administrative and support services	2.1	0.0	0.0	0.3	0.1	1.0	1.9	0.0	0.0	0.0	0.0	0.0	0.2	0.2	4.1
Total	2.7	0.2	0.1	0.6	0.5	1.6	3.0	1.0	1.4	0.7	0.6	2.2	6.0	11.7	
percentage distribution of costs															
Primary education	3.3	0.0	0.0	0.3	0.0	1.3	1.6	29.1	0.0	41.3	5.5	19.1	95.1	100.0	
Secondary education	14.8	0.0	0.0	2.5	4.1	9.6	16.1	37.0	0.0	0.0	7.0	25.0	69.1	100.0	
Higher education	6.8	0.0	0.4	1.1	2.1	4.5	8.3	0.0	38.6	0.0	12.5	33.8	84.9	100.0	
Technical/Vocational Training	13.5	24.2	0.0	0.3	9.7	33.7	67.9	0.0	0.0	0.0	0.0	18.6	18.6	100.0	
Administrative and support services	50.3	0.0	1.1	12.8	6.3	23.2	45.8	0.0	0.0	0.0	0.0	3.9	3.9	100.0	
Total	23.1	1.7	0.5	5.2	4.1	13.3	25.7	8.4	12.2	6.0	5.5	19.0	51.2	100.0	

Source: Authors' estimates based on Ministry of Finance expenditure data.

Annex 2: Liberia 2007 Public Financial Management Performance Report

BACKGROUND

1. This is the first systematic baseline assessment of the performance of the public financial management system in Liberia. It builds on the analytics undertaken over the last five years by various development partners. It is based on the public financial management Performance Measurement Framework—a monitoring framework used by around 80 countries. This framework tracks country public financial management (PFM) performance over time. It has been developed by the Public Expenditure and Financial Accountability (PEFA) partners, which include the World Bank, IMF, European Commission, Norway, Department for International Development, and Switzerland. The PEFA indicator set comprises 28 high-level indicators that assess the various components of the public financial management system and 3 that assess donor performance. The information provided by the indicators can be used for developing a PFM reform program and for monitoring progress over time. Note, however, that the PEFA indicators measure the outcome of the system rather than specific actions associated with PFM reforms.

2. Each indicator contains one or more dimensions to assess the key elements of the PFM process. Two methods of scoring are used. Method 1 (M1) is used for all single-dimensional indicators and for multi-dimensional indicators where poor performance on one dimension is likely to undermine the impact of good performance on other dimensions of the same indicator. A plus sign is given where any of the other dimensions are scoring higher.

3. Method 2 (M2) is based on averaging the scores of individual dimensions of an indicator. It is prescribed for selected multi-dimensional indicators, where a low score on one dimension does not necessarily undermine the impact of a high score on another dimension of the same indicator. Though the dimensions all fall within the same area of the PFM system, progress on individual dimensions can be made independent of the others and without having to follow any sequence. A conversion table is provided for 2, 3, and 4 dimensional indicators to arrive at the overall score. In both scoring methodologies, the 'D' score is considered the residual score, to be applied if the requirements for any higher score are not met.

4. The overall assignment has been carried out by the Public Expenditure and Financial Accountability Review (PEMFAR) team, with participation from the African Development Bank, DFID, IMF, UNDP, the Swedish National Auditing Office (SNAO), and the World Bank. The report was prepared based on findings from three missions. The first was conducted in October 2007 by Chukwuma Obidegwu, Tidiane Toure, Winston Cole, Emmanuel Fiadzo, Eric Nelson, and Rebecca Simson from the World Bank; Loxly Epie and Maro Gabriel from the African Development Bank; and consultants Robert Cauneau, Simplicite Zouhon Bi and Charles Taylor. A second follow-up mission was conducted in November 2007 by Parminder Brar, Winston Cole, Allister Moon, Emmanuel Fiadzo, and Rebecca Simson from the World Bank. A mission by Lage Olofsson and Bo Sandberg from the SNAO in January 2008 provided further input on the audit function. The missions worked closely with the Ministry of Finance (MoF), the Bureau of the Budget (BoB), General Auditing Commission, Public Procurement and Concessions Committee (PPCC), and various Ministries and State-Owned Enterprises. The report was reviewed by the Ministry of Finance,

IMF, UNDP, and DFID in February to April 2008 and revised based on comments and input received. The report was also reviewed by the PEFA Secretariat in late 2008.

5. The report was prepared around late 2007 and early 2008, but the PEFA scoring provides a snapshot of performance in 2007. Some later information has been provided for clarity, but the ratings do not take into account developments in 2008.

INTRODUCTION

6. Liberia's public financial management systems have improved since 2006 through an ambitious reform agenda agreed to by the government and international partners. Key reforms include the development of financial rules, changes made to the budget calendar, and a more inclusive budget formulation and implementation process. The allotments issued by the Bureau of the Budget (BoB) have been linked to cash and procurement plans submitted by the line ministries and agencies. The implementation of commitment control has ensured that no new arrears have been incurred. Improvements in the business process and the work environment in the MoF have decreased the processing time of payment requests with qualitatively better checks. Payment of civil servant salary has improved—salaries have been paid consistently on a monthly basis. MoF has begun to pay employees in the counties by using Central Bank mobile payment centers, United Nations Mission in Liberia, and by placing pay masters in the counties. There have also been efforts to computerize some of the business processes of the PFM cycle—the automation of the EDP payroll, the check printing for the CMCo approved payments and the implementation of the Liberian Expenditure Control and Accounting Program for cash plans, monitoring of allotment, tracking vouchers, and reporting on expenditure. These have laid the grounds for implementation of a more sophisticated Integrated Financial Management Information System (IFMIS). Significantly, there is substantial government leadership and ownership of this reform process.

7. There is also considerable support for capacity-building efforts through a combination of donor support and indigenous ownership, making the whole process more sustainable in the long run. A two-year Masters in Management program—a collaborative initiative of the MoF, Civil Service Agency, Liberia Institute of Public Administration and the University of Liberia—is a significant step forward. The first batch has 29 trainees who on completion of the program (December 2008) will be placed in finance divisions of key ministries and agencies. These students and other MoF staff will later participate in the Accountancy Bodies of West Africa (ABWA) technician examination school funded by a Low Income Countries Under Stress grant. A second batch of 30 trainees joined the program in February 2008. In addition, the MoF has initiated regular on-the-job training and workshops to build capacity and take the reform process to the various stake holders in the PFM cycle.

8. The following report provides a detailed assessment of Liberia's Public Financial Management system, using a standardized set of 28 PEFA indicators plus 3 PEFA indicators pertaining to donor practices. Since this is the first time the final set of performance indicators (PI) have been used in Liberia and shared with all stakeholders, the report contains some additional details on the scoring methodology. Note, however, that the PEFA scorings look at practices over past years and thus cannot fully capture the strong, ongoing reform progress. The scores aim to provide a baseline for comparison with performance in future years. The

PEFA framework is a standardized assessment tool for PFM institutions and thus does not fully capture the strength of special, transitional PFM arrangements established in post-conflict settings such as Liberia.

9. Liberia's PEFA indicators are mixed, with 13 of 28 indicators scored as D/D+, and 10 indicators scored as C (two PEFA indicators did not receive a score). The indicators related to donor performance were also scored poorly with two scores of D and one indicator that could not be scored. PEFA indicators pertaining to budget implementation and budget accounting, auditing, and monitoring scored particularly poorly. However, given Liberia's outdated institutional system for PFM and the severe stress to which it has been subjected due to civil war and economic collapse, the scores are relatively strong and reflect strong performance since the end of the civil war.

Table A2.1: Summary of 2007 PEFA PFM Performance Scores

A. PFM-OUTTURNS: Credibility of the budget		Scores
PI-1	Aggregate expenditure outturn compared with original approved budget	B
PI-2	Composition of expenditure outturn compared with original approved budget	D
PI-3	Aggregate revenue outturn compared with original approved budget	A
PI-4	Stock and monitoring of expenditure payment arrears	D+
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	Classification of the budget	C
PI-6	Comprehensiveness of information included in budget documentation	C
PI-7	Extent of unreported government operations	D+
PI-8	Transparency of intergovernmental fiscal relations	No score
PI-9	Oversight of aggregate fiscal risk from other public sector entities	D
PI-10	Public access to key fiscal information	C
C. BUDGET CYCLE		
C(i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	B
PI-12	Multi-year perspective in fiscal planning, expenditure policy, and budgeting	D+
C(ii) Predictability and Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	C
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C
PI-15	Effectiveness in collection of tax payments	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	C+
PI-17	Recording and management of cash balances, debt, and guarantees	C+
PI-18	Effectiveness of payroll controls	D+
PI-19	Competition, value for money, and controls in procurement	D+
PI-20	Effectiveness of internal controls for non-salary expenditure	C+
PI-21	Effectiveness of internal audit	D+
C(iii) Accounting, Recording, and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	D
PI-23	Availability of information on resources received by service delivery units	D
PI-24	Quality and timeliness of in-year budget reports	C
PI-25	Quality and timeliness of annual financial statements	D
C(iv) External Scrutiny and Audit		
PI-26	Scope, nature, and follow-up of external audit	D
PI-27	Legislative scrutiny of the annual budget law	C+
PI-28	Legislative scrutiny of external audit reports	No score
D. DONOR PRACTICES		
D-1	Predictability of direct budget support	No score
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D
D-3	Proportion of aid that is managed by use of national procedures	D

Assessment of the PFM systems, processes, and institutions

Description of the legal and institutional framework for PFM

1. The main legal and regulatory framework for PFM in Liberia is contained in The Executive Law 1972 and The Revenue Code of Liberia Act of 2000; amendments have been made to them over the past years. The Public Procurement and Concessions Commission (PPCC) was established through the Public Procurement and Concessions Act of September 2005.
2. The General Auditing Office (GAO) was established by an act of the national legislature as an autonomous agency within the executive branch of the government. The 1956 act was later amended by an executive law of 1972 to enforce its mandate and responsibilities. The National Transitional Legislative Assembly in June 2005 amended chapter 53 of the Executive Law of 1972 to change the name of the GAO to General Auditing Commission and to place it under the legislative branch of the government.
3. Draft legislations are also with the legislature to move the Bureau of the Budget from the Office of the President to the Ministry of Finance. This will improve the collaboration of the two offices and ensure a more strategic and integrated approach to budget formulation and monitoring.
4. The legislature is proposing to establish a Legislative Budget and Finance Office (LBFO) to analyze budget documents and fiscal reports from the executive. This proposal should be reviewed with plans to develop a PFM Act.
5. A 'Budget Transfer Act' was passed in early 2008, amending section 2212 of the Revenue Code, to allow transfers of maximum 20 percent between agencies. This represents an important improvement, as there had been no formal limits to transfers.
6. Based on Section 2204 (b) of the Revenue Code, "To prescribe for all government agencies, the forms, systems, and procedure for administrative appropriations and fund accounting"; the Ministry of Finance framed a set of interim financial rules (February 2006) that prescribe procedures for public spending and form the basis of approval for all expenditure by the Cash Management Committee. These rules are applicable to all ministries, agencies, and public corporations receiving public funding. Based on the experience with implementing these rules over the last 20 months and across two fiscal years the, Ministry of Finance has revised these sets of rules. These revised rules have been approved by the Cabinet (December 2007) and have been issued to ministries and agencies. The Ministry of Finance also introduced the interim commitment control system (July 2006) to ensure that the government did not accumulate any fresh arrears. In addition, the government has introduced through an executive ordinance a policy on foreign travel (April 2006) and domestic travel (January 2007) to regulate the travel entitlements of government employees. There has been an effort to strengthen the institutional framework and make it more accountable and transparent.
7. The PFM legal and regulatory framework needs to be developed in a comprehensive manner to identify roles and responsibilities of the involved institutions, establish internal controls, and institutionalize the internal audit function; formalize reporting requirements; and establish a code of conduct for public officials. The government is currently working to develop

a comprehensive PFM Act, which aims to address some of these shortcomings, with technical support from the IMF.

8. The government's institutional framework is summarized in the table below, which shows the number of PFM institutions and the volume of resources managed in executing government programs.

Table A2.2: Number of Public Financial Management (PFM) Institutions and the Volume of Resources Managed in Executing Government Programs

Institutions	PFM Institutions	
	Number of Entities	% of total public expenditures (2007/08 budgeted)
Central government*	46	93.1%
State-owned enterprises	16	3.9%
Autonomous government agencies**	10	3.0%
Sub-national governments	—	—

*Includes ministries, departments, and agencies

** Includes all commissions/agencies receiving direct transfers.

OVERVIEW OF EXPENDITURE PATTERNS

9. Expenditure in Liberia has risen rapidly since 2004/05, as the government's revenue based has recovered. Expenditure grew by an average of 23 percent a year over the past five years, from US\$81 million to an estimated US\$199 million between 2005/06 and 2007/08. The tables below detail expenditure by functional and economic classification. Due to incomplete reconciliation of expenditure, the fiscal reports from 2005/06 and 2006/07 include expenditure labeled as "other."

**Table A2. 3: Actual Expenditure by Functional Classification
(as percent of total expenditure)**

	2007/08 (estimate)		2006/07		2005/06	
	US\$	%	US\$	%	US\$	%
General administrative services	52.9	27%	44.7	33%	28.20	35%
Security services	27.2	14%	22.1	16%	15.49	19%
Social and community services	52.7	26%	36.1	27%	16.37	20%
Economic services	14.2	7%	11.0	8%	3.13	4%
Other institutions and entities	13.8	7%	17.4	13%	6.55	8%
Other general claims	38.6	19%	3.4	3%	8.37	10%
Other expenditure					2.97	4%
TOTAL	199.4	100%	134.7	100%	81.07	100%

**Table A2.4: Actual Expenditure by Economic Classification
(as percent of total expenditure)**

	2007/08 (estimate)		2006/07		2005/06	
	US\$	%	US\$	%	US\$	%
Wages and salaries	67.5	34%	32.7	24%	39.1	48%
Goods and services	59.8	30%	33.4	25%	21.4	26%
Transfers and subsidies	32.7	16%	17.3	13%	11.2	14%
Debt payments	18.2	9%		0%	3.0	4%
Capital expenditure	21.1	11%	17.2	13%	6.3	8%
Other expenditure			34.1	25%		
TOTAL	199.4	100%	134.6	100%	81.1	100%

A. PFM OUTTURNS: CREDIBILITY OF THE BUDGET

PI-1: Aggregate expenditure outturn compared with original approved budget

10. The budget is a planning instrument that determines how policy objectives are translated into actual achievements through public service delivery. The effectiveness of the budget as a planning tool is reflected in the performance of outturn against the original budget. This first section of the report analyzes the credibility of the budget based on expenditure, revenue, and arrears.

11. Comparing the original budget total to aggregate outturn (excluding debt payments) shows that expenditure was fairly close to the budgeted amount in FY06/07. In FY05/06 however, actual expenditure was 14.5 percent lower than the budget estimate. This was largely due to revenues falling short of projections; only US\$86 million was collected in revenue, compared with original estimates of US\$98 million. The FY05/06 budget was also influenced by the elections in 2005 and change in government in early 2006, which disrupted both revenue collection and expenditure patterns. In February 2006, the National Transitional Government of Liberia (NTGL) was replaced by the democratically-elected President Johnson-Sirleaf administration. While the NTGL period was marked by widespread misuse of public funds, the new government put stringent mechanisms in place to control public expenditure and developed a recast budget for February to June 2006, passed first in April 2006. These new expenditure controls and delays in passing the recast budget resulted in slower spending than targeted during the second half of the fiscal year.

12. Data for 2004/05 has been included, but the fiscal report for that year is of low quality, and data is poorly disaggregated. Actual expenditure exceeded budgeted expenditure in FY06/07 because total revenue collection was higher than projected.

	Budgeted expenditure US\$ million (excluding debt service)	Actual expenditure US\$ million	Difference	% variation
FY06/07	119.3	123.1	3.8	3.2%
FY05/06	86.1	73.6	-12.4	-14.5%
FY04/05 ⁴⁷	69.2	75.1	5.9	8.5%

⁴⁷ Data on debt service expenditure for 2004/05 is unreliable, as fiscal reporting was poor.

