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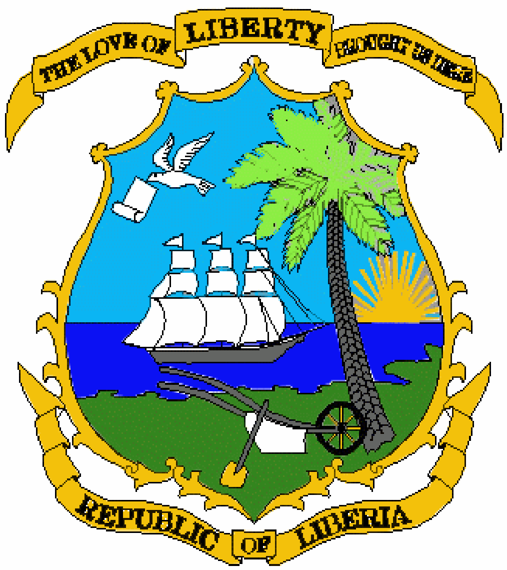

QUARTER THREE FISCAL OUTTURN

FISCAL YEAR 2010/11

MINISTRY OF FINANCE

May 2011

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Executive Summary

The Fiscal Year 2010/11 Budget was initially US$369.4 million[1]. Revenue collected through end March was US$244.8 million (or US$259.8 million including deferred) against a budgeted amount of US$358.6 million excluding US$10.7 million in bank balances brought forward from 2009/10. As well as this, the Government has collected US$15 million in deferred revenue from Chevron and US$ 7.8 million in earmarked revenue has been collected into the consolidated account.

Most of the realized revenue was generated from the Tax Revenue Stream (77.5 percent), with Taxes on International Transactions making up the largest portion (31.7 percent of the total revenue). Grant revenue to date has been US$11.5 million. With the addition of the deferred and supplemental Budgets the total Budget allocations this Fiscal year rises from US$369.4 million to US$408.4 million. The significant improvement in revenue intake came as a result of vigorous tax enforcement and improved tax administration[2].

The Personal Income Tax and Corporate Income Tax rates were lowered, to encourage business investment and reduce the cost of employment, this quarter resulting in a fall in the collection in Personal Income Tax, but an increase in the Corporate Income Tax. However we would caution against drawing any conclusions from this result, as the Corporate Income Tax collection in Fiscal Year (**FY**) 2009/10 saw a substantial increase in the collection rate in the first quarter of the year.

Expenditure through end March totaled US$329.4 million in **allotment** which represents 80.6 percent of overall total budget; US$233.0 million in **commitment,** representing 57 percent, and US$209.7 million in **cash,** representing 51 percent. Public and Administrative Services was the largest recipient with US$97.7 million, or 28.1 percent of the total Budget. With just three months left for the fiscal year to elapse, the Government has experienced a slightly low spending in almost all expenditure categories as mentioned above. This is largely due to many factors including:-

- Delay in the passage of the 2010/11 budget almost at the end of the first quarter of the fiscal year. Initially, the expectation was that once the budget was passed on time (probably in late June), procurement processes (which usually take on average two to three months) for many of the capital related spending would have commenced in July and probably end in October. This could have allowed the Government more leverage to spend more on capital during the length of the dry season beginning in December 2010.

- Continued complexity in our procurement processes at both central and sector level – Ministries and Agencies are persistently faced with the huge procurement challenges given that the current PPCC Law does not take into account some practical realities the government is faced with. Most of Public Works related activities are implemented during the dry season, and there has been around 10 months of rain.

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1 Including a Project Budget of US$37.3 million

2 Including continued tax sensitization, improved compensation for tax collectors, encouraging whistle blowers through compensation - leading to tax compliance.

The Fiscal Balance (Revenue per month, minus the cash expenditure per month) was, net US$34.6 million.

The uncommitted revenue plus the initial balance of US$11.8 million is tracked in **Table 1.4.2**. Cash is compared to Cash Collected (which is revenue plus US$4.7 million in earmarks).

Spending on Key PRS Ministries and Agencies made up 37.5 percent of allotments, and represented a 4.7 percent original increase on the Budget expenditure on those Ministries and Agencies in FY 2009/10.

The Liberian economy in 2010 has seen Real GDP growth of 5.6 percent with growth in the Forestry and Agriculture Sectors. The rehabilitation of the Greenville Port is expected to further expand forestry sector, and the intended interventions to support local production of major commodities such as rice, cassava, etc. We also expect to see increased activity in the services sector. This rate of growth was higher than the Sub Saharan African average of 5.0 percent. Since 2006 Mining and Panning has seen an increase in importance as a portion of the economy. The Services industry has also seen an increased share of National Output, with the expansion of Government provisions and support from the CBL for credit institutions.

With the support of partners the Government intends to expand electricity distribution to a customer base of 4000 by June 2011, and is expected to double towards the end of the year. Similarly on water distribution new pumps are expected to increase the reliability of the service. Consequently, all these add to the overall productivity of the country.

The yearly inflation rate for 2010 was estimated at 7.3 percent on average, this is down slightly from the 7.4 percent on average in 2009.

Liberia is forecast to be in the World's top 20 fastest growing Economies in the next few years (**WEO, April 2011**). We expect to see on average growth rates of 7.9 percent over the three years from 2011 to 2013. Inflation is expected to rise slightly to 9.5 percent on average, the result of increasing fuel and food prices. However this still remains substantially below the 2008 inflation of 17.5 percent.

The Government of Liberia will continue the introduction of Public Financial Management reforms, and will ensure that the actions of Government are transparent and accountable. The record to date has been good, with the efforts to bring donor flows on Budget, the ending of the Cash Based Balanced Budget after successfully maintaining it and the setting up of a system of Debt Management to ensure Government borrowing is careful, sustainable and for investment in our future.

Through this document Adjusted Appropriation can refer to either the Appropriation with the US$ 15 million Chevron deferred added (US$ 384.4 million), or Appropriation with the US$ 15 million Chevron and the US$ 24 million supplemental added. (US$ 408.4 million).

1. Public Finance Performance

The majority of the country's revenue has been collected from the Tax Revenue streams, with total domestically generated[3] revenue accounting for US$ 141.8 million or 57.9 percent of the total revenue take (as compared to 58.0 percent for the whole of FY 2009/10). This highlights the continuing ability of the Government to fund its own expenditure through domestically generated revenue sources, without being too reliant on donor funding. Despite the reduction in the rates of Personal Income Tax (PIT) and Corporate Income Tax (CIT) there has been a slight increase in the yield from those revenue streams: the quarterly generation was US$ 22.7 million, up from an average of US$ 20.7 million up to the Midyear.

Revenue Composition

The realized revenue in the third quarter is mostly from the Tax Revenue stream (77.5 percent); of which Taxes on International Transactions (31.7 percent of the total revenue) and Taxes on Income and Profits (26.2 percent of the total revenue) make up the largest portions. Grant revenue made up 4.7 percent of realized revenue, and Non-tax revenue made up 17.9 percent. The best performing revenue streams, to forecasts, have been Individual and Corporate income tax, and Motor Vehicle taxes. Exports, Sales Taxes and Grants revenue have not performed as well as expected.

Deferred Revenue and Borrowing: Up to the third quarter the Government has not undertaken any new borrowing. US$ 15 million in deferred revenue from Chevron was realized.

Bank Balances: US$ 10.7 million was the result of bank balances (in outturn this was actually US$ 11.8 million) and was composed of US$ 4.2 million from uncommitted bank balances; US$ 2.2 million from stale dated cheques; US$ 3.8 million from incremental brought forward and US$ 0.5 million from the rice stabilization fund.

Grant Revenue Overview: Grant revenue was forecast to be US$ 60.2 million, with US$ 1.1 million from foreign Governments and US$ 59.1 from International Organizations. As of the third quarter the realized grant revenue has only been sourced from International Organizations, and totals US$ 11.5 million.

Government Budget

The Budget was split into Core and Project Budgets, and categorized by the new Chart of Accounts (**CoA**). The Budget was split into five functional categories: Public and Administrative Services Sector (**PASS**); Rule of Law and Public Safety Sector (**RLPS**); Social and Community Services Sector (**SCSS**); Economic Services Sector (**ESS**) and General Claims (**GC**). The total Budget size was US$ 347.1 million, 11.2 percent higher than last FY's revised Budget.

[3] The domestic revenue in this case refers to the Total Revenue minus Maritime, Taxes on International Transactions and Grants.

Expenditure

Expenditure to date has been US$ 329.4 million (**allotment**); US$ 233.0 million (**commitment**) and US$ 209.7 million (**cash**).

1.1.Budget Appropriations

The total value of the Budget passed by the Legislature was US$ 369.4 million including the carried forward bank balance of US$10.7 million[4] from the 2009/10 Fiscal Year (FY). The total Budgeted expenditure was set equal to Revenue at US$ 369.4 million, with no borrowing Budgeted. The Public and Administrative Services Sector saw the largest appropriation with US$97.7 million or 28.1 percent of the Total Budget. The below table shows the appropriated values for each sector in the 2010/11 Budget, and in the 2009/10 Revised Budget:

Table 1.1.1 Appropriations Growth (2009/10 to 2010/11**)**

	Revised 2009/10		Appropriation 2010/11		Growth 09/10-10/11
US$ millions	US$ m	%	US$ m	%	%y/y
PASS	85.0	27.2%	109.3	29.6%	28.6%
RLPSS	43.9	14.1%	51.2	13.9%	16.6%
SCSS	74.1	23.7%	90.9	24.6%	22.7%
ESS	59.1	18.9%	69.5	18.8%	17.6%
GC	50.0	16.0%	48.5	13.1%	-3.1%
TOTAL	312.1		369.4		18.4%

Source: Department of the Budget

[4] This was the Budgeted figure for the Bank Balance, the actual figure for the Bank Balances was US$ 11.8 million.

Table 1.1.2 Appropriations by Economic Category (new Chart of Accounts**)**

	Revised		*Budget*		Allotted*			Balance
	2009/10		2010/11		2010/11			in Approp
Expenditure category	US$ m	%	US$ m	%	US$ m	%	Share (%)	US$ m
Compensation of Employees	120.0	38.4%	139.1	37.7%	113.3	34.4%	81.5%	25.8
Use of Goods and Services	71.4	22.9%	79.5	21.5%	82.7	25.1%	104.1%	-3.3
Consumption of Fixed Capital	45.4	14.5%	60.6	16.4%	49.4	15.0%	81.5%	11.2
Subsidies	9.4	3.0%	11.3	3.1%	6.4	1.9%	56.3%	5.0
Grants	55.7	17.8%	63.5	17.2%	65.6	19.9%	103.4%	-2.1
Social Benefits	0.3	0.1%	0.5	0.1%	0.2	0.0%	30.8%	0.3
Refunds	0.0	0.0%	0.0	0.0%	0.0	0.0%		0.0
Financial Assets	1.4	0.4%	6.3	1.7%	3.1	0.9%	48.1%	3.3
Domestic Liabilities	3.6	1.2%	2.6	0.7%	2.8	0.9%	110.8%	-0.3
Foreign Liabilities	5.0	1.6%	6.0	1.6%	5.9	1.8%	98.9%	0.1
Total	**312.2**		**369.4**		**329.4**		**89.2%**	**40.0**

Source: Department of the Budget, Ministry of Finance

** Allotments to Quarter 3*

Table 1.1.2 illustrates the levels of appropriations and allotment in the new CoA categories. The balance in appropriation is US$ 45.6 million, that is, US$ 45.6 million of the Budget appropriation is yet to be allotted. The largest appropriation is still to Compensation of Employees; however appropriation for Capital Expenditure has increased by 33.5 percent, above the 18.3 percent increase in the overall Budget. The allotments are given as a percentage of the Original Budget (without the supplemental and deferred).

