BUDGET FRAMEWORK PAPER FY2016/17

Presented to the National Legislature of the Republic of Liberia on the 30th April 2016 at Capitol Hill, Monrovia, Liberia

This *Budget Framework Paper* is compiled using the latest available information from various departments within the Ministry of Finance and Development Planning in addition to other external sources. Some of the information contained in the document is unaudited or subject to revision.

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Contents

ACRONYMS

AfT	Agenda for Transformation
BFP	Budget Framework Paper
CSA	Civil Service Agency
DMU	Debt Management Unit
DBDP	Department of Budget and Development Planning
ESRP	Economic Stabilization and Recovery Plan
EVD	Ebola Virus Disease
GDP	Gross Domestic Product
GoL	Government of Liberia
IFMIS	Integrated Financial Management Information System
LRA	Liberia Revenue Authority
M&As	Ministries and Agencies
MFDP	Ministry of Finance and Development Planning
MTDS	Medium Term Debt Strategy
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
PFM	Public Financial Management
PSIP	Public Sector Investment Plan
SWG	Sector Working Group

FOREWORD

Despite the hard-earned success of battling the Ebola Virus Disease (EVD) outbreak, Liberia is faced with several constraints due to the slowed-EVD recovery, decline in the global commodity prices, the ongoing UNMIL drawdown and the forthcoming General and Presidential Elections. The government, however, remains committed to addressing these challenges, through appropriate and effective policy interventions.

Since the eruption of the memorable health crisis in 2014, which grossly affected economic activities across sectors, and then gravely exposed the structural weaknesses of the economy-particularly in the health sector, the government of Liberia has since implemented number of reforms intended to improve service delivery and develop human resource capacity. These reform efforts are sometimes challenged by shrinking resource envelop, due mainly to unfavorable macroeconomic outlooks.

The macroeconomic environment under which the current budget is being prepared shows a very bleak picture, which adversely affects the total resource envelop, especially when government's debt rate risk has increased from "low" to "moderate", on account of the EVD epidemic. Real GDP growth is projected at 2.5 percent in 2016, signaling weak domestic performance and external macroeconomic conditions. But this trend is however expected to improve in 2017, at 4.7 percent.

This National Budget is being prepared in the context of addressing critical public expenditure demands, as the country faces two major transitions: UNMIL drawdown and the ensuing 2017 elections. The budget will also fund on-going priority projects in other key intervention areas as stipulated in the Economic Stabilization and Recovery Plan (ESRP) and the reprioritized Agenda for Transformation (AfT), rehabilitate the hydroelectric power plant and highways, and at the same time funding recurrent expenditures.

FY2016/17 also marks the fifth year of working towards the implementation of Medium Term Expenditure Framework (MTEF) budgeting. Though the first cycle of the MTEF budgets (FY2012/13 to FY2014/15) registered some level of successes, including gradual improvements in budgeting systems and service delivery, it however experienced greater challenges in terms of higher revenue risks and expenditure pressures, which were later fueled by the EVD outbreak in FY2014/15. This episode strongly affected the country's ability to deliver adequately on its earmarked goals and targets, as enshrined in the Agenda for Transformation, which sets the pace for becoming a middle income country by 2030.

To speed-up post Ebola recovery, the Government will continue to prioritize the implementation of the ESRP, for ensuring economic stabilization and recovery in the soonest time possible, create adequate jobs, and improve standard of livings. The robust implementation of the ESRP started in FY2014/2015, though remains severely underfunded. The government will also continue to improve measures that strengthen the execution of the 7-year Health and Investment Plan developed along with its donor partners to ensure a better health sector by making it more resilient to future crises.

The formulation of this National Budget has, therefore, proved to be exceptionally constrained, not only by the impacts of slowed post-EVD recovery and external macroeconomic conditions, but also the increasing expenditure demands placed on it, as the country faces critical security and democratic transitions, coupled with the existing and ear-marked priority projects, particularly in the agricultural sector.

The FY2016/17 National Budget also manages to provide funding for debt service payment, educational and important health supplies, energy and infrastructural projects, in line with national policy objectives and priorities.

Amara M. Konneh
Minister of Finance & Development Planning
April 2016

EXECUTIVE SUMMARY

Budget Process

1. The MTEF process has three main objectives: ensuring fiscal discipline by spending what the public sector can afford; allocating resources in line with national priorities; and ensuring national resources are used efficiently.

2. To strengthen the link between national priorities set out in the national development plan and the budget, the MTEF sets out two separate phases of the budget preparation process: a strategic phase and an operational phase. The strategic phase is used to review high-level priorities and strategies before detailed resource allocation is undertaken. The operational phase of the budget preparation involves the allocation of resources to sectors and various spending entities/units, and concludes with the passing of the national budget by the national legislature.

3. The Budget Framework Paper (BFP) is the final output of the strategic phase of the budget. The FY 2016/17 edition of the BFP, like all others before it, is written in accordance with Section 11 of the Public Financial Management Act, and it is intended to facilitate consultation with the National Legislature on revenue and expenditure priorities for the fiscal year 2016/2017.

4. The BFP brings together into a single document three key elements of importance to the budget:

   (i) Overview of the Economy and Fiscal Trends- this provides an assessment of recent macroeconomic and fiscal performances and a macroeconomic outlook for the coming years. The outlook presents in a clear tone economic assumptions underlying the forecasts of the resource envelope, particularly tax and non-tax revenue, and provides the context for choices about expenditure in the budget.

   (ii) Medium-Term Fiscal Framework (MTFF) – this establishes the resource envelope available over the three-year period of the MTEF. It is prepared to capture all sources of revenue (tax revenue and non-tax revenue), grants from donors, and any likely borrowings (both domestic and external). The MTFF also sets out any fiscal rules that the government has agreed to abide by and an overview of fiscal risks, from both the expenditure and revenue perspectives.

   (iii) Government Expenditure Plans and Priorities- the Medium-Term Expenditure Framework-this presents the Government's policy priorities and how, given the resource envelope identified in the Medium Term Fiscal Framework, these will be reflected in the budget.

5. The GoL has continued to improve its public financial management processes based on lessons learned from the implementation of its first round of MTEF budget and on current realities of the global decline in the prices of primary products. Prominent amongst the institutional reforms undertaken over the last year are:

- The GoL has continued to advance its public financial management reforms based on lessons learned from the implementation of its first round of MTEF budgets. Prominent amongst the institutional reforms undertaken over the last year are:

A. Credible and Comprehensive Budget

- The production and publishing on the MFDP website of Macro Fiscal and Economic Reports on a more timely and regular basis- The quarterly and annual Fiscal Outturn Reports) as well as the Annual Economic Review (AER) are published either within or close to the statutory period.
- Financial transactions of fifteen (15) Donor funded projects now processed on the IFMIS- the work to migrate fifteen (15) donor financed projects (DFPs) from Sun Systems on IFMIS, has significantly gained traction. Mapping has been concluded and the processing of financial transactions on the IFMIS platform is in full swing.
- Budget Committees set up in high spending M&As to help implement the MTEF
- Manual for FY2015/16 produced, published and communicated to M&As- the MTEF Budgeting Manual was developed and printed by the Department of Budget & Development Planning (DoB&DP) and published on the Ministry's website. The manual contains procedures to guide the projection of cost policies over the forward estimates period and will be used for the preparation of the budget/fiscal framework paper for FY 2015/16. Meanwhile, the DoB&DP has begun developing a training plan to improve the capacity of M&As Budget Analysts as part of the process of institutionalizing the MTEF and advancing the budget preparation process.

B. Robust IT Systems to Support PFM Operation

- Freebalance upgraded from version 6.5e to version 7 with new features-the Freebalance IFMIS Application was upgraded from version 6.5e to version 7 in April 2015, and rolled out to additional 17 M&As, totaling 36 M&As. The upgrade was done to address constraints experienced with 6.5e, as well as ensure that the Civil Service Management (CSM) Module and the Financials were integrated on a single platform. Key modules were upgraded while critical functionalities were enhanced.
- IFMIS rolled out and operational in additional 17 M&As
- ICT Security & Network Policy developed, signed and operationalized in MFDP

C. Enhanced controls and respect of the PFM legal framework

- Internal Audit functions established in forty-two (42) M&As – The Internal Audit Agency (IAA) expanded its scope of operations to additional M&As carrying the total number of public entities with IAA personnel to forty-two (42). The IAA also conducted change management awareness exercises in eleven (11) counties, with support from the African Development Bank. Meetings were held with youth groups and county officials while a radio talk show was organized to discuss the existence, functions and operations of the entity.