INDICATOR	BRIEF COMMENT	SCORE																
PI-1 Aggregate expenditure outturn compared with original approved budget		B																
(i) The difference between actual primary expenditure and the originally budgeted primary expenditure	<table border="1"> <thead> <tr> <th>Year</th> <th>Approved budget</th> <th>Actual spending</th> <th>% Variation</th> </tr> </thead> <tbody> <tr> <td>2006/07</td> <td>119.3</td> <td>123.1</td> <td>3.2%</td> </tr> <tr> <td>2005/06</td> <td>86.1</td> <td>73.6</td> <td>-14.5%</td> </tr> <tr> <td>2004/05</td> <td>69.2</td> <td>75.1</td> <td>8.5%</td> </tr> </tbody> </table> <p>In only one of the last three years (2005/06), has the deviation exceeded the budget by more than 10%.</p>	Year	Approved budget	Actual spending	% Variation	2006/07	119.3	123.1	3.2%	2005/06	86.1	73.6	-14.5%	2004/05	69.2	75.1	8.5%	B
Year	Approved budget	Actual spending	% Variation															
2006/07	119.3	123.1	3.2%															
2005/06	86.1	73.6	-14.5%															
2004/05	69.2	75.1	8.5%															

PI-2: Composition of expenditure outturn compared with original approved budget

13. A comparison of budgeted and actual expenditure shows significant variance for 2006/07 and 2005/06, while 2004/05 has been excluded due to lack of disaggregated data. Variance in expenditure composition exceeded overall variance in primary expenditure by 19 percent in 2006/07 and 12 percent in 2005/06. In 2005/06, the budget was recast in early 2006 after the new administration took office, which resulted in considerable discrepancies between the original budget—prepared by the NTGL—and final expenditure. In 2006/07 a supplemental budget was passed in 2007 as a result of strong revenue performance, which altered the distribution of resources between the spending entities. Until 2008, there were no limits to the volume of budgetary transfers that could be authorized without legislative approval. The National Budget Committee approved all budgetary transfers. An act was passed in early 2008 limiting interagency budgetary transfers to 20 percent.

INDICATOR	BRIEF COMMENT	SCORE								
PI-2 Composition of expenditure outturn compared with original approved budget		D								
(i) Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure	<table border="1"> <thead> <tr> <th>Year</th> <th>% Variation</th> </tr> </thead> <tbody> <tr> <td>2006/07</td> <td>19%</td> </tr> <tr> <td>2005/06</td> <td>12%</td> </tr> <tr> <td>2004/05</td> <td>Not available.</td> </tr> </tbody> </table> <p>The variance in the composition of primary expenditure exceeded the deviation in overall primary expenditure by more than 10 percent in two out of the last three years. Data was not available for 2004/05.</p>	Year	% Variation	2006/07	19%	2005/06	12%	2004/05	Not available.	D
Year	% Variation									
2006/07	19%									
2005/06	12%									
2004/05	Not available.									

PI-3: Aggregate revenue outturn compared with original approved budget

14. The government's biggest source of revenue is taxes on international trade, followed by taxes on income and profits and domestic taxes on goods and services. Liberia has for several decades operated a flag of convenience for international vessels; it generates approximately 10 percent of its revenue from vessel registration fees. Liberia's revenue has increased rapidly since

2006, owing largely to an increase in international trade as the economy rebounded and GDP grew, as well as strengthened tax administration, which increased custom and excise revenue.

15. The table below shows revenue collection against the estimated revenue in the original budgets. While the revenue prediction for FY04/05 was fairly close to the actual revenue outturn, in FY05/06 the revenue predictions significantly overestimated growth in revenue, and in FY06/07 the growth in revenue was significantly underestimated.

	Estimated Revenue US\$ m	Actual Revenue US\$ m	Difference	% Variation
FY06/07	129.917	148.34	18.423	12%
FY05/06	97.894	85.575	-12.319	-14%
FY04/05 ⁴⁸	80.000	82.687	2.687	3%

16. This variance in predicted and actual revenue collection is partly a reflection of the difficulty of predicting GDP growth and revenue growth during the immediate post-war period. Revenue collection was lower than expected in FY05/06, owing to uncertainty surrounding the 2005 elections—which disrupted revenue collection—as well as the lack of confidence in the NTGL. Since the present administration took office in early 2006, tax administration has been strengthened significantly, abuse of duty waivers has been reduced, and confidence in the Liberian economy has grown. This had led to higher rates of investment and importation and a growth in the tax base. The underestimated revenue in 2006/07 is also a function of the cash-based budgeting system and the government's commitment not to borrow funds, which encourages greater caution and modest revenue predictions, as the government cannot borrow to smooth spending in case of a revenue shortfall.

INDICATOR	INDICATOR VALUE	SCORE																
PI-3 Aggregate revenue outturn compared with original approved budget.		A																
(i) The difference between actual revenue collection compared with original revenue estimates in the budget	<table border="1"> <thead> <tr> <th>Year</th> <th>Approved Budget</th> <th>Actual Collection</th> <th>% Variation</th> </tr> </thead> <tbody> <tr> <td>2006/07</td> <td>129.9</td> <td>148.3</td> <td>12%</td> </tr> <tr> <td>2005/06</td> <td>97.9</td> <td>85.6</td> <td>-14%</td> </tr> <tr> <td>2004/05</td> <td>80.0</td> <td>82.7</td> <td>3%</td> </tr> </tbody> </table> <p>Actual domestic revenue collection fell below 97 percent of budgeted domestic revenue estimates in only one of the past three years. In the other two years, collection exceeded the revenue estimates.</p>	Year	Approved Budget	Actual Collection	% Variation	2006/07	129.9	148.3	12%	2005/06	97.9	85.6	-14%	2004/05	80.0	82.7	3%	A
Year	Approved Budget	Actual Collection	% Variation															
2006/07	129.9	148.3	12%															
2005/06	97.9	85.6	-14%															
2004/05	80.0	82.7	3%															

PI-4: Stock and monitoring of expenditure payment arrears

17. The Liberian government has faced a complex debt situation. The country had remained in a state of default for over 20 years and faces an enormous debt burden. It began accumulating arrears to the IMF in 1986. The country's debt service payments virtually ceased over the course

⁴⁸ Data on debt service expenditure for 2004/05 is unreliable, as fiscal reporting was poor.

of this period. The nominal value of its external debt was estimated at US\$4.8 billion as of end-June 2007, of which 96 percent was in arrears. Multilateral, bilateral, and commercial creditors each hold approximately a third of the debt stock. In addition, the government has begun to make payments against its sizable domestic debt stock.

	NOMINAL DEBT STOCK US\$ million
External	4,798
Multilateral	1,615
Bilateral	1,543
Commercial	1,640
Domestic	914
TOTAL	5,712

18. Data on the stock of arrears has been generated through a debt reconciliation process, completed in April 2007. Nearly all records were destroyed during the civil conflict and had to be reconstructed based on creditor records, where the integrity of the creditor's records could be trusted. The government used technical assistance to track and verify commercial debt. Liberia's domestic debt was reviewed in 2006-07, resulting in the development of a domestic debt strategy. The nominal value of domestic claims was estimated at US\$914 million in 2006. All claims were subsequently reviewed and claims of US\$304 million deemed valid. Valid claims will be honored after applying different discount rates (between 0 and 88 percent) depending on the size of the debt. The government has set up a special trust fund for domestic arrears clearance and repayment of the Central Bank debt. The government is working to institute systematic debt monitoring practices.

19. For the purposes of PEFA indicator 4, only interest arrears are considered expenditure arrears, and unpaid amortization of loan principal is not included in the calculation. Since much of Liberia's interest arrears have become capitalized—particularly arrears from multilateral creditors—the total arrears stock to be treated under this indicator is far lower than Liberia's total arrears stock. Disaggregated data showing interest arrears and principal arrears for commercial and domestic debt could not be determined for the purpose of this review. However, interest arrears on multilateral debt alone was \$847 million as of June 2007, which represents over 600% of expenditure (2006/07)—this far exceeds the threshold for a “D” score on this indicator dimension.

20. Liberia has begun to resolve its unsustainable debt situation, successfully clearing arrears to the World Bank and AfDB in December 2007 and to the IMF in March 2008. Upon clearing arrears to its multilateral creditors and successfully entering an IMF Poverty Reduction and Growth Facility program, Liberia reached HIPC decision point in March 2008—with multilateral and bilateral creditors agreeing to debt relief with a common reduction factor of 91 percent. It is expected that Liberia will qualify for further debt relief under MDRI once HIPC completion point is reached. Most bilateral creditors have indicated an intention to forgive 100 percent of Liberia's debt. Negotiations with commercial creditors is ongoing and proceeding well. Domestic debt payments have begun to be made in accordance with the government's domestic debt strategy, including repayments to the Central Bank of Liberia.

21. The Government has accumulated no new external or domestic debt since 2002/03. Since 2006, it has run a cash budget policy and implemented strict commitment controls, which do not allow any further deficit financing. Liberia will not be in a position to contract new external loans, other than Poverty Reduction and Growth Facility credits, until it has reached HIPC completion point.

PI-4 Stock and Monitoring of expenditure payment arrears		
		D+
(i) The stock of expenditure arrears as percentage of total expenditure for the corresponding fiscal year	The total stock of interest arrears is in excess of 10 percent of total expenditure. Due to lack of data disaggregating interest arrears from amortization arrears, the ratio of arrears to expenditure cannot be determined. However, interest arrears on multilateral debt alone stood at \$847 million in June 2007, and thus well exceeds 10 percent of total expenditure.	D
(ii) Availability of data for monitoring the stock of expenditure payment arrears	Data on debt stock is available through ad hoc exercises, including a major debt reconciliation exercise completed in April 2007.	C

B. KEY CROSS-CUTTING ISSUES: COMPREHENSIVENESS AND TRANSPARENCY

PI-5: Classification of the budget

22. The budget is presented by administrative classification and broken down by object (economic) classification. Revenues are classified in a format consistent with GFS classifications of revenue at a main head of classification level and at a sub-heading level. For expenditure, the current object classification, which is compatible with GFS 1986, was significantly rationalized for the 2007/08 budget.⁴⁹ In particular, inconsistent usage of detailed object codes between line ministries was reduced, and a standard classification was issued as part of the 2007/08 budget documentation. For the 2008/09 budget, the authorities are preparing a revised object classification compatible with GFS 2001.

23. Prior to the 2007/08 budget, the BoB was using excel spreadsheets to develop the budget, which resulted in problems with duplicate codes. When the Liberian Expenditure Control and Accounting Program database was introduced in June 2007/08, several pages of duplicate codes were identified and cleared up. Each budget line now has a unique code. The 2007/08 budget now has a list of all approved codes for objects of expenditure.

24. The 2007/08 budget also introduced the notion of programs, although in practice most of these were simply administrative sub-divisions of the various organs of the state and the line ministries. The budget document includes descriptions, measurable objectives, and associated activities for each program. This new budgeting approach is in its first year and will be improved

⁴⁹ The Bureau of Budget is receiving support from USAID in the area of budget classifications as well as broader reforms to the budget preparation process.

over the coming years, during which time the definition of what constitutes a program is likely to evolve.

25. Functional classification is not currently used in Liberia, although the budget uses the notion of sectors. The organs of the state and the line ministries are grouped in four sectors,⁵⁰ with two additional sections for subsidies to institutions and claims on government. The authorities are considering upgrading to a COFOG based functional classification.

26. There is no formal coding of poverty-reducing spending items. However, where programs are considered to be contributing to poverty reduction, additional text has been provided in the 2007/08 budget to indicate the link to policy priorities as defined in the interim poverty reduction strategy paper. These links will be upgraded in 2008/09 budget to the new poverty reduction strategy paper, although it is unlikely that tracking of such expenditures at the transaction level will be possible in the immediate future.

27. The distinction between subsidies and transfers is not always clear as shown in annex 3. Transfers are made to institutions such as Monrovia City Corporation, Forestry Development Authority, and JFK Hospital, but these institutions are listed under sectors and not in the separate category for transfers. Similar institutions that receive transfers and spend from operational bank accounts and submit returns to MoF are classified as subsidies/transfers. The classification needs to be consistent to allow meaningful analysis.

28. Other classifications are being considered for budget and accounting, in particular fund and location identifiers. The pressure from the legislature to identify spending by county is encouraging the authorities to consider the use of a geographic location code. The use of fund code will also be important once the budget begins to reflect aid flows.

29. Liberia has yet to develop an adequate chart of accounts. Transactions are booked against the detailed budget classification. The development of a full chart of accounts remains a priority in Liberia, particularly in the context of the proposed design and implementation of an IFMIS, which is expected to start in the short term⁵¹.

30. The new chart of accounts should aim to cater for the following elements, but a detailed analysis should be done taking into account the reporting requirements for the various users of the financial statements and the budget control⁵² level before a decision is made for the number of segments and digits.

- Fund source (CRF, own revenue, County Development Fund, donor, and so on)
- Administrative (ministry/department/agency and budget unit)
- Function
- Program/project

⁵⁰ General administrative services, security services, social and community services, and economic services.

⁵¹ The proposed IFMIS conceptual design document has been prepared with the World Bank, and bid documents are being finalized at this time. The development of a chart of accounts will be required prior to the implementation of the IFMIS.

⁵² Some donor projects are controlled at the component or sub-component level while others go down to the activity level thereby requiring more digits for a project segment.

- Geographic location
- Economic

31. The new chart of accounts should be directly linked to the IMF GFS 2001 classification to ensure that GFS reports can be produced directly from the accounting system without need for a bridging table. The GFS codes need not be in the main chart of accounts for coding transactions but as side tables during the setup of the system.

PI-5 Classification of the budget		C
(i) The classification system used for formulation, execution, and reporting of the central government's budget	<p>The government budget is classified by organizational units with some ministries and agencies (for example, the Ministry of Health) including programs as part of the organization codes. The other available segment is economic classification. The revenue object codes are in line with GFS revenue coding structure.</p> <p>The iPRS is not directly linked in the classification system; this makes it difficult to strategically formulate and allocate resources to meet the objectives of the iPRS and produce reports for monitoring. The 2007/08 budget however has narratives for the various programs in the ministry and agency, thus some indirect link can be made.</p> <p>Budget formulation and execution is based on administrative and economic classification that can produce consistent documentation.</p>	C

Source: 2007/08 Annual Budget documents, information provided by Bureau of Budget, and Ministry of Finance.

PI-6: Comprehensiveness of information included in budget documentation

32. The information in the budget documents has been evolving and improving, but further improvements are needed to meet the minimum requirements of PI-6. Initial steps taken in the FY 2007/08 budget documents provide far greater informational content than in previous years. In particular, the document has begun to make the essential linkages between iPRS and budgetary allocations, albeit at a fairly aggregated level. The president's budget speech discusses the macro-economic and fiscal framework background for the budget. The addition of summary tables and graphs is also positive. Furthermore, the addition of information on personnel numbers has helped focus attention on both the numbers of civil servants and their distribution within the government. The efforts made to provide descriptions, objectives, and activities of programs are important for establishing a program-budgeting approach in Liberia. Unlike the budget for 2006–07, which assumed a static exchange rate of L\$58:US\$1, the 2007/08 budget has linked the conversion rate to the market exchange rate as of the last day of the previous month, as published by Central Bank of Liberia.⁵³ Notwithstanding these improvements, weaknesses remain and the budget does not contain all details required under Liberian law, as

⁵³ An Act to Approve the Budget for the Fiscal Period beginning July 1, 2007 and ending June 30, 2007 Providing for the Expenditure of the Government of the Republic of Liberia.

stipulated in section 2206 of the Revenue Code. The following outlines the situation regarding the information benchmarks highlighted in PI-6:

- **Macro-economic assumptions (not met):** The FY 2007/08 budget document does not include any table outlining the macro-economic assumptions used in formulating the Liberian draft budget. While the “Message to the National Legislature” document details the expectation that GDP growth will average 10 percent over the period 2007-2012, no basis is offered for this assumption. The document also reiterates that the government is committed to a stable exchange rate to the USD of approximately 60 to the USD. Although there is some discussion on historical inflation levels, there is no forecast of inflation for the coming period included in the budget document.
- **Fiscal deficit (met):** Liberia is currently operating under a cash budget policy where borrowing to finance the budget deficit are not permitted. The government has committed to spend only as revenues permit; a statement that “there shall be no deficit financing” is included in the preface to the budget. The budget document includes a table which compares total revenue projection against total appropriations and indicates that surplus revenue from 2006/07 will be used to cover this deficit in full. Thus the fiscal balance is projected to be zero.
- **Deficit financing (met):** The budget document indicates that the difference between revenue and expenditure will be financed from 2006/07 surplus revenue. The government intends to run a fully balanced budget and thus the fiscal balance is zero.
- **Debt stock (not met):** Liberia has completed an exercise to verify the existing stock of domestic debt owed by the government including domestic arrears. The FY2007/08 “Message to the National Legislature” contains a statement on existing domestic debt and an estimate of the outstanding unverified domestic debt (US\$914.0 million) and verified domestic debt (US\$304 million). No breakdown of this stock is included. At the time of the passage of the budget, Liberia was negotiating with its international creditors on a proposal for debt relief on its external debts, through the HIPC initiative. Some details of these outstanding stocks of external debt are included in the budget document in the “Message to the National Legislature,” but it does not provide a complete picture.
- **Financial assets (not met):** There is no information on financial assets in the current budget document.
- **Prior year’s budget outturn (not met):** The prior year’s budget outturn is not included in the budget document for FY2007/08.
- **Current year’s budget (met):** The original and revised estimates of the current year are included in the 2007/08 budget document and presented in the same format as the budget proposal.