1.2.Third Quarter Revenue

Revenue in the third quarter saw an increase of 17.0 percent on last fiscal year's revenue outturn, with the largest forecast increases being for Grants. (The expected increase on last year's outturn was 24.5 percent for the full fiscal year) These were expected to grow 362.9 percent to US$ 60.2 million. So far 68.3 percent of the total forecast revenue has been collected, due to underperformance in non-Tax Revenue and delayed arrival of Grants.

Assumptions underpinning the revenue forecasts

The Revenue Forecasts in the 2010/11 Budget were based on the following assumptions:-

1) Reduction in the rates of CIT and PIT from 35 to 25 percent in the second half of the year.
2) Maintaining the 35 percent CIT rate for the GSM Communications Companies
3) The ratification of four concession agreements: Chevron, PIOM (formerly Putu Range), China Union and BHP Billiton.

4) Increase in the General Sales Tax (GST) from 7 percent to 8 percent, and 10 percent for the GSM Communications companies and alcoholic beverages.
5) An average monthly inflation rate of 3 percent
6) Nominal GDP growth of 16.3 percent

Table 1.2.1 Revenue Forecasts to 2010/11 Outturn

	Budget forecast vs Actual			Actual vs Budget forecast		
	2010/11	2010/11*	Realized	2009/10	2010/11	Growth
	US$ Millions		%	US$ Millions		%y/y
Total revenue	358.6	244.8	68.3%	288.0	358.6	24.5%
Total tax revenue	231.3	189.4	81.9%	224.7	231.3	3.0%
Taxes on income and profits	60.5	64.1	105.9%	70.2	60.5	-13.8%
o/w Individuals	*35.1*	*38.9*	*110.8%*	*40.0*	*35.1*	*-12.3%*
o/w Corporate	*24.1*	*24.0*	*100.0%*	*30.1*	*24.1*	*-20.1%*
Taxes on property	1.9	1.3	66.5%	1.7	1.9	13.9%
Taxes on goods and services	57.5	39.9	69.3%	48.7	57.5	18.1%
o/w Sales taxes	*17.6*	*9.8*	*55.7%*	*10.9*	*17.6*	*61.7%*
o/w Excise taxes	*9.7*	*7.8*	*80.3%*	*9.1*	*9.7*	*6.2%*
o/w Motor vehicles	*2.1*	*2.1*	*102.2%*	*2.6*	*2.1*	*-19.2%*
o/w Maritime revenue	*18.8*	*13.9*	*74.0%*	*16.3*	*18.8*	*15.6%*
Taxes on international transactions	95.6	77.6	81.2%	91.8	95.6	4.1%
o/w Imports	*91.4*	*76.6*	*83.8%*	*91.4*	*91.4*	*0.0%*
o/w Exports	*4.2*	*1.0*	*24.2%*	*0.5*	*4.2*	*740.0%*
Other taxes	15.7	6.5	41.1%	12.3	15.7	27.7%
o/w Social Development Funds	*14.3*	*4.4*	*30.8%*	*10.9*	*14.3*	*31.1%*
Total non-tax revenue	67.1	43.9	65.4%	50.3	67.1	33.5%
o/w Rent, including one-off payments	*59.7*	*36.6*	*61.3%*	*40.6*	*59.7*	*47.0%*
Grants	60.2	11.5	19.1%	13.0	60.2	362.9%

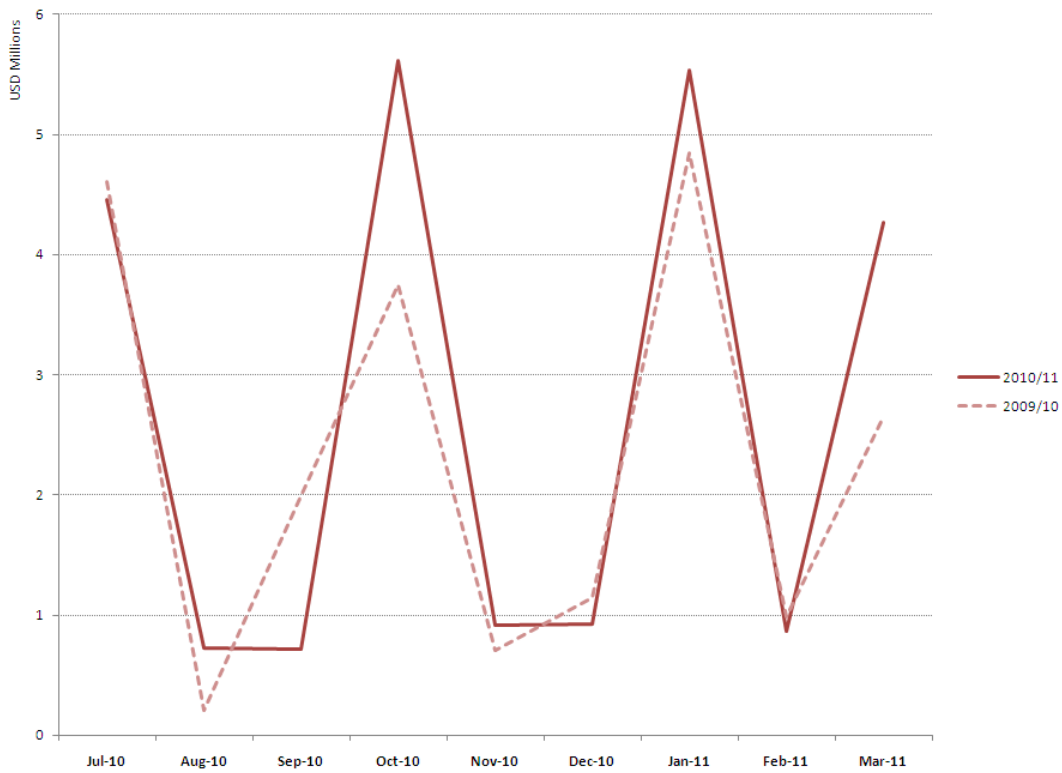
Source: Department of Revenue, Ministry of Finance

** To Q3*

Tax Streams

Personal Income Tax (PIT) and Corporate Income Tax (CIT): The Midyear Review showed the collection to date for Taxes on Income and Profits as US$ 41.1 million (to December 2010). The collection to through the Third Quarter has been an additional US$ 22.7 million, a slight increase from the US$ 20.7 million average Quarterly collection in the first half of the year. During the second half of the year the rates of CIT and PIT were reduced: the rates were decreased from 35 percent to 25 percent. There was an increase in the collection for CIT; however the revenue raised from PIT fell from average Quarterly revenue of US$ 13.5 million in the first two quarters to US$ 11.9 million in the third quarter. However, we would caution against drawing too many conclusions from this figure, as the yield from CIT was substantially higher in the Third Quarter of last fiscal year compared to the average of the first two quarters also. **Chart 1.2.1** illustrates that in the third quarter there is generally an uptick in CIT revenue collection. There is a slight increase in year on year collection in the third quarter also; it is noteworthy that the percentage increase in collection in the third quarter is 25.8 percent; in the second it is 33.3 percent however in the first quarter there is a fall in CIT collection of 13.1 percent.

Chart 1.2.1 Monthly Yield in CIT Stream



Taxes on International Trade and Transactions: The total tax revenue from trade amounted to US$ 77.6 million to the third quarter, around 81.2 percent of the fiscal year forecast; this is the result of high performance in taxes raised from imports and comes despite poor performance in taxes raised from exports.

Maritime Revenue: Maritime Revenue to date has been US$ 13.9 million, an increase of 20.1 percent on revenue collected in the same period last fiscal year. The Maritime collection, from the World's second largest Maritime registry, is equivalent to 5.7 percent of the total revenue collected to date.

General Sales Tax (GST): The total generated from the General Sales Tax (**GST**) is US$ 9.8 million, 55.7 percent of the full year forecast of US$ 17.6 million. US$6.0 million was raised up to the Midyear, an average collection of US$ 3.0 million each quarter; the additional revenue this quarter was US$3.8 million. The average yield in the first three quarters of FY 2009/10 was US$ 2.6 million; the average yield over the three quarters in 2010/11 has been US$ 3.3 million. This represents a 24.1 percent increase on the average yield last fiscal year, above the rate of nominal GDP growth, most likely the result of higher growth in retail sales (and greater numbers of businesses registering to pay GST) than the growth rate of the overall economy.

Deferred Revenue: The deferred revenue from Chevron has been collected, this increases the total revenue collected to US$ 259.8 million.

Monthly Revenue Generation

Chart 1.2.2 highlights the monthly generation of revenue compared to the most recent forecasts from the Department of Revenue. Average monthly revenue generation is US$ 27.2 million.

Chart 1.2.2 Latest Monthly Forecasts Compared to Actual (US$ millions)

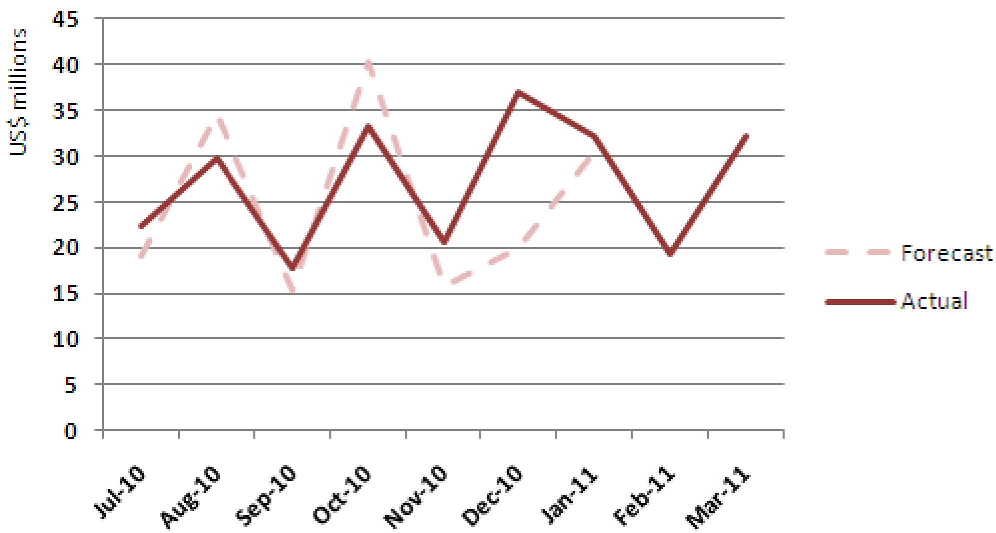


Table 1.2.2 highlights the revenue outturn to the third quarter in comparison to the performance over the same time period last FY. As can be seen in **Table 1.2.2** total revenue collection has gone up by 17.0 percent, with very strong growth in the tax revenue collection (15.8 percent). This is in large part the result of large increases in sales tax revenue and in individual income tax payments (**PIT**).