- Payroll verification exercise for the Ministry of Health completed in thirteen (13) counties - a payroll verification exercise for the Ministry of Health was completed by the IAA in thirteen (13) counties with funding provided by USAID. The exercise was intended to verify the actual number of health workers that are being paid through the Government's direct deposit scheme.
- An excel-based vendor registration form designed and launched in May 2015 by PPCC – the Public Procurement and Concessions Commission (PPCC) designed and launched an excel-based vendor registration form in May 2015. The form provides a detailed profile of vendors and is in fulfillment of the prequalification requirement under the PPCC Act.
- PPCC conducted in-service procurement trainings for heads and officers of procurement units in sixteen (16) M&As – the PPCC conducted in-service procurement trainings for heads and officers of procurement units of sixteen (16) M&As, in collaboration with the Liberia Institute of Public Administration (LIPA) and USAID–GEMS intended to build capacity of procuring entities. The course is the foundation program for advancement into the Civil Service career procurement track

Policy Agenda

6. The Agenda for Transformation remains the overall roadmap for Liberia's medium-term economic growth and development strategy. Meanwhile, the Ebola epidemic has necessitated an Economic Stabilization and Recovery Plan that sets out appropriate policies and strategies to stabilize and stimulate the economy in a way that will complement the country's development agenda through recovering output and growth, strengthening resilience and reducing vulnerabilities, strengthening public finance to enhance service delivery.
7. The MTEF is designed to draw consistent linkages between the medium and long-term policy objectives as set out in the Agenda for Transformation (AfT) and Vision 2030, and the framework for resource allocation – the national budget.

8. Liberia Rising 2030 and the Agenda for Transformation provide the overall roadmap for the country's medium-term economic growth and development strategy. Launched in December 2012, the Agenda for Transformation has a five-year horizon and comprises five pillars: Peace, Security and the Rule of Law; Economic Transformation; Human Development; Governance and Public Institutions; and Cross-cutting Issues. The Government drafted and begun implementation of its Economic Stabilization and Recovery Plan (ESRP) in FY2014/15 in the wake of the Ebola outbreak to mobilize funding for investment in key sectors of the economy.

9. The ESRP seeks to invest in various sectors of the economy that will help recover the economy from the crippling effects of the EVD outbreak. As part of preparation for the FY2016/17 budget,

Sector Working Groups held joint budgeting and planning forum in response to the new combined responsibilities of the MFDP. These Sector Working Groups and subsequent AfT Pillar Meetings reviewed the AfT priorities in light of the meltdown in the prices of primary products and presented a refocused set of priorities that can be delivered over the remaining one years of the AfT. This National Budget provides funding for the continued implementation of the ESRP, the Government's contribution to the implementation of the Health Investment Plan and for implementation of AfT activities targeted at poverty reduction.

Economic and Fiscal Overview

10. Like FY2015/16 budget, the proposed framework for FY2016/17 budget will be prepared under a challenging macroeconomic environment. Global growth forecast has been revised downward; while progress in the domestic economy is being sharply undermined by slow EVD recovery, commodity prices shock, and UNMIL drawdown.

11. The Liberian economy is estimated to perform marginally in 2016 as economic activities improve, followed by on-going infrastructural projects.

12. Real GDP grew steadily up to 2013 (8.7 percent), but experienced massive fall in 2014 (0.7 percent) and 2015 (0.0 percent). It is however expected to grow slowly in 2016 (2.5 percent) and 2017 (4.7 percent).
13. The post-Ebola growth rate of the Liberian economy was originally projected at 0.3 percent in 2015, but it is now estimated to have fallen at 0.0 percent in the same period, while a post-Ebola real GDP growth projection of 3.9 percent for 2016 has now been revised down to 2.5 percent, due to weak domestic activities and the protracted fall in global prices of the country's key export commodities – rubber and iron. Growth in 2017 seems promising, however, with a projection of 4.7 percent — reflecting 0.6 percentage points below the post-Ebola forecast of 5.3 percent.

14. Rubber and iron ore prices have declined since 2013, and remain Liberia's key export commodities. This severely hurts the economy and the budget execution in particular since the country generates much of its revenues from companies and concessionaires operating in these sectors. Despite efforts to diversify the economy, outer years' growth outlook generally remains weak across sectors.

15. The current account balance is projected to moderately narrow at 38.2 percent in FY2016/17, compared to 40.2 decline recorded in FY2015/16, due to marginal improvement in export earnings.

16. To stimulate economic recovery and put the economy back on normal footing, the proposed fiscal framework of FY2016/17 budget prioritizes spending on key programs that have the potential to spur economic growth.

17. Resource envelope for FY2016/17 is projected at US$556.0 million, 10.7 percent lower than the 2015/16 approved budget.

18. The revised revenue projection for FY2015/16 is US$552.8 million, against the approved national budget of US$622.7 million. The downward revision is the result of lower intakes from tax revenue, non-tax revenue and grants.

19. In the midst of fiscal challenges, core revenue has grown steadily since FY2005/06. This shows improved fiscal management and revenue collection efforts. On the other hand, budget execution has also seen steady improvement due to proper budget planning process, as supported by the utilization of the Integrated Financial Management Information System (IFMIS)

20. As of end-March 2016, the total revenue collected (excluding borrowing of US$27.9 million from the African Development Bank) amounts to US$380.1 million. Of this amount, tax revenues accounted for 74.2 percent, while non-tax revenues and grants account for 9.0 percent and 11.1 percent, respectively. Carry-forward amounted to 5.8 percent.

21. Development partners continue to provide much-needed assistance through budget support grants (on-budget) and project aid, pooled funds and trust funds (off-budget). In FY2014/15, a total of US$719.8 million was recorded as aid disbursement, representing 82.8 percent of aid projection. In FY2015/16, off-budget financing (i.e. grants and loans) disbursed for specific projects in various sectors amounted to US$331.3 million as at end-March 2016. This represents 36.8 percent of the projected aid for the fiscal year.

Medium Term Fiscal Framework

22. The projected resource envelope for FY2016/17 is US$556.0 million. This represents 10.7 percent decrease compared to the FY2015/16 approved budget of US$622.7 million, as a result of falls in tax revenue, due mainly to low receipts from tax on income and profits; and on-budget support (grants and loans) due to the front-loading of support by donors to FY2015/16. Non-tax revenue, however, is projected to grow strongly, by 57.8 percent, spurred by strong projected performance of tax receipts from property income.

23. In FY2016/17, tax revenue is projected to be US$398.7 million (2.1.0 percent of total resource envelop); non-tax revenue US$96.9 million (17.4 percent); grants US$30.3 million (5.4 percent); and contingent revenue of US$30.2 million (5.4 percent).

Medium Term Expenditure Framework

24. The Medium Term Expenditure Framework for FY2016/17 is based on the resource envelope US$556.0 million, and is clearly informed by the national priorities articulated in the Agenda for Transformation, the Economic Stabilization and Recovery Plan, and the Health Investment Plan.

25. The proposed FY2016/17 budget of US$556.0 million consists of US$ 487.2 million of recurrent expenditure (including US$25.9 million for debt service payments – US$13.13 million to pay off domestic debt and interests and US$12.8 million for payment of external debt principal and interests) and US$688 million of public sector investment program (PSIP) expenditure.

26. To achieve the government's policy priorities, fiscal rules have been aggressively formulated to guide expenditure claims on the proposed resource envelope: *See copy attached.*

LEGISLATIVE REQUIREMENTS

The requirements for the Budget Framework Paper are set out in Section 11 of the Public Financial Management Law of 2009 and in Part D.6 of the associated regulations, as below.

D.6. Documents and Contents of Proposed Budget

1) The Proposed National Budget to be presented to the Legislature shall be accompanied by the budget framework paper, outlined in Section 11 of the Public Finance Management Act of 2009 updated to reflect the draft budget submitted to the Legislature.
2) The budget framework paper shall contain the following:
   a) An analysis of the economic and fiscal trends, and the assumptions underlying the medium term macroeconomic and fiscal framework of the budget;
   b) An explanation of the government's policy priorities and how these are reflected in the budget;
   c) A statement of key fiscal risks that may affect budget execution;
   d) The essential features of the medium term expenditure framework, where this has been prepared; and
   e) A summary statement of revenues and expenditure performance, using the main economic categories identified in Section 8(d) of the Public Finance Management Act of 2009, for the last two years showing the surplus or deficit in each of the years, and indicating the use to which it was put (in the case of surplus) or the means of financing (in the case of deficit);
   f) A summary statement of revenues and expenditures, using the main economic categories identified in Section 8(d) of the Public Finance Management Act of 2009, for the three years showing the projected surplus or deficit in each of the years, and indicating the use to which it will be put (in the case of surplus) or the means of financing (in the case of deficit);
   g) A summary statement of off-budget donor funding showing name of project and program, funding agency, recipient government agency, disbursements effected in the previous financial year, projected disbursement in the following financial year;
   h) A summary statement of the performance of State-Owned Enterprises and their annual financial plans for the following year showing revenues, expenditures and changes in net worth;
   i) summary statement of the performance of public corporations and Special Funds showing incomes accruing to them including any donor funding, cash flow statement, outstanding debt if any that includes arrears to vendors and borrowing requirements for the following financial year;
   j) A summary statement of budgetary implications of new legislations on the proposed budget as well as the financial implication over the two outer years, consistent with the provisions of Section 19 of the Public Finance Management Act of 2009.
3) The detailed annual budget estimates shall show the previous budget year outturns, the current year original budget as well as the year-to-date outturn based on available data, and projected outturns.
4) The detailed estimates, which will include both revenues and expenditures, will be structured according to the classifications specified in Section 8(d) of Public Finance Management Act of 2009.
5) The detailed estimates will include overall as well as agency level summaries by the various classifications utilized in the budget.