- **Summarized budget data (not met):** Summarized data for both revenue and expenditure are included in the budget documentation. Estimates of this year's revenues and expenditures are included but no figures for the previous year's outturn.
- **Budget implications of new policy initiatives (not met):** The FY2007/08 budget is a major improvement over previous years, as efforts have been made to identify measurable program objectives based on the current program definitions. In addition, the major policy objectives defined in the poverty reduction strategy paper for each administrative unit are included in the budget documentation. There is limited discussion, however, of new policy initiatives or the budgetary impacts of any revenue policy changes or changes to expenditure programs.

33. In addition to the detailed information on revenues and expenditures, and in order to be considered complete, the annual budget documentation should include information on the following elements:

<u>Elements</u>	<u>Available</u>
1. Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.	Not met
2. Fiscal deficit, defined according to GFS or other internationally recognized standard.	Met
3. Deficit financing, describing anticipated composition.	Met
4. Debt stock, including details at least for the beginning of the current year.	Not met
5. Financial assets, including details at least for the beginning of the current year.	Not met
6. Prior year's budget outturn, presented in the same format as the budget proposal.	Not met
7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.	Met
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	Not met
9. Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.	Not met

INDICATOR	BRIEF COMMENT	SCORE
PI-6 Comprehensiveness of information included in budget documentation		C
(i) Share of listed information in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met)	The recent budget documentation fulfils 3 of the 9 information benchmarks as summarized in the table above.	C

Source: 2007/08 Annual Budget documents.

PI-7: Extent of unreported government operations

34. All revenues, including non-tax revenues collected by line ministries and agencies, are by law to be credited to the main treasury account. In general, revenues are credited to the main treasury account. However, amounts credited to line ministry accounts through transfers in one budget year, but not consumed that year, are carried over for use in subsequent years, without re-appropriation. They are reflected in expenditure reports as spent at the time of transfer to the line ministry. These are estimated to be about 1-2 percent of total expenditure in total across all ministries (excluding state-owned enterprises and other autonomous agencies, as the size of these balances could not be estimated).⁵⁴ Revenues collected by Liberia's embassies abroad are also not systematically credited to the main treasury account or fully reflected in the expenditure reports, although these revenues are small.

35. Some expenditure is being undertaken outside of the normal procedures. Monthly cash allocations are made to line ministry accounts for small, operational cash-based transactions, which are expensed at the time of transfer. The details of these expenditures are therefore not adequately captured in the expenditure reports. There have also been cases of more significant spending for urgent operations using a force account, which is in accordance with the PPC Act, but circumvents normal procurement and payment procedures.⁵⁵ Although reports on this spending are expected to be sent to the Ministry of Finance, these are not integrated into the expenditure reports.

36. Donor funds are not reflected in the budget or the expenditure reports. Although the level of official aid flows into Liberia is estimated to be up to twice Liberia's domestic revenue resources, other than small levels of budget support, none of these resources are currently reflected in the budget documents, quarterly or annual expenditure reports. However, at present, all of Liberia's donor funding is grant funding, as the government is not in a position to borrow, thus no loan financed operations are going unreported.

37. Liberian Reconstruction and Development Committee with assistance from UNDP has set up a database to track donor-funded activities, but it does not yet contain comprehensive data. BoB also designed forms for the 2007/08 budget preparation for ministries and agencies to

⁵⁴ This estimate is based on balances on line ministry accounts at month end, which for August 2007 was about US\$3 million, or 1.5 percent of budget (only data at end-August was made available at the time of the assessment).

⁵⁵ One particular recent instance of this is a construction of a temporary by-pass to avoid congestion arising out of the donor-funded rehabilitation of a key road out of Monrovia.

complete to record all donor-funded programs implemented through the government for inclusion in the budget, but the response was low. The government is committed to working closely with donor partners to improve donor aid reporting, as clearly articulated in the poverty reduction strategy.

PI-7 Extent of unreported government operations		D+
(i) Level of unreported extra-budgetary expenditure	The actual detailed spending by ministries and agencies for cash transferred to departmental bank accounts are not captured in the overall fiscal reports. The level of unreported extra-budgetary expenditure (other than donor-funded projects) is estimated at 1–5 percent of total expenditure.	B
(ii) Income/expenditure information on donor-funded projects	Information on donor financed projects included in fiscal reports is seriously deficient.	D

Source: Revenue Code of Liberia Act 2000, 2007/08 Annual Budget documents, discussions with Bureau of Budget, Ministry of Finance, Central Bank of Liberia, Ministry of Public Works, and Liberia Reconstruction and Development Commission.

PI-8: Transparency of Intergovernmental Fiscal Relations

38. There are no subnational governments in Liberia, as Liberia is a unitary state by law. The counties are a deconcentrated part of central government, county superintendents are appointed by the president, and county authorities do not have any independent revenue collection rights, nor do they currently directly manage any spending beyond small community development funds.

39. A County Development Fund was started by the Legislature in 2006/07 to fund locally-identified projects at the county level. The County Development Fund was established in 2006/07, but so far spending has been slow. It was established with a US\$2.5 million annual budget, to be disbursed for projects identified by local committees at the county level, with spending outside of the normal commitment control procedures. Concerns over financial controls and weak capacity at the county level have led to delayed implementation of the scheme, pending the preparation of guidelines and procedures, including reporting, to be followed in the execution of these funds. As a result the entire unspent amount was transferred to an escrow account opened at Central Bank with the approval of the Cash Management Committee. Funds are divided equally between the 15 counties.

40. The National Budget Act 2007/08 provides for a more detailed procedure on the County Development Fund that has an appropriation of US\$3 million divided equally between the 15 counties. The Act stipulates the disbursement procedures and provides for the establishment in each county of a Project Management Committee that shall be responsible for identifying and implementing county development projects. The Ministry of Finance in consultation with the Ministry of Internal Affairs and County Administrators has formulated expenditure and reporting guidelines for the County Development Fund. All the counties are opening bank accounts and setting up procurement committees for the implementation of the development projects. Given

the limited banking network, it is going to be a challenge implementing activities in the proposed decentralized framework.

INDICATOR	TRAIL COMMENT	SCORE
PI-8 Transparency of Intergovernmental Fiscal Relations		No score
(i) Transparency and objectivity in the horizontal allocation amongst subnational governments— unconditional and conditional transfers (both budgeted and actual allocation)	There is no subnational government in Liberia.	
(ii) Timeliness and reliable information to SN governments on their allocations	There is no subnational Government in Liberia.	
(iii) Extent of consolidation of fiscal data for general government	There is no sub-national government in Liberia.	

Source: Ministry of Finance, County Development Act of 2006, draft Guidelines and Procedures for County Development Fund.

PI-9: Oversight of aggregate fiscal risk from other public sector entities

41. Financial information from autonomous government agencies is provided during budget preparation, but not routinely monitored. Autonomous government agencies are expected to provide information to the Bureau of Budget when they are making their annual budget request. The quality of this financial information varies considerably, given the general PFM capacity constraints. Some of these entities are receiving significant funds from external donor sources, but these are often not adequately reported. There is no unit in the MoF dedicated to monitoring the activities of autonomous government agencies. At the line ministry level, the capacity to monitor AGAs that are under their purview is generally poor.

42. The fiscal risks of commercial public sector entities are still only partly identified. The annual 2007/08 budget document identifies—in the section on Institutions and Entities—subsidies to a number of state-owned public sector entities. There is no information in the budget document indicating the reasons for the subsidies, nor is there any information on contingent liabilities that may arise from these entities. Under the GEMAP arrangement, co-signatory arrangements were introduced into the National Ports Authority, Roberts International Airport, Liberia Petroleum Refining Corporation, Forestry Development Agency, and Bureau of Maritime Affairs. In addition, a Chief Administrator was assigned to the Central Bank of Liberia and with co-signatory powers and a PFM Advisor exercised co-signatory powers in the MoF. Thus, there is significant oversight of these state-owned enterprises through the GEMAP reporting mechanisms. There also exists a Bureau of State Enterprises, which is responsible for oversight and regulation with regards to state-owned enterprises. However, this bureau is weak and ineffectual.

INDICATOR	BRIEF COMMENT	SCORE
PI-9 Oversight of aggregate fiscal risk from other public sector entities		D
(i) Extent of central government monitoring of AGAs/PEs	Quarterly and annual monitoring of key revenue-generating state-owned enterprises takes place in the context of GEMAP. However, no government-led systematic annual monitoring of autonomous government agencies and state-owned enterprises currently takes place.	D
(ii) Extent of central government monitoring of SN governments' fiscal position	There is no subnational government in Liberia.	No score

Source: GEMAP agreement, Ministry of Finance, Bureau of Budget.

PI-10: Public access to key fiscal information

43. Public access to key fiscal information is improving, although much remains to be done. The availability of the annual budget documents⁵⁶ and the publication of annual and quarterly fiscal reports on the MoF website,⁵⁷ as well as the publication of contract awards of over US\$25,000 in the PPCC's quarterly bulletin, are all positive steps. The 2006/07 annual fiscal outturn report was published in the newspapers and spurred significant public debate about the allocation and use of funds. However, because the quarterly reports are not posted within one month of completion of the quarter, Liberia does not meet the benchmark for this performance indicator.

44. The Auditor General provided comments on the 2007/08 budget document when it was submitted to the legislature. This attracted significant interest from civil society, as evidenced by the large number of radio discussions and newspaper articles with detailed budget analysis.

45. Liberia does not yet produce annual financial statements, as the accounting function is not yet fully restored and only operates on a single entry basis. However, the government has prepared and published, within 4 months of the end of the fiscal year, a detailed annual fiscal outturn report for 2006/07,⁵⁸ which provides aggregate information on revenue and expenditure outturns with detailed explanations. Nevertheless, without an accounting base, these reports cannot be considered substitutes for financial statements. When this report was published in local newspapers and on the MoF website, it provided an opportunity for the public to scrutinize and hold the executive accountable. Some ministries and agencies and expected beneficiaries of allocations questioned the accuracy of the report. This led to the MoF holding a workshop to discuss and explain the report.

46. External audit reports are not available, as the General Auditing Commission has yet to complete its first set of audits. Following the adoption of the Audit Act of 2005, which gave autonomy to the General Audit Office, and the appointment of an Auditor General, the office is

⁵⁶ <http://www.mofliberia.org/nationalbudget.htm>

⁵⁷ <http://www.mofliberia.org/expenditurereports.htm>

⁵⁸ <http://www.mofliberia.org/fiscalreports.htm>

beginning to establish itself. It has begun performing audits of the 2006/07 fiscal year for select ministries, and expects to complete its first report shortly.

47. The PPCC began publishing notices of all contracts awarded above US\$25,000 in its quarterly bulletin. However, the bulletin was only published once (Fall 2007) – no subsequent issues were produced. The PPCC website does not contain up-to-date information about contracts awarded.

48. Information on the resources for primary service units is not publicly available. The demand for such information, however, is growing, especially from members of the legislature who want to know what resources are being used within their counties and districts. A proper chart of accounts will track resources to cost centers and locations (geo-codes) through the accounting system.

49. While the MoF is setting up the appropriate structures and systems to improve the PFM system, it has made significant effort to ensure public access to key fiscal information.

50. Elements of information to which public access is essential include:

<u>Elements</u>	<u>Available</u>
(i) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	Met
(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	Not met
(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	Not met
(iv) External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit.	Not met
(v) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. are published at least quarterly through appropriate means.	Not met
(vi) Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	Not met

INDICATOR	BRIEF COMMENT	SCORE
PI-10 Public Access to key fiscal information		C
(i) Share of the above listed information in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met)	The government makes available to the public 1 of the 6 listed types of information.	C

Source: Ministry of Finance website (www.mofliberia.org), Public Procurement and Concessions Commission quarterly bulletin and website (www.ppcc.gov.lr).

C(I). POLICY-BASED BUDGETING

PI-11: Orderliness and participation in the annual budget process

51. The fiscal year for the government of Liberia is July 1 to June 30.

52. The budget calendar is driven by the deadline for submission of the budget to the Legislature, set in each year's Annual Budget Law for the next year. For the last two years, this has been set for May 20, allowing Parliament 40 days to debate the budget before their Constitutionally-defined obligation to pass the budget before the start of the fiscal year. BoB is responsible for preparing an annual budget calendar to meet this deadline, to be approved by the National Budget Committee.⁵⁹ So far, the budget calendar⁶⁰ is determined each year, subject to specific emerging issues (such as the poverty reduction strategy process), and it has been too soon to establish a more stable timetable of budgetary events. However, the budget guidelines and the associated issues policy guidance from the President are an expected outcome of the mid-year Cabinet review, which usually takes place in early January. The BoB follows up the issuance of the budget circular with workshops for line ministries. Capacity constraints in line ministries are still hindering their ability to submit their budgets on time. Budget hearings are held by the Budget Committee, with BoB providing technical support.

53. The Cabinet is actively involved in preparing the issues policy guidance and the budget circular, which includes ceilings. These two documents provide the policy and technical framework for the preparation of the annual budget. The circular includes indicative ceilings set for each sector and each ministry, as well as specific guidelines on how to cost various input elements, such as wages, goods and services for the budget submissions. However, given the one-year focus of the budget, the significant demands on very constrained resources, and the lack of adequate capacity in line ministries, line ministries often do not respect the ceilings set in the circular when making their budget submissions. The burden then lies on the Budget Committee, which has to challenge excessive line ministry submissions during the budget hearings.

54. The legislature has passed the budget with a 1-2 month delay in the last 3 years. The dates of submission to and adoption by the legislature for the last 3 budgets are as follows:

⁵⁹ The establishment of a Budget Committee chaired by the Minister of Finance has improved coordination of the budget preparation process. The Budget Committee brings together the Ministry of Finance, the Bureau of Budget, the Ministry of Planning, the Ministry of State, the Civil Service Agency, and the General Services Agency.

⁶⁰ Annex 3 provides a report on implementation of the 2006/07 budget calendar.

- FY 2007/08 submitted 17th May, 2007 and adopted 17th July, 2007.
- FY 2006/07 submitted 29th June, 2006 and adopted 23rd August, 2006.
- FY 2005/06 submitted after start of fiscal year and adopted 19th August, 2005.