Table 1.2.2 Comparison of Third Quarter Revenue Outturns

	To Third Actuals		
	2009/10	2010/11	Change
	US$ Millions		%
Total revenue	**209.2**	**244.8**	**17.0%**
Total tax revenue	**163.5**	**189.4**	**15.8%**
Taxes on income and profits	49.9	64.1	28.5%
o/w Individuals	*29.0*	*38.9*	*34.0%*
o/w Corporate	*20.9*	*24.0*	*15.0%*
Taxes on property	1.0	1.3	28.8%
Taxes on goods and services	35.8	39.9	11.4%
o/w Sales taxes	*7.9*	*9.8*	*24.1%*
o/w Excise taxes	*6.8*	*7.8*	*14.2%*
o/w Motor vehicles	*1.5*	*2.1*	*43.1%*
o/w Maritime revenue	*11.6*	*13.9*	*20.1%*
Taxes on international transactions	65.6	77.6	18.3%
o/w Imports	*65.3*	*76.6*	*17.3%*
o/w Exports	*0.3*	*1.0*	*291.5%*
Other taxes	11.2	6.5	-42.3%
o/w Social Development Funds	*10.1*	*4.4*	*-56.4%*
Total non-tax revenue	**41.4**	**43.9**	**6.1%**
o/w Rent, including one-off payments	*33.0*	*36.6*	*10.8%*
Grants	**4.3**	**11.5**	**167.7%**

Source: Department of Revenue, Ministry of Finance

1.3. Third Quarter Expenditure

Total Budgeted expenditure for the FY 2010/11 was US$ 369.4 million: this was separated initially into Public and Administrative Services Sector (**PASS**), Rule of Law and Public Safety Services Sector (**RLPS**), Social and Community Services Sector (**SCSS**), Economic Services Sector (**ESS**) and Public Corporations. The latter are included under ESS.

The division of this however is in certain cases given differently as PASS, RLPS, SCSS, ESS and General Claims (**GC**). This is because some elements of expenditure, mostly in the PASS sector, are not easily allocated to specific Ministries and Agencies (**M&As**). However, for the division of data into Ministries and Agencies these GC values have been allocated to M&As to present a more complete overview. This substantially increases the apparent expenditure on, for example, the Ministry of Finance as many GC payments (for example, debt payments) are handled by the Ministry of Finance even though the expenditure is not directly on that Ministry.

The new Chart of Accounts (**CoA**) was introduced this Fiscal Year. First Quarter data was still categorized using the old CoA, as a result the tables below do not show the full set of new CoA categories as the Quarterly accounts had to be amalgamated. As a result some of the year on year comparisons may be imprecise.

1.3.1. Appropriation & Allotment

The Government's appropriations increased to around US$ 408.4 million (a US$ 15 million addition to the original Budget, and a US$ 24 million supplemental Budget).

Transfers

Budgetary transfers reallocate appropriations to different sectors and Ministries and Agencies than they were originally appropriated to during the Budget preparation process. The Original Budget was altered with US$ 2.6 million being transferred to PASS from GC. Total internal, inter-agency and inter-sector transfers totaled US$ 6.0 million.

Table 1.3.1 Original Budgets and Transfers

	2009/10			2010/11		
US$ millions	Original	After Transfers	Adjusted	Original	After Transfers	Net Transfers
Public and Administrative Services Sector (**PASS**)	92.4	87.0	84.7	109.3	111.9	2.6
Rule of Law and Public Safety Services Sector (**RLPSS**)	48.0	46.3	44.0	51.2	51.2	0.0
Social and Community Services Sector (**SCSS**)	80.3	78.2	74.1	90.9	90.9	0.0
Economic Services Sector (**ESS**)	72.6	71.3	59.3	69.5	69.5	0.0
General Claims (**GC**)	78.7	89.1	51.5	48.5	45.8	-2.6
TOTAL	371.9	371.9	313.6	369.4	369.4	0.0

Source: Department of the Budget

Allotment

Total allotment to date is US$ 329.4 million, with Compensation of Employees receiving the largest portion and PASS receiving the largest share of the functional categories. (See **Table 1.3.2** below).

Table 1.3.2 Allotment by Functional Category

	Allotment	
	US$	%
PASS	97.9	29.7%
RLPSS	42.2	12.8%
SCSS	89.8	27.3%
ESS	62.6	19.0%
GC	36.9	11.2%
TOTAL	329.4	

Source: Department of the Budget

Figures may not add due to rounding

1.3.2. Deferred and Supplemental Budgets

This fiscal year saw US$ 15 million in deferred revenue from Chevron realized, and the passage of a US$ 24 million supplemental Budget. These revenue streams had to be assigned to expenditure areas. These additional sources of revenue increased the total Budget to US$ 408.4 million. **Table 1.3.10** below illustrates the size and distribution of these Budgets.

Table 1.3.3 Special Budgets (Deferred and Supplemental)

	Deferred Budget		Supplemental Budget	
	US$	%	US$	%
PASS	5.1	34.0%	6.1	25.4%
RLPS	1.1	7.1%	1.3	5.4%
SCSS	8.0	53.5%	1.3	5.5%
ESS	0.2	1.5%	4.9	20.3%
GC	0.6	4.0%	10.4	43.4%
TOTAL	15.0		24.0	

Source: Department of Budget

Table 1.3.4 outlines the changes this made to the overall Budget.

Table 1.3.4 Budget after Adjustments and Transfers

	Original Budget		Adjusted		Transfers	Final Adjusted	
	US$	%	US$	%	US$	US$	%
PASS	109.3	29.6%	120.5	29.5%	1.8	122.3	30.0%
RLPS	51.2	13.9%	53.5	13.1%	0.9	54.5	13.3%
SCSS	90.9	24.6%	100.3	24.6%	1.6	101.9	24.9%
ESS	69.5	18.8%	74.6	18.3%	0.3	74.9	18.3%
GC	48.5	13.1%	59.5	14.6%	-4.6	54.8	13.4%
TOTAL	369.4		408.4		0.0	408.4	

Source: Department of Budget

Table 1.3.12 Budget and Allotments

	Final Adjusted		Allotment		Balance	
	US$	%	US$	%	in Approp	% Approp
PASS	122.3	29.9%	97.9	29.7%	24.4	19.9%
RLPSS	54.5	13.3%	42.2	12.8%	12.3	22.6%
SCSS	101.9	25.0%	89.8	27.3%	12.1	11.9%
ESS	74.9	18.3%	62.6	19.0%	12.3	16.4%
GC	54.8	13.4%	36.9	11.2%	17.9	32.7%
TOTAL	408.4		329.4		79.0	19.3%

Source: Department of the Budget

Figures may not add due to rounding

The total balance remaining in appropriation, with the additional appropriations, is US$ 84.5 million.

1.3.3. Commitment

Commitment refers to the Government's decision that it will formally obligate funding to a Ministry and Agency. Commitment expenditure is still categorized by the old CoA, and thus a direct comparison cannot be drawn with the new Expenditure categories.

Table 1.3.3 Commitment Expenditure in Old CoA

Commitment Expenditure					Growth
	2009/10		2010/11		09/10-10/11
Expenditure category	US$ m	%	US$ m	%	%y/y
Personnel	85.2	36.6	96.3	41.3	13.0
Goods and Services	46.7	20.0	60.8	26.1	30.2
Capital Expenditure	15.1	6.5	19.6	8.4	29.8
Transfers and Subsidies	27.9	12.0	46.6	20.0	67.0
External and Domestic Debts	13.7	5.9	9.7	4.2	-29.2
Total	**188.6**		**233.0**		**23.5**

Source: Department of the Budget, Ministry of Finance

External and Domestic Debts also includes what is now separated into Financial Assets.

Table 1.3.4 Commitment Expenditure in New CoA

Commitment Expenditure	2010/11	
Expenditure category	US$ m	%
Compensation of Employees	93.1	40.0
Use of Goods and Services	57.1	24.5
Consumption of Fixed Capital	23.3	10.0
Subsidies	11.3	4.8
Grants	38.2	16.4
Social Benefits	0.3	0.1
Financial Assets	1.6	0.7
External and Domestic Debts	8.2	3.5
Total	**233.0**	

Source: Department of the Budget, Ministry of Finance

Figures may not add due to rounding

External and Domestic Debt payments have seen a large drop since last fiscal year, largely the result of falls in Bank Charges (67.1 percent reduction) and a reduction in the commitment for Pre-NTGL Salary Arrears (48.8 percent reduction).

1.3.4. Cash Expenditure

The Total Cash Expenditure to Quarter three was US$ 209.7 million, a slight decrease on the Cash Expenditure to the third Quarter last year. This is due to large falls under debt payments, and a slight fall in capital expenditure.

Table 1.3.5 Cash Expenditure Summary

Cash Expenditure	2009/10		2010/11		Growth 09/10-10/11
Expenditure category	US$ m	%	US$ m	%	%y/y
Compensation of Employees	72.9	34.7	88.3	42.1	21.2%
Use of Goods and Services	52.8	25.1	54.5	26.0	3.3%
Consumption of Fixed Capital	16.3	7.8	18.4	8.8	13.1%
External and Domestic Debts	12.6	6.0	3.9	1.9	-69.0%
Subsidies, Grants, Transfers etc	56.0	26.7	44.6	21.3	-20.3%
Total	**210.4**		**209.7**		-0.3%

Source: Department of the Budget, Ministry of Finance

Figures may not add due to rounding

1.3.5. Expenditure analysis

To date the Government has Committed 70.7 percent of the allotted amount, and Cash expenditure has been 63.7 percent of the Allotment and 56.8 percent of the original Appropriation.

Table 1.3.6 Expenditure Summary

	2010/11			
	US$ m	% Approp	% Approp	% Allot
Adjusted Appropriation	408.4	-		
Original Appropriation	369.4	90.5%	-	-
Allotment	329.4	80.7%	89.2%	-
Commitment	233.0	57.1%	63.1%	70.7%
Cash	209.7	51.3%	56.8%	63.7%

Source: Departments of Budget and Expenditure & Debt Management

The Fiscal balance is the difference between collected revenue each month and the cash expenditure each month. The net balance at the end March is US$ 34.6 million.