I. BUDGET PROCESS AND AGENDA

BUDGET PROCESS

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Sector Working Groups (SWG) held joint budgeting and planning forum in response to the new combined responsibilities of the MFDP. These Sector Working Groups and subsequent AfT Pillar Meetings reviewed the AfT priorities in light of the meltdown in the prices of primary products and presented a refocused set of priorities that can be delivered over the remaining one years of the AfT. This National Budget provides funding for the continued implementation of the ESRP, the Government's contribution to the implementation of the Health Investment Plan, and for implementation of AfT activities targeted at poverty reduction.

II. ECONOMIC AND FISCAL OVERVIEW

In brief

- Like FY2015/16 budget, the proposed framework for FY2016/17 budget will be prepared under a challenging macroeconomic environment. Global growth forecast has been revised downward; while progress in the domestic economy is being sharply undermined by slow EVD recovery, commodity prices shock, and UNMIL drawdown.
- The Liberian economy is estimated to perform marginally in 2016 as economic activities improve, followed by on-going infrastructural projects.
- Real GDP grew steadily up to 2013 (8.7 percent), but experienced massive fall in 2014 (0.7 percent) and 2015 (0.0 percent). It is however expected to grow slowly in 2016 (2.5 percent) and 2017 (4.7 percent).
- Resource envelope for FY2016/17 is projected at US$556.0 million, 10.7 percent lower than FY2015/16 approved budget.

GLOBAL MACROECONOMIC OUTLOOK

36. Recovery in the global economy remains uneven, generally reflecting mixed economic development across regions. In 2015, advanced economies marginally strengthen, while emerging and developing economies were seriously affected by declining commodity prices and uncertain financial conditions.

37. Global growth forecast has been revised downward, relative to the forecast made in October 2015. Declining commodity prices, reduced capital flows, increasing financial market volatility, and geopolitical tensions have increased the downside risks to the outlook-particularly in emerging and developing economies.

38. According to the International Monetary Fund (IMF) April 2016 World Economic Outlook (WEO), global economic growth in real GDP is projected to be 3.2 per cent in 2016, representing 0.4

percent decrease compared to 2015 projection. Growth in advanced economies is projected to remain constant at 1.9 percent in 2016.

39. Growth in emerging and developing economies is projected to increase to 4.1 percent in 2016, compared to 4.0 percent registered in 2015. According to the IMF, this is attributable to improve growth in countries that suffered serious economic distress in 2015 particularly Brazil, Russia, and some countries in the Latin America and the Middle East, which is likely expected to offset the anticipated slowdown in China.

40. Growth in Sub-Saharan Africa is projected to increase to 3.0 percent in 2016, down from 3.4 percent recorded in 2015. However, challenges still remain for commodity exporting countries in the region, due to difficult external conditions. These countries are mainly affected because most of their fiscal and external positions are reliant on extractive industries.

41. China's policy shift to rebalance its growth from manufacturing and construction to services and domestic consumption is also of greater concern, since she remains the single largest trading partner to sub-Saharan Africa. For countries such as Angola, Sierra Leone, DR Congo, and Liberia, where raw materials export to China account for significant share of total export; this exogenous shock is mainly strong.

42. World trade volume is projected to grow by 3.1 percent in 2016 as compared to 2.8 percent in 2015. Imports of advanced and developing economies and emerging markets are estimated to grow by 3.4 percent and 4.3 percent respectively in 2016, as compared to 4.3 percent and 0.5 percent respectively in 2015. Exports of advanced economies are projected to decrease to 2.5 percent in 2016 as compared to 3.4 percent in 2015, while exports for emerging markets and developing economies are projected to increase by 3.8 percent in 2016 as compared to 1.7 percent in 2015.

43. Consumer prices in Advanced, Emerging and Developing Economies are projected to increase by 0.7 percent and 4.5 percent respectively in 2016 as compared to 0.3 per cent and 4.7 percent respectively for 2015.

44. Oil price in 2016 is projected to narrow substantially by 15.6 percent, up from 47.2 percent decline experienced in 2015. Prices of non-fuel commodities are projected to narrow significantly by 8.1 percent in 2016 compared to a 17.5 percent decline in 2015.

45. From 2005 to 2013, the Liberian economy grew steadily. However, the period 2014 and 2015 witnessed a sharp decline in growth as economic activities slowed mainly due to the Ebola Virus Disease (EVD) outbreak and the global decline in prices of its key export commodities.

46. The current outlook is increasingly challenging as the economy faces twin turbulence: slow post-Ebola recovery and uncertain commodity prices. Recovery from the EVD epidemic which erupted in 2014 has remained relatively weak, and is further exacerbated by deteriorating external conditions, which has placed significant strain on the GoL's revenue generating capacity.

Table 1: SELECTED ECONOMIC INDICATORS, 2015– 17

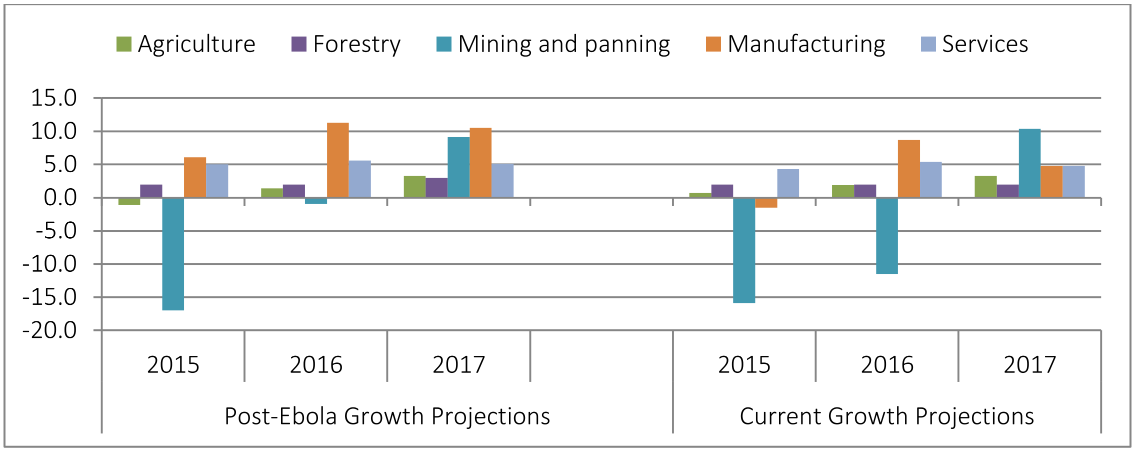
	2015	2016	2017
	Est.	Proj	Proj.
	(Annual percentage change)		
Real GDP	0.0	2.5	4.7
Consumer prices (annual averages)	7.7	8.2	8.0
	(Percent of GDP, fiscal year)		
Current account balances	-39.2	-40.2	-38.2
Gross official reserves (months of imports)	2.5	2.7	2.8

Source: Liberia authorities and IMF staff estimates and projections

47. However, there is a semblance of growth rebound in 2016 as domestic economic activities are expected to improve-particularly in services and manufacturing sectors, coupled with the resumption and continuation of key infrastructure projects.

48. For 2016, real GDP is projected at 2.5 percent, compared to 0.0 percent recorded in 2015, which both fell below the 8.7 percent recorded in 2013. Recovery is still being constrained by weak performances across sectors, signaling a medium-term growth forecast that is likely to remain below the pre-Ebola level.

Figure 1: EVD IMPACT ON SECTOR GDP GROWTH



Source: Liberian authorities and IMF staff estimates and projections

49. Consumer prices are broadly expected to remain in single digit as activities in manufacturing and services sectors rebound. Headline inflation is projected at 8.2 percent in 2016, from the 7.7 percent in 2015.

50. Medium-term outlook is relatively promising but requires robust implementation of the reprioritized national policy documents: the Agenda for Transformation (AfT) and the Economic Stabilization and Recovery Plan (ESRP).

51. The deepening effects of slow EVD recovery across sectors-particularly mining and agriculture, suggest that more need to be done to increase the limited buffers that the country need to offset prolonged drag on activity. It will further require appropriate policies for economic diversification and expanded fiscal space.

52. Despite mixed progress in maintaining macroeconomic stability, the recent episode of slower-than-expected recovery reveals that the economy is still constrained by both structural and exogenous factors. The productive base of the economy is largely characterized by the export of primary commodities whose prices are determined externally. Furthermore, Liberia is a recipient aid in flows which are likely to fall overtime, and this could expose the economy to external shocks as the source of foreign exchange earning dries out.