INDICATOR	DETAIL COMMENT	SCORE
PI-11 Orderliness and participation in the annual budget process		B
(i) Existence of, and adherence to, a fixed budget calendar	The BoB issues a budget calendar to ministries and agencies, together with the budget guidelines. According to the calendar, ministries and agencies are given four weeks for receipt of the guidelines to submission of first estimates. However, ministries and agencies continue to experience some difficulties in completing their estimates on time, although there are have been marked improvements in the timeliness of submissions and passage of the budget over the years.	B
(ii) Guidance on the preparation of budget submissions	The Cabinet is active in drafting the policy and sectoral ceilings through the Budget Committee [ministerial as well]. Their collective decisions are contained in the budget circular that is then distributed to the ministries and agencies. The budget circular is simple but clear. There is a Budget Committee which is a sub-group of central cabinet agencies [Finance, Budget, Min of State for Financial Affairs, Planning, Civil Service Agency and General Services Agency]. They offer the first advice on the proposed policy. Their suggestions then go to the fuller Cabinet, including the President. Then the budget circular is finalized.	A
(iii) timely budget approval by the legislature	The financial year for the government is 1st July to 30th June. 2007/08 submitted on 17th, May, 2007 and passed by the Legislature on 17th, July, 2007. 2006/07 submitted on 29th, June, 2006 and passed by the Legislature on 23rd, August, 2006. 2005/06 submitted after start of fiscal year and passed by the Legislature on 19th, August, 2005. In the last three years, the budget has been approved within two months of the start of the new fiscal year.	C

Sources: Bureau of Budget, Ministry of Finance.

PI-12: Multi-year perspective in fiscal planning, expenditure policy, and budgeting

55. Liberia is not currently using a multi-year budget, although the government has expressed an interest in a medium-term expenditure framework. Except for certain sensitive appropriations such as the County Development Fund (which is transferred into an escrow account if unallotted in the current fiscal year), all appropriations lapse at the end of the fiscal year. This makes it difficult to plan and initiate multi-year development programs since funding may be discontinued at the end of the fiscal year. The government has begun to initiate a program approach in the budget, although this is built around administrative units within each ministry rather than outcomes. As the program approach develops, this will create pressures to develop a medium-term horizon. However, experiences with medium-term economic frameworks in other developing countries has been mixed, and there is a risk that it may sap scarce government

resources. Another critical blocking factor in the development of realistic medium-term fiscal projections is the poor quality of data on macro-economic projections.⁶¹

56. The linkages between policies and budget allocations is gradually being strengthened. In the current fiscal year, the interim poverty reduction strategy paper was used to guide allocation decisions. Based on the interim poverty reduction strategy paper, it was decided that resources should be concentrated in key pro-poor areas such as health, education, public works, and agriculture. However, weak capacities in line ministries have so far limited the preparation of sector strategy documents and more detailed budget planning at the sectoral level. There is also a need to improve reporting of donor-funded programs and incorporate them into the sector strategy and budget planning processes to enable a budgeting prioritization consistent with policy goals. Moreover, the absence of a program or function segment in the chart of accounts makes direct linkage of expenditure reports to interim poverty reduction strategy.

57. In the preparation process for the 2008/09 budget—currently under review by the legislature—allocation decisions were guided by the full poverty reduction strategy, which was being finalized at the time of budget preparation. As part of the poverty reduction strategy paper, the government undertook a three-year costing exercise, yielding costing estimates by fiscal year and sector required to meet the poverty reduction strategy objectives. It also estimates the anticipated budgetary resources to be devoted to achieving the poverty reduction strategy objectives and in doing so provides a first step toward a multi-year budget. These estimates were developed based on dialogue and workshops with line ministry representatives, but are subject to some uncertainty and will need further scrutiny in each budget year. Nonetheless, the costing exercise also illuminates the multi-year financing gap that will affect the government's ability to rebuild the economic and social infrastructure needed to underpin economic revitalization and combat poverty. It thereby illuminates the support required from donors. The government plans to institute poverty reduction strategy coding in the chart of accounts and an improved donor aid flow tracking system, to enable monitoring of poverty reduction strategy expenditure.

58. A preliminary debt sustainability analysis has been prepared for Liberia, based on partially reconciled external debt data. This work has been prepared by the IMF, in collaboration with the authorities and the World Bank, as part of the decision point HIPC document, and also on low-income country debt sustainable analysis, domestic and external, for the Poverty Reduction and Growth Facility document. Work on debt stock has been completed, along with a debt strategy to clear these over time. However, there are still large numbers of contestable claims, which are being reviewed.

59. Liberia has consolidated its previously separate recurrent and development budgets into a single coherent budget. The budget is now prepared and documented under a unified budget cycle led by the MoF and the Bureau of Budget. It is important to note, however, that a significant part of investment expenditure is donor funded and therefore is off-budget (see indicator PI-7).

⁶¹ The Bureau of Statistics will not be able to produce GDP estimates until at least 2009, possibly in time for the preparation of the 2009/10 budget, according to Ministry of Planning and Economic Affairs.

INDICATOR	BRIEF COMMENT	SCORE
PI-12 Multi-year perspective in fiscal planning, expenditure policy, and budgeting		D+
(i) multi-year fiscal forecasts and functional allocations	Government prepares a single year budget only. Allocations are done by administrative units for broad sectors since there is no functional classification of the budget.	D
(ii) scope and frequency of debt sustainability analysis	A preliminary debt sustainable analysis for external debt has been prepared by the IMF and World Bank, in collaboration with the government, in preparation for the HIPC process.	C
(iii) existence of costed sector strategies	Pillar strategies were developed and costed as a part of the poverty reduction strategy process. However, detailed individual costed sector strategies are not available, and most ministries and agencies lack the capacity to plan and cost the activities in line with fiscal forecasts.	C
(iv) linkages between investment budgets and forward expenditure estimates	Investments are largely donor funded and the projects are executed by Project Implementation Units within the government or NGOs and other civil society organizations, without an effective information sharing arrangement during budget preparation to ensure comprehensiveness and consistency with sector strategies. The budget therefore does not take account of recurrent cost implications of donor-funded projects for inclusion in forward estimates.	D

Source: Ministry of Finance, Bureau of Budget, International Monetary Fund.

(II) PREDICTABILITY AND CONTROL IN BUDGET EXECUTION

60. In post-conflict Liberia, revenue administration is being rebuilt in capacity, infrastructure, systems, and procedures from a severely degraded base. While substantial reforms—which have helped to boost revenue significantly—have been achieved to date, continued efforts are required to achieve an efficient revenue administration and increase revenue collection.

61. The department of revenue has been reformed significantly over the past two years. Tax administration has shifted from a tax type organization—with bureaus for direct taxation, internal revenue, and functional activities such as audit and collections—to an organizational structure based on tax payer size. The MoF currently has two revenue administration bureaus, the Bureau of Customs and Excise and the Bureau of Internal Revenue. The Bureau of Internal Revenue in turn, contains the large, medium, and small tax payer units—and each unit is responsible for tax collection and auditing of its respective tax payer group. Procedures are being streamlined to support wider-scale automation, through the introduction of an Integrated Tax Administration System in 2008/09. And capacity-building exercises are ongoing to improve the human resource capacity.

PI-13: Transparency of taxpayer obligations and liabilities

62. The tax administration and policy legal setting is provided by the Liberia Revenue Code (LRC) of 2000, which covers the various tax regimes for goods, services, income, and profits.

The code has been widely publicized and is available on the MoF website. However, the code lacks specificity in certain areas—such as fiscal regimes for extractive industries—which has allowed the government some discretionary powers when setting tax rates. After the LRC’s enactment in 2001, the national transitional government and its predecessor issued many regulations and administrative circulars, including some changes to tax bases and rates that should have been legislated. Additionally, tax concessions were granted in breach of the law. Accordingly, in early 2006 the new government suspended all LRC regulations and circulars pending their review, revision, or repeal. This left ministries and agencies with the responsibility of interpreting the act, which increased the risk of inconsistencies and discretion. Presently, the LRC is being reviewed with support from the IMF. A revised code is expected to be submitted to the legislature shortly, containing more detailed tax provisions, particularly for the extractive industries and other concessionaries.

63. The assessment and determination of customs values and duties is relatively predictable and reliable given the use of pre-shipment inspection services.

64. The MoF has made a significant effort to increase taxpayer services and education programs. This effort has included publishing information about the tax system and ongoing reform in the newspapers, partaking in radio talk shows, and producing other materials. Each tax division contains a registration return service, where tax payers can seek guidance on regulations and procedures. However, a tax or customs administration website does not yet exist.

65. The LRC provides for the establishment of an independent Board of Tax Appeals; the MoF has recommended the establishment of the board and is awaiting the President’s decision to appoint members. A department of appeals was established within the MoF in October 2007 to review and assess complaints, but it is not yet fully operational. The appeals procedure has not been formalized, and very few appeals have been received or processed. Tax payers regularly petition the ministry directly for an assessment to be reconsidered.

INDICATOR	BRIEF COMMENT	SCORE
PI-13 Transparency of taxpayer obligations and liabilities		C
(i) Clarity and comprehensiveness of tax liabilities	The Liberia Revenue Code has been circulated widely and is available on the MoF website. However, regulations and circulars were suspended in 2006, which creates room for uncertainty and discretion around implementation of the law. A review of the LRC is ongoing, which will lead to further amendments and greater specificity in the LRC. PSI services provide reasonably reliable tax estimates for importers.	C
(ii) Taxpayer access to information on tax liabilities and administrative procedures	Taxpayer education and services programs exist, although web-based information is not yet available.	C
(iii) Existence and functioning of a tax appeals mechanism	A division for appeals has been established within the MoF, but is not yet fully operational. The LRC also mandates the creation of an independent Board of Tax Appeals, which has yet to be established.	C

PI-14: Effectiveness of measures for taxpayer registration and tax assessment

66. A Taxpayer Identification Number system under the MoF administration was introduced in 2001; the original 17-digit numbers were replaced by a simpler 9-digit identifier in 2007. The identification number database is computerized, although it is badly structured and requires more entries (including duplicates) than the manual records used by tax administrators. Efforts are under way to establish linked registers of taxpayers among the MoF, Customs, and Ministry of Commerce, but these plans have not yet been implemented. At present, the Taxpayer Identification Number register is not linked to the registers of other agencies. The number is useful for tracking assessment to actual payment and banking.

67. The taxpayer audit system has been reformed with the decentralization of the audit function to the individual taxpayer units (large, medium, small). The units conduct desk audits, issue-oriented audits, and annual comprehensive audits. Audits are based on a risk assessment, but audit staffs need training.

PI-14 Effectiveness of measures for taxpayer registration and tax assessment		C
(i) Controls in taxpayer registration system	Taxpayer registration is mandated, although design, management, and utilization of TIN information needs improvement. No link currently exists with Ministry of Commerce. However, customs payments do require use of the TIN.	C
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	The regime for PSI and penalties for under declaration have been reformed, and are applied fairly consistently. Enforcement of penalties for other tax breaches remain weak, but are gradually improving. The revenue code is under revision, and the penalties for non-compliance have been strengthened.	C
(iii) Planning and monitoring of tax audit and fraud investigation programs	The tax audit function has been reformed and is now included in the functions of each individual taxpayer unit. An annual audit plan is developed based on risk assessment, although the audit manual has not been finalized and guidelines for assessment not yet determined.	C

PI-15: Effectiveness in collection of tax payment

68. Responsibility for the collection of taxes has been reformed in line with IMF recommendations. The previous system of bureaus and a centralized collection unit for aged debt have been dissolved and the three tax units (large, medium and small) now have their own collection and enforcement responsibilities. This has helped improve the accuracy of information on balances and adjustments resulting from payments, new assessments, and accruing interest and penalties. Records from the small taxpayer units, however, may still not be entirely reliable. The Ministry's listing of tax arrears and collection show increased collection rates in recent years, but the ratio of overdue taxes to collection rate remains low, at 55 percent in 2006/07. Overall, however, the total value of tax arrears are low.

69. Executive Orders 2 and 8 of the National Transitional Government of Liberia provide that all tax and non-tax revenues should be paid directly to the Central Bank of Liberia. The MoF has developed an in-house Bank Pay Slip (BPS) and Flag Receipt System to handle the recording

and accounting for revenue collections. The BPS is linked online to the pre-shipment office. The Central Bank and MoF can therefore project taxes due from goods arriving through the ports. By flagging receipts recorded in the BPS against lodgment in Central Bank of Liberia bank accounts, MoF is able to track assessments and collections. Procedure notices are also well displayed at the MoF.

70. Despite significant improvements in the customs administration management, there are still large leakages, especially from the customs at the Monrovia Freeport, which handles the majority of imports/exports. Given that customs revenue accounted for 47 percent of government revenues in FY06/07, revenue performance could increase markedly through improved customs administration. There have been reports of fraudulent customs documentation, particularly false declarations, fake receipts, and abuse of duty free waivers. The MoF, with support from the IMF, has developed a new customs modernization strategy to be implemented over three years, which proposes to outsource customs administration and streamline and automate the administration process. The government has recently instituted measures to strengthen destination inspections, in response to concerns about false declarations.

71. Revenue collections received by the Central Bank are well controlled, accounted for, and reconciled. The MoF reconciles its accounts daily based on data from the Central Bank on deposits, and a monthly comprehensive reconciliation is conducted in preparation for the production of the monthly revenue reports. Procedures exist for the payment information to flow through the system for accurate reconciliation of deposits.

INDICATOR	RECOMMENDATION	
PI-15 Effectiveness in collection of tax payment		D+
(i) Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	Although arrears are not relatively large in annual revenue terms, the debt collection ratio is low. At the aggregate level over the past three fiscal years (2004/05, 2005/06 and 2006/07), approximately 50% of all overdue taxes were collected.	D
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	All tax payments are made directly to Treasury accounts at the Central Bank of Liberia.	A
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	Tax deposits to the Central Bank Treasury accounts are reconciled daily, and comprehensively reconciled monthly. However, weaknesses exist in reconciling assessment to actual payment due to lack of capacity by the tax audit staffs to undertake annual reconciliations within three months of the end of the fiscal year.	D

PI-16: Predictability of the availability of funds for commitment of expenditures

72. The Budget Committee comprising the MoF, Bureau of the Budget, General Service Agency, Civil Service Agency, Ministry of Planning and the Ministry of State has been resuscitated. Cash plans are reviewed and, once approved, allotments are released by BoB. Allotments are now based on collective and rational decisions based on cash plans. Trainings have been held on cash planning, and ministries and agencies are now submitting detailed cash plans based on their annual work plans.

73. Each ministry and agency has a focal analyst in BoB responsible for all its budgetary matters and visits are made on site to provide hands-on training in completing budget forms.

74. Predictability in the availability of funds for commitment of expenditures has improved through the simplification of budget release forms by BoB; releases are now done within 2 days of receipt as opposed to up to 2 weeks in the past. Consolidated data on allotments and expenditure is now also more accessible, due to the introduction of the Liberian Expenditure Control and Accounting Program—an automation system developed in-house that is being used in the BoB to capture the annual appropriation and print the budget documents. The program is only partially implemented within the BoB, and is currently not linked to the payment process through the BGA and CMCo. However, the Liberian Expenditure Control and Accounting Program has resulted in a major improvement in coding through the removal of around 22 pages of duplicate codes. Cash plans are also entered into the program to ensure that the annual appropriation is not exceeded.

75. The timeliness of the payment process for suppliers has also improved significantly in the past year, but involves a large number of steps and therefore risks hold-ups. This is due to the transaction first having to be processed through the commitment control system, then comply with the procurement procedures and then be resubmitted for payment to MoF. However, the time taken to process payments is gradually improving through trainings held for comptrollers in voucher preparation, financial rules and coding. The business processes have also been streamlined over the past two years. MoF at a recent town hall meeting listed the following accomplishments of the expenditure department in MoF.⁶²

	Before January 2006	After January 2007
1. Purchase orders	14 days to process	7 days to process
2. Vouchers	17 days to process	7 days to process
3. Physical audit	7 days to verify	2 days for verification
4. Checks	12 days to process	5 days to process
5. Payroll	Payments were not current	Civil Servants paid on or before the 30 th of each month
6. Decentralization	No payments made and no paymasters located in leeward counties	Payments made in 14 Counties with Paymasters stationed in leeward Counties
7. Computer system/IT	No operational IT system in Exp. Dept.	IT systems with 60 computers in Exp. Dept.
8. Employees	Exp. Dept. had up to 385 employees	Staff reduced to 226 employees
9. Physical infrastructure	No clear goals and objectives and updated facilities	75% of the Exp. Dept. renovation completed with goals and objectives

76. Despite these accomplishments, Line Ministries and spending units still voiced claims of serious delays in processing vouchers. Institutions that are supposed to be receiving statutory transfers also suffer from similar delays.

