MINISTRY OF FINANCE AND DEVELOPMENT PLANNING

Quarterly Budget Performance Report (July-September 30, 2018)

November 2018

"Ensuring the efficient allocation of Government Financial Resources"

Contents

EXECUTIVE SUMMARY

Liberia's economic growth experienced a period of stagnation between 2014 and 2016 largely due to low commodity pricing and the Ebola Outbreak. However, during 2017, real GDP growth was at **2.5 percent** from negative **1.6 percent** in 2016. This growth in real GDP can be attributed to increases in the mining and pinning sector resulting from rise in industrial gold production. During the period under which the budget was formulated, GDP growth in 2018 and 2019 was projected to increase to **3.9 percent** and **5 percent**, respectively based on the assumption that there would be expansion in the production of gold, iron ore and commercial palm oil and normalization of investment after a smooth political transition. Notwithstanding, real GDP growth may decline in 2018 if measures are not taken to address depreciation in the exchange rate between the Liberian dollar and the United States dollar, rising inflation, and the infrastructure challenges.

Prevailing macroeconomic challenges (such as exchange rate depreciation, rising inflation, declines in the market prices of the major export commodities) continue to hinder Government's ability to mobilize domestic revenue to finance the requisite public sector investment. Despite these economic shocks, Government collected 4 percent in excess of the projected domestic revenue for the reporting period. Moreover, Fiscal measures were enforced to keep public expenditure at a minimum level and ensure efficient allocations of resources.

During Quarter One of FY2018/19, **US$110.1 million** was collected against a projection of **US$105.5 million**. Similarly, **US$142.4 million** was allotted. This implies that the allotment was **29 percent** in excess of the collected revenue for the reporting period. On the other hand, **US$ US$103.5 million (94 percent)** was disbursed representing **94 percent** of the collected revenue**.**

1.0 OVERVIEW

Reporting quarterly on budget performance is a legal requirement under the Public Financial Management (PFM) Act 2009. This report presents a review of FY2018/19 Quarter One Budget Execution with the objective of informing the public of financial performance at the end of the quarter, and to assess whether the budget is being executed as planned.

Following the approval of the FY2018/19 National Budget by the National Legislature, the country's macroeconomic outlook has been challenging due to continuous weakness in the global price of Liberia major exportable commodities such as iron ore and rubber. This has been compounded by reduction in aggregate demand resulting from the UNMIL drawdown, high inflation and depreciation in the exchange rate.

The slow pace of recovery in the economy continues to hinder Government's ability to raise the requisite revenue to finance its development priorities. However, during the period under review, Government collected **4 percent** in excess of the projected domestic revenue for the reporting period. In spite of these macroeconomic challenges, the Government of Liberia remained committed in its efforts to maintain macroeconomic stability in order to achieve its development goals.

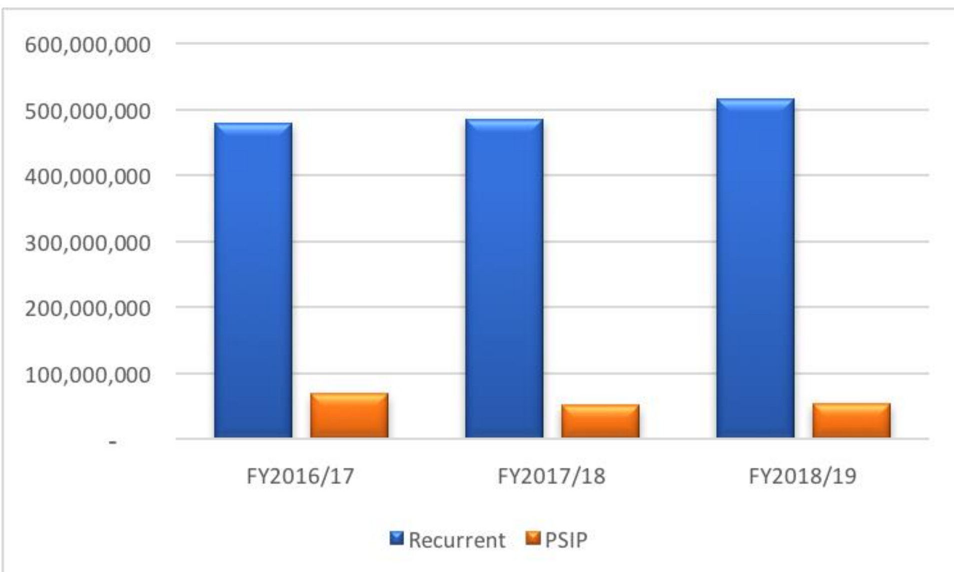
The approved resource envelope for FY2018/19 is **US$570.1 million**, which represents **4 percent** increase compared with FY2016/17 approved budget of US$547.5 million and **6 percent** increase compared with FY 2017/18 **US536.2 million recast** budget. Of the approved FY2018/19 Resource Envelope, domestic revenue consists of **US$506.1 million** (**89 percent**) of the total envelope. Of this amount, Tax Revenue consist of **US$391.3 million** representing **(69 percent),** Non Tax Revenue of **US$106.3** representing **(19 percent)** and contingent revenue **US$8.5 million (1 percent).** Others include Grants representing **US$51.35 million (9 percent),** and Loans constituting **US$12.6 million** representing **(2 percent).**