53. The Liberian economy was already experiencing series of macroeconomic shocks just before the EVD hit. These shocks included declining terms of trade from lower rubber and iron ore prices),reduced aggregate demand due to UNMIL drawdown, infrastructural challenges in the forestry sector, a reduction in remittance inflows, and inflationary pressures. These shocks were, no doubt, exacerbated by the Ebola-induced declines in economic activity witnessed across all sectors of the economy.

54. Government's capacity to generate revenue for adequate budget execution has been significantly limited since 2013; a consequence of the protracted decline in prices of Liberia's primary export commodities.

Table 2: WORLD PRICES FOR LIBERIA'S KEY COMMODITY EXPORTS

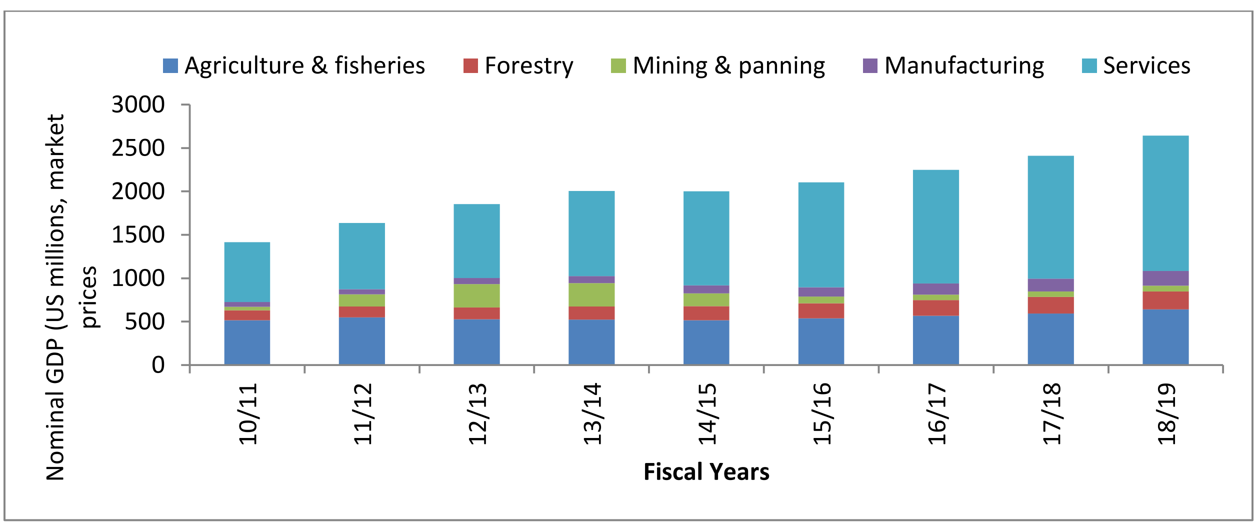
		Prices				
Commodity	In metric tons	2013	2014	2015	Jan-16	Feb-16
Iron Ore	$/MT	135.4	96.8	55.2	41.3	46.2
Rubber	cts/lb	126.8	88.8	70.7	55.3	57.0
Round Log (Hardwood)	$/M3	305.4	282	246	251.8	259.3
Round Log (Soft wood)	$/M3	164.5	174.3	160.6	151.1	167.4
Sawn Wood (Hard wood)	$/M3	852.8	897.9	833.3	785.6	780.1
Sawn Wood (Soft wood)	$/M3	301.4	307.3	309.5	319.4	310.6

Source: IMF Commodity Markets, March 2016

55. In nominal term, growth in the economy has seen some level of diversification overtime. The services sector has shown the largest growth rate in nominal GDP, followed by the agricultural and fisheries sector. However, agriculture and forestry have shown weak growth, while mining has failed to expand from its current deteriorating conditions.

56. Although the ESRP remains challenged by unfunded gap, the government continues to exert efforts to accelerate the pace of growth in various sectors of the economy, so as to enhance macroeconomic stability, sustained investment in infrastructure, expand the horizons of inclusive growth and development, and most importantly, create jobs that guarantee welfare improvement. Thus, the FY2016/17 National Budget is critical to economic stabilization and recovery.

Figure 2: SECTOR COMPOSITION OF NOMINAL GDP



Source: Liberian authorities and IMF staff estimates and projections

57. Despite existing macroeconomic challenges, fiscal policy in FY2016/17 will remain accommodative as the current budget includes key post-Ebola initiatives and the continuation of the reprioritized strategies under the ESRP, AfT and the Health Investment Plan.

58. In recent years, fiscal authorities have remained committed to containing recurrent spending in the wake of expenditure increases, in order to accelerate inclusive growth, improve tax revenue by broadening the tax base, and increase public sector investments. To ensure these expenditures are used appropriately, the government has also implemented measures to strengthen investment planning and monitoring.

59. For FY2016/17, the government will continue to support programs and projects, including actions to restore growth to pre-Ebola level while strengthening the budget process, and improving public financial management and supervision.

60. Since FY2005/06, core revenue has grown steadily, but showed slight decrease in FY2013/14 and FY2014/15, reflecting the intensity of the EVD epidemic. The steady increase in core revenue was induced by domestic resource mobilization efforts, the performance of the economy and prudent fiscal management.

61. The current declines in concession activities and weak domestic demand have posed enormous fiscal challenges for the Government. This has been further exacerbated by slow post-EVD recovery and external macroeconomic shocks.

62. Budget Execution has also experienced steady improvement over the period due to sustained commitment to the budget process, supported by in-year budgetary decision and the decentralization of the Integrated Financial Management Information System (IFMIS) across ministries and agencies.

63. Cash planning and management coupled with strong coordination between the MFDP and the Central Bank of Liberia (CBL) has enhanced liquidity management. This has supported efforts towards exchange rate stability. Reform efforts are also being exerted toward a Treasury Single Account (TSA) approach for government accounts held at the CBL.

REVENUE PERFORMANCE AND PROJECTIONS

64. To broaden the tax base and improve revenue collection, the Government has continuously embarked on numerous tax policy reforms to strengthen domestic resource mobilization. This has steadily improved tax compliance over the years, leading to increase in revenue collection. Total revenue collected, including grants and borrowing, as at the end of third quarter in FY2015/16 amounted to US$408.0 million with an end of year revised projection of US$552.8 million.

65. The end of year revised projection of US$552.8 million, against the approved national budget of US$622.7 million, reflects lower-than-expected tax and non-tax revenues, driven mainly by unfavorable market conditions and a protracted decline in commodity prices that has adversely affected the royalty payment from the mining sector. An additional risk to the remaining revenue outturn for FY2015/16 includes unanticipated depreciation of Liberian Dollar and uncertainties surrounding donor budget support.

66. The projected resource envelope for FY2016/17 is US$556.0 million. This represents 10.7 percent decrease compared to the FY2015/16 approved budget of US$622.7million. The decrease is mainly triggered by front loading of on-budget support to mitigate the impact of EVD on the economy.

67. Total domestic revenue for FY2016/17 is projected at US$495.6, which is 6.5 percent lower than the approved budget for FY2015/16. However, domestic resource mobilization is expected to improve over the medium term.

Table 3: DISAGGREGATED RESOURCE ENVELOPE AND MTEF PROJECTIONS (In Millions of US)

	FY15/16	FY16/17	FY17/18	FY18/19
	Approved Budget	Proj.	Proj.	Proj.
Resource Envelope	622.7	556.0	580.6	599.3
Total Revenue + Grants	530.0	525.8	549.1	566.8
Domestic Revenue	473.7	495.6	517.5	534.2
Tax Revenue	412.3	398.7	416.3	429.8
Non-Tax Revenue	61.4	96.9	101.2	104.4
Grants	56.2	30.3	31.6	32.6

Contingent Revenue	10.0	30.2	31.5	32.5
BORROWING	58.6	0.0	0.0	0.0
Budget Support Loans	58.6	0.0	0.0	0.0
World Bank IDA	30.0	-	-	-
African Development Bank	28.6	-	-	
IMF (Ad Hoc Augmentation	-	-	-	-
IMF (Rapid Credit Facility)	-	-	-	-
New Domestic Borrowing	0.0	0.0		0.0
CARRYFORWARD	24.2			

Source: Ministry of Finance and Development Planning

68. Tax revenue is projected to marginally decrease by 3.3 percent in FY2016/17 compared to FY2015/16 budget. This is due to an anticipated decline in taxes received from property, goods and services, and on income and profits as the country recovers from the legacy EVD crisis.

69. Non-tax revenue is projected to increase due to improved performance of taxes on property income, miscellaneous, fines, penalties and forfeits.

DEVELOPMENT PARTNERS' SUPPORT

70. The government continues to benefit from development partners' assistance through budget support grants (on-budget) and project aid (off-budget), and has also acquired concessional financing for development projects and programs. In FY2015/16, a total of US$394.2 million external resources were disbursed at end-third quarter, representing 43.8 percent of total projection.