⁶² Ministry of Finance Interactive Town Hall meeting “TAKING BUDGET REPORTING TO THE PEOPLE”, Monrovia City Hall, November 14, 2007.

INDICATOR	BRIEF COMMENT	SCORE
PI-16 Predictability in the availability of funds for commitment of expenditures.		C+
(i) Extent to which cash flows are forecast and monitored.	A cash flow forecast is prepared for the fiscal year, and may be reviewed internally by the BoB and MoF, if required, for the purpose of allotment control, with changes approved by the NBC.	C
(ii) Reliability and horizon of periodic in-year information to spending agencies on ceilings for expenditure	<p>The Bureau of Budget provides ministries and agencies with monthly or quarterly (certain independent agencies) allotments, based on their submitted annual cash flow plans, and these allotments establish an upper limit for expenditure commitment by ministries and agencies.</p> <p>Due to the cash-based budgeting system, expenditure commitments cannot be made in excess of the monthly allotment, but ministries and agencies can plan and sequence procurements based on their approved cash flow plans for the entire fiscal year.</p>	C
(iii) Frequency and transparency of adjustments to budget allocations which are decided above the level of management of spending agencies	<p>In recent years, significant in-year adjustments to budget allocations have been done in conjunction with the passage of a supplemental budget, conducted once a year, which has undergone cabinet review and passage by the Legislature.</p> <p>Smaller in-year adjustments to the budget between ministries and agencies are reviewed and approved by the inter-ministerial Budget Committee.</p>	B

PI-17: Recording and management of cash balances, debt and guarantees

77. After the war, the government inherited an enormous debt overhang and extremely poor and incomplete debt records. Since then, an extensive debt reconciliation exercise has been undertaken, and records reconstructed based on creditor records, where the integrity of the creditor's records could be trusted. External technical advisors helped to verify commercial debt. This debt reconciliation data have laid the basis for Liberia's entry into HIPC. In addition, a domestic debt verification exercise was undertaken in 2006–07, and the government developed a strategy for resolution of domestic debt and arrears.

78. Although the debt management unit at the MoF has received some initial capacity building and significant external support with the debt verification exercises, systematic and regular debt-monitoring practices and reconciliations have not been instituted.

79. In principal, the cash budgeting system eliminates new domestic borrowing by the government. The government has accumulated no new external debt since 2002/03. Since 2006, it has run a cash budget policy and implemented strict commitment controls, which do not allow further deficit financing. Liberia will not be in a position to contract new external loans, other than Poverty Reduction and Growth Facility credits, until it has reached heavily indebted poor country completion point. However, as Liberia regains its creditworthiness, the institutional framework for contracting new loans will require strengthening. The Minister of Finance is authorized to make decisions on government borrowing and can issue loan guarantees on behalf of the government, in collaboration with the Ministry of Justice. However, no formal limits have

been set to constrain the borrowing by statement of expenditures or the levels of guarantees for such debts.

80. The government maintains its accounts at the Central Bank of Liberia. Balances of accounts held at Central Bank are sent to MoF daily but are not consolidated and monitored for proper cash management. The mission was unable to obtain evidence of reporting and monitoring of balances held at commercial banks or of balances of ministry and agency accounts at the Central Bank.

81. The government operates in two currencies: United States Dollar (US\$) and Liberian Dollar (LD\$). Current presidential orders stipulate that all tax and non-tax revenues are to be paid directly into the government US\$ or LD\$ accounts in the Central Bank. While most of the cash resources of the government are concentrated in two general accounts, other government accounts exist in both the Central Bank and in commercial banks. These accounts are primarily for donor-funded programs, which are not processed through the national budget, and for operational funds, which are approved by the CMCo as direct transfers to ministries and agencies. The MoF also has a payroll account in the Central Bank from where salaries are paid.

82. The MoF does not have internal access to the balances of the ministries and agencies, although it has requested the Central Bank to provide them. The amounts involved are substantial (US\$ 1.7 million at 22 August 2007), and the existing system undermines the discipline of a single source for all expenditures from the budget. The existence of a separate payroll account in the Central Bank also undermines the principle of a single treasury account, although there are justifiable reasons for its continued existence in the short to medium term. The separate payroll account was established due to the difficulty in reconciling payroll checks against bank statements.

83. To increase transparency and accountability, contain expenditures within the quarterly cash limits, enable initial budget policy targets to be met, and ensure that arrears are not built up by ministries and agencies, the government has set up a system of accounting for its revenues, expenditures, assets, and liabilities. This accounting system involves the BoB, BGA, ministries, departments and agencies, the CMCo, the Office of Comptroller General, and the Central Bank of Liberia. While the current arrangements have increased transparency and accountability in the payment process, they represent a temporary measure designed as a part of GEMAP and aiming to re-impose fiscal discipline while longer-term financial institutions are re-established. There is a need for the government of Liberia to plan ahead and design a more streamlined procurement and payment process that gives greater autonomy to the line ministries once the GEMAP period comes to an end.

INDICATOR	BRIEF COMMENT	SCORE
PI-17 Recording and management of cash balances, debt, and guarantees		C+
(i) Quality of debt data recording and reporting	<p>A debt reconciliation exercise was completed in November 2007, which forms the basis for a debt sustainability analysis (underlying the HIPC document). 100 percent of Liberia's multilateral debt and 99 percent of its bilateral debt was reconciled, and initial estimates of commercial debt stocks have been prepared.</p> <p>Debt data records were destroyed or lost during the war, thus the government had to rely on creditor's records in order to determine current debt stock.</p> <p>Regular debt management practices, such as quarterly or annual reconciliations, have not yet been instituted, although the government's debt management unit is being strengthened.</p>	C
ii) Extent of consolidation of the government's cash balances	The government has three main treasury bank accounts in Central Bank. Cash balances are calculated on a weekly basis, but the system does not include consolidation of bank balances. Off-budget revenue collected by spending agencies is not tracked, but represents a limited amount compared with total budget revenue.	C
(iii) Systems for contracting loans and issuance of guarantees	The cash budgeting system eliminates in principal new domestic borrowing by the government. The government has also stated, as a matter of policy, that no loans or guarantees are allowed at present (this will be re-visited when Liberia reaches HIPC completion). The Minister of Finance is authorized to make decisions on government borrowing and can issue loan guarantees on behalf of the government, in collaboration with the Ministry of Justice. Formal limits to constrain the borrowing by state-owned enterprises or the levels of guarantees for such debts are not currently legislated.	B

PI-18: Effectiveness of payroll controls

84. The payroll is currently run on the Government Accounting Payroll System (GAPS), which is processed in Liberian dollars. GAPS handles payroll for the majority of all government employees. Given that wages and salaries constitute 35 percent of the 2007/08 budget estimate, GAPS accounts for a significant proportion of total expenditure. However, allowances are not processed through the payroll, but paid out through the CMCo process and issued in US\$, and therefore not subject to the same level of control as the payroll. In addition, certain ministries and agencies from the security sector are not currently using GAPS and instead pay their employees through the regular CMCo process in US\$. These include the Armed Forces of Liberia, the Liberia National Police, the Special Security Service, and the National Security Agency. In addition, state owned enterprises and commissions or agencies which receive direct transfers also use the CMCo process instead of GAPS to pay their employees. They submit a single payroll voucher, and a check for the net amount is issued to the institution concerned, which in turn pays its employees.

85. A Personnel Action Notice is used to place employees on the payroll (only those paid through GAPS). The notice is initiated by the organization in which the employee works and submitted to the Civil Service Agency (CSA) for endorsement. It is submitted to the BoB to check for funds availability in the case of additions to the payroll. The notice is then sent back to the CSA, which forwards the approved Personnel Action Notice to BGA for authorization of

input into the GAPS. A dummy payroll is printed and verified by a payroll auditor in BGA before checks are printed. Actions on PAN sometimes take up to 3 months to process.

Vetting the payroll has continued with the MoF requesting all ministries and agencies to provide a certified list of all employees, against which payments are made. This exercise has been completed for all the ministries and agencies except the Ministry of Education, which has the largest payroll, with approximately 17,000 employees.

86. The grading structure is complex and inconsistent. There are more than 350 different classification codes in the payroll system and 98 different gross salaries ranging from L\$294 – 8,870 for classification. This makes it difficult to apply titles, grades, and salary levels consistently across the civil service and provides scope for greater discretion when determining salary and grade level. The Civil Service Agency (CSA) will need to review the classification structure for the whole Civil Service to ensure consistency. There is no direct linkage between personnel records held by the CSA and the EDP payroll, although the two databases are regularly reconciled. A key requirement for an efficient payroll system is a predefined classification/grading structure in the payroll database that determines the rate of pay of all employees. This should form a part of the civil service reform agenda that the government is currently developing.

87. Over the past year the MoF has begun to decentralize the payment of salaries to the civil service. The salary payments are now made every month, each employee is issued an individual check, and the disbursements are made in the county capitals for civil servants based outside of Monrovia. Each ministry and agency and county has dedicated paymasters who coordinate with United Nations Mission in Liberia and Central Bank to transport cash for these payments. While this process is resource-intensive, it has ensured that civil servants can receive payment within reasonable distance from their work place and has enabled the government to verify the existence of each civil servant and remove ghosts from the payroll (on average 2,000 checks/month went unclaimed in 2007). In 2008, on a pilot basis, the MoF hopes to begin paying salary and allowances of senior civil servants through direct debits. This initiative would depend on the employees opening their bank accounts with commercial banks. However, extending this initiative to the entire civil service may not be possible in the short term, due to the lack of banking facilities in many counties and the high transaction costs for the banks of administering a large number of bank accounts for low-wage earners with little propensity for saving.

88. The CSA is also planning to implement a biometrics system. The process of capturing employees in the biometrics system has to be carefully planned to ensure that only genuine employees get into the system. The opportunity should also be taken to update HR details of employees and establish a proper payroll record-keeping system at the MoF, CSA, and line ministries.

PI-18 Effectiveness of payroll controls		SCORE
(i) Degree of integration and reconciliation between personnel records and payroll data	A database of personnel records is maintained at the CSA, although the quality of the records is low. The CSA personnel records are not directly linked to the EDP payroll, although the two records are reconciled at least every six months.	C
(ii) Timeliness of changes to personnel records and the payroll	Delays in taking action on Personnel Action Notice (PAN) can take more than three months.	D
(iii) Internal controls of changes to personnel records and the payroll	Controls through the PAN exist for changes in personnel records and payroll, but supervisory controls are weak to ensure the full integrity of the payroll because changes effected are not adequately checked before the payroll is run. Audit trail reports do not exist to show before and after details for changes effected or to track the user.	C
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	No structured payroll audits have been undertaken in the past three years.	D

PI-19: Competition, value for money, and controls in procurement

89. The Public Procurement and Concessions (PPC) Act dated September 2005, which came into effect in January 2006, is Liberia's first significant step toward subjecting public sector contracts to meaningful competition. Overall, the PPC Act is comprehensive and provides a framework for a sound procurement system. However, some aspects should be improved. A comprehensive set of implementing regulations and manuals have not yet been produced, but the Public Procurement and Concessions Commission (PPCC) is working on these documents with a consulting company.

90. There still appears to be some confusion about the roles and responsibilities of the key players of the Liberia public procurement system. Some procuring entities do not recognize the need for a strict separation of functions between the Procurement Unit, which is the executing body, and the Procurement Committee, which provides supervision. Proposals are sometimes evaluated by members of the Procurement Committee. In some ministries, procurement responsibilities are spread out over different units—with shopping conducted by one unit and national competitive bidding by another, coordinated only at the level of the minister. The PPCC, whose primary function is to regulate the system and prevent departures from the procurement law, is routinely solicited to provide no-objections on procurement decisions, a function that is normally the responsibility of procurement committees.

91. While Liberia's procurement law is basically sound, the practice of public procurement falls short of the standard which the law sets. For instance, not much has changed in shopping practices. Staffs of the procuring entities still go to three selected suppliers to obtain written quotations on the spot instead of soliciting them through a written request. Shopping is still carried out for contracts far above the threshold of US\$2,000 that is stipulated in the Schedule (although it is generally recognized as being too low).

92. National competitive bidding practices also need improving to conform to the Act. The advertisement contains a call for bids instead of inviting bidders to purchase the bidding documents at the cost of reproduction; thus, bidders are deprived of important information that they should consider when preparing a bid. Consequently important provisions—such as the delivery time, penalties for late delivery, requirement for spare parts availability—are often left to the contracting stage or not addressed at all. The criteria for evaluation are also not specified.

93. The Cash Management committee in the MoF has helped identify and overturn many breaches of the procurement law. The MoF has issued a checklist with CMCo requirements, to help ministries and agencies to comply with procurement and payment procedures.

94. The MoF has observed the following common deficiencies in procurement when processing local purchase orders or vouchers:

- Invoices are not consistent in terms of items/quantities procured (shopping).
- Delivery notes are not consistent with invoices or local purchase orders and are not signed.
- Procurement committee meetings minutes are not attached and/or not signed.
- Single sourcing is not justified.
- Specifications are not drawn properly resulting in entities resorting to quoting “end user requirement” as justification for preferring a particular bid.
- Advertisements are not prepared with lots in mind: ministries issue one advertisement for anything from stationery, fuel, computers to vehicles.
- The period of advertisement and closing of bid submission and opening are not spaced out as per the provisions of the Act.
- There is misunderstanding about the term “responsive bids.”
- There is a lack of clarity about payment terms (linked to delivery), advance payment (linked to a bank guarantee), and mode of payment.

95. Despite these shortcomings, procurement practice has improved markedly in the past six months. Procurement staff and committee members now have some grasp of the key requirements of the Act. The break in procurement performance came largely as a result of the PPCC workshop given to the heads of procuring entities in May 2007. This suggests that further targeted training would be highly beneficial. Most of the interim procedures in place during the last fiscal year that were contrary to the provisions of the Act have been discontinued. There are strong indications of a change in attitude toward procurement and a change of habits in response to the Act.

96. In accordance with the PPC Act, a Complaints and Appeals Review Panel was appointed in early 2008 to investigate complaints about procurement irregularities. The commissioners have been appointed and received some initial training, but have not yet begun to review

complaints. Some complaints have been received by the PPCC, but have not been passed on to the Complaints and Appeals Review Panel in a timely and consistent manner.

INDICATOR	BRIEF COMMENT	SCORE
PI-19 Competition, value for money, and controls in procurement		D+
(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	Although procurement opportunities are advertised in daily newspapers for large purchases, direct transfers are sometimes used to bypass some procurement controls exercised by CMCo. The PPCC has also found that procurements using the shopping method have at times been approved even though they exceeded the threshold for small purchases, although reliable data is not available.	D
(ii) Justification for use of less competitive procurement methods	Justification for use of less competitive methods is weak.	C
(iii) Existence and operation of a procurement complaints mechanism	PPC Act, 2005, Part VIII COMPLAINTS AND REVIEW PROCESS—sections 125–129 stipulates the process to address procurement complaints by the complaints panel. A Complaints and Appeals Review Panel has been established and commissioners trained. However, the panel has not yet begun to review and address complaints.	C

PI-20: Effectiveness of internal controls for non-salary expenditure

97. The Cash Management Committee is responsible for approving all payments for the Government of Liberia. The Committee, headed by the Minister of Finance, has representatives from the Ministry of State, Bureau of Budget, and Ministry of Planning. The committee meets biweekly to approve payments for government. As one of the GEMAP requirements, a donor-funded external advisor acts as a member of the CMCo and has co-signatory authority on the Committee.

98. Each ministry and agency is responsible for submitting to the BoB a monthly cash plan, which is the basis of monthly cash allotments issued to ministries and agencies by the BoB. These cash plans are reviewed and approved by the BoB, which issues allotments to the ministries and agencies and BGA, which is responsible for processing payment requests.