Chart 1.3.1 Total Revenue against Cash Expenditure

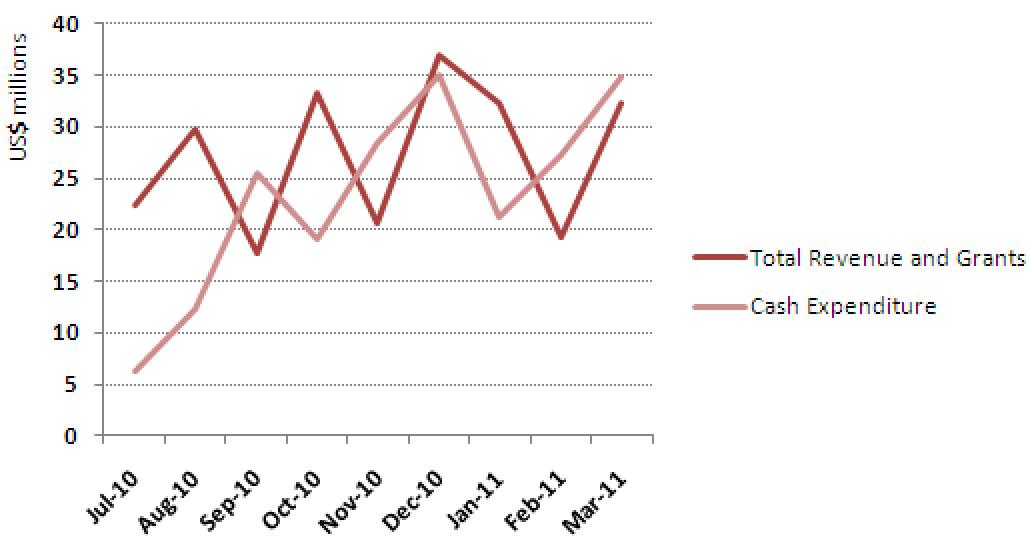


Table 1.3.7 Monthly Fiscal Balance

US$ millions	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11
Fiscal Balance	16.1	17.5	-7.7	14.1	-7.8	2.1	11.0	-8.0	-2.7

Source: Macro Fiscal Analysis Unit, Departments of Revenue and Expenditure and Debt Management

Table 1.3.8 Expenditure and Revenue Comparison

US$ millions	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11
Revenue	22.3	29.7	17.8	33.2	20.6	37.0	32.2	19.3	32.2
Allotment	16.3	15.5	24.0	62.8	37.6	47.8	46.3	43.1	36.0
Commitment	12.5	16.0	26.5	25.6	28.7	33.9	26.3	30.8	32.8
Cash	6.2	12.2	25.5	19.1	28.5	34.9	21.2	27.3	34.9
Balance to Revenue									
Allotment	6.0	14.2	-6.2	-29.6	-16.9	-10.8	-14.1	-23.8	-3.8
Commitment	9.8	13.7	-8.7	7.6	-8.0	3.1	5.9	-11.5	-0.6
Cash	16.1	17.5	-7.7	14.1	-7.8	2.1	11.0	-8.0	-2.7

Source: Macro Fiscal Analysis Unit, Departments of Budget, Revenue and Expenditure and Debt Management

As can be seen in **Table 1.3.7** the balance in Commitment and Cash has been mainly positive, the balance in allotment mainly negative. The net balances[5] are: Allotment: US$ -84.9 million; Commitment: US$ +11.5 million and Cash: US$ +34.6 million.

In **Table 1.3.9** below Adjusted appropriation refers to the Original Budget with the US$ 15 million deferred, and does not include the supplemental.

Table 1.3.9 Expenditure Type Comparison (to Quarter Three**)**

Expenditure Comparison	Appropriation	Adj.Approp.	Allotment	Commitment	*of Approp*	*of Adj.*	*of Allot*	Cash	*of Approp*	*of Adj.*	*of Allot*
	US$ m	*US$ m*	*US$ m*	*US$ m*	*%*	*%*	*%*	*US$ m*	*%*	*%*	*%*
Expenditure category											
Compensation of Employees	139.1	139.5	113.3	91.6	65.9%	65.7%	80.8%	88.3	63.5%	63.3%	77.9%
Use of Goods and Services	79.5	83.4	82.7	57.1	71.9%	68.4%	69.0%	54.5	68.6%	65.3%	65.9%
Consumption of Fixed Capital	60.6	62.4	49.4	23.3	38.5%	37.4%	47.2%	18.4	30.4%	29.5%	37.3%
Subsidies	11.3	11.4	6.4	11.3	99.6%	99.2%	176.9%	10.6	93.4%	93.0%	165.9%
Grants	63.5	72.9	65.6	38.2	60.2%	52.4%	58.2%	32.3	50.9%	44.3%	49.2%
Social Benefits	0.5	0.5	0.2	0.3	60.0%	60.0%	194.7%	0.2	40.0%	40.0%	129.8%
Financial Assets	6.3	5.7	3.1	1.6	25.2%	27.9%	52.4%	1.5	23.6%	26.1%	49.1%
External and Domestic Debts	8.6	8.6	8.8	9.7	113.4%	113.4%	110.7%	3.9	45.6%	45.6%	44.5%
Total	369.4	384.4	329.4	233.0	63.1%	60.6%	70.7%	209.7	56.8%	54.6%	63.7%

Source: Macro Fiscal Analysis Unit, Department of Budget and Department of Expenditure and Debt Management

Figures may not add due to rounding

1.3.6. PRS Alignment of Expenditure

The Government policy priorities are set this fiscal year from the Poverty Reduction Strategy (**PRS**); the Government therefore decided it was important to generate a metric to measure the

[5] The sum of the monthly values for Revenue minus Expenditure type.

performance of Government expenditure in key PRS-aligned areas. Two methods were developed to measure the adherence to the PRS:

1) Setting different Ministries and Agencies as fully, partially or non-PRS aligned; then totaling the expenditure on those M&As weighted by the pre-determined level of PRS-alignment.
2) The second methodology is to examine key Ministries and Agencies, to determine the level of expenditure of M&As which are deemed to be undertaking important PRS deliverables.

Table 1.3.13 PRS Alignment of Key Ministries and Agencies

	Budget Appropriations				Allocations*	Budget Growth on	
	2008/09	2009/10	2010/11				
	Revised	Revised	Original	Adjusted	2010/11	*2008/09*	*2009/10*
Social Services	53.0	69.9	81.0	89.8	80.3	69.4%	28.5%
Ministry of Education	19.6	27.0	30.1	31.7	29.9	61.6%	17.3%
University of Liberia	4.0	7.5	9.9	10.3	10.3	158.7%	38.0%
Monrovia Consolidated School System	1.9	2.0	2.0	2.1	1.6	12.8%	7.2%
Brooker Washington	1.3	1.6	1.7	1.8	1.6	41.1%	14.6%
Cuttington University	0.4	0.5	0.7	0.7	0.5	85.1%	48.1%
W.V.S. Technical College	1.0	2.5	2.4	2.5	2.5	154.1%	1.7%
Ministry of Health	16.6	20.1	24.9	30.3	25.9	82.5%	50.7%
JFK Medical Centre	5.7	6.1	6.1	6.9	5.3	20.4%	12.5%
Phebe Hospital	0.4	0.6	1.1	1.2	1.0	200.3%	100.2%
Liberian Institute of Biomedical Research	0.4	0.5	0.5	0.5	0.4	25.0%	0.0%
Liberian Water and Sewage Company	0.8	0.5	0.5	0.5	0.5	-34.0%	5.6%
Monrovia City Corporation	0.9	1.0	1.1	1.1	0.8	24.6%	12.2%
Economic Revitalisation	10.2	10.8	12.0	12.2	9.8	19.9%	13.3%
Ministry of Agriculture	7.0	7.3	7.5	7.5	6.2	7.5%	3.0%
Forestry Development Agency	3.2	3.5	4.5	4.7	3.6	47.2%	34.6%
Infrastructure	22.1	39.9	33.3	33.5	33.5	51.6%	-16.0%
Public Works	22.1	39.9	33.3	33.5	33.5	51.6%	-16.0%
Total (Key Sectors)	85.3	120.6	126.3	135.5	123.6	58.9%	12.4%
Total (Budget)	298.1	371.9	369.4	384.4	329.4	28.9%	3.4%

Source: Department of the Budget, Ministry of Finance

** Allocations to Quarter 3*

Using the second methodology 62.1 percent of the Original Budget was PRS-aligned in 2009/10, this year has seen that figure increase to 73.2 percent.

1.3.7. Ministry and Agency Outturn

This section outlines the performance of individual Ministries and Agencies in being able to spend money appropriated for them in the original Budget. This section intends to serve as a guide to highlight those Ministries and Agencies which have the most difficultly in spending Government funds, and those which are most able to and is intended to serve as a guide to reallocating Budget appropriations to the Ministries and Agencies most capable of spending them.

Performance is calculated using three different measures:

1. The Original Appropriation compared to the Annualized Commitment
2. The Adjusted Appropriation compared to the Annualized Commitment
3. The Allotment to Quarter 3 compared to the Commitment to Quarter 3

The Annualized Commitment is calculated as the Commitment at the end of the year assuming expenditure continues at the same rate. Each of the three measures is then calculated as an absolute and a percentage underspend. (**I.e.** a value of -5% would indicate an over-spend of 5% of the Original Appropriation, Adjusted Appropriation or Allotment to the Third Quarter; 5% would be a 5% under-spend.) The Ministries and Agencies contain GC values. The Adjusted Allotment is after the Deferred Revenue is included (but not the supplemental Budget; as Ministries and Agencies would not have had time to spend any of the appropriation from that; performance will be examined against the supplemental for the Fiscal Year Outturn). The total budget with the deferred revenue is US$ 384.4 million; US$ 0.6 million is held as contingency. The total appropriated for Ministries and Agencies is therefore: US$ 383.8 million. The total allotment is US$ 329.8 using the Financial Statement figures (see section below).

Table 1.3.14 Sector Performance

	Original Appropriation	Adjusted* Appropriation	Allotment** to Q3	Commitment to Q3	Annualised Commitment	Balance*** in Original Approp		Balance*** in Adjusted Approp		Balance**** in Adjusted Allot	
	US$ m	US$ m	US$ m	US$ m	US$ m	US$ m	%	US$ m	%	US$ m	%
PASS	156.2	158.5	134.6	105.6	140.8	15.4	9.9%	17.7	11.2%	25.0	19.1%
RLPS	51.9	53.9	42.2	36.7	49.0	2.9	5.5%	4.9	9.0%	5.1	12.2%
SCSS	91.1	100.7	90.2	58.3	77.7	13.4	14.7%	23.0	22.8%	31.9	35.4%
ESS	70.2	70.9	62.7	32.4	43.2	27.0	38.4%	27.6	39.0%	28.8	47.1%
TOTAL	369.4	383.8	329.8	233.0	310.7	58.7	15.9%	73.1	19.0%	90.8	28.0%

* After Supplemental and Deferred and Transfers
** Uses the figures from the Financial Statement
*** Uses the annualised figures
**** Calculated as Q3 Allotment minus Q3 Commitment
Source: Macro Fiscal Analysis Unit, Department of Budget and Department of Expenditure and Debt Management
Figures may not sum due to rounding

As is shown in **Table 1.3.14**:

- The worst performing sector is ESS with above 40% under-spend in each measure
- The best performing sector is RLPS: both in the above measure and when looking at individual Ministries and Agencies.