71. Of the amount disbursed, 71.5 percent was delivered through project support and 15.9 percent implemented by Government through the budget, while 11.5 percent and 1.1 percent were delivered through the Trust Fund and Pool Fund mechanisms, respectively.

72. For FY2015/16, a total of US$899.3 million was approved as external resources in the national budget, of which on-budget support accounted for US$124.84 million (13.9 percent) while off-budget aid accounted for US$774.46 million (86.1 percent). The projected external resource envelope of US$899.3 million in FY2015/16 was revised downward to US$886.9 due to uncertainty in donor support. Actual external resource disbursed as at end March 2016 (Quarter 3) is US$394.2 million, representing 44.4 percent of the revised projection for FY2015/16.

73. External resources projected for FY2016/17 is expected to decline substantially to US$543.04 million, which is 38.8 percent lower than the revised projection for FY2015/16. Of the total

external resources projected for FY2016/17, on-budget support (grant) is projected at US$30.3 million. Off-budget support (grant and loan) is estimated at US$512.7 million.

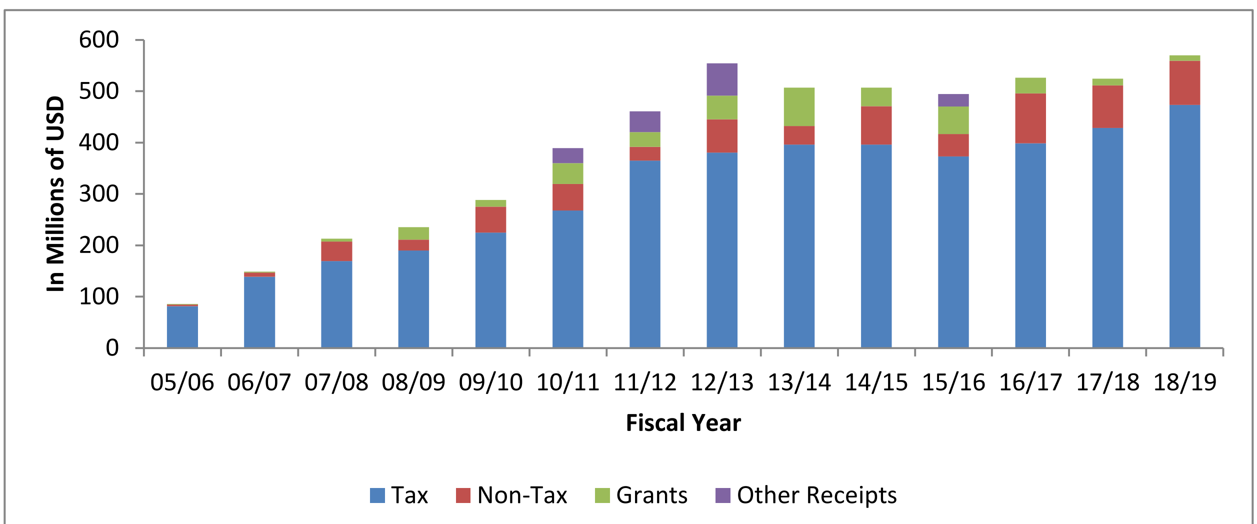
Table 4: DEVELOPMENT PARTNERS' SUPPORT IN THE MEDIUM TERM

Description	FY2015/2016 Revised Proj.		FY2015/2016 Actual Disbursement at Q3		FY2016/2017 Proj.		FY2017/2018 Proj.		FY2018/2019 Proj.	
	Grant	Loan	Grant	Loan	Grant	Loan	Grant	Loan	Grant	Loan
Budget Support	57.6	58.6	34.8	27.9	30.3	-	12.9		11.1	
Off-Budget Support	669.1	101.6	304.7	26.8	441.1	71.6	245.9	15.7	153.7	
Grand Total	**726.7**	**160.2**	**339.5**	**54.7**	**471.4**	**71.6**	**258.9**	**15.7**	**164.8**	**-**
Total Grand & Loan	886.9		394.2		543.04		274.55		164.83	

Source: Ministry of Finance and Development Planning

74. On-budget support grant for FY2016/17 is projected to be US$30.3 million, of which US$12.3 million is expected from EU, US$12.9 million from USAID and US$5.0 million from Norwegian Government.

Figure 3: REVENUE BY SOURCE (FY2005/06 - FY2018/19)



Source: Ministry of Finance & Development Planning

Note: FY2015/16 – FY2018/19 figures are projections

EXPENDITURE

75. Despites modest recovery from the EVD crisis, the government continues to prioritize public spending in line with its policy goals and objectives.

76. Trends in government expenditure have shown a year-on-year increase since FY2005/06, from US$81.0 million in FY2005/06 to US$621.7million in FY2014/15–an average increase of 10.0 percent per fiscal year.

77. Although budget execution has improved in recent years, challenges such as revenue uncertainty, in-year transfer requests and cuts, and a limited absorptive capacity for project execution still remain, thus leading to variation in execution rates. In FY2014/15, the proportion of disbursement to approved budget amounted to 91.2 percent, up from 91.0 percent in FY2013/14. As of the end of the third quarter of FY2015/16, the proportion of disbursement to approved budget stood at 53.3 percent.

Table 5: DISBURSEMENT VERSUS APPROVED BUDGETS FY2005/6–FY2015/16 (Millions, USD)

Fiscal Years	Approved Budget	Disbursement	Execution (%)
FY 2005/06	97.80	81.10	82.92
FY 2006/07	135.00	134.60	99.70
FY 2007/08	199.40	202.90	101.76
FY 2008/09	298.10	231.50	77.66
FY 2009/10	372.00	277.60	74.62
FY 2010/11	369.40	384.60	104.11
FY 2011/12	516.40	485.70	94.05
FY 2012/13	672.10	593.50	88.31
FY 2013/14	582.90	530.60	91.03
FY 2014/15	635.20	621.70	97.90
FY 2015/16*	622.74	331.91	53.30

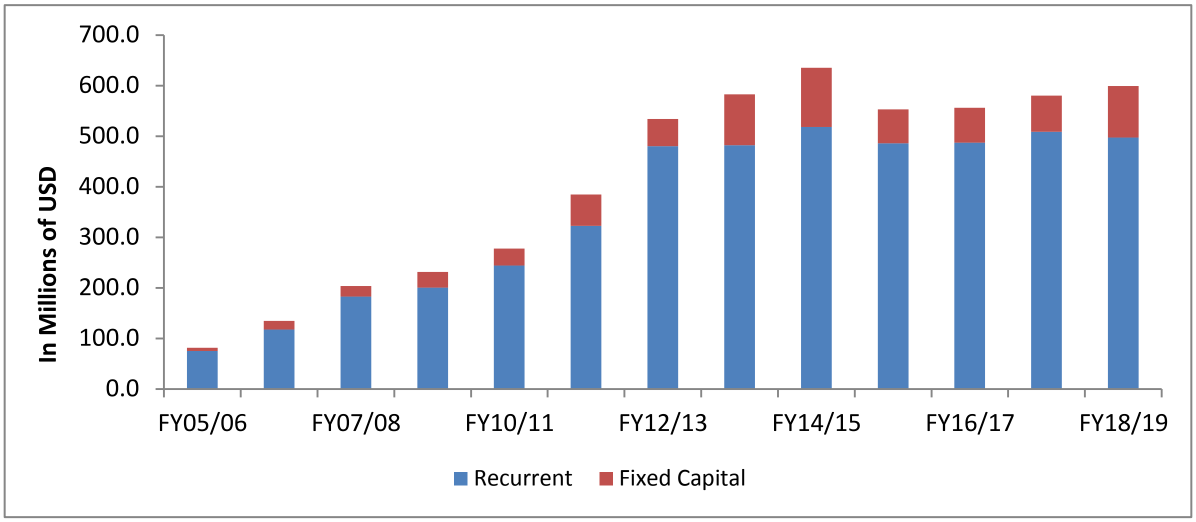
Source: Ministry of Finance & Development Planning

*Disbursement as at end of third quarter, March 2016

Note: The approved budget figures for FY2006/07 and FY2010/11 do not include supplemental budgets submitted. All figures are expressed in millions of USD

78. Since the introduction of the first round of MTEF (FY2012/13-FY2015/16) budgeting, capital spending has relatively improved. The creation of Public Investment Unit within the MFDP to evaluate project proposals and implementation has further enhanced the effectiveness of resource allocation towards various priorities across sectors.

FIGURE 4: SPLIT BETWEEN RECURRENT AND CAPITAL EXPENDITURE FY2005/06 - FY2017/18



Source: Ministry of Finance & Development Planning
Note: FY2015/16-FY2017/18 figures are projections
*FY13/14-FY17/18 includes PSIP

FINANCING

79. Government financing has continuously relied on external support since the completion of the Highly Indebted Poor Country Program (HIPC) in 2010.