99. Following receipt of its cash allotment from the BoB, ministries and agencies prepare a local purchase order. The order and the supporting documents—invoices and copy of the BoB cash allotment—are then sent to the BGA. After checking for appropriation, allotment, conformity of object code, and verifying compliance with procurement procedures and financial rules, the BGA approves the purchase order by putting a special seal on it and returns the documents to the ministries and agencies. This seal of verification allows the ministries and agencies to proceed with the procurement. On receipt of the goods and services, the ministry and agency forwards the voucher along with the original sealed local purchase order, invoices, and delivery note to BGA. The BGA then checks for conformity with the order and processes the voucher for payment.

100. A Physical Audit Unit (PAU) in the MoF's Department of Expenditure is responsible for certifying receipt of supplies and works before payments are processed. The PAU works independently of the Internal Audit Department in the MoF and sometimes extends their work beyond physical verification to compliance with laws and other internal controls. The PAU audits/certifies every transaction relating to goods and services above the threshold of US\$5,000 before the payment is approved by the CMCo.

101. The vouchers certified by the PAU and approved by the BGA are forwarded to the Cash Management Committee (CMCo) secretariat. The CMCo secretariat prepares the list of vouchers for payments, which is reviewed and approved by the CMCo. The CMCo also receives from the office of the Controller General of Accounts details of the government cash balances with the Central Bank, prepared on the basis of Central Bank statements. However, cash position is based on bank statement balances at Central Bank rather than the cash book balances held by the Controller General of Accounts.

102. After reviewing the list of vouchers for payment prepared by the CMCo secretariat, and after considering the available cash balances, the CMCo approves the payments. The approved signed list for the CMCo meeting is forwarded to Central Bank. A copy is sent to the Office of the Controller General of Accounts for printing of checks and disbursement.

103. Although non-salary expenditures are subject to the commitment control procedures outlined above, approximately 16 percent of the 2007/08 budget is approved by the CMCo as direct transfers to state-owned enterprises and commissions (6.9 percent), for ministries and agencies for operational expenses, and occasionally to ministries and agencies for execution of projects under the Force Account method, which is allowed under the PPC Act (9.1 percent). Reports of these expenditures are required before the next transfer can be authorized, but controls in place at the ministries and agencies to ensure that operational funds or other transfers are expended appropriately are weak.

PI-20 Effectiveness of internal controls for non-salary expenditure		
PI-20 Effectiveness of internal controls for non-salary expenditure		C+
(i) Effectiveness of expenditure commitment controls	<p>Line ministries prepare monthly cash plans based on the annual approved/revised budget, the BoB only issues monthly allotments based on these cash plans. Local purchase orders are authorized by the MoF on availability of allotments and all payment vouchers go through a strict commitment control process with final approval for expenditure issued by the CMCo based on cash availability.</p> <p>However, once transfers to line ministries for smaller operational expenses from the consolidated account are approved through the commitment control process, control procedures at the line ministry level are weak.</p>	B
(ii) Comprehensiveness, relevance, and understanding of other internal control rules or procedures	<p>There is no comprehensive PFM Act and regulation in place but the MoF has issued financial rules, domestic and foreign travel ordinances and commitment control procedures for preparation and processing of vouchers. These rules however are not comprehensive in nature and cover only part of the whole budget execution and reporting process.</p> <p>Duplicate procedures exist in recording transactions in manual books and spreadsheets. Controls over the use of transfers for operational expenses are weak.</p>	C
(iii) Degree of compliance with rules for processing and recording transactions.	<p>Compliance with rules is high, as all payments are carefully reviewed by the CMCo and the external GEMAP advisor. Occasionally, simplified or emergency procedures have been used without adequate justification (such as for the Jellah Road Project, in 2007). The quality of reporting on monthly transfers of operational funds and subsidies to ministries and agencies and independent commissions and corporation is not fully comprehensive, and compliance with rules for processing these transactions cannot be properly assessed.</p>	B

PI-21: Effectiveness of internal audit

104. The internal audit function in Liberia is weak and needs to be developed. Comprehension of the role of internal audit in relation to management control responsibilities is not well developed. The existing internal audit functions fulfill a role that combines the role of financial controller (by carrying out mandatory precontrol before decisions are taken) and the role of financial police (by carrying out special investigations ordered by ministers).

105. Internal control systems are designed to ensure that:

- Obligations and costs comply with applicable law.
- Assets are safeguarded against waste, loss, unauthorized use, and misappropriation.
- Revenues and expenditures, liabilities, and recovery of undue paid amounts applicable to budget spender operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and the accountability of the assets maintained.

- Programs are efficiently and effectively carried out to meet objectives in accordance with applicable law and management policy.
- All management risks have been detected and addressed by an appropriate and proportionate control.

106. Under the 1972 Act, responsibility for internal audit is assigned to the Auditor General. This arrangement was enacted when the Auditor General's Office was placed under the Executive branch. Since the General Auditing Commission is now under the Legislative branch, this arrangement is less appropriate, because internal audit is conventionally required to function as an aid to management and to have the resources, capacity, and independence to report directly to the chief executive of the entity. The PFM Act that is being drafted and the proposed new law on the General Auditing Commission could help to address this issue and provide a roadmap for the revision of the institutional arrangements for internal audit, in order to secure a clear division between external and internal audit.

107. At present, most of the government ministries do not have internal audit units. The exceptions include the ministries of Finance, State, Justice, General Service Agency, Health and Social Welfare, and Lands, Mines, and Energy. The ministries of Public Works, Internal Affairs, and Education are setting up or revitalizing their internal audit units. None of these, however, have a clear mandate or reporting structure. The MoF internal audit unit has an operational manual that was issued in May 2004 but not widely used. The General Auditing Commission has drafted a memorandum of understanding with the Institute of Internal Auditors⁶³ for the institute to partner in developing the internal audit function for the government. The memorandum of understanding proposes as a first step setting up a joint working group to assess the needs, timing, and overall approach to building this partnership.

108. While the General Auditing Commission is providing some useful guidance for the establishment of an independent internal audit function, the MoF, however, should take full responsibility for the internal audit under the executive. An internal audit strategy is under draft by the MoF, with input from the GAC. This strategy should specify the roles and mandates of internal auditors in relationship to internal control systems. Any legal amendments should be assessed during the ongoing process of developing the comprehensive PFM law.

⁶³ The Institute of Internal Auditors represents the global profession of internal auditing, which has over 135,000 members in 166 countries. Its members agree to practice internal auditing in accordance with the Institute of Internal Auditors' Code of Ethics and the International Standards for the Professional Practice of Internal Auditing.

	COMMENTS	SCORE
PI-21 Effectiveness of internal audit		D+
(i) Coverage and quality of the internal audit function	The internal audit function in Liberia is weak and needs to be developed. There is no evidence that the work of the internal audit units meets International Standards for the Professional Practice of Internal Auditing (ISPPA), nor that the basic role of internal audit is fully recognized in theory or practice. The Physical Audit Unit at the MoF has mainly concentrated in verifying the receipts of goods and services before payment.	D
(ii) Frequency and distribution of reports	Reports are not regularly produced or submitted to the MoF of General Auditing Commission.	D
(iii) Extent of management response to internal audit findings	There are few reported instances of formal internal audit recommendations made to the chief executive by the internal auditing units, and little evidence of recommendations being acted upon. There have been some positive developments within the MoF, and there are indications that, at least in one instance, reports produced by the MoF internal auditing unit resulted in dismissal and court prosecutions.	C

C (III) ACCOUNTING, RECORDING, AND REPORTING

PI-22: Timeliness and regularity of accounts reconciliation

109. The responsibility for the accounting of government expenditures and revenues rests with the MoF. The MoF has an expenditure department headed by the Deputy Minister of Expenditure and a revenue department headed by the Deputy Minister for Revenue. Within the department for expenditure lies the Bureau of General Accounting (BGA), which is responsible for processing the payment of all goods and services (including allowances and payroll), as well as the Controller General of Accounts (CGA), which has as its principal function the reconciliation of the Liberian government bank accounts with the Central Bank and issuing of checks. The General Service Agency, a separate government entity, is responsible for the recording and tracking of assets.

110. The credibility of reports and financial statements depends on an effective and timely bank reconciliation process to ensure the accuracy and authenticity of transactions going through the cash book and bank statements. Bank reconciliation reports should be independently checked and countersigned by a senior officer and unreconciled items in the cash book or bank statements should be monitored and cleared monthly.

111. The Government of Liberia maintains three bank accounts: US Dollar General Account, Liberian Dollar General Account, and Liberia Dollar Payroll Accounts. All accounts are with the Central Bank of Liberia. Ministries and agencies also maintain bank accounts at the Central Bank for operational purposes. Accounts for donor-funded projects are (as per the donor requirements) at commercial banks.

112. Central Bank of Liberia sends daily cash balances to the MoF, which is used as the main guide by the CMCo to ascertain the government's cash position before approving payments. The cash availability statement for these meetings is prepared by the CGA's office and is independently verified by the CMCo Secretariat. Liberia operates a single entry system, so

payments recorded by the BGA are not contra-entered into the cash book maintained by the CGA. This makes reconciliation of bank statements cumbersome, and routine bank reconciliation statements are not produced.

113. Government employees and pensioners (about 45,000) are issued individual monthly checks for salaries and allowances. Because of the volume of checks and the lack of infrastructure, Central Bank adds the Liberian Dollars payroll check in batches of 50 or more and posts the bulk amount in the statement, rendering bank reconciliation impossible.

114. Monthly transfers to ministries and agencies for operational expenditures and transfers to independent commissions and corporations are not reconciled monthly or at the end of the fiscal year. These transfers, which account for 16 percent of total expenditure (2007/08), are approved and paid through the regular CMCo review process. Ministries and agencies are required to provide financial reports on the use of funds before its next transfer is made. However, lack of reconciliation of these transfers compromises the control system in place.

INDICATOR	BRIEF COMMENT	SCORE
PI-22 Timeliness and regularity of accounts reconciliation		D
(i) Regularity of bank reconciliations	There is no effective bank reconciliation in place in the absence of cash books to reconcile against. Transactions in bank statements are ticked against CMCo listings.	D
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	Monthly cash advances for operating cost are paid into bank accounts of ministries and agencies that are not reconciled monthly and are not cleared at the end of the fiscal year. Use of suspense accounts is uncommon.	D

PI-23: Availability of information on resources received by service delivery units

115. Data on resources made available to primary service delivery units is not available, and no tracking exercises have been completed in the past three years. There are an estimated 4,146 primary schools in Liberia⁶⁴ and 354 health facilities.⁶⁵ Most resources for these service delivery units—including school materials, drugs, medical supplies and equipment—are procured/processed centrally by the relevant ministry (Ministry of Education and Ministry of Health and Social Welfare) and distributed to the units. While individual units may have systems for tracking items received, these records are not systematized, and not centrally collected and consolidated. Small funds for operations and maintenance are transferred to certain schools and clinics, but liquidation of these payments has been challenging. Moreover, no Public Expenditure Tracking Surveys (PETS) have been conducted since the end of the war to give an indication of the availability of resources at service delivery units. The tracking process is complicated by the fact that a large proportion of resources at schools and health centers are provided by NGOs or other organizations, and central tracking and recording of this support is minimal.

⁶⁴ Ministry of Education, Education census 2007/08.

⁶⁵ Republic of Liberia, Poverty Reduction Strategy, 2008.

INDICATOR	FINDINGS	SCORE
PI-23 Availability of information on resources received by service delivery units		D
(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units	No comprehensive data collection on resources to service delivery units in a major sector has taken place within the last three years.	D

PI-24: Quality and timeliness of in-year budget reports

116. The government produces quarterly fiscal reports that detail revenues or allotments and expenditures of the various ministries and agencies. But these reports are not based on reconciled accounting data. Moreover, The fiscal reports could be strengthened by comparing expenditure with the approved or revised budget, to allow decisionmakers to effectively review and monitor budget execution. The reports also fail to highlight early warning signals and emerging slippages in the implementation of the budget. These reports do mark an important step toward increased transparency, and the reports are published in newspapers and posted on the MoF website. The timelines of the reports have improved over time, as illustrated by the list below, detailing when the following reports were posted on the website:

1. Quarter I Report 2006-07 – November 27, 2006
2. Quarter II Report 2006-07 – February 2, 2007
3. Mid-Year Review 2006-07 – March 2, 2007.
4. Fiscal Report 2006-07 – October 21, 2007

117. A limited number of reports are produced by various departments during the implementation of the budget. The Bureau of General Accounting (BGA) produces a report showing appropriations, allotments, un-allotted balances, and expenditures on a commitment basis (from vouchers recorded in the accounts payable ledger). This report is produced monthly and distributed to the President, the National Assembly, Minister of Finance, and Bureau of the Budget. The BGA also produces a weekly payroll expenditure report—a weekly list indicating the vouchers pending, budget allotments against each request, including their status (complete or incomplete), and the amounts paid—and a monthly outstanding payable report. In addition to the above, the Cash Management Committee secretariat produces a monthly report of CMCo approved expenditures.

118. The CGA prepares a daily cash-position report of the government’s main US\$ and LD\$ accounts at the Central Bank of Liberia. This report show opening balances, deposits, credits, checks issued, outstanding items, and bank balances. A weekly cash availability report is also prepared. This report is distributed to the Minister of Finance and the Deputy Minister of expenditure and feeds into the cash management committee process. The CGA also prepares a monthly summary of expenditures on a cash basis, showing objects of expenditures and year to date cumulative totals. Finally, the CGA also produces a monthly expenditure report for ministries, by major budget codes with explanations of purpose. Together, these reports allow comparison against allotments for main administrative headings.

119. The government's fiscal reports could be strengthened by comparing expenditure with the approved or revised budget, to allow decisionmakers to effectively review and monitor budget execution. Furthermore, the reports fail to highlight early warning signals and emerging slippages in the implementation of the budget.

INDICATOR	BRIEF COMMENT	SCORE
PI-24 Quality and timeliness of in-year budget reports		C
(i) Scope of reports in terms of coverage and compatibility with budget estimates	Reports are produced for the main administrative heads with comparison of actuals with the approved allotment captured at both commitment and CMCo approved (paid) stages. There is no comparison with the original or revised budget.	C
(ii) Timeliness of the issue of reports	Reports are produced on a quarterly basis and the timeliness of these reports has improved. For FY2006/07, reports were produced within 8 weeks of the end of the quarter.	C
(iii) Quality of information	There are some concerns about the quality of information in the reports in the absence of proper reconciliation between the fragmented systems and lack of bank reconciliation. However, the reports are useful and provide an important measure of transparency.	C

PI-25: Quality and timeliness of annual financial statements

120. The government does not currently produce financial statements, but it has begun producing annual fiscal reports which detail revenues/allotments and expenditures of the various ministries and agencies. This marks a significant improvement from earlier reporting produced by the MoF in 2003-2005, which contained only a one-page spreadsheet of expenditure. Financial statements have not been produced since before the war, and the current accounting procedures will not support the production of cash-based financial statements supported by bank reconciliations. Current legislation requires financial statements to be based on accrual accounts, which is not realistic under present cash-budgeting procedures. This can be addressed in the new PFM law, currently under draft. Given the government's inability to produce full financial statements, its annual fiscal reports, produced for 2005/06 and 2006/07, are an important step toward increased transparency and accountability. The reports are published in newspapers and posted on the MoF website.

121. Section 21.2 (c) of the Executive Law 1972 requires the Minister of Finance "to report the financial activities and financial position of the Government to the President and to the Legislature". No deadline is set for the submission of the financial statements, which is normally three months after the year end in most countries. In addition, accounting and reporting standards for financial statements are not currently specified in the law, but it is hoped that this will be rectified by the new PFM law.