The FY2018/19 revised budget was allocated as follows: recurrent expenditure constitutes **US$516.5 million (91 percent)** and Public Sector Investment Projects (PSIPs) comprise of **US$53.7 (9 percent)**. Comparatively, the FY2016/17 Budget consists of

US$479.1 million (87.5 percent) recurrent expenditure and **US$68.4 million (12.5 percent)** PSIP. Similarly, the FY2017/18 Budget comprise of **US$485.6 million (90.6 percent)** recurrent expenditure and **US$50.6 million (9.4 percent)** PSIPs. This indicates that PSIPs constitute **9 percent** of the FY2018/19 Budget compared to **12.5 percent** of the approved budget in FY2016/17 and **9.4 percent** 2017/18.

The decline in PSIPs as a percent of the budget can be attributed to Government's immediate intervention by providing employment for more than two thousand people in sectors such as Health and Education, which increased the recurrent component of the budget. Figure 1 depicts Approved Budgets by recurrent expenditure and PSIPs for FY2016/17 to FY2018/19.

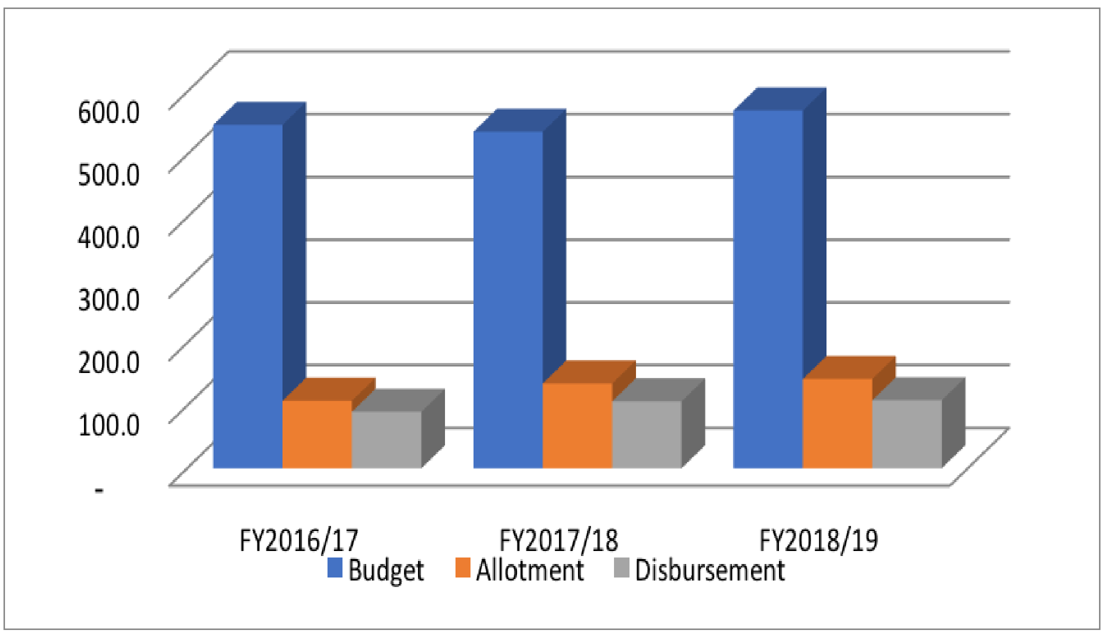
Figure 1: Approved Budgets by Recurrent Expenditure and PSIPs for FY2016/17 to FY2018/19