80. In FY2015/16, the government projected US$58.6 million of external borrowing with unidentified domestic borrowing. Actual cash carried forward amounted to US$22.0 million. Of the total projected external borrowing, US$30.0 million is expected from the World Bank-IDA and US$ 28.6 million from the African Development Bank.

81. Since May 2013, the Government of Liberia, through the Central Bank of Liberia, has continuously issued Liberian-dollar denominated Treasury Bills (T-bills) with the purpose of managing and developing short-run revenue volatility and domestic debt market respectively. It is also used as an additional policy instrument by CBL to manage Liberian-dollar liquidity. From July 2015 through March 2016, a total of L$ 600.1 million (including interest) worth of T-bills were offered, of which L$554.9 million were redeemed.

Table 6: TREASURY BILLS ISSUANCE (L$ Millions)

Date	*Maturity Date*	*T-Bill Offered*	*Interest Accrued*	*Total Settlement*	*Status*
1-Jul-15	1-Oct-15	83,862,314.38	637,685.62	84,500,000.00	Redeemed
6-Aug-15	5-Nov-15	86,773,015.96	726,984.04	87,500,000.00	Redeemed
3-Sept-15	3-Dec-15	87,718,303.76	781,696.24	88,500,000.00	Redeemed
1-Oct-15	7-Jan-15	72,402,592.46	697,407.54	73,100,000.00	Redeemed
5-Nov-15	4-Feb-15	87,595,484.94	904,515.06	88,500,000.00	Redeemed
3-Dec-15	3-Mar-15	43,297,337.32	452,662.68	43,750,000.00	Redeemed
7-Jan-16	7-Apr-16	43,347,904.66	402,095.34	43,750,000.00	Redeemed
4-Feb-16	5-May-16	44,829,374.31	420,625.69	45,250,000.00	Redeemed
3-Mar-16	2-Jun-16	44,846,935.45	403,064.55	45,250,000.00	-
Total		594,673,263.24	5,426,736.76	600,100,000.00	-

Source: Ministry of Finance and Development Planning

III. MEDIUM TERM FISCAL FRAMEWORK: 2015/16 – 2017/18

82. The Medium-Term Fiscal Framework (MTFF) uses the latest economic and extended credit facility data to establish the resource envelope and expenditure ceilings for the three outer years covered by the Medium-Term Expenditure Framework (MTEF). FY2015/16 marks the fourth year of rolling MTEF budgets since its adoption in FY2012/13.

83. The MTFF sets out Government's fiscal measures to guide spending and borrowing in a prudent responsible and sustainable way in order to achieve key policy priorities as set out in the AfT and ESRP.

84. Despite the slow pace of the economic recovery in FY2015/16, real GDP is projected to increase marginally in 2016 to 2.5 percent, from 0.0 percent in 2015. Growth in real GDP is driven mainly by the manufacturing and services sectors.

85. Considering the slow pace of economic activity in various sectors of the economy due to the impact of the EVD crisis, the risk of weak domestic demand in the near-term, and further declines in the prices of key primary commodities–iron and rubber–the government is projecting a highly constrained resource envelope in FY2016/17 as well as in the outer years of FY2017/18 and FY2018/19.

86. Total revenue (including contingent revenue) projected in FY2016/17 amounted to US$556.0 million, 0.6 percent increase compared to the revised FY2015/16 budget of US$552.8 million.

87. Revenue projection shows that core revenue (excluding grant) increased by 4.6 percent in FY2016/17 at US$495.6 million, compared to the approved budget of US$473.7 million for FY2015/16. Tax revenue is anticipated to decline in FY2016/17, while non-tax revenue is expected to increase by 57.8 percent to US$96.9 million, compared to US$61.4 million in FY2015/16.

88. In the wake of challenging global environment and anticipated decline in external resources, resource mobilization remains a challenge over the medium term. However, efforts are being directed towards tax policy measures to broaden the tax base.

Table 7: MEDIUM TERM FISCAL FRAMEWORK

US$ millions	FY15/16 Approved	FY 15/16 ActualQ3	FY15/16 Revised Budget	FY16/17 Proj.	FY17/18 Proj.	FY18/19 Proj.
RESOURCE ENVELOPE	622.7	408.0	552.8	556.0	580.6	599.3
TOTAL REVENUE + GRANTS	540.0	358.1	470.0	525.8	549.1	566.8
CORE REVENUE	530.0	358.1	470.0	495.6	517.5	534.2
Tax Revenue	412.3	281.9	372.9	398.7	416.3	429.8
Non-Tax Revenue	61.4	34.1	43.4	96.9	101.2	104.4
Grants	56.2	42.2	53.7	30.3	31.6	32.6
Contingent Revenue	10.0		-	30.2	31.5	32.5
BORROWING	58.6	27.9	-	-	-	-
Budget Support Loans			-	-	-	-
World Bank IDA	30.0		-	-	-	-
African Development Bank	28.6	27.9	-	-	-	-
IMF (Ad Hoc Augmentation			-	-	-	-
IMF (Rapid Credit Facility)			-	-	-	-
New Domestic Borrowing			-	-	-	-
CARRYFORWARD	24.2	22.0	-	-	-	-

Source: Ministry of Finance and Development Planning

MTFF ASSUMPTIONS

89. The revenue forecast is based on the latest economic assumptions and adjustment to historical trends based on revenue performance in the current fiscal year and expectations for concession revenues.

Table 8: KEY MACROECONOMIC DATA INPUTS TO REVENUE FORECAST

	FY14/15 Actual	FY15/16 Est.	FY16/17 Proj.	FY17/18 Proj.	FY18/19 Proj.
Real GDP growth (%)*	0.7	0.0	2.5	4.7	5.4
Nominal GDP	2015	1991.5	2058.1	2163.2	2320.2
Nominal GDP growth (%)	2.3	-1.0	3.0	5.0	7.3
Nominal GDP growth excl. mining & panning (%)	1.4	8.5	7.2	7.4	9.5
Agriculture and Fisheries	25.9	26.0	26.3	25.1	24.8
Forestry	7.9	8.3	8.3	8.3	8.2
Mining and panning	10.0	4.5	1.6	1.6	1.4
Manufacturing	4.4	4.6	5.0	5.1	5.4
Services	51.8	56.7	58.8	59.9	60.2
Consumer price growth (average, %)	9.0	7.7	8.2	8.0	7.5

*Real GDP growth implies annual percentage for the first year of the fiscal period.

Source: Department of Economic Management; IMF ECF Fourth Review

90. The MTFF is based on GDP and inflation projections from the recent macro-framework.

BORROWING

91. The Heavily Indebted Poor Countries (HIPC) debt-relief program was completed by the Government of Liberia in 2010.

92. There has been no formal domestic debt market established in Liberia since the completion of the HIPC debt-relief program. In the recent past, the only domestic borrowing activity has been through Central Bank of Liberia (CBL). The government has made significant progress in advancing the operationalization of the Treasury bill issuances

93. The Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) framework is currently being used at the Ministry of Finance and Development Planning (MFDP) in recording and analysis statistics.

94. The financing of development programs through borrowing has been guided the Medium Term Debt Strategy (MTDS) prepared in July 2014 enables.

95. Over the medium term, FY2016/17 to FY2017/18, government operations will continue to be guided by the fiscal measures adopted on borrowing during the execution of the approved MTEF budget as follows:

- All borrowing must be undertaken for the purposes of investment, consistent with the Public Sector Investment Plan (PSIP);

- Total debt stock must not exceed 60 percent of previous calendar year's GDP as contained in the PFM Regulations;
- Prior to new borrowing being undertaken, a Debt Sustainability Analysis (DSA) must be carried out and presented to the Debt Management Committee (DMC) to ensure debt rules are not breached.

96. In the context of individual loans:
    - Concessional loans are those with a grant element of above thirty-five (35) percent and in IDA terms, above 50 percent; and
    - Commercial loans are those with a grant element below thirty-five (35) percent.

97. The FY2016/17 projections for debt obligations show a decline to US$25.9 million comprising US$9.8 million for principal repayments and US$12.7 million for interest payments. Domestic obligations carry the biggest share of 51 percent or US$13.2 million while external debt service projection accounts for 49 percent or $ US $12.8 million.

IV. MEDIUM TERM EXPENDITURE FRAMEWORK

EXPENDITURE PRIORITIES

98. The Medium Term Expenditure Framework is based on the resource envelope detailed above, and is expressly informed by the priorities articulated in the Agenda for Transformation and the Economic Stabilization and Recovery Plan.

99. The FY2016/17 budget will deliver on the ESRP and AfT pillar priorities through the Public Sector Investment Plan (PSIP), while also continuing to address basic recurrent spending needs.

100. The FY2016/17 draft budget proposes US$556.0 million of total expenditure, of which recurrent expenditure accounts for US$487.2 million (including debt repayments of US$25.9 million); PSIP expenditure accounts for the remaining US$68.8 million.