PI-25 Quality and timeliness of annual financial statements		C
(i) Completeness of the financial statements	The responsibility for the preparation of government accounts/financial statements lies with the MoF. Government of Liberia financial statements were not prepared for the fiscal year of 2004/5, but fiscal reports were prepared for 2005/6 and 2006/7. A review of the draft of the 2006/7 report lead the mission to conclude that they were not complete financial statements. They contain information on revenue and expenditure by the various agencies and balances unspent for the fiscal year, but they lack a balance sheet of financial assets and liabilities and contain no accounting policy note.	C
(ii) Timeliness of submission of the financial statements	The reports for 2005/06 and 2006/07 are not complete financial statements, and thus the timeliness of submission cannot be assessed. (However, it is noteworthy that the government's fiscal reports were submitted in a timely manner, within 6 months of the end of the fiscal year. 2006/07 Fiscal Outturn Report submitted Oct 18, 2007 2005/06 Fiscal Outturn Report submitted Sept 5, 2006)	No score
(iii) Accounting standards used	The government does not have standards for accounting and reporting and financial statements are not produced; only annual fiscal outturn reports are produced.	No score

C (IV) EXTERNAL SCRUTINY AND AUDIT

PI-26: Scope, nature and follow-up of external audit

122. Over the last three years the government has taken steps to establish an independent external audit function. Prior to 2005, the Auditor General was required to report to the President. This called into question the independence of the Auditor General and compromised his ability to monitor the executive branch of the government, as the President is the head of the executive. Moreover, because the Auditor General reported to the President, the legislature had no formal means of verifying the executive's use of budgetary resources. In 2005, these arrangements were changed. The General Auditing Commission headed by the Auditor General (AG) was created by amending section 53.2 of the Executive Law 1972 as an independent autonomous body of the government, with a duty to report to the legislature. Furthermore, although the President was mandated to appoint the Auditor General, the appointment is by and with the consent of the Senate. Moreover, the powers and duties of the Auditor General were better defined.

123. During the NTGL period, the Auditor General's recommendations did affect accountability in specific areas. The special audit report on misuse of foreign travel allowances and advances in 2005 was noteworthy as it provided evidence of widespread corruption and laxity in the use of public funds.

124. To strengthen the external audit function, there is a need to improve the legislative framework, increase the General Auditing Commission's financial independence and strengthen capacity. Action is being taken on all three fronts. An act to repeal and replace chapter 53 of the Executive Law of 1972 to grant financial independence to the General Auditing Commission has

been submitted to the Legislature, but has yet to be approved. Financial independence is being improved through MoF providing General Auditing Commission with quarterly releases, with replenishments on the basis of accountabilities provided. There is, however, a need for a new and separate act on the General Auditing Commission fully in line with international recognized auditing standards (Lima and Mexico declarations) and best practice in order to strengthen the external audit.

125. The new Auditor General is addressing the personnel problem. A recruitment exercise has been undertaken in which about 1,400 applicants were registered. In Monrovia, Gbarnga, Bong County, 998 applicants took a test on general auditing and accounting; 341 were successful (Audit 256 and Administration 85). A first round of 220 applicants was interviewed by a nine-person panel. Of these, 92 were selected and started training on 19 November 2007.

126. The International Organization of Supreme Audit Institutions code of ethics and auditing standards and the African Organization of English-speaking Supreme Audit Institutions audit manual and Quality Control Manual have been customized to local circumstances. These manuals and codes need time to be fully implemented.

127. The General Auditing Commission is presently introducing a more modern auditing technique. A first materiality and risk assessment (risk index) on a national level has been carried through to strategically focus on key government institutions.

128. Using this risk-based approach to assess 84 ministries and agencies, the GAC ranked the top 10 "High Priority Auditees" will audit the first five starting on 26 November 2007, with an audit entrance meeting with the MoF.

129. With a human resources and legal consultant, the General Auditing Commission has developed a series of HR guidelines and forms, including a code of conduct, staff confidential forms, asset declaration, and conflict of interest forms.

130. A five-year strategic plan is in an early stage of development. This will provide a focus for building the capacity of the institution and form the basis for donors and the government to converge their support.

131. Annual fiscal outturn reports were prepared for 2005/06 and 2006/07. The General Auditing Commission intends to use the 2006/07 outturn report to conduct a more comprehensive and reliable transaction-based audit for 2006/07.

132. In a somewhat longer perspective, it would be necessary to introduce an Annual Attestation Audit to match the PFM development in Liberia.

PI-26 Scope, nature and follow-up of external audit		D
(i) Scope/nature of audit performed	No audits meeting international standards have been performed in the last 25 years, although there have been reviews of activities that fell short of international standards.	D
(ii) Timeliness of submission of audit reports to legislature	No audit reports have been submitted to the legislature.	D
(iii) Evidence of followup on audit recommendations	A limited/select number of recommendations given in the Auditor General's comments to the draft National Budget were followed up by the legislature. This is however not an audit report.	D

PI-27: Legislative scrutiny of the annual budget law

133. Legislative scrutiny of the annual budget law and financial statements is very important to ensure transparency and accountability. The Ways and Means Committee in the legislature is responsible for scrutinizing the annual budget when it is laid before the House of Representatives.

134. The Ways and Means Committees of the House and the Senate lacks technical in-house capacity to properly analyze and scrutinize the budget to guide meaningful debate. They have drawn on support from the General Auditing Commission to review and provide technical comments on the budget. There are plans to increase capacity within the Ways and Means Committees, and in the legislature more generally, to perform budget analysis and improve the budget review function.

135. According to Section 2205 Chapter 22 of the Revenue Code of Liberia (Act of 2000), timely and complete annual reports of the financial status and affairs of all government agencies are required to be submitted to the President and the legislature. The executive is also expected to submit the mid-year review of the budget to the finance committee of the legislature. However, other than the monthly reports produced by the BGA, the MoF is not regularly submitting comprehensive in-year budget outturn reports to the legislature and ministries and agencies.

136. Section 2212 of the Revenue Code of Liberia Act of 2000 spells out the procedures concerning in-year budget amendments. In the code, rules exist for in-year budget amendments by executives, but they do not stipulate any limit to the amount that can be transferred. These procedures require that a request be made by the concerned ministry or bureau to the Director of the Budget. The Director of Budget reviews it and submits the request to the President for approval. A budget law now in draft form proposes strict limits on the extent and nature of amendments.

137. The budget document does not include actual spending against budget for the current year to enable the legislature to confirm that the budget was executed based on the Appropriation. There is a proposal to amend section 2212 of the Revenue Code—"The Budget

Transfer Act” to allow transfer of 20 percent⁶⁶ between agencies. This has not yet been approved.

138. The BoB has prepared policy guidance and request submission instructions on budgetary transfers to ensure transparency and fiscal discipline while allowing the executive the flexibility to request changes in the approved budget. The guiding principle is that transfers must be done only after serious consideration and must be fully documented and submitted for all requisite approvals. Instructions for completing inter- and intra-ministerial forms for budget transfers have also been designed.

139. The legislature is proposing to set up a Legislative Budget Finance Office (LBFO). This should be reviewed in light of the need to develop a comprehensive legal and regulatory framework that will ensure that roles and responsibilities for the management of public funds are clarified in the areas of macro-economic forecasting, planning, budget preparation, budget execution, recording and accounting, internal auditing, external auditing, and legislative oversight.

PI-27	CRITERIA	SCORE
PI-27 Legislative scrutiny of the annual budget law		C+
(i) Scope of the legislature’s scrutiny	The legislature’s scrutiny of the budget covers expenditure and revenue and is performed only after the detailed proposals have been finalized.	C
(ii) Extent to which the legislature’s procedures are well-established and respected	Section 2205 of the Revenue Code of Liberia (Act of 2000) requires the executive to submit a mid-year review of the budget to the finance committee of the legislature. The Ways and Means Committee lacks the required technical capacity and procedures to effectively scrutinize the budget	C
(iii) Adequacy of time for the legislature to provide a response to budget proposals—both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	The budget year for the government is 1 July to 30 June . The 2007/08 National Budget of Liberia was submitted to the Legislature on May 20, 2007. The budget task effect in July 2007, which allowed the legislature more than a month to review the budget proposals. (However, the budgets for 2005/6 and 2006/7 were not submitted to the legislature until August 2005 and 2006 respectively, which left little time for the legislature’s scrutiny.)	B
(iv) Rules for in-year amendments to the budget without approval by the legislature.	Although section 2212 of the Revenue Code of Liberia Act of 2000 spells out the procedures concerning in-year budget amendments, the lack of limits allows extensive administrative reallocation as well as expansion of total expenditure.	C

PI-28: Legislative scrutiny of external audit reports

140. Timely consideration of audit reports from supreme audit institutions and followup on recommendations are important to hold the executive accountable. The executive is expected to

⁶⁶ 30 percent is high compared with international standards which is normally between 5-10 percent

report to the Legislature in the form of annual financial statements with an audit opinion from the General Auditing Commission. Since external audit reports have not been produced since before the civil war, this indicator is not applicable.

INDICATOR	BRIEF COMMENT	SCORE
PI-28 Legislative scrutiny of external audit reports		No Score
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years)	No external audit reports have been produced to date.	No Score
(ii) Extent of hearings on key findings undertaken by the legislature	No external audit reports have been produced to date.	No Score
(iii) Issuance of recommended actions by the legislature and implementation by the executive	No external audit reports have been produced to date.	No Score

D. DONOR PRACTICES

D-1: Predictability of Direct Budget Support

141. The government receives little direct budget support from donors. The vast majority of donor funding goes through projects and programs outside the national budget process. In the past three years, no budget support has been recorded in the initial revenue forecasts in the budget; rather it has been included in supplemental budgets prepared and passed in the second half of the fiscal years. In 2006/07, the Chinese government provided US\$1.5 million in budget support, included in a supplemental. It was not included in the original budget revenue estimates as it was not anticipated. For the 2007/08 budget, no direct budget support was projected in the revenue estimates. Later, agreements were reached with the World Bank and France for small amounts of budget support, which were included in a supplemental budget passed in 2008, and funds were disbursed.

INDICATOR	BRIEF COMMENT	SCORE
D-1 Predictability of Direct Budget Support		No Score
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature	No budget support was included in annual revenue forecasts (in the national budget), as none was anticipated by the government. Midway through 2006/07 a single tranche budget support operation was agreed to with the Chinese government.	No Score
(ii) In-year timeliness of donor disbursements	Donor disbursements have been made as one-off payments rather than quarterly disbursements. Disbursements were not scheduled at the beginning of the fiscal year, and therefore their timeliness cannot be assessed.	No Score

D-2: Financial information provided by donors for budget, reporting on projects, and program aid

142. The poor quality of donor reporting on funding and disbursements poses a major challenge to the government's sectoral planning and macrofiscal assumptions. Current donor flows are estimated at US\$300-US\$500 million for 2007, which is one to two times as much as the entire government's budget. A large number of both development and humanitarian donors are providing support to Liberia, including multilateral organizations, bilateral donors, and private foundations. The majority of donor funding flows through NGOs, contractors, or UN agencies - this is largely a legacy of the humanitarian nature of aid, as well as a result of concerns from donors that the government's capacity to execute development programs is insufficient. Some donors have begun implementing projects through special implementation units embedded within ministries, using donor procedures and controls.

143. Donor activities are coordinated through the Liberia Reconstruction and Development Committee, chaired by the President, which meets monthly and brings together key cabinet ministers and donor partners. A Liberian Reconstruction and Development Committee secretariat is housed within the office of the President. The secretariat has begun to establish an aid database, but data are currently incomplete. Donors do not currently provide complete budget estimates or regularly report disbursements. Liberia participated in the Paris Declaration Survey for 2007, and based on the responses from six of the largest donors, ODA was estimated at US\$360 million for 2007 (this excludes support to the security sector, debt relief, and funding from private donors). Several other ad hoc exercises have been carried out to determine the magnitude of donor support to Liberia, by the government, UNDP, and the IMF, but no clear and consistent criteria have been applied for comparison or verification. The government is committed to improving donor reporting and data compilation as part of its efforts to track the poverty reduction strategy implementation. It is encouraging donors to fully participate with requests for information. While funding levels are high, the government's challenge will be to ensure that donor funding is aligned with the government expenditure priorities.

INDICATOR	BRIEF COMMENT	SCORE
D-3 Proportion of aid that is managed by use of national procedures		D
(i) Overall proportion of aid funds to central government that are managed through national procedures	Other than small quantities of direct budget support, all aid funds are managed using donor procedures.	D

Source: Budget documents, interviews with BoB and Liberian Reconstruction and Development Committee.

144. Tracking and monitoring aid flows is complicated by a number of factors, including:

- The many levels of contracting and sub-contracting. For instance, the World Bank may execute a grant through UNDP, which in turn disburses funds to an NGO. Consistent criteria need to be applied to ensure that funding is not counted twice.
- Distinctions between pledges, commitments, and disbursements. Donors tend to report funding as disbursed when it has been made available to the implementing agency and not when the actual funds have been spent.
- Annual budget processes in bilateral donor countries, which prevent bilateral donors from committing or pledging funds for more than a year in advance.
- Significant volumes of private funding, particularly through large foundations—such as the Soros Foundation, Clinton Foundation, McCall-McBain Foundation—which may be difficult to track if the foundations lack people in Liberia.

D-2: Financial info provided by donors for budget, reporting on project, program aid		
D-2 Financial info provided by donors for budget, reporting on project, program aid		D
(i) Completeness and timeliness of budget estimates by donors for project support	Most donors do not provide budget estimates for disbursement of project aid three months in advance of the government’s fiscal year.	D
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	Few donors provide regular reports to MoF on disbursements. (Although grants implemented through the project financial management unit do provide regular disbursement reports to MoF.)	D

D-3: Proportion of aid that is managed by use of national procedures

145. Most donor funding is implemented outside of national structures, often through NGOs or contractors. Some donors, primarily the World Bank, AfDB, and DFID, execute projects directly through the government, using special implementation arrangements—such as the Special Implementation Unit, established at the Ministry of Public Works with support from the World Bank and the Project Financial Management Unit at the MoF—and utilizing the donors’ procurement and financial management procedures. Only small quantities of budget support, provided by the World Bank and the Government of France, have gone through government procedures.

146. Many donors are reluctant to use government procedures due to concerns about weaknesses in the government’s systems. Procurement systems remain weak, accounting systems are largely manual, and external audits are only being conducted for the first time in the current fiscal year.

Annex 2.1: Persons Interviewed

Antoinette Sayeh	Minister	Ministry of Finance
Tarnue Mawolo	Deputy Minister, Administration	Ministry of Finance
Roderick Smith	Deputy Minister, Expenditure	Ministry of Finance
Elfrieda Tamba	Deputy Minister, Revenue	Ministry of Finance
Elizabeth Tubman		Ministry of Finance
Aletha Browne	Assistant Minister, Expenditure	Ministry of Finance
Sam Russ	Director, Debt Management	Ministry of Finance
Jerry Tamba Taylor	Assistant	Ministry of Finance
Amitabh Tripathi	Advisor	Ministry of Finance
Karikolraj Kasirajan	Advisor	Ministry of Finance
Daniel Honig	Assistant to the Minister	Ministry of Finance
Julius Caesar	Deputy Director	Bureau of the Budget
Anthony Myers	Manager	Bureau of the Budget
Eileen Browne	Advisor	Bureau of the Budget
John Morlue	Auditor General	General Auditing Commission
Richard Dorley	Director of Planning and Research	Central Bank of Liberia
Keith Jubah	Chairman	Public Procurement and Concessions Commission
Joseph S. Neufville	Executive Director	Public Procurement and Concessions Commission
Clement Ahiawodzi	Advisor	Public Procurement and Concessions Commission
William Allen	Director	Civil Service Agency
Emmanuel J. Nuquay	Representative	Ways and Means Committee, Legislature
Jeremy Tunnacliffe	Charge d'Affaires	European Commission
Kamil Kamaluddeen	Economic Advisor	UNDP
Douglas Carey	Economic Advisor	Embassy of the USA

Annex 2.2: PFM-PR - Calculation sheets

1. This annex contains calculation sheets for PFM Performance Indicators PI-1 and PI- 2.
2. The FY06/07 expenditure report presented some of the expenditure data differently from the original budget. A sum of US\$5.24 million, allocated as lump sums to two budget lines in the original budget for payment of pre-NTGL salary arrears and other domestic debt holders, was reported against the budget lines of individual ministries and agencies in the fiscal report. These funds were used to settle payment arrears, but were reported against the budget lines of the individual agencies that the claimants had worked for. In order to correct for this report discrepancy, the FY06/07 variance analysis excludes the salary arrears payments.