With regard to allotment, in FY2018/19, the amount of **US$142.4 million (25 percent)** was allotted during the first quarter, compared with **US$135.2 million (25 percent)** of the approved in FY2016/17 First Quarter, and **US$107.7 million (20 percent)** in FY2017/18 in the corresponding quarter. This implies that allotments for both FY2016/17 and FY2018/19 First Quarters were **25 percent** of their respective approved budgets, while allotment for FY2017/18 was **5 percent** less than the FY2018/19 First Quarter allotment. The low allotment in the First Quarter of 2017/18 can partly be attributed to delay in passage of the budget by the National Legislature which resulted in the Government allotting one twelfth of the previous year's budget for July and August FY2017/18 respectively.

In terms of disbursement, in FY2018/19, the amount of **US$108.4 million (19 percent)** was disbursed during the first quarter, compared with, **US$106.7 million (19.5 percent)** and **US$90.1 million (16.8 percent)** disbursed in the corresponding quarters of FY2016/17 and FY2017/18 respectively. This implies that the disbursement made in FY2018/19 First Quarter is **0.5 percent** lower than the disbursement made in 2016/17 and **2.2 percent** higher than the disbursement made in the First Quarter of FY2017/18. Figure 2 presents First Quarter Budget Execution for FY2016/17 to FY 2018/19.

Figure 2: First Quarter Budget Execution Summary for FY2016/17 to FY2018/19



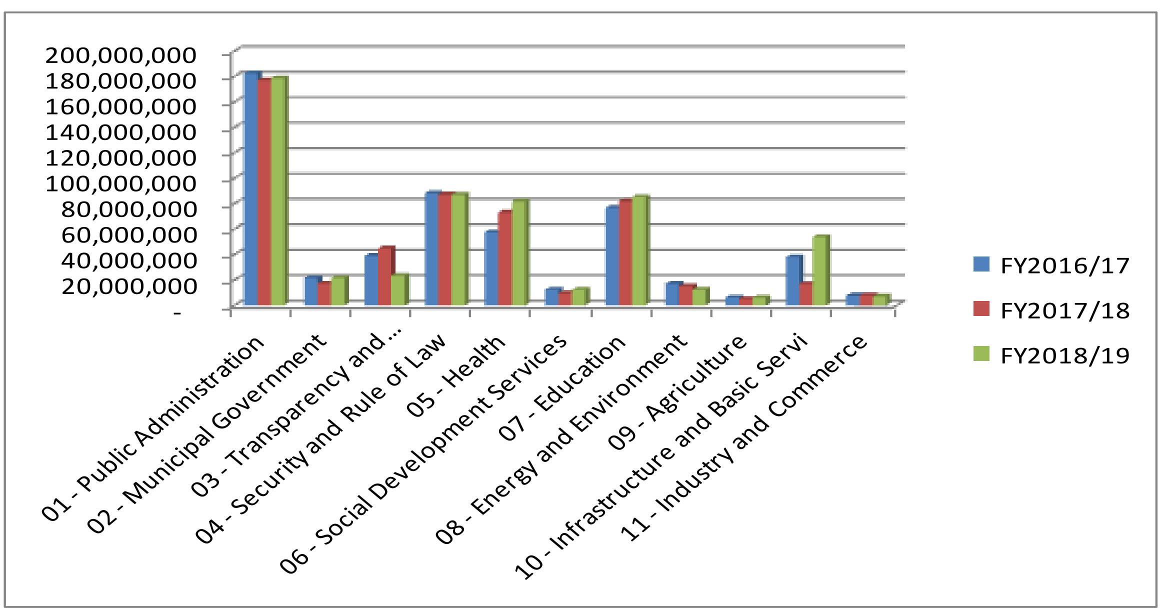
2.0 FY2016/17 to 2018/19 Approved Budget

2.1 FY2016/17 to 2018/19 Approved Budgets by Sector

As indicated above, approved resource envelope for FY2018/19 is **US$570.1 million**, which represents **4 percent** increase compared with FY2016/17 approved budget of **US$547.5 million** and **6 percent** increase compared with FY2017/18 **US536.2 million** recast budget. In FY2018/19, four sectors (Municipal Government, Health, Education, and Infrastructures and Basic Services Sectors) received increment in their appropriations compared with FY2016/17 approved budget. On the hand, in 2018/19, seven sectors (Public Administration, Transparency and Accountability, Security and Rule of Law, Energy and Environment, Social Development Services, Agriculture and Industry and Commerce Sectors) experienced reduction in their allocations compared with FY2016/17.