Table 9: FY2016/17 DRAFT BUDGET EXPENDITURE BREAKDOWN AND MTEF PROJECTIONS

	FY2015/16	FY2015/16	FY2016/17	FY2017/18	FY2018/19
TOTAL RESOURCE ENVELOPE	622,743,420	552,765,451	555,993,000	580,593,000	599,309,000
			-		
TOTAL REVENUE + GRANTS	539,958,716	469,980,000	525,832,000	549,097,522	566,798,233
CORE REVENUE	529,958,716	469,980,000	495,572,000	517,498,663	534,180,754
TAX REVENUE	412,336,087	372,905,000	398,696,000	416,336,369	429,757,391
NON-TAX REVENUE	61,391,948	43,404,000	96,876,000	101,162,294	104,423,363
GRANTS	56,230,681	53,671,000	30,260,000	31,598,859	32,617,480
EXPENDITURE	622,743,420	552,765,451	555,993,000	579,839,181	599,309,000
RECURRENT	514,940,808	485,756,577	487,185,260	508,740,850	497,133,105
PSIP	107,802,612	67,008,874	68,807,740	71,098,331	102,175,895
FUNDING GAP (CORE REV.- EXPEN	82,784,704	82,785,451	(30,161,000)	(30,741,660)	(65,128,246)
IDENTIFIED FINANCING (ON-BUDG	82,784,704	82,785,451	30,161,000	31,495,478	32,510,767
BUDGET SUPPORT LOANS	58,605,704	58,606,000	-	-	-
African Development Bank	28,605,704	28,606,000	-	-	-
World Bank-IDA	30,000,000	30,000,000	-	-	-
DOMESTIC BORROWING	-	-	-	-	-
CARRY FORWARD	24,179,000	24,179,451	-	-	-
IMF RCF	-	-	-		
Consolidated Fund	22,000,000	22,000,000	-		
Maritime Revenue	2,179,000	2,179,451	-		
CONTINGENT REVENUE	10,000,000	-	30,161,000	31,495,478	32,510,767
TAX REVENUE	-	-	24,188,000	25,258,202	26,072,426
NON-TAX REVENUE	-	-	5,973,000	6,237,276	6,438,341
GRANTS	10,000,000	-	-	-	-
UNFUNDED GAP	-	-	-	753,819	(32,617,480)
TOTAL EXPENDITURE	622,743,420	552,765,451	555,993,000	579,839,181	599,309,000
RECURRENT	514,940,808	485,756,577	487,185,260	508,740,850	497,133,105
RECURRENT	514,940,808	485,756,577	487,185,260	508,740,850	497,133,105
COMPENSATION	254,583,501	260,799,500	261,409,113	272,975,201	281,774,832
CONSUMPTION OF FIXED CAPITAL	12,256,713	8,228,481	3,859,515	4,030,280	4,160,200
GRANTS	92,156,719	77,274,819	89,771,116	93,743,054	96,764,955
SOCIAL BENEFITS	1,584,000		981,000	1,024,405	1,057,427
USE OF GOODS AND SERVICES	141,869,958	128,835,942	105,181,284	109,835,047	113,375,690
OTHER GENERAL CLAIMS	12,489,917	10,617,835	-	-	-
DEBT PRINCIPAL & ARREARS	21,605,709	22,605,709	25,983,232	27,132,864	28,007,519
GENERAL CLAIMS	102,267,767	-	-	102,870,758	103,370,388
COMPENSATION	24,885,900		-	24,885,900	24,885,900
GRANTS	12,109,434	-	-	12,109,434	12,109,434
USE OF GOODS AND SERVICES	51,119,470		-	51,119,470	51,119,470
SOCIAL DEVELOPMENT CONTRIBU	14,152,963	-	-	14,755,954	15,255,584

PSIP	107,802,612	67,008,874	68,807,740	71,098,331	102,175,895
Core PSIP			38,646,740	40,043,398	
SECTOR PROJECTS	**76,270,000**	**61,057,207**	**12,978,121**	**13,552,340**	**13,989,213**
Ongoing roads	27,000,000	6,554,989	12,578,121	13,134,642	13,558,050
National Museum	49,270,000	54,502,218	400,000	417,698	431,163
National Priority Projects	**31,532,612**	**5,951,667**	**25,668,619**	**26,491,058**	**22,602,231**
Elections	-	-	10,000,000	10,442,452	10,779,075
UNMIL Drawndown	5,000,000	3,000,000	3,000,000	3,132,735	3,233,722
Support to Agriculture Sector	-	-	2,000,000	2,088,490	2,155,815
Counterpart Funding	26,532,612	1,540,812	2,962,969	3,094,066	3,193,806
LACE Special Project			300,000	313,274	323,372
Renovation of Executive Mansion	-	1,410,855	3,005,650	3,138,635	3,239,813
Legislative Proj. for Rural Dev.			3,650,000	3,811,495	3,934,362
Thermal Diesel (HFO)			750,000	783,184	808,431
Contingent PSIP			30,161,000	31,054,933	
Elections	-	-	10,000,000	10,442,452	10,779,075
Support to Agriculture Sector	-	-	3,000,000	3,132,735	3,233,722
Counterpart Funding	-	-	4,744,771	4,954,704	5,114,424
Renovation of Exec. Mansion	-	-	3,994,350	4,171,081	4,305,540
UNMIL Drawndown	-	-	7,000,000	7,309,716	7,545,352
NHA Housing Policy Project			1,000,000	1,044,245	1,077,907
Ongoing roads			421,879	440,545	454,747

Source: Ministry of Finance and Development Planning

RECURRENT

101. The recurrent budget for FY2016/17 is US$487.2 million, which accounts for 87.6 percent of total expenditure. This represents a 0.3 percent *decrease* compared to US$514.9 million approved in FY2015/16 budget. The decrease reflects necessary adjustments to expenditure in the wake of resource constraint.

102. Recurrent expenditure is broken down, according to economic classification as follows:

- Compensation of Employees is US$261.4 million which is 54 percent of recurrent expenditure. This is a 3 percent increase over FY2015/16 allocation.
- Goods & Services is US$105.2 million. This amount accounts for 22 percent of recurrent expenditure. Comparatively, this indicates a 27 percent decrease from the FY2015/16.
- Grant is US$89.7 million, representing 18% of total recurrent expenditure. This indicates a 3 percent decrease from US$ 86.4 m approved in FY2015/16 appropriation.

- Consumption of Fixed Capital (or non-investment capital) is US$3.4 million or 1% of recurrent expenditure. This reflects a 69 percent decrease compared to FY2015/16 allocation.

- Social Benefits is estimated at US$0.98 million, constituting 0.2 percent of recurrent expenditure.
- Debt Principal and Interest is estimated at US$25.98 million, which is 5% of total recurrent appropriation.

103. Table 10, shows how recurrent expenditure is broken down according to sector:

Table 10: RECURRENT EXPENDITURE BY SECTOR

SECTOR	FY15/16 Approved Budget -	FY16/17 Draft Budget -	FY17/18 Projection -	FY18/19 Projection -
Total Resource Envelope	622.7	556.0	580.6	599.3
Total Expenditure	622.7	556.0	579.8	599.3
Recurrent	514.9	487.2	508.7	497.1
Public Administration	186.9	162.5	186.2	192.2
Municipal Government	32.2	19.6	19.8	20.4
Transparency & Accountability	24.2	42.5	41.8	43.1
Security & Rule of Law	98.9	90.8	91.4	94.4
Health	72.6	77.0	77.7	80.2
Social Development Services	12.1	10.5	10.6	10.9
Education	83.8	83.5	84.4	87.1
Energy & Environment	20.6	13.9	13.9	14.3
Agriculture	6.0	12.4	12.1	12.5
Infrastructure & Basic Services	77.1	34.4	33.7	34.8
Industry & Commerce	8.3	9.0	9.1	9.4
PSIP	107.8	68.8	71.1	102.2
FUNDING GAP	0.0	0.0	0.8	0.0

Source: Ministry of Finance and Development Planning

104. Projections for the outer years are indicative, and based on the following assumptions:

- Compensation is maintained at current levels (i.e. growth in compensation is zero) or within the limits of 5 percent;
- Recurrent expenditure grows at a rate equal to half the growth rate of domestic revenue, in order to reduce the funding gap;
- The proportion of total expenditure received by each sector is kept equal to the share received in the FY2016/17 budget;
- The percentage of recurrent expenditure received by priority sectors, as specified in the AfT[1], increases by 5% in each fiscal year from the base year of FY2016/17, while the remaining sectors'

[1] AfT specifies Security & Rule of Law, Education, Health, Energy & Environment, Infrastructure & Basic Services, and Agriculture, as priority sectors.

shares are all reduced by the same percentage in each year. The percentage reduction is set at a level to ensure that the increases in priority sectors are completely offset.