Ministries and Agencies are then compared to a threshold value; if their under-spend is greater than 20% in each measure they appear in **Table 1.3.15** below. The **Appendix 1** contains the full values for Ministries and Agencies, however commitment is not directly comparable to appropriation as the latter does not contain GC in Ministries and Agencies (it is separate). However, this biases the results towards looking like Ministries and Agencies have spent more: so does not alter the worst performing M&As, in fact their performance may be worse. It is most likely to impact those in the PASS sector, as a result more under PASS may have in fact under performed.

Table 1.3.15 Under Spending Ministries and Agencies

Ministry and Agencies	Sector	Measure Number		
		1	2	3
Ministry of Internal Affairs	PASS	39.7%	44.6%	55.2%
Liberia Institute of Public Administration	PASS	24.2%	24.2%	32.3%
Center for National Documents & Records Agency	PASS	28.8%	28.8%	32.0%
Ministry of Agriculture	ESS	57.7%	57.7%	61.5%
Ministry of Lands, Mines and Energy	ESS	49.2%	49.2%	24.8%
Ministry of Commerce and Industry	ESS	49.0%	48.9%	41.7%
Ministry of Post and Telecommunications	ESS	28.1%	28.2%	34.3%
Ministry of Labor	ESS	33.4%	34.1%	30.7%
Ministry of Public Works	ESS	54.1%	54.4%	65.8%
National Transit Authority	ESS	100.0%	100.0%	100.0%
Liberia Electricity Corporation	ESS	28.0%	28.0%	45.2%
Liberia Airport Authority	ESS	23.3%	23.3%	25.7%
Ministry of Health and Social Welfare	SCSS	37.8%	49.0%	55.2%
Liberia Institute of Bio-Medical Research	SCSS	23.5%	23.5%	34.6%
Ministry of Youth and Sports	SCSS	23.8%	23.8%	37.9%
Ministry of Gender and Development	SCSS	52.1%	52.3%	46.1%

Source: Macro Fiscal Analysis Unit

1.4.Financial Statement Records

The financial statement records revenue at US$259.8 million, this includes the US$15 million realized from Chevron. The total cash collected is recorded as US$264.5 million, which includes the money collected into the consolidated account which is earmarked to expenditure lines outside of Government operations (Ecowas Trade Levy, and Ecobank payments on license fees).

The financial statement records the final bank balance brought forward from last year as US$11.8 million.

Table 1.4.1 Revenue Figures from the Financial Statements

	Revenue	
	US$ m	%
Tax	189.4	71.6%
Non-Tax	43.9	16.6%
Grants	11.5	4.3%
Deferred	15	5.7%
Earmarked	4.7	1.8%
TOTAL	264.5	

Source: Office of the Comptroller, Macro Fiscal Analysis Unit

Figures may not sum due to rounding

Appendix 2 contains a summary table of the Consolidated Financial Report showing the projected Budget and Expenditure to date, and actual collection and disbursement (disbursement is the stage between Commitment and Cash expenditure – where checks have been sent out).

Table 1.4.2 Financial Statement

Statement of Revenue, Expenditure and Changes in Fund Balance
For Nine Months Ended March 31, 2011

Receipts/Payments	Annual Budget	Budget (To Date) (Projection)	Revenue vs Disbursement
Receipts			
Tax Revenue	231,346,000	162,838,000	189,357,000
Non-Tax Revenue	67,127,000	45,273,000	43,918,000
Other Revenue (Grants)	60,175,000	18,500,000	11,513,000
Deferred Collection	15,000,000	15,000,000	15,000,000
TOTAL	**373,648,000**	**241,611,000**	**259,788,000**
Payments			
Wages, Salaries and Employee Benefits	139,543,563	100,161,155	88,855,170
Goods and Services	82,635,660	57,362,452	57,023,789
Consumption of Fixed Capital	62,606,782	27,652,287	20,986,989
Subsidies	11,323,940	11,013,245	11,103,654
Grants/Transfers	72,825,421	37,235,891	32,582,243
Social Benefits	500,000	375,000	225,650
Refunds	-	-	-
Financial Arrears	6,389,634	2,879,231	1,508,327
Domestic Liabilities	2,554,000	2,136,789	2,459,969
Foreign Liabilities	6,000,000	2,500,000	1,499,227
TOTAL	**384,379,000**	**241,316,050**	**216,245,018**
Increase/Decrease in Cash	-10,731,000	294,950	43,542,982
Bank Balance to New Accounts	10,731,000		11,760,781
Carry Forward			55,303,763

Source: Office of the Comptroller, Ministry of Finance

Figures are in United States Dollars

2. Recent Macroeconomic Developments and Prospects

2.1.Past Performance

2.1.1. Gross Domestic Production

The Liberian economy in 2010 has seen Real GDP growth of 5.6 percent with high levels of growth in the Forestry and Agriculture Sectors. This rate of growth was higher than the Sub Saharan African average of 5.0 percent. Since 2006 Mining and Panning has seen an increase in importance as a portion of the economy (see **Table 2.1.1**), with the Services industry also seeing an increased share of National Output. The Agriculture sector has seen a slight diminishing in importance, consistent with most developing economies. The Forestry sector has, in line with other enclave sectors, increased its contribution to the overall GDP as well.

Overall the economy has recovered from the after effects of the Worldwide downturn in 2009 and has achieved an impressive 5.8 percent growth on average in the last 3 years.

Table 2.1.1 Sectoral Composition of GDP

	2005	2006	2007	2008	2009	2010	Average
Agriculture & fisheries	44.3%	42.9%	42.6%	42.2%	42.9%	42.2%	42.8%
Forestry	14.7%	14.0%	12.9%	15.6%	15.2%	16.0%	14.7%
Mining & panning	0.3%	0.2%	0.8%	1.6%	1.7%	1.7%	1.1%
Manufacturing	12.9%	13.9%	14.3%	11.1%	10.2%	10.0%	12.1%
Services	27.9%	29.0%	29.3%	29.4%	30.1%	30.1%	29.3%

Source: Macro Fiscal Analysis Unit and IMF Staff Estimates

Table 2.1.2 Sectoral Growth Rates (%)

	2008	2009	2010
Real Growth	7.1	4.6	5.6
Agriculture	6.0	6.4	3.8
Forestry	29.4	1.4	11.6
Mining & panning	109.4	6.8	8.6
Manufacturing	-16.7	-3.8	3.1
Services	7.6	6.9	5.9

Source: Macro Fiscal Analysis Unit and IMF Staff Estimates

Agriculture and Fisheries

This sector makes up the largest contribution to GDP (42.8 percent average over recent years) and employs the majority of the Liberian workforce growing the staples of Cassava and Rice (UN Food and Agriculture Organization, **FAO**). The Government has worked with partners to promote increased efficiency in the food production sector: working to rebuild infrastructure; signing agreements with large producers (for example, ADA/LAP) to bring new technologies and processes to rice production and other interventions including:-

- Collaboration between the Ministry of Agriculture, the International Fund for Agricultural Development (**IFAD**) and the African Development Bank (**AfDB**) on a US$ 24 million project to rehabilitate feeder roads and agricultural infrastructure, and cultivate 1600 hectares of swamp rice.
- Decentralising the Ministry of Agriculture and opening offices in the counties.

Forestry

One of Liberia's most abundant resources is the Forest, covering 4.3 million hectares or 45 percent of the country (Forest Resources Association, 2010). This sector has seen strong growth in the recent years, and the Government intends to invest in preparing ports and road infrastructure (including the Greenville Port) to allow the sector to expand further.

Mining and Panning

The Government recently signed a Memorandum of Understanding with the Government of Brazil to cooperate in, amongst others, the areas of Energy and Mining. In recent years this sector has played an extremely small role in the economy, despite the existence of multiple concession for Iron Ore (for example, Mittal), Gold (Hummingbird) etc. Once these companies become operational this sector will become a more significant component of the economy. We estimate diamond extraction to represent around 18 percent of output in this sector in the 2011 Calendar Year.

Manufacturing

Recognizing that the Manufacturing sector has not seen the levels of growth which have been evident in other sectors of the economy, and recognizing the importance of building secondary industry, the Government has worked to meet the requirements of the AGOA textile treaty with the United States. Growth in this sector in 2010 was similar to that of the general growth of the population.

Services

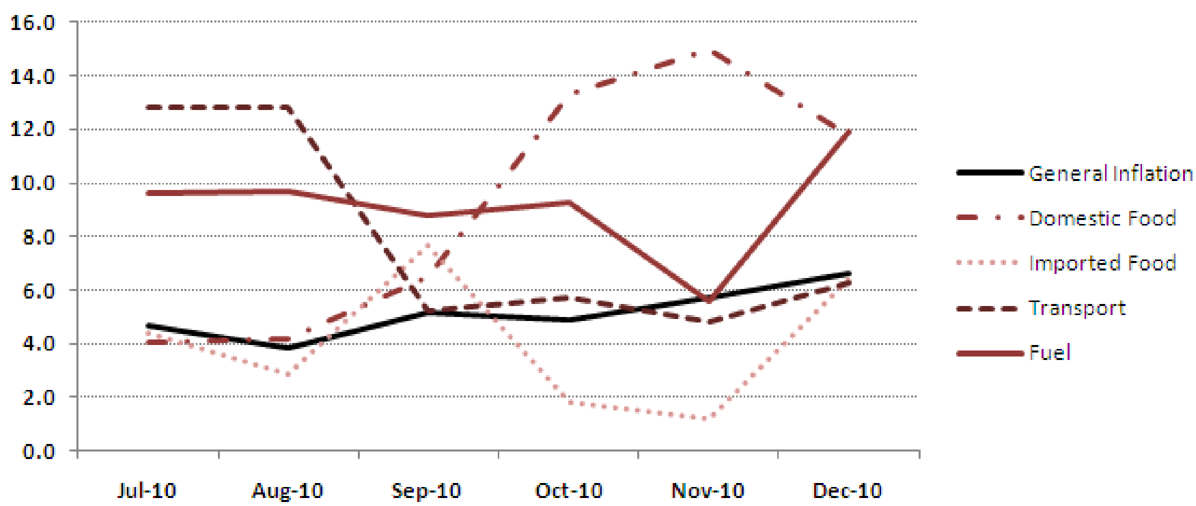
The Service sector has seen robust growth and has remained fairly consistently producing around a third of GDP. Of this sector, it is estimated, that the Government service provision, Transport and Trade and Hotels make up the largest contribution; each of these sub sectors is estimated to have seen annual growth in 2010 of around 5 percent.