Moreover, in FY2018/19 seven sectors (Public Administration, Municipal Government, Health, Social Development Services, Education, Agriculture and Infrastructure and Basic Services Sectors) experienced increase in their allocations. These sectors received increment in their allocations because of Government's policy to prioritize them during the fiscal period. On the other hand, four sectors (Security and Rule of Law, Transparency and Accountability, Energy and environment and Industry and Commerce Sectors) experienced reduction in their allocations. Figure 3 reveals FY2016/17-FY2018/19 Approved Budget by Sector.

Figure 3: Approved Budgets by Sector for FY2016/17 to FY2018/19



2.2 FY2016/17 to 2018/19 Approved Budgets by Expenditure Category

This section provides a comparative analysis of FY2016/17 to FY2018/19 approved budgets by economic classification which is illustrated in Figure 4 below.

In terms of Economic Classification, the FY2018/19 approved budget for Compensation of Employees is **US$319.8 million** constituting a **56.1 percent** share of the overall approved allocation of **US$570.1 million** for FY2018/19. This signifies a **15.7 percent** increase compared with FY2016/17 budget of **US$276.3 million** and a **3.4 percent** increase as well compared with FY2017/18 budget of **US$309.5 million**.

The allocation for Use of Goods and Services for FY2018/19 is **US$97.6 million** amounting to **17.1 percent** of approved budget of **US$570.1 million**. This shows a **39.5 percent** decrease when compared with FY2016/17 allocation of **US$161.3 million** and a **21.2 decrease** when compared to the FY2017/18 allocation of **US$123.8 million**. The reduction in Use of Goods and Services signifies National Government efforts in redirecting funding to Public Sector Investment Projects (PSIPs) for the successful implementation of the Pro-Poor Agenda for Prosperity and Development (PADP).

The FY2018/19 budget for both Consumption of Fixed Capital and Interest and Other Charges are zeroes compared with **US$26.8 million** and **10.8 million** in FY2016/17 and **US$1.6 million** and **US$2.9 million** in FY2017/18 respectively. It implies a **100 percent** decrease for both categories of expenditure for FY2018/19. This is the result of series of austerity measures being implemented by Government e.g.: the freeze on the purchase of vehicles by ministries and agencies to create the fiscal space for spending in PSIPs. Also, allocations for Interest and Other Charges for Domestic and Foreign Liabilities have been imbedded with the respective payable principal amounts.

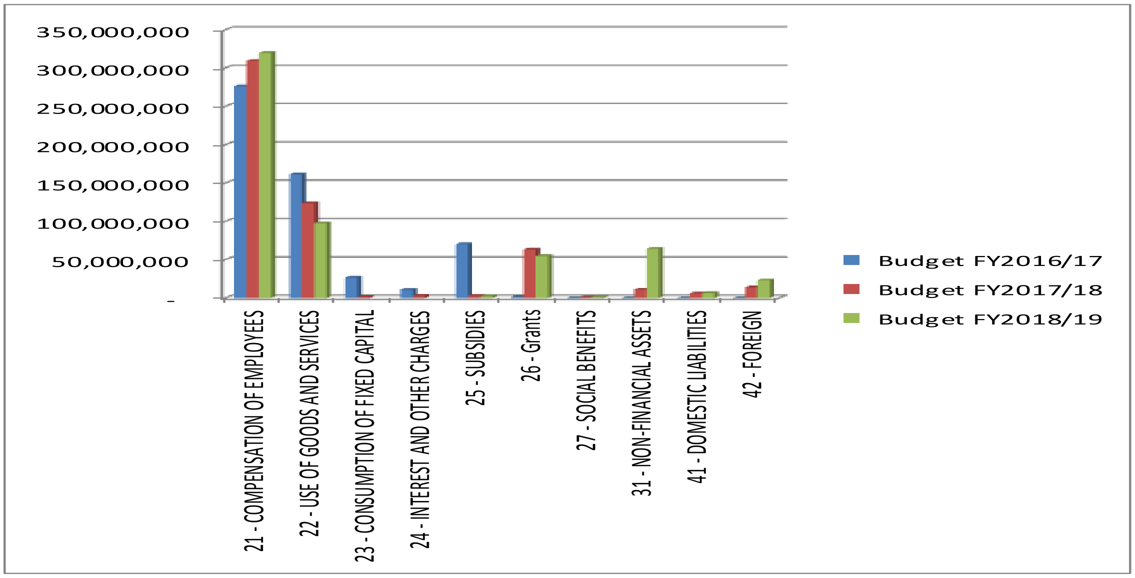
Further, the FY2018/19 approved allocation for Subsidies and Grants are **US$2.4 million** and **US$54.8 million** respectively, which accounts for **0.4 percent** and **9.6 percent** respectively of the overall FY2018/19 approved budget. The budget for Subsidies experienced a **96.6 percent** decrease in FY2018/19 compared with FY2016/17 and a **16.4 percent** decrease compared with FY2017/18.