- PSIP is set equal to 20% of tax revenue, in order to comply with the ECOWAS convergence criteria;
- Social Development Fund contributions return to the level set out in the approved FY2015/16 budget, subject to developments in the relevant sectors (i.e. mining, forestry, and agriculture);
- Grants is maintained at its FY2016/17 level; the ECOWAS trade levy remains at the FY2016/17 level;
- The amounts for consumption of fixed capital, social benefits, and use of goods and services are based on historic shares of recurrent expenditure for these economic classifications.

PUBLIC SECTOR INVESTMENT PROGRAM (PSIP)

105. The estimated PSIP portfolio for FY2016/17 is US$68.8 million, which accounts for 12.4 percent of total expenditure. This represents a 2.7 percent increase compared to the FY2015/16 revised budget of US$67.0 million and 36.6 percent *decrease compared to* FY2015/16 approved budget of US$107.8 million.

106. For FY2016/17, Core PSIP is projected at US$38.6 million:

- US$25.7 million for National Priority Projects. This includes:
  - US$3 million for UNMIL Drawdown;
  - US$3.0 million for Executive Mansion Renovation;
  - US$10.0 million for Elections;
  - US$2.0 million for Support for Agriculture Diversification; and
  - US$3.0 million for Counterpart Funding

- US$12.9 million for Sector Projects. This includes:
  - US$12.6 million for Ongoing roads
  - US$0.4 National Museum

107. Contingent PSIP is projected at US$30.2 for FY2016/17 including:

  - US$10.0 million for Elections
  - US$3.0 million for Support to Agriculture Sector
  - US$4.7 million for Counterpart funding
  - US$4.0 million for Renovation of Executive Mansion
  - US$7.0 million for UNMIL Drawdown
  - US$1.0 million for NHA Housing Policy Project

ANNEX I: FY2015/16 DEVELOPMENT ASSISTANCE

Table 11: Medium Term Budget Support Projections

Medium Term Budget Support Projections						
Donors	FY2016/2017		FY2017/2018		FY2018/2019	
	Grant	Loan	Grant	Loan	Grant	Loan
European Union	12,391,775					
Norway	5,000,000					
USAID	12,940,000		12,940,000		11,130,000	
Grand Total	30,331,775	-	12,940,000		11,130,000	

Source: Ministry of Finance and Development Planning

Table 12: Medium Term Off-budget Grants & Loans Projections by Development Partners

Donors Projects without Budget Support Data (Fund and Program Aid)						
Donors	FY2016/2017		FY2017/2018		FY2018/2019	
	Grant	**Loan**	**Grant**	**Loan**	**Grant**	**Loan**
African Development Bank	26,773,500	12,340,000	26,000,000	15,700,000		
European Union	15,173,547					
Germany	16,060,000		12,490,000		5,830,000	
GIZ	1,200,000					
IFAD		360,000				
International Development Association	47,441,601	51,446,189	9,250,000		7,250,000	
Ireland	5,666,440					
Japan	17,000,000					
KfW	16,300,000		23,900,000		20,700,000	
Kuwait		7,500,000				
Millennium Challenge Corporation	93,202,200		67,218,760		44,566,200	
Norway	33,536,000					
Sweden	553,030		92,424			
UNDP						
United Nations Children Fund	25,059,980		12,370,231			
United Nations High Commission for Refugee	1,315,418				2,276,307	
USAID	128,233,946		94,589,293		73,072,864	
World Food Programme	13,548,549					
Grand Total	**441,064,211**	**71,646,189**	**245,910,709**	**15,700,000**	**153,695,370**	

Source: Ministry of Finance and Development Planning

Table 13: Medium Term Aid by Modality Projections

Aid Modality						
Donors	FY2016/2017		FY2017/2018		FY2018/2019	
	Grant	**Loan**	**Grant**	**Loan**	**Grant**	**Loan**
Budget Support	30,331,775	-	12,940,000		11,130,000	
Pool Fund	5,666,440					
Project/Program Aid	420,656,723	52,326,189	240,913,090	15,700,000	151,495,370	
Trust Fund	14,741,048	19,320,000	4,997,619		2,200,000	
Grand Total	**471,395,986**	**71,646,189**	**258,850,709**	**15,700,000**	**164,825,370**	

Source: Ministry of Finance and Development Planning

Table 14: Medium Term Aid by Sector Projections

MTEF Sectors						
	FY2016/2017		FY2017/2018		FY2018/2019	
Donors	Grant	Loan	Grant	Loan	Grant	Loan
AGRICULTURE	67,608,591	3,860,000	13,884,037	2,500,000	4,217,813	
EDUCATION	37,073,266		8,675,911		3,576,837	
ENERGY AND ENVIRONMENT	150,349,103	28,611,911	111,019,530	4,200,000	78,538,109	
HEALTH	80,021,855	3,880,000	33,087,676		17,630,000	
INDUSTRY AND COMMERCE	-	1,500,000				
INFRASTRACTURE AND BASIC SERVICES	53,859,253	29,974,278	30,990,364	9,000,000	14,487,804	
MUNICIPAL GOVERNMENT	4,800,094	3,320,000	4,100,294		4,100,294	
PUBLIC ADMINISTRATION	27,697,377	300,000	15,597,288		11,578,218	
SECURITY AND RULE OF LAW	2,816,358		2,816,358		1,867,284	
SOCIAL DEVELOPMENT SERVICES	30,890,674	200,000	22,425,631		14,346,544	
TRANSPARENCY AND ACCOUNTABILITY	16,279,416		16,253,621		14,482,468	
Grand Total	**471,395,986**	**71,646,189**	**258,850,709**	**15,700,000**	**164,825,370**	

Source: Ministry of Finance and Development Planning

Table 15: Medium Term Aid by AfT Pillars Projections

AfT Pillars						
	FY2016/2017		FY2017/2018		FY2018/2019	
Donors	Grant	Loan	Grant	Loan	Grant	Loan
Cross-cutting - 5	30,890,674	200,000	22,425,631		14,346,544	
Economic Transformation- 2	271,816,947	63,946,189	155,893,931	15,700,000	97,243,726	
Governance and Public Institutions - 4	48,776,887	3,620,000	35,951,203		30,160,980	
Human Development- 3	117,095,121	3,880,000	41,763,586		21,206,837	
Peace, Security and Rule of Law - 1	2,816,358		2,816,358		1,867,284	
Grand Total	**471,395,986**	**71,646,189**	**258,850,709**	**15,700,000**	**164,825,370**	

Source: Ministry of Finance and Development Planning

Table 16: Medium Term Aid by AfT Pillars Projections

Donor Type						
	FY2016/2017		FY2017/2018		FY2018/2019	
Donors	Grant	Loan	Grant	Loan	Grant	Loan
Bilateral	329,691,616	7,500,000	211,230,477		155,299,064	
Multilateral	141,704,370	64,146,189	47,620,231	15,700,000	9,526,307	
Grand Total	**471,395,986**	**71,646,189**	**258,850,709**	**15,700,000**	**164,825,370**	

Source: Ministry of Finance and Development Planning

ANNEX II: STOCK OF PUBLIC DEBT AND FY2014/15 DEBT SERVICE

Table 17: Public Debt Stock as at end-March 2016

	QTR I	QTR II	QTR III
Domestic Debt Details			
CBL	259.2	259.4	259.0
LBDI	0.0	0.0	0.0
ECOBANK	4.9	0.0	0.0
Infrastructure Loan	10.0	10.0	10.0
Total Financial Institution	274.1	269.4	269.0
Supplier's Credit	0.0	0.0	0.0
Other Arrears	0.0	0.0	0.0
Total Domestic Debt (end of period)	274.1	269.4	269.0
External Debt Details			
Disbursed Outstanding Debt (period start)	491.2	377.4	386.0
Disbursements	27.0	9.0	53.3
Principal Repayments	0.0	0.5	0.0
Net Flows On Debt Stock	27.0	8.6	53.3
Interest Payments	1.3	2.0	0.0
Exchange rate / other adjustments	0.1	-0.6	0.0[2]
Total Debt Service	1.3	2.5	0.0
Total External Debt (end of period)	377.4	386.0	438.8
TOTAL DEBT STOCK	651.5	655.4	707.8

Source: Ministry of Finance and Development Planning

Table 18: Public Debt Service as at end-March 2016

US$ millions	QTR I	QTR II	QTR III	Total
Domestic Debt Service Details				
Principal	2.4	5.8	12.8	21
Interest	0.7	1.1	5.4	7.2
Total Domestic Debt Service	3.1	6.9	18.2	28.2
External Debt Service Details				
Principal	0.0	0.5	5.5	6.0
Interest	1.3	2.0	7.4	10.7
Total External Debt Service	1.3	2.5	12.9	16.7
Total Debt Service	4.4	9.4	31.1	44.9

Source: Ministry of Finance and Development Planning

[2] Figure for exchange rate/ other adjustments will be updated in QIII pending publication of the 3rd Quarter Debt Report