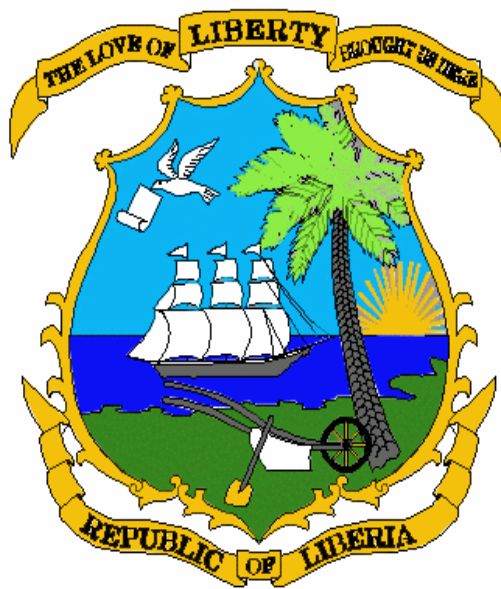


REPUBLIC OF LIBERIA



MESSAGE TO THE NATIONAL LEGISLATURE

FROM THE PRESIDENT

TRANSMITTING THE PROPOSED

FISCAL YEAR 2010/2011 BUDGET

OF THE REPUBLIC OF LIBERIA

Mr. Speaker and Honorable Members of the Legislature:

It is my distinguished honor to transmit to the Honorable 52nd Legislature the Draft National Budget of the Republic of Liberia for the fiscal period covering July 1, 2010 through June 30, 2011. This submission fulfills a critical duty imposed upon us by the Constitution of our Republic, the Public Financial Management Act of 2009, as well as a fulfillment of the duty of service to our people – a duty we assumed more than four years ago in 2006. The budget that I now submit, in the amount of **US\$347,106,000** (Three Hundred Forty Seven Million one hundred and six United States Dollars) or L\$ 24,644,526,000 (Twenty Four Billion Six Hundred forty Four Million Five Hundred Twenty Six Thousand Liberian dollars) is funded by tax revenue of **US\$230, 688, 000**, US\$4,731,000 brought forward from the 2009/10 and non-tax revenue of **US\$111,687,000** including grants of **US\$59,050,000**.

THE MACROECONOMIC CONTEXT

Mr. Speaker and Honorable Members of the Legislature:

Our overarching strategy for growth is based upon investment in a secured environment, in economic and social infrastructure and in institutions of governance, all aimed at promoting the private sector as the key engine of growth.

In response to this strategy, our economy has improved steadily over the last four years, despite difficult and challenging circumstances including the global economic slowdown in the last fiscal year which adversely impacted our growth and fiscal performance.

Liberia's GDP growth has averaged 7.2 percent over the last four years (2005 to 2009), remaining well above the global average of 3.4 percent, and the Sub-Saharan Africa regional average of 5.5 percent over the same period.

The drag on growth occurred in 2009, as the global economic crisis hit our economy. But unlike 91 other countries around the world, growth in Liberia remained positive at 4.5 percent, although this represented a decline from the previous year high of 9.4 percent.

Going forward, the macroeconomic context is still challenging but Liberia's growth prospect remains strong, as global economic recovery is off to a stronger start than expected: Advanced economies are growing again, although unemployment remains high, while China, a major trading and investment partner, is once more experiencing a boom. The global vehicle industry, (the major end-user of Liberia's natural rubber) is also showing encouraging signs of growth.

As I submit this Budget and as we look over the horizon into the future, the prospect for economic growth looks brighter, and presents a good prospect for national renewal and growth. Thus, we expect a growth rate of around 6 percent

2010 and 9.0 2011. Moreover, based on forecast of our key macroeconomic performance indicators, the IMF recently released World Economic Outlook (WEO) 2010 projects that by 2015, Liberia will register the tenth highest GDP average growth in the world (7.3 percent), and fourth in Africa. This performance will require that we continue to broaden and deepen our national reform agenda that have served as the building block for our economic recovery and growth over the last four years.

This will also require major investment in the agriculture sector which has been performing well, with rice and cassava production contributing strongly to growth in recent years. Rubber exports - affected by the global recession and the necessary replanting process, fell 50% in 2009 – is showing encouraging signs of recovery and should become robust in a few years with the tapping of matured replanted trees, coupled with global recovery of key economic sectors demanding natural rubber import. Other major crops such as oil palms, coffee and cocoa should also make significant contribution to growth within a few years.

A key impact of the global financial crisis on Liberia was exchange rate depreciation, resulting principally from scarcity of US dollars caused by falling exports, a slowdown in remittances due to rising US and OECD unemployment, and lack of adequate access to finance for Liberian importers. The Liberian dollar fell 9% in 2009, but has been stable since January, due in part to the Central Bank's dollar

auctions and the Government's fiscal actions to promote the increased use of Liberian currency in transactions.