The approved budget for Grants in FY2018/19 is **US$54.8 million (9.6 percent)**, while the approved budget for Grants in FY2016/17 and FY2017/18 was **US$1.5 million** (**0.3 percent)** and **US$63.5 million** (**11.8 percent)** respectively. This implies that Grants experienced a sharp increase of **3553.3 percent** in FY2018/19 compared with FY2016/17 budget and reduced moderately by **13.6 percent** compared with FY2017/18.

In the same vein, the allocations for Social Benefits and Non-Financial Assets for FY2018/19 are **US$1.2 million** and **US$64.4 million** respectively. This represents **0.2 percent** and **11.3 percent** respectively of the overall yearly allocation of US$570.1 million. This indicates a **47.1 percent** and **482.7 percent** increases for both categories of expenditure when compared with FY2017/18 budget of **US$0.79 million** and **US$11.0 million.** Increases in these expenditure categories in Quarter One of FY2018/19 can partly be attributed to reclassification of some expenditure lines.

Moreover, Domestic and Foreign Liabilities have a provision of **US$6.7 million** and **US$23.2 million** in the approved FY2018/19 budget which accounts for **1.2 percent** and **4.1 percent** of the approved budget. As mentioned above, the allocations include Interest and Other Charges. This shows increases of **9.8 percent** and **65.3 percent,** respectively for the above mentioned expenditure categories when compared with FY2017/18 allocation of **US$6.0 million** and **US$14.0 million,** correspondingly.

Figure 4 FY2016/17 to FY2018/19 Approved Budgets by Economic Classification



3.0 Budget Execution for FY2016/17 to FY2018/19 Quarter One

3.1 FY2016/17-2018/19 First Quarter Allotment by Sector

This section presents the comparative analysis of FY2016/17-FY2018/19 First Quarter Allotment which is highlighted in Figure 5.

During the first quarter of FY2018/19, budget execution was tightened because of the challenging macroeconomic situation which created uncertainty in the economy. In the first two months of the First Quarter (July and August) the Government restricted the provision of goods and services to only essential line items to facilitate smooth operation of spending entities (for example, purchase of medical drugs, and educational materials).