2.1.2. Inflation

The yearly inflation rate for 2010 was estimated at 7.3 percent on average, or a 6.6 percent End of Period (**EOP**) inflation rate. This is down slightly from the 7.4 percent average and 9.7 percent EOP rate in 2009.

The CBL measure of the Consumer Price Index (**CPI**) based on a basket of general consumption goods shows that the General Inflation rate roughly remained between 4 and 6 percent during the Fiscal Year up to December. High rises in Domestic Food prices are responsible for the small overall increase in the later months of the calendar year. **Chart 3.1.1** shows the CBL Inflation measure from July through to December.

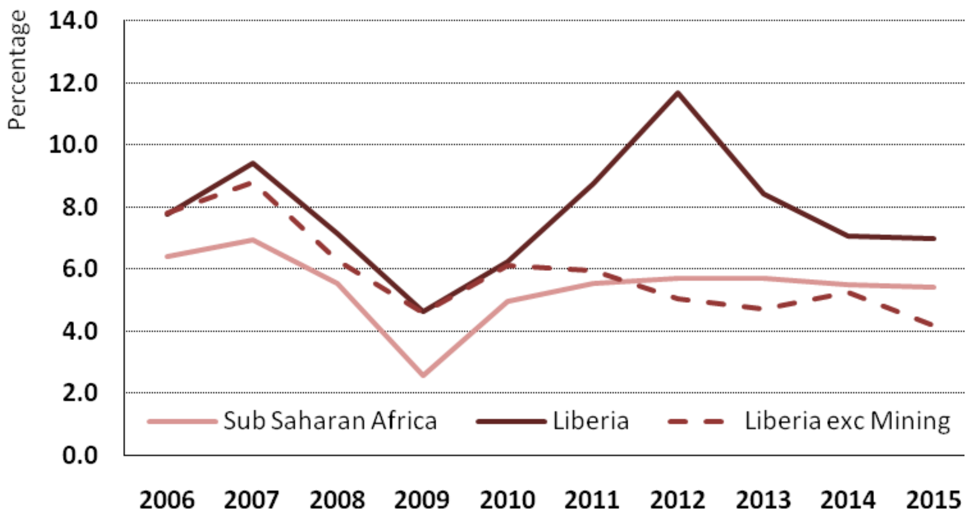
Chart 2.1.1 CBL Monthly Inflation Data



2.2.Forecasts

Liberia is forecast to be in the World's top 20 fastest growing Economies in the next few years (**WEO, April 2011**). We expect to see growth rates of, on average, 7.9 percent over the three years from 2011 to 2013. **Chart 3.2.1** illustrates the trend of growth over recent years. The increased growth in 2012 is the result of the start of concession activity.

Chart 2.2.1 Real GDP Growth Prospects



As **Chart 2.2.2** shows, the Mining Sector is expected to play a much larger role in the economy as more activity occurs in the enclave sector. This sector will be responsible for a large portion of the predicted economic growth. This is also illustrated in **Chart 2.2.3** which shows that Agriculture, Services and, above all, Mining are responsible for driving economic growth.

Chart 2.2.2 Sector Composition of Real GDP

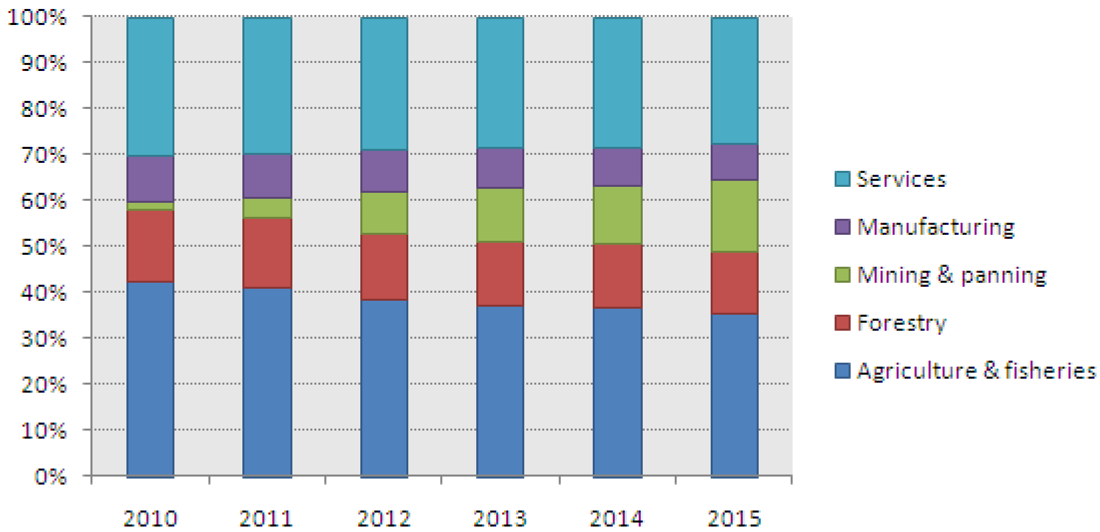
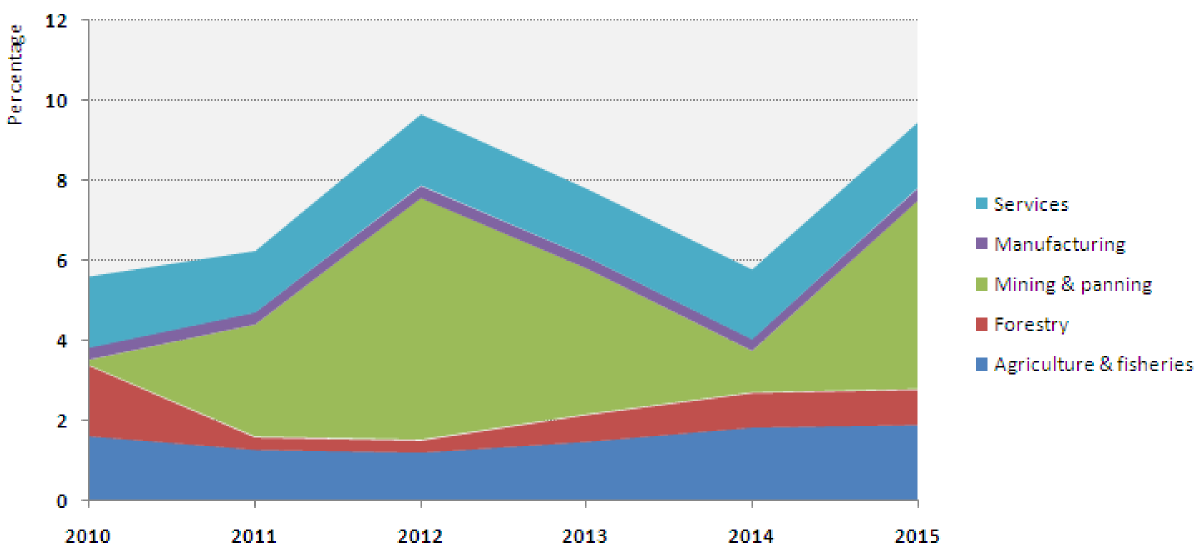


Chart 2.2.3 Sector Contribution to Headline Growth



The drop in growth expected in 2014 (highlighted in **Chart 2.2.3**) is the result of a slight slowdown expected in the growth of the Iron Ore sector in that year generated from the IMF Iron Ore Model.

Inflation is expected to rise slightly to 9.5 percent on average, the result of increasing fuel and food prices. However this still remains substantially below the 2008 inflation of 17.5 percent (the result of the last fuel and food price increases). Inflation is forecast to remain in single digits, and to stabilize and reduce further over the next few years.

Table 2.2.1 Annual Inflation Forecast

	2010	2011	2012	2013	2014	2015
CPI (%)	7.3	9.5	6.0	4.9	5.0	5.0
GDP Deflator (%)	6.4	12.6	4.5	-0.6	-2.5	1.4

Source: Macro Fiscal Analysis Unit and IMF Staff Estimates

3. Government Fiscal Policy

3.1.Recent Fiscal Policy

The preparation of the FY 2010/11 Budget was underpinned by the expectation of strong economic growth. The Government recognized the importance of managing the increased revenue that economic expansion, and specifically economic expansion in the enclave sectors, will bring. The Government split the Budget into Core and Project Budgets for FY 2010/11 to ensure that necessary recurrent spending is funded through certain revenue and that capital expenditure is promoted. To achieve this, the Government of Liberia continued to pursue fiscal policy designed to:-

- Ensure sustained, broad-based economic growth with particular emphasis on increasing Government's investment in infrastructure; and on strengthening the rural economy in accordance with the poverty alleviation strategies of the PRS.
- Continue tax reforms for widening the tax base
- Formulate expenditure plans to complete outstanding PRS-related projects.
- Restructure subsidies to decrease their impact on the nation's finances.
- Foster a robust environment for investment through private and public/private initiatives.
- Focus on an integrated development of physical infrastructure such as roads, water supply and access to transportation.
- Increase fiscal discipline in Government institutions to ensure fiscal accountability, transparency and responsibility.

1. **Bringing Donor Flows on Budget*:*** It has been recognized by both donors and the government that direct budget support is an effective way to strengthen public financial management, pushing Governments to become more accountable for the money they spend and helping align spending with areas of Government priorities. Strenuous effort was made to design a common assessment framework to bring donors into direct budget support and harmonize their assistance with Government priorities. The budget process, therefore, initiated a strategy to make the national budget a central instrument for coordinating donor assistance to PRS priorities.

2. **Cash-Based Balanced Budgeting*:*** The 2009/10 budget was managed following the cash based balanced budget policy, and the initial 2010/11 Budget was developed under the same rule. Restricting Government expenditure to available resources has been the Government policy since the Fiscal Year 2006/07 Budget. Under a cash-based budgeting system, shortfalls in expected resources within a fiscal year are matched by cuts in expenditure. Government responds to a shortfall in expected tax revenue by cutting expenditure, rather than covering the shortfall by borrowing.

   While successful in improving fiscal discipline, the cash budgeting system however had severe costs in terms of the effectiveness and efficiency of expenditure. It also undermined the reforms focused on improving budget planning. With the budget being adjusted several times a year, it was less important for spending ministries to focus on their budget preparation, because of the weakened role of the up-front budget allocations in determining funding during the spending year. These problems prompted the Government to undertake complementary reforms to its cash management and commitment control systems. These operate in tandem with the overall fiscal management system. Moreover, with the eclipsing of the HIPC completion point, the Government of Liberia has the opportunity again to borrow but prudently including the right to finance short term deficits using T-Bills, bridge financing arrangement with the Central Bank of Liberia .