BACKGROUND AND BUDGET FRAMEWORK

Mr. Speaker and Honorable Members of the Legislature:

In 2008, the Government of Liberia launched the Poverty Reduction Strategy, which laid out the strategic medium term economic and social development agenda of the country. The PRS was built on a foundation of a broad based national consultation with the Liberian people. It sets out the Government's agenda and development priorities through 2011. In 2009, the Legislature passed the Public Financial Management Law. In January 2010, the Government published Liberia's first *Budget Framework Paper*, which encapsulates analysis of the state of the economy and public finances, and formed the basis of this year's Budget preparation.

PROMOTING ALLOCATION EFFICIENCY

Perhaps our greatest fiscal challenge lies in focusing the expenditure of cash inflows from domestic revenue and from donors on established priorities. The better we can manage our public finances, the better we can deliver on our poverty reduction and job creation agenda. That is why we have put much effort into public financial management reform and the building of institutional and human capacities across government. We are building new systems, investing in the skills of our people, and

launching new processes. You have supported this process through legislative action so that progress cannot be reversed.

As a way of promoting institutional reforms, a Direct Deposit Scheme to decentralize the payments of civil servants salaries has been launched. This effort is aimed at reducing the burden on government employees within the rural areas, while ensuring strong financial accountability within the salary payment process as well as promoting a national banking culture. This effort has expanded to six (6) out of the eight (8) licensed commercial banks, outside the epicenter of Montserrado County.

Similarly, revenue management is being modernized in line with best practice. The UNCTAD-supported software, ASYCUDA, has been launched at the Free Port of Monrovia. The second phase of the project which covers LPRC and RIA shall be implemented shortly. The third phase includes the rural ports and shall commence when additional donor funding is identified. Additionally, the Government of Liberia, through the Ministry of Finance, plans to commence the automation of internal revenue including real estate with the introduction of the Integrated Tax Administration System (ITAS). The system will interface with ASYCUDA and will have business intelligence module linkages which will help enhance the ongoing efforts to improve revenue administration and revenue generation for the national good.

For all of these reform initiatives, Honorable Speaker and Members of the Legislature, we have provided for counterpart funding in the Draft Budget I now submit to you for your consideration and approval.

The Government has infused more than US\$850 million in the economy since 2006. As the economy continues to expand driven by fiscal policy initiatives we expect the revenue envelop including budget support to grow concurrently. As the budget expands, it becomes increasingly important that our expenditure priorities are well defined and aligned to our development agenda. We must also ensure that our expenditure process is well managed. The Public Financial Management Law has described the many steps Government needs to take to achieve these objectives. One of those steps is to improve the annual Budget process by ensuring that it is framed by realistic rules that help Ministries and Agencies to plan more effectively, thereby helping them focus on the expected outcomes which have been carved into our national development objectives.

Mr. Speaker and Honorable Members of the Legislature:

Section 11.3 of the Public Financial Management Act of 2009 mandates the preparation and submission of a *Budget Framework Paper* alongside the Draft National Budget. It is in consonance with this provision of law, and in my bid to lay out the details of our overall budget strategy and how it aligns with Government's

PRS priorities that I am submitting Liberia's first ever Budget Framework Paper alongside this year's fiscal budget. The *Budget Framework Paper* describes, inter alia, the strategy utilized in preparing and delivering this Budget. This is described in the technical language of government finances, but it represents a prioritization and focus on common-sense goals as evidenced inter alia by the following

- First, we will issue a new *Debt Management Strategy* to guide activities when borrowing becomes an option again (Post HIPC) hopefully later this year. It is common sense to avoid repeating past mistakes. The *Strategy* will help to ensure that we borrow sustainably and do not fall into the trap that occasioned the huge debt overhang from which we are just now recovering.
- Second, we have structured the budget in two parts: 1) a Core Government Budget which reflects those revenues we expect to materialize and grow each year – that will be used to pay for spending on core government priorities and recurrent activities; and 2) a Project Budget based upon one-off and/or uncertain receipts that will finance one-off projects. The Project Budget will also help target and focus entities' spending on key, specific Poverty Reduction undertakings. It is common sense to avoid making ongoing spending commitments that we may not be able to fund. The guidelines will help ensure that we do not.

The use of a Project Budget is new to our post-war budget process. Over the past two years, our expenditure plans have been repeatedly undermined by factors beyond our control: delay in conclusion of concession contracts, unexpected externalities such as the global financial and economic crisis, and uncertainties over the timing and size of donor budget support. Despite this, our domestic tax revenues have performed well over the years. Yet for the new fiscal year, we have deemed it prudent to attach a proportion of one-off payments from donors and concessions to specific projects. Those projects will only commence when funding has been received. In the meantime, our Core Government Budget will function as normal, without the disruptions such as the ones we experienced in fiscal year 2009/2010.