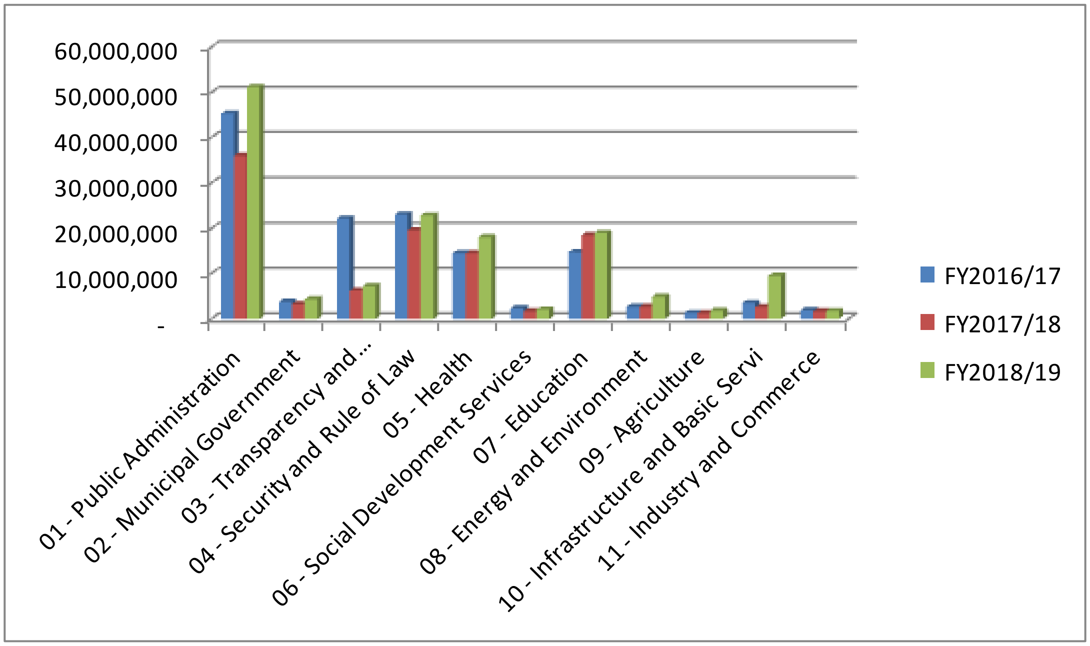
In the first quarter of FY2018/19, seven sectors experienced increases in their allotments compared to the corresponding quarter of FY2016/17 and FY2017/18, respectively. The Public Administration Sector First Quarter allotment exceeded FY2016/17 and FY2017/18 by **US$6.0 million** and FY2017/18 by **US15.2 million**. Similarly, during the FY2018/19 Quarter One, the Municipal Government allotment exceeded FY2016/17 and FY2017/18 allotments by **US$0.6 million** and **US$1.1 million** correspondingly. Likewise, FY2018/19 Quarter One allotment for the Health Sector exceeded the corresponding period of both FY2016/17 and 2017/18 by **US$3.5 million. In the same vein,** FY2018/19 allotment for the Education Sector in the first quarter surpassed the allotment for the two prior years by **US$4.2 million** and **US$0.5 million** respectively. Also, allotment for the Energy and Environment Sector was **US$2.2 million** more than the first quarter allotment of both FY2016/17 and FY2017/18. Moreover, the Agriculture Sector received **US$0.5 million** in excess of FY2016/17 and **US$0.6 million** in excess of FY2017/18 allotment. Additionally, the FY2018/19 First Quarter allotment issued to the Infrastructure and Basic Services Sector was **US$6.0 million** and **US$6.9 million** higher than allotment issued during the first quarter of FY2016/17 and FY2017/18 respectively.

The increase in these sectors allotment during Quarter One of FY2018/19 compared to the two preceding fiscal years was because of Government's policy to prioritize sectors that contribute towards the welfare of majority of the citizens, especially the youth, and the less fortunate.

On the other hand, during Quarter One of FY2018/19 the allotment issued for four sectors: Transparency and Accountability, Security and Rule of Law, Social Development Services Sector and the Industry and Commerce were lower than allotments issued in the corresponding period of FY2016/17 and higher than FY2017/18. The Transparency and Accountability **allotment was US$15.0 million** lower than **FY2016/17** and **US$0.9 million** higher than FY2017/18. Similarly, the Security and Rule of Law Sector was **US$0.3 million** lower than that of FY2016/17 and **US$3.2 million** higher than FY2017/18 allotment**.** Furthermore, the allotment issued to Social Development Services Sector in Quarter One of FY2018/19 **was US$0.3 million** lower than the same period in FY2016/17 and **US$0.4 million** higher than the allotment issued in FY2017/18. Additionally, the Industry and Commerce Sector FY2018/19 Quarter One allotment was **US$0.2 million** lower than the corresponding period in FY2016/17 and **US$0.08 million** higher than FY2017/18 Quarter One allotment.

This low allotment for these sectors in the first quarter can in part be attributed to austerity measures implemented by Government to create fiscal space for the implementation of PSIPs in the priority sectors.