3. **Debt Policy*:*** Over the past few years the government has made great strides in achieving the HIPC Completion Point requirements. Based on this successful track record, the country's development partners granted about US$4.6 billion in debt relief. This amount significantly reduces the annual cost of servicing debt. Learning the lessons from past debt accumulation the Government has established a Debt Management Committee (**DMC**), consisting of the Minister of Finance as Chair, the Governor of the Central Bank, the Minister of Justice, and the Minister of State for Presidential Affairs and Minister of Planning and Economic Affairs, appointed by the President. The Committee will monitor the country's debt situation, maintaining sustainable debt levels and putting in place relevant indicators consistent with the National Debt Management Strategy. Borrowing will be undertaken for investment projects with an economic return, and new borrowing will only be undertaken after the Debt Management Unit (**DMU**) undertakes a Debt Sustainability Analysis (**DSA**). With these precautions in place this Government will ensure that Liberia never again builds unmanageable levels of debt with little benefit.

4. **Public Financial Management Reforms*:*** The government has implemented far-reaching reform processes in the areas of budgeting, disbursement, cash management, reporting, internal and external auditing. The introduction of the new PFM Law has provided a better comprehensive framework for the management of public finances.

   In addition to the legal framework, the Ministry of Finance has been actively strengthening specific areas of Public Financial Management over the period including,

   - the introduction of a coherent and consistent Chart of Accounts,
   - the implementation of International Accounting Standards,
   - Integrated Tax Administration System,
   - Automation of Customs systems.
   - Improvement in our business processes for efficient service delivery
   - IFMIS Infrastructure installation nearing completion
   - Regular publication of reports

3.2.Current Fiscal Policy

The Government has learnt lessons from the World economic downturn, and the past history of debt mismanagement in Liberia. With these lessons in mind, alongside the fiscal aims set out in the PFM Law, the Government of Liberia has developed four fiscal principles to guide policy setting and the setting of National priorities:-

- Expenditure should be targeted, efficient and accountable
- Fiscal Rules should be clear and measurable
- Economic allocation of the Budget should be in line with fiscal objectives
- Revenue from non-renewable sources should be invested in Liberia's future.

In line with these fiscal principals the Government has introduced new processes and fiscal rules including:

1. **End of the Cash Based Balanced Budget:** The reaching of the HIPC Completion Point allows Liberia the flexibility to borrow again. This will stop the Government having to make cutbacks in expenditure month by month should revenue streams not arrive when expected. The Government will continue to explore the option of domestic borrowing through T-bills auctioning (net borrowing) and external borrowing consistent with our Debt Management Strategy.

2. **Debt Management:** The Government has set up a Debt Management Committee (**DMC**) and decided that, prior to new borrowing being undertaken, the Debt Management Secretariat will undertake a Debt Sustainability Analysis (**DSA**) to determine what impact the additional debt will have on our yearly borrowing, and debt stock levels.

3. **Targeting and Prioritizing Government Spending:** The Government has worked to introduce Sector plans into the Budget process in preparation for the 2011/12 Budget. This will ensure that the priorities and future plans of Ministries and Agencies can be clearly noted and reviewed. The alignment of the Budget with the PRS is a key stage in ensuring that the policies of the Government guide the spending process. The *Budget Framework Paper*, the second of which the Government recently published, also works to clearly demarcate Government policy priorities and key sector deliverables.

4. **Monitoring Government Spending:** The Government has created a new legal framework for Public Financial Management (**PFM**): the PFM law. This was the result of conclusions reaching in the Public Expenditure and Financial Accountability (**PEFA**) assessment, which noted there was substantial room for improving PFM. We have strengthened internal audit and the accounting and reporting functions and Government borrowing, now possible in a post-HIPC environment, is overseen by the Debt Management Committee (**DMC**). The Government is also looking at the possibility of setting up a Revenue Authority, tasked with the administration and collection of revenue. We have improved customs administration with the ASYCUDA system at the Free Port of Monrovia. We have also moved towards the implementation of the Integrated Tax Administration System (**ITAS**). The Government put in place the new CoA, and the Minister issued the cash-based Public Sector accounting standards in May 2010. The introduction of direct deposit payments for Government

employees was introduced covering all Monrovia-based employees and has been expanded to several counties; building on this we intend to build cash payment centers in areas where there are no commercial banks.

5. **Promoting Infrastructure:** The Government has, and will continue, to work to promote expenditure on capital projects, especially infrastructure. Noting that infrastructure can considerably add to growth, the Government intends to ensure that investment in roads, electricity and water and sanitation infrastructure continues. This Government set up the Project Budget: intended to provide funding from contingent revenue for a list of PRS-aligned investment projects. We have also incorporated a capital minimum into the Budget (5 percent of the Core Budget should be spent on new capital investment.)

4. Conclusion and Outlook

The Third Quarter fiscal outturn shows that realized revenue has grown by 15.5 percent year-on-year, roughly equivalent to the estimated growth in nominal GDP for last fiscal year of 16.0 percent. The total Budget for fiscal year 2010/11 has grown by 18.3 percent on the revised Budget of 2009/10, to US$ 369.4 million. The largest portion of the appropriation was to Compensation of Employees (37.7 percent) or, by functional category, to PASS (29.6 percent). With the addition of the deferred and supplemental Budgets the total Budget allocations this Fiscal year rises to US$ 408.4 million.

Of this Budget, so far Expenditure to date has been US$ 329.4 million (**allotment**); US$ 233.0 million (**commitment**) and US$ 209.7 million (**cash**). 72.0 percent of allotment has, to date, been committed.

Total revenue collected to the third quarter is US$ 244.8 million. Revenue collected to date has been mostly from the Tax Revenue stream (77.5 percent); of which Taxes on International Transactions (31.7 percent of the total revenue) and Taxes on Income and Profits (26.2 percent of the total revenue) make up the largest portions. Grant revenue made up 4.7 percent of realized revenue, and Non-tax revenue made up 17.9 percent. The best performing revenue streams, to forecasts, have been Individual and Corporate income tax, and Motor Vehicle taxes. Exports, Sales Taxes and Grants revenue have not performed as well as expected.

New rates have been applied during at least part of this year to CIT, PIT and GST. This has seen an increase in the collection for GST of 24.1 percent. CIT and PIT collection increased, however the quarterly collection for PIT fell in the third quarter from the previous quarters' average. The collection rate of CIT rose in the third quarter; however this is likely the result of typical monthly variation in collection as the same increase occurred last year.

The Liberian economy in 2010 has seen Real GDP growth of 5.6 percent with high levels of growth in the Forestry and Agriculture Sectors. This rate of growth was higher than the Sub Saharan African average of 5.0 percent. Since 2006 Mining and Panning has seen an increase in importance as a portion of the economy, with the Services industry also seeing an increased share of National Output.

The yearly inflation rate for 2010 was estimated at 7.3 percent on average, this is down slightly from the 7.4 percent average in 2009.

Liberia is forecast to be in the World's top 20 fastest growing Economies in the next few years (**WEO, April 2011**). We expect to see growth rates of, on average, 7.9 percent over the three years from 2011 to 2013. Inflation is expected to rise slightly to 9.5 percent average, the result of increasing fuel and food prices. However this still remains substantially below the 2008 inflation of 17.5 percent.

The Government has achieved successes in Public Financial Management: we have set up a DMC and strengthened internal audit, we are working to bring donor flows on budget and we have begun to implement ITAS. From a policy perspective we have been working on sector plans, and formulating long term policy in water and sanitation policy, in economic policy and so forth. We have also put in place structures to ensure that the Government policy priorities are enacted in practice: this includes the move towards MTEF next year and the addition of a strategic stage in the Budget formulation process.

In individual sectors: the worst performing is ESS, the best performing is RLPS; this is measured in terms of the amount of under-spend. Ministries and Agencies should be able to spend the money appropriated for them; this is measured in terms of transfer to commitments. The Fiscal Outturn monitors the performance of Ministries and Agencies so that the information can be used to determine whether or not Ministries and Agencies should in fact receive the same level of appropriation next year, and to determine whether transfers should be made to Ministries and Agencies more able to spend money.

5. Appendices

Appendix 1: Ministry and Agency Performance

Ministry /Agency	Original Appropriation US$ m	Adjusted* Appropriation US$ m	Allotment to Q3 US$ m	Commitment to Q3 US$ m	Annualised Commitment US$ m	Balance** in Original Approp US$ m	Balance** in Original Approp %	Balance** in Adjusted Approp US$ m	Balance** in Adjusted Approp %	Balance*** in Adjusted Allot US$ m	Balance*** in Adjusted Allot %
PASS											
National Legislature	20.7	21.8	17.3	16.3	21.8	-1.0	-5.0%	0.1	0.4%	1.0	5.6%
Ministry of State for Presidential Affairs	10.8	10.4	8.9	7.3	9.8	1.0	9.3%	0.7	6.4%	1.6	17.9%
Office of the Vice President	1.4	1.5	1.1	0.9	1.2	0.2	16.3%	0.3	21.6%	0.2	19.4%
Ministry of Finance	38.1	37.7	31.7	26.2	34.9	3.2	8.5%	2.8	7.5%	5.5	17.5%
Ministry of Internal Affairs	26.4	28.8	26.7	12.0	15.9	10.5	39.7%	12.8	44.6%	14.7	55.2%
Ministry of Planning and Economic Affairs	3.2	3.2	2.4	2.0	2.6	0.6	18.7%	0.6	19.1%	0.4	18.3%
Civil Service Agency	11.4	9.7	8.4	7.4	9.9	1.5	13.0%	-0.2	-1.9%	1.0	12.1%
General Services Agency	1.9	2.1	1.7	1.2	1.6	0.3	13.7%	0.4	21.2%	0.5	30.1%
Ministry of Information, Culture and Tourism	2.0	2.1	1.7	1.3	1.8	0.2	12.1%	0.4	16.9%	0.3	20.8%
General Auditing Commission	4.5	4.9	4.0	3.9	5.2	-0.7	-16.5%	-0.3	-5.3%	0.1	3.3%
Ministry of Foreign Affairs	11.6	11.9	9.7	7.6	10.1	1.5	12.9%	1.8	15.1%	2.1	21.7%
Liberia Institute of Public Administration	0.8	0.8	0.7	0.5	0.6	0.2	24.2%	0.2	24.2%	0.2	32.3%
National Elections Commission	11.0	11.1	10.2	10.1	13.4	-2.5	-22.6%	-2.3	-21.0%	0.1	1.2%
Liberia Institute for Statistics & Geo-information Services	3.1	3.1	2.7	2.1	2.7	0.4	12.3%	0.4	12.3%	0.7	24.1%
Bureau of State Enterprises	0.1	0.1	0.1	0.1	0.1	0.0	2.3%	0.0	2.3%	0.0	2.3%
National Investment Commission	1.1	1.1	0.9	0.9	1.2	0.0	-1.5%	0.0	-1.5%	0.0	0.8%
Governance Commission	1.0	1.0	0.7	0.7	1.0	0.0	3.6%	0.0	3.6%	0.0	0.0%
Public Procurement and Concessions Commission	1.1	1.1	0.9	0.8	1.0	0.1	9.3%	0.1	9.3%	0.1	12.6%
Center for National Documents & Records Agency	0.6	0.6	0.5	0.3	0.4	0.2	28.8%	0.2	28.8%	0.2	32.0%
Environmental Protection Agency	0.9	0.9	0.7	0.6	0.8	0.1	10.7%	0.1	10.7%	0.1	16.1%
Liberia Broadcasting System	1.0	1.1	0.8	0.8	1.1	-0.1	-9.5%	0.0	-2.4%	0.0	0.6%
Liberia Anti-Corruption Commission	1.4	1.4	1.1	1.1	1.5	-0.1	-5.3%	-0.1	-5.3%	0.0	1.2%
Law Reform Commission	0.7	0.7	0.6	0.5	0.7	0.0	2.3%	0.0	2.3%	0.0	7.4%
Land Commission	0.9	0.9	0.8	0.8	1.0	-0.1	-14.4%	-0.1	-14.4%	0.0	0.0%
Mano River Union	0.4	0.4	0.3	0.3	0.5	-0.1	-13.3%	-0.1	-13.3%	0.0	0.0%
Sub Total	156.2	158.8	134.6	105.6	140.8	15.4	9.9%	18.0	11.3%	29.1	21.6%