With these rules underpinning the Budget process, planning the 2010/11 National Budget has been more efficient and effective. Our PRS commitments have helped guide expenditure allocations. Uncertainties over revenues and expenditure needs have been taken into account in the planning process before the budget year begins. With strict rules guiding any new borrowing, the Government will safeguard prudent management of public finances in ways similar to standards achieved with the cash-based balanced budget which we have operated in recent years.

Revenues in the current 2009/10 fiscal year are expected to reach US\$287 million, up US\$52.1 million from the previous year, but US\$82.1 million short of 2009/10

National Budget forecast. The shortfall stems mainly from the delay in one-off concession payments, while tax revenues have performed relatively well.

In order to deliver on our commitment to reduce poverty and create more jobs, the Government has allocated the Government Budget towards our key priorities. The overall Government Budget, including the Core Budget and the Project Budget, is allocated to the four Budget sectors and General Claims as in previous years. US\$97.7 million or 28 per cent is allocated to the Public and Administrative Services Sector, and US\$49.6 million or 14 per cent towards the Rule of Law and Public Safety Sector. The Social and Community Services Sector is allocated US\$80.2 million or 23 per cent of the total Budget, and the Economic Service Sector will receive US\$63.8 million or 18 per cent. Meanwhile, General Claims, which includes payments of our debt obligations and also other Government commitments including Social Development Funds (critical to PRS delivery), accounts for US\$56.4 million or 16 per cent of total Budgetary appropriation.

FRAMEWORK

The *Budget Framework Paper* lays out the Government's forecasts of the economy and the implications for revenues in coming years. These projections point to revenues of US\$342.38 million in the 2010/2011 budget year, about 7.4 per cent

lower than approved budget of 2009/2010 and 19 per cent higher than the adjusted current revenue projection for 2009/2010. When compared to the risk adjusted budget there is a 10 per cent growth. The initial impact of the tax reduction policy measures on revenues is a contributor to the lower forecast. We however anticipate that in the medium run as disposal income improves this will encourage compliance and help facilitate institutional and individual investments.

Realization of the forecast revenue shall be influenced by the implementation of robust revenue enforcement strategies to encourage and facilitate voluntary compliance and if necessary force compliance.

The key policy measures for the new fiscal year are as follows:

- A temporary Tax Amnesty is contemplated. The amnesty shall provide relief on assessed penalties and interest for certain tax kind to encourage non compliant taxpayers to pay their tax arrears. The amnesty shall cover individual resident and non-resident taxpayers, as well as corporate taxpayers. It shall also include vehicle owners, small businesses and petty traders that are in arrears with vehicle registration payments and/or business registration payments.
- Reduction in the ECOWAS Trade Levy to 0.5% due to the full liquidation of the GoL arrears on account of the Liberia's contribution to ECOWAS.

- One year suspension of tariff on buses and taxes for commercial transportation companies. This targeted program is intended to help solve the transportation problem along with other non-fiscal measures undertaken by GoL.
- Migration to the harmonized ECOWAS Common External Tariff upon its finalization in 2010. The estimated revenue impact of which is expected to be minimal in year one. This was a targeted measure in 2009.
- The continued suspension of the rice tariff for another-twelve months in furtherance of the Poverty Reduction Strategy. Revenue foregone would amount to about US\$8.0 million.
- The introduction of the ratified profit tax rate from 35 per cent to 25 per cent. The CIT rate for rice investments is also set to 15 per cent to attract investors to this sector; and Mining and Petroleum at 30 per cent and the highest threshold on income tax.
- Introduction of strategic incentives targeted to attract investments to the least develop areas of our country.

Following our reaching HIPC Completion Point as anticipated, the revenue projections for the 2010/11 will be bolstered by new borrowings, which will be contracted in accordance with our new Debt Management Strategy. Combining the forecasts and the rules, the Budget Framework *Paper* sets out to define how the

Government has prepared the expenditure plans in the Proposed 2010/2011 National Budget that I am now submitting to this august body.

For the 2010/11 budget year, the Government has proposed allocating US\$309.8 million to the **Core Government Budget** and **US\$37.3 million to the Project Budget**. Total expenditure will be US\$347.1 million. While this is 7 per cent below the 2009/10 Budget appropriation, it is 37 per cent higher than actual expenditure in 2008/09 and 21.7 per cent more than we estimate actual expenditure will be in 2009/10.

As you all are aware our total budget envelop though growing is inadequate to meet the enormous public sector investment needs and yet to adequately fund the real recurrent cost of the three branches of government. Notwithstanding we have tried in the Core Government Budget expenditure allocation to accommodate some of our top social priorities, including the addition of about 6,000 employees, including newly recruited teachers, doctors and other health sector staff, onto the government payroll. This is a strong indication of the Government's commitment to improving basic social services in Liberia. In addition, the government is committed to supporting the security sector reforms in collaboration with its partners. In this direction, salary increments are proposed for officers of the Liberia National Police

and soldiers of the Armed Forces of Liberia. The total cost of these personnel actions is about US\$10 million.