Figure 5: FY2016/17 to 2018/19 First Quarter Allotment by Sector



3.2 FY2016/17 to 2018/19 First Quarter Allotment by Economic Classification

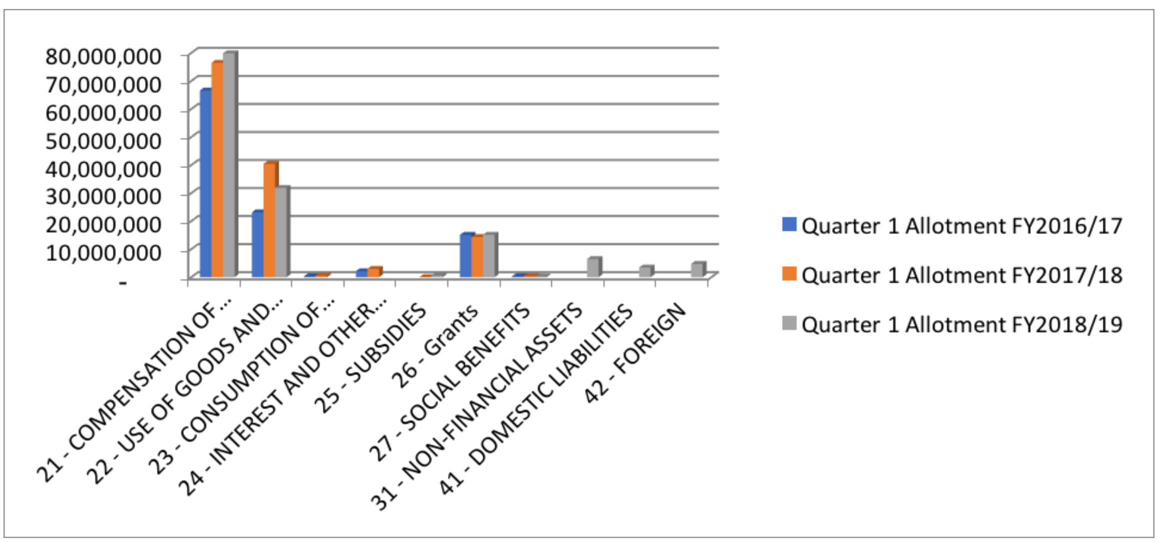
The FY2018/19 Quarter One allotment for Compensation of Employees and Use of Goods and Services are **US$79.9 million** and **US$31.9 million** respectively, constituting **56.1 percent** and **22.4 percent** share of the total first quarter allotment of **US$142.3 million** in FY2018/19. This shows a **19.9 percent** and a **37.6 percent** increase when compared with FY2016/17 quarter one allotment of **US$66.6 million** and **US$23.2 million** as well as a **4.4 percent** increase and a **21.2 percent** decrease when compared with FY2017/2018 Quarter One allotment of **US$76.5 million** and **US$40.4 million** accordingly for the above expenditure category.

Moreover, Consumption of Fixed Capital and Interest and Other Charges have a quarter one allotment of zeroes for FY2018/19, a **100 percent** decrease in percentage share for both expenditure categories compared with FY2016/17 Quarter One allotment of **US$0.3 million (0.3 percent)** and **US$2.2 million (1.9 percent)** and FY2017/18 quarter one allotment of **US$0.6 million (0.4 percent)** and **US$3.0 million (2.2 percent)**. As stated above, the zero percent allotment for consumption of fixed capital is due to austerity measure aimed at increasing funding to PSIPs.

In addition, the first quarter allotment for Subsidies, Grants and Social Benefits for FY2018/19 are **US$0.5 million**, **US$15.2 million** and **US$0.3 million** respectively, constituting **0.4**, **10.2** and **0.2 percent** share of the total quarter one allotment of **US$142.3 million** in FY2018/19 accordingly. Comparatively, this shows a **100 percent** increase for subsides, **0.1 percent** increase for Grants and **19.8 percent** decrease for Social Benefits when matched with the first quarter allotment of **US$0.0 million**, **US$15.1 million** and **US$0.3 million** for FY2016/17. When compared with FY2017/18 first quarter allotment of **US$0.05 million**, **US$14.3 million**, **US$0.4 million**, it implies a **1113.6 percent** and a **5.8 percent** increases for Subsides and Grants and a **27.4 percent** decrease for Social Benefits.

Furthermore, Non-Financial Assets, Domestic Liabilities and Foreign Liabilities have a first quarter allotment of **US$6.5 million**, **US$3.4 million** and **US$4.7 million** correspondingly which constitutes **4.6, 2.4 and 3.3 percent** of the share of the over-all quarter one allotment of US$**142.3 million** in FY2018/19. These expenditure categories had no allotment in the first quarter for both FY2016/17 and FY2017/18. This is the result of Government's commitment in meeting her debt obligations with both domestic and foreign lenders.

Figure 6: FY2016/17 to FY2018/19 Allotment by Economic Classification



3.2 FY2016/17 to FY2018/19 First Quarter Disbursement by Sector

Section 3.2 presents a comparative analysis of disbursement by sector made during quarter one of FY2016/17 to FY2018/19. This is depicted by Figure 7 below.