RLPS											
Judiciary	10.7	10.7	7.8	7.6	10.1	0.5	5.1%	0.5	5.1%	0.2	2.7%
Ministry of Justice	21.8	22.3	17.1	14.2	18.9	2.9	13.4%	3.4	15.4%	2.9	17.1%
Ministry of National Defense	9.7	10.1	9.5	8.2	10.9	-1.2	-12.7%	-0.8	-8.3%	1.3	13.7%
National Security Agency	1.6	1.6	1.2	1.2	1.6	0.0	-2.9%	0.0	-3.0%	0.0	0.0%
Special Security Services	5.8	5.9	4.8	3.7	4.9	0.8	14.1%	0.9	15.6%	1.1	22.1%
Ministry of National Security	0.9	0.9	0.7	0.7	0.9	0.0	-3.0%	0.0	-3.7%	0.0	3.0%
National Bureau of Investigation	0.5	0.6	0.4	0.4	0.6	-0.1	-16.3%	0.0	1.4%	0.0	3.3%
Human Rights Commission	0.9	1.6	0.7	0.7	1.0	0.0	-3.2%	0.6	40.0%	0.0	0.0%
Sub Total	51.9	53.6	42.2	36.7	49.0	2.9	5.5%	4.6	8.7%	5.5	13.0%
SCSS											
Ministry of Education	30.1	31.7	29.9	20.3	27.1	3.0	10.0%	4.6	14.5%	9.6	32.0%
University of Liberia	9.9	10.3	10.3	7.9	10.6	-0.6	-6.1%	-0.2	-2.0%	2.4	23.5%
Monrovia Consolidated School System	2.0	2.1	1.6	1.5	2.0	0.0	0.6%	0.1	6.6%	0.1	8.9%
Booker Washington Institute	1.7	1.8	1.6	1.4	1.9	-0.2	-9.4%	-0.1	-5.4%	0.1	9.5%
Forestry Training Institute	0.1	0.1	0.1	0.1	0.1	-0.1	-84.9%	0.0	7.5%	0.0	12.8%
Cuttington University College	0.7	0.7	0.5	0.5	0.6	0.1	17.3%	0.1	17.3%	0.0	8.2%
National Commission on Higher Education	0.8	1.2	1.1	0.8	1.1	-0.2	-26.1%	0.1	11.3%	0.3	30.4%
W.V.S. Tubman University	2.4	2.5	2.5	1.9	2.6	-0.2	-6.8%	0.0	-1.8%	0.6	23.7%
West African Examination Council	1.5	1.7	1.8	1.4	1.9	-0.3	-22.1%	-0.2	-9.5%	0.4	21.4%
Ministry of Health and Social Welfare	24.9	30.3	25.9	11.6	15.5	9.4	37.8%	14.8	49.0%	14.3	55.2%
J.F.K. Medical Center	6.1	6.9	5.3	4.1	5.4	0.6	10.3%	1.4	20.7%	1.2	23.3%
Phebe Hospital and School of Nursing	1.1	1.2	1.0	0.7	1.0	0.1	8.0%	0.2	19.5%	0.3	30.3%
Liberia Institute of Bio-Medical Research	0.5	0.5	0.4	0.3	0.4	0.1	23.5%	0.1	23.5%	0.2	34.6%
Ministry of Youth and Sports	4.1	4.1	3.8	2.3	3.1	1.0	23.8%	1.0	23.8%	1.4	37.9%
National Food Assistance Agency	0.1	0.1	0.1	0.1	0.1	0.0	-2.4%	0.0	-2.4%	0.0	7.1%
Agricultural and Industrial Training Bureau	0.2	0.2	0.2	0.2	0.2	0.0	-5.0%	0.0	-5.0%	0.0	10.5%
Ministry of Gender and Development	1.4	1.4	0.9	0.5	0.7	0.7	52.1%	0.7	52.3%	0.4	46.1%
Monrovia City Corporation	1.1	1.1	0.8	0.7	1.0	0.1	12.9%	0.1	12.9%	0.0	5.2%
Liberia Refugee Repatriation and Resettlement Commission	0.8	0.9	0.7	0.6	0.9	-0.1	-6.6%	0.0	0.8%	0.1	11.2%
National Commission on Disabilities	0.2	0.2	0.2	0.2	0.2	0.0	2.9%	0.0	2.9%	0.1	28.3%
National Veteran Bureau	0.3	0.3	0.3	0.2	0.3	0.0	3.8%	0.0	3.8%	0.1	18.1%
Liberia Agency for Community Empowerment	0.5	0.5	0.4	0.4	0.5	0.0	2.3%	0.0	2.3%	0.0	10.6%
National Housing Authority	0.4	0.6	0.5	0.5	0.6	-0.2	-53.2%	-0.1	-12.6%	0.0	5.9%
Paynesville City Council	0.0	0.0	0.0	0.0	0.0	0.0	-	0.0	-33.3%	0.0	0.0%
Sub Total	91.1	100.7	90.2	58.3	77.7	13.4	14.7%	23.0	22.8%	31.9	35.4%

ESS												
Ministry of Agriculture	7.5	7.5	6.2	2.4	3.2	4.3	57.7%	4.3	57.7%	3.8	61.5%
Ministry of Lands, Mines and Energy	6.4	6.4	3.3	2.4	3.3	3.2	49.2%	3.2	49.2%	0.8	24.8%
Ministry of Commerce and Industry	2.4	2.4	1.6	0.9	1.2	1.2	49.0%	1.2	48.9%	0.7	41.7%
Ministry of Post and Telecommunications	1.7	1.7	1.4	0.9	1.2	0.5	28.1%	0.5	28.2%	0.5	34.3%
Cooperative Development Agency	0.3	0.3	0.2	0.2	0.2	0.0	11.3%	0.0	11.3%	0.0	14.6%
Ministry of Transport	1.8	1.8	1.6	1.1	1.5	0.3	16.9%	0.3	17.0%	0.5	28.8%
Forestry Deveolpment Authority	4.5	4.7	3.6	3.4	4.5	0.0	0.9%	0.2	5.0%	0.2	6.6%
Ministry of Labor	2.1	2.1	1.5	1.0	1.4	0.7	33.4%	0.7	34.1%	0.5	30.7%
Ministry of Public Works	33.3	33.5	33.5	11.5	15.3	18.0	54.1%	18.3	54.4%	22.0	65.8%
Liberia Industrial Property System	0.1	0.1	0.0	0.0	0.1	0.0	1.0%	0.0	1.0%	0.0	6.0%
Liberia Copyright Office	0.1	0.1	0.1	0.1	0.1	0.0	9.1%	0.0	9.1%	0.0	7.7%
Liberia Water and Sewer Corporation	0.5	0.5	0.5	0.5	0.7	-0.2	-33.3%	-0.2	-33.3%	0.0	-5.6%
Liberia Produce Marketing Corporation	0.4	0.4	0.4	0.3	0.4	0.0	5.1%	0.0	5.1%	0.1	29.8%
National Transit Authority	0.3	0.3	0.3	0.0	0.0	0.3	100.0%	0.3	100.0%	0.3	100.0%
Liberia Electricity Corporation	1.0	1.0	1.0	0.5	0.7	0.3	28.0%	0.3	28.0%	0.4	45.2%
Monrovia Transit Authority	1.2	1.2	1.1	0.8	1.0	0.1	12.7%	0.2	14.5%	0.4	31.7%
Liberia Telecommunications Corporation	0.2	0.2	0.1	0.1	0.1	0.0	29.6%	0.1	47.2%	0.0	13.6%
National Housing and Savings Bank	0.2	0.2	0.2	0.2	0.2	0.0	-14.3%	0.0	-14.3%	0.0	5.3%
Liberia Industrial Free Zone Authority	0.1	0.1	0.0	0.0	0.1	0.0	-7.6%	0.0	-7.6%	0.0	4.2%
Liberian-Libyan Holding Company	0.2	0.2	0.1	0.1	0.2	0.0	0.0%	0.0	0.0%	0.0	0.0%
National Insurance Corporation of Liberia	0.1	0.1	0.1	0.1	0.1	0.0	1.4%	0.0	1.4%	0.0	2.5%
Liberia Rubber Development Authority	0.1	0.1	0.0	0.0	0.1	0.0	-4.2%	0.0	-4.2%	0.0	3.3%
Bureau of Maritime Affairs	5.7	5.7	5.7	5.7	7.5	-1.9	-33.3%	-1.9	-33.3%	0.0	0.0%
National Lottery	0.0	0.0	0.0	0.0	0.1	0.0	-27.4%	0.0	-27.4%	0.0	4.5%
Liberia Airport Authority	0.1	0.14	0.1	0.1	0.1	0.0	23.3%	0.0	23.3%	0.0	25.7%
Sub Total	70.2	70.7	62.7	32.4	43.2	27.0	38.4%	27.5	38.9%	30.3	48.3%
TOTAL	369.4	383.8	329.4	233.0	310.7	58.7	15.9%	73.1	19.0%	96.4	29.3%

* After Supplemental and Deferred and Transfers

** Uses the annualised figures

*** Calculated as Q3 Allotment minus Q3 Commitment

Source: Macro Fiscal Analysis Unit, Department of Budget and Department of Expenditure and Debt Management

FIGURES MAY NOT SUM DUE TO ROUNDING