FY06/07: VARIANCE ANALYSIS EXCLUDING SALARY ARREARS			
Main budgetary headings	Budgeted	Actuals	Variance
Ministry of Education	10,356,535	14,170,850	36.8%
National Legislature	9,006,230	10,411,958	15.6%
Ministry of Justice	7,820,249	8,243,810	5.4%
Ministry of Health and Social Welfare	7,559,597	7,626,557	0.9%
Judiciary	6,700,000	6,758,806	0.9%
Ministry of Public Works	5,565,687	5,714,266	2.7%
Ministry of State for Presidential Affairs	4,844,407	7,735,497	59.7%
Ministry of Finance	4,390,219	5,492,071	25.1%
Ministry of Internal Affairs	4,341,756	7,316,605	68.5%
Ministry of Foreign Affairs	3,319,966	4,803,211	44.7%
Ministry of Agriculture	3,061,100	3,230,994	5.6%
Forestry Development Authority	2,640,000	2,551,271	3.4%
John F. Kennedy Medical Center	2,612,764	2,515,200	3.7%
Provision For County Development Program	2,500,000	0	100.0%
Ministry of Lands, Mines, and Energy	2,190,800	1,752,608	20.0%
Ministry of Youth and Sports	2,100,115	2,368,157	12.8%
Ministry of Defense	1,778,654	1,792,656	0.8%
National Electorate Commission	1,602,314	1,965,331	22.7%
Truth and Reconciliation Commission	1,438,000	1,642,075	14.2%
Ministry of Labor	1,046,421	1,034,791	1.1%
All others	34,442,445	26,012,645	24.5%
TOTAL	119,317,259	123,139,359	3.2%
Total variance in expenditure			22.6%
Total variance in expenditure beyond overall expenditure deviation			19.4%

FY05/06: VARIANCE ANALYSIS			
Main budgetary headings	Budget	Expenditure	Variation
Ministry of Defense	11,651,492	5,929,092	49.1%
Ministry of Education	8,163,462	8,879,960	8.8%
Ministry of Justice	6,775,692	4,576,921	32.5%
National Legislature	5,339,849	5,649,677	5.8%
Ministry of State	4,516,761	5,817,799	28.8%
Ministry of Health	4,466,120	2,916,876	34.7%
Judiciary	4,018,000	3,133,598	22.0%
National Elections Commission	3,218,762	3,476,591	8.0%
Ministry of Finance	3,034,173	3,636,677	19.9%
Ministry of Internal Affairs	2,699,270	3,231,907	19.7%
General Service Agency	2,686,044	1,174,703	56.3%
ministry of Foreign Affairs	2,337,919	2,243,557	4.0%
JFK	2,057,364	1,742,055	15.3%
Budget Bureau	2,000,000	673,078	66.3%
Special Security Service	1,916,292	506,707	73.6%
Ministry of Public Works	1,884,197	1,394,740	26.0%
Public Retirement Services	1,050,000	114,053	89.1%
Ministry of Lands, Mines, and Energy	894,400	515,611	42.4%
Ministry of National Security	854,794	359,333	58.0%
Ministry of Planning	808,677	527,216	34.8%
All Others (excluding debt service)	15,682,431	17,108,703	9.1%
TOTAL	86,055,699	73,608,854	14.5%
Total variance in expenditure			26.4%
Total variance in expenditure beyond overall expenditure deviation			12.0%

Annex 2.3: PFM-PR – List of Ministries and Agencies

List of ministries and agencies and autonomous government bodies/state-owned enterprises.

Ministry / Agency
<i>General Administrative Services Sector</i>
1. National Legislature
2. Ministry of State for Presidential Affairs
3. Office of the Vice President
4. Bureau of the Budget
5. Ministry of Finance
6. Ministry of Internal Affairs
7. Ministry of Planning and Economic Affairs
8. Civil Service Agency
9. General Services Agency
10. Ministry of Information, Culture and Tourism
11. General Auditing Commission
12. Ministry of Foreign Affairs
13. Liberia Institute of Public Administration
14. National Elections Commission
15. Liberia Institute of Statistics and Geo-Information Services
<i>Security Services Sector</i>
16. Judiciary
17. Ministry of Justice
18. Ministry of Defense
19. National Security Agency
20. Special Security Service
21. Ministry of National Security
22. National Bureau of Investigation
<i>Social & Community Services Sector</i>
23. Ministry of Education

24. Ministry of Health and Social Welfare
25. John F. Kennedy Medical Center
26. Ministry of Labor
27. Ministry of Youth and Sports
28. Ministry of Public Works
29. National Food Assistance Agency
30. Center for National Documents and Records Agency
31. Agriculture and Industrial Training Bureau
32. Ministry of Rural Development
33. Ministry of Gender and Development
34. Liberia Institute for Bio-medical Research
35. Phebe Hospital
<i>Economic Services Sector</i>
36. Ministry of Agriculture
37. Ministry of Lands, Mines, and Energy
38. Ministry of Commerce and Industry
39. Ministry of Posts and Telecommunications
40. Cooperative Development Agency
41. Ministry of Transport
42. Liberia Domestic Airport Agency
43. Bureau of State Enterprises
44. Environmental Protection Agency
45. Monrovia City Corporation
46. Forestry Development Authority

Institutions, Entities & Other General Claims

Subsidies to Public Corporations

1. Subsidy to Liberia Broadcasting System
2. Subsidy to Mano River Union
3. Subsidy to Liberia Copyright Office

4. Subsidy to Liberia Water and Sewer Corporation
5. Subsidy to Liberia Produce Marketing Corporation
6. Subsidy to National Housing Authority
7. Subsidy to Liberia Intellectual Property System
8. Subsidy to National Oil Company of Liberia
9. Subsidy to Liberia Industrial Property System
10. Subsidy to Liberia Electricity Corporation
11. Subsidy to Monrovia Transit Authority
12. Subsidy to Liberia Telecommunications Corporation
13. Subsidy to Bureau of Maritime Affairs
14. Subsidy to Liberia Agency for Community Empowerment
15. Subsidy to Liberia Industrial Freezone Authority
16. Subsidy to Liberia Rubber Development Authority

Transfers

1. Transfer to National Investment Commission
2. Transfer to Liberia Repatriation, Rehabilitation, and Reintegration Commission
3. Transfer to Human Rights Commission
4. Transfer to Governance Reform Commission
5. Transfer to Truth and Reconciliation Commission
6. Transfer to Public Procurement and Concession Commission
7. Transfer to National Commission on Disarmament, Demobilization, Rehabilitation, and Reintegration
8. Transfer to Liberia Reconstruction and Development Commission
9. Transfer to National Commission on Disabilities

Autonomous Educational Institutions

1. Transfer to University of Liberia

Transfers	Budget	Expenditure	Expenditure	Appropriation
Subsidies to Public Corporations				
Subsidy to Liberia Broadcasting System	375,000	374,495	374,495	505
Subsidy to Mano River Union	180,000	180,000	180,000	0
Subsidy to Liberia Copyright Office	30,000	24,720	24,720	5,280
Subsidy to Liberia Water and Sewer Corporation	200,000	200,000	200,000	0
Subsidy to Liberia Produce Marketing Corporation	320,765	320,765	320,765	0
Subsidy to National Housing Authority	308,518	308,518	308,518	0
Subsidy to Liberia Intellectual Property System	65,000	61,763	61,763	3,237
Subsidy to National Oil Company of Liberia	175,001	175,001	175,001	0
Subsidy to Liberia Industrial Property System	30,000	30,000	30,000	0
Subsidy to Liberia Electricity Corporation	1,189,599	1,189,599	1,189,599	0
Subsidy to Monrovia Transit Authority	255,000	254,928	254,928	72
Subsidy to Liberia Telecommunications Corporation	345,000	345,000	345,000	0
Subsidy to Bureau of Maritime Affairs	866,108	866,108	866,108	0
Subsidy to Liberia Agency for Community Empowerment	200,000	199,880	199,880	120
Subsidy to Liberia Industrial Freezone Authority	180,067	180,067	180,067	0
Subsidy to Liberia Rubber Development Authority	24,596	24,596	24,596	0
Sub Total	4,744,655	4,735,441	4,735,441	9,213
Transfers				
Transfer to National Investment Commission	652,422	647,290	647,290	5,132
Transfer to Liberia Repatriation, Rehabilitation, and Reintegration Commission	510,000	506,250	506,250	3,750
Transfer to Human Rights Commission	229,867	229,792	229,792	75
Transfer to Governance Reform Commission	235,000	231,108	231,108	3,892
Transfer to Truth and Reconciliation Commission	1,642,075	1,642,075	1,642,075	0
Transfer to Public Procurement and Concession Commission	200,000	200,000	200,000	0
Transfer to NCDDRR	848,701	848,701	848,701	0
Transfer to Liberia Reconstruction and Development Commission	178,685	177,860	177,860	825
Transfer to National Commission on Disabilities	75,000	75,000	75,000	0
Sub Total	4,571,750	4,558,076	4,558,076	13,674
Transfers to Autonomous Educational Institutions				
Transfer to University of Liberia	92,076	92,076	92,076	0
Sub Total	92,076	92,076	92,076	0
TOTAL	9,408,480	9,385,593	9,385,593	22,887

Annex 2.5: PFM-PR: Budget Preparation Calendar for Fiscal Year 2007-2008

Nr	Projected date	Tasks/activities	Description	Responsible parties	Actual delivery date	Remarks
1	15-25.Nov.	Preparation of budget formulation formats	Develop budget preparation formats to guide ministries and agencies in generating and presenting programmatic information including objectives, outputs/targets, inputs, and costs, and estimates of fees, charges, and donor financing	BoB, MoF, and MPEA	Adopted in early December 2006	Members of Budget Committee needed time to understand the forms
2	27. Nov-1.Dec.	Training on content and utilization of budget preparation formats	Hold two training workshops, one for staff/analysts of BoB, MoF, and MPEA, and another for staff of line ministries and agencies including Financial Comptrollers and Directors of Planning/Programs, on the content and utilization of budget formulation formats	BoB, MoF, and MPEA	Training done on 19 Dec. 2006	Delayed approval of forms
3	11-12.Dec.	3 rd Cash Planning Workshop	Conduct a cash planning workshop to assist ministries and agencies in reviewing and using the currently cash plans; include in staffs/analysis of BoB and MoF/CMCo-Secretariat	MoF/CMCo-Secretariat	Late December	Mobilization problems
4	1. Dec.-6.Jan.	Preparation and conduct of mid-year review	Prepare mid-year review process and assist ministries and agencies in carrying related activities; prepare documentation for Cabinet mid-year review session/retreat	Budget Committee; MoF and BoB	Mid – late Jan.	Relevant financial data not assembled quickly enough
5		Revenue forecasts	Prepare revenue forecasts in consultation with ministries and agencies Cabinet with respect to policy initiatives and tax administration measures with impact on revenue levels.	MoF; line ministries and agencies	Mid Jan. Feb.	MoF macro fiscal capacity constraint; needed consultations with international stakeholders
6	8-13.Jan.	Cabinet mid-year review session/retreat	Guide Cabinet and assist President in undertaking mid-year review	Budget Committee		Not held
7		Prepare budget guidelines	Prepare Draft Budget Guidelines and subject them to debate by Cabinet at Mid-Year Review Session/Retreat	Budget Committee; MoF and BoB	8 – 15 Jan.	

Nr	Projected Date	Tasks/ activities	Description	Responsible parties	Actual delivery date	Remarks
8	15 Jan	Issuance of policy guidance and budget guidelines	President issues policy guidance	President	Jan. 25	Required consultation and consensus
9			Issue budget guidelines	Budget Committee; BoB and MoF		
10	Jan. 18 - 19	Budget Workshop for line ministries and agencies	Dissemination of budget guidelines and training of line ministries and agencies staff including Financial Comptrollers and Directors of Planning/Programs various ministries and agencies on preparation of budget submissions.	BoB, MoF, and MPEA	Feb. 21 – 27	Disbursement problems at the MoF
11	Jan. 22 - Feb 22	Provide technical assistance to line ministries and agencies	Analysts and Sector Heads visit Line Ministries/Agencies to further provide guidance on the use of forms and with submission procedures.	BoB and MoF Staff, MoF	Jan. 22 – Feb. 22	
12	Feb. 22	Receive agency budget submissions	BoB and MoF receive and review FY2007/08 expenditure and non-tax revenue estimates from line ministries and agencies.	Line ministries and agencies, BoB	Deadline extended to Feb. 28	Most line ministries and agencies needed mentoring on the Guideline
13	Feb. 23 - Mar. 15	Review and analyze submissions	Initial quantitative review made. Consultations with responsible authorities in agencies to ensure compliance and completeness in terms of budget guidelines. Qualitative analysis of submissions conducted to inform the Budget Director's recommendation to the Budget Committee	BoB and MoF	March 1 – 19	Delayed submissions; overshooting of ceilings
14	Mar. 19 - 30	Conduct Budget Hearings	Provide insight into the programs and plans of ministries and agencies with a view to assessing the actual needs. Agencies are challenged with potential trade-offs they must consider.	Budget Committee, Line ministries and agencies	March 20 – Apr. 2	Logistical challenges
15	Apr. 2 - 5	Compile notes from budget hearings	Analysts and Sector Heads collate the recommendations for agency budget revisions as made by Budget Committee during the hearings.	BoB, MoF, and MPEA Staff	2 – 5 April	

Nr.	Projected Date	Tasks/activities	Description	Responsible Parties	Actual Delivery Date	Remarks
		Update revenue forecasts	Revenue estimates revised to make it consistent with emerging realities: policy shifts, new trends in collection, changes in the macroeconomic forecasts, new growth factors.	MoF	Mid April	MoF macro fiscal capacity constraint; needed consultations with international stakeholders
20	08-May	Final draft sent to President	All the necessary adjustments are incorporated into the budget. Final draft ready for Legislative process	MoF and BoB	10 May	
21	15-May	Submit draft budget to legislature	President presents draft budget to the Legislature	President	17 May	
22	May 22 - 31	Cash planning	ministries and agencies develop prioritized draft cash plans based on appropriations proposed to legislature	Line Ministries and Agencies; MoF, CMCo, and BoB		
23	June 1 - 15	Cash planning	MoF and CMCo Secretariat consolidate and match prioritized draft cash plans from ministries and agencies and develop consolidated prioritized government cash plan	MoF, CMCo, and BoB		
24	June 21	Anticipated legislative approval	Legislature adopts the FY2007/08 National Budget	National Legislature	24 July	Unusual intervention by Auditor General
25	June 21 - 30	Finalize prioritized cash plan	Ministries and agencies adjust cash plans in accordance with the Legislature's appropriations	MoF, CMCo, BoB		
25	July 6	Issue first allotments	Ministries and agencies submit and BoB approve first set of allotments	BoB	First week of August	Delayed budget approval

Annex 2.6: PFM-PR - Open Procurement Process for Small Purchases

No.	MDA	Total Contracts Awarded		Contracts above Small Purchase Threshold		Contracts Awarded Through Open Competition	
		Number	Value	Number	Value	Number	Value
1	Ministry of Public Works *	5	853,379	3	596,879	2	256,500
2	Ministry of Education	198	3,706,031	175	2,748,559.24	23	957,472
3	Ministry of Health	73	2,186,122.27	62	370,392.27	11	1,815,730
4	Ministry of Lands, Mines, and Energy	62	1,064,754	60	757,055	2	307,699
5	Ministry of Finance	12	1,175,099	2	6,343.50	10	1,168,755.00
6	Forestry Development Agency	4	320,000	0	0	4	320,000
7	National Port Authority	100	1,362,113	88	682,203	12	679,910
8	Liberia Petroleum Refining Company	3	435,500	0	0	3	435,500
	Total		11,102,998		5,161,432		5,941,566
	Average	457		390		67	

* Five contracts were awarded: One national competitive bidding, one international competitive bidding, and three Force Account. Shopping and SS were all below Thresholds

Note: Calculations are based on planned or actual procurement methodologies.

Source: PPCC regular Monitoring of Compliance.