For the rest of the public sector workforce, there will be an increase in disposable or take-home pay, on account of the tax reduction which comes into effect at the start of the new fiscal year on July 1, 2010. Also the Civil Service Pay Reform Strategy will be initiated in the coming fiscal year beginning with the collapsing of Liberian dollar basic salaries and US dollar allowances to be paid in a single check thereby reducing operational cost and enhancing efficiency.

The Government has allocated a greater share of the available project budget funds to the PRS related projects in the Project Budget. The Ministry of Planning and Economic Affairs has prioritized bids for the Project Budget so that we can be sure the Government is focusing revenues on this year's PRS priorities and on the job creation objectives of the *Lift Liberia Development Strategy*. Together, the Ministries of Agriculture, Education, Health and Public Works, have been allocated about 80 per cent of the Project Budget.

The drive to bring reconstruction and reform to our country often requires continuous engagements with our governmental and institutional partners, which

often requires travels to other destinations outside of our own borders. Thus we have made significant revisions in the domestic and foreign travel regulations. Per diems for travels within and outside Liberia have been updated to accommodate changes in economic realities that have occurred since the existing travel regulations were promulgated in 2006. For purposes of accountability, the Ministry of Finance will be required to be more robust in the enforcement of the disbursements and reporting requirements.

Mr. Speaker and Honorable Members of the Legislature:

There is no gainsaying that the holding of Presidential and General elections in 2011 is critical to the consolidation of our peace, democracy and the stability of our nation. I believe and hope you will agree with me that the successful conduct of these elections is vital to cementing the gains we have made in our drive towards national renewal. Our government remains firmly committed to the successful conduct of the 2011 electoral process. As such, the budget I am submitting captures and demonstrates that commitment through increased budgetary allocation to the National Elections Commission, even as we continue efforts to mobilize further donor funding for this purpose.

An allocation of about US\$8.0 (eight million United States dollars) has been made in this budget in support of the National Elections Commission. This amount

represents a 21 percent increase over the previous years' appropriation of US\$6.6 millions, and a 167 percent increase over the 2008/09 appropriation of US\$3.00 million.

Mr. Speaker and Honorable Members of the Legislature,

This year and the year following, we enter a momentous period that will mark defining moments in the annals of our history. Firstly, we have, with your active cooperation, practically met all the conditionality, triggers and benchmarks and will reach completion point, hopefully by mid-year. This event, which is a consummation of four years of hard work and reform, will unshackle the nation from a debilitating debt burden and unlock avenues of immense potentials for our country. Secondly, in the next year we will lay a concrete foundation for the holding of the next General and Presidential elections in 2011. This election, when successfully conducted, will not only cement the gains we have made so far, but will also mark an unprecedented holding of two successive transparent, peaceful democratic elections reflecting the popular expression of the people's will.

As we look forward to these two memorable events, as well as the potential of expanded economic growth in the years ahead, it behooves us all to work assiduously to ensure that we remain true to the development agenda and policy framework that forms the basis of this budget. Government is a call to duty – a duty

of service. Our collective mandate is to ensure that our lofty agenda are actualized through concrete actions that positively impact the lives of our people and lift them out of poverty. Such are the interventions encapsulated in this Budget. Sound budget preparation, prudent and scrupulous budget execution, accounting and reporting are core demands of our new PFM Law and our policy of transparent government. This is also the demand of our people across the country; and they deserve nothing less. In recognition of this fact, we have aligned this draft budget to accommodate the key priorities of our people as articulated in the Poverty Reduction Strategy. Our collective responsibility is to ensure that in implementing the budgets of spending entities, fiscal discipline is upheld and expenditure efficiencies exercised. In short, we must ensure that we get the most out of our country's precious little. This is our collective challenge and this must be our collective commitment.

Mr. Speaker, Honorable Members of the Legislature:

Let me thank you for the exemplary level of collaboration you have demonstrated in getting us thus far in the implementation of our national development agenda. Of particular mention is your cooperation in the passage into Law of key Legislations that are critical to our Public Financial Management reform programs, passage of the Revised Revenue Code and the Investment Incentives Code; ratification of

concession agreements that will confirm the existence of an improved investment climate in Liberia, increase foreign direct investment, promote private sector growth and lay the foundation for sustainable economic growth, job creation and poverty reduction. I look forward to our continued collaboration in the New Year towards a shared goal of stability, economic revitalization, governmental reform and national renewal.

Ellen Johnson Sirleaf

PRESIDENT OF THE REPUBLIC OF LIBERIA