During FY2018/19 Quarter One, the disbursements made to the Public Administration, Municipal Government, Health, Education, Energy and Environment and Infrastructure and Basic Services Sectors were higher compared to the corresponding period of FY2016/17 and FY201718. As illustrated in Figure 7, disbursement received by the Public Administration Sector in quarter one was **US$2.5 million** higher than FY2016/17 and **US$6.6 million** more than FY2017/18 disbursement. Also, disbursement made to the Municipal Government in FY2018/19 First Quarter was **US$0.5 million** higher than FY2016/17 disbursement and **US$1.1 million** higher than FY2017/18 disbursement. Similarly, disbursement made to the Health Sector in FY2018/19 First Quarter was **US$3.1 million** higher than disbursement made to the sector in FY2016/17 and **US$5.5 million** higher that that of FY2017/18. In addition, Figure 7 shows a **US$1.6 million** increase in disbursement to the Education Sector in FY2018/19 quarter one compared to FY16/17 and **US$1.1 million** increase compared to FY2017/18. Likewise, in FY2018/19 Quarter One, disbursement given to the Energy and Environment Sector exceeded FY2016/17 and FY2017/18 disbursements by **US$0.2 million** and **US$0.7 million** respectively.

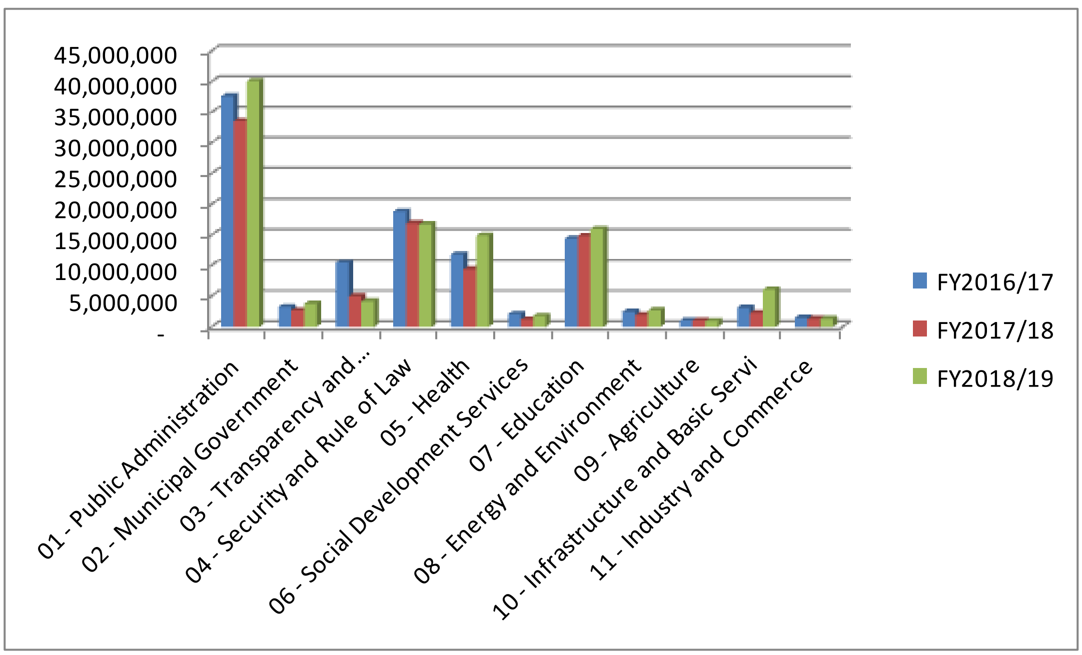
The increase in disbursement to these sectors in FY2018/19 First Quarter was because of Government policy to positively impact the lives of its citizens as indicated above.

On the other hand, Figure 7 reveals that sectors such as: the Transparency and Accountability, Security and Rule of Law, Social Development Services, and Industry and Commerce FY2018/19 Quarter One disbursements were lower in comparison to disbursements received during the corresponding period in FY2016/17 and FY2017/18; while disbursement to the Agriculture Sector was relatively the same **(US$1.0 million)** during the first quarter of the three comparing years.

As depicted in Figure 7, in FY2018/19, disbursement to the Transparency and Accountability Sector was **US$6.3 million** and **US$0.8 million** lower than FY2016/17 and FY2017/18 disbursement respectively. Also, disbursement made to the Security and Rule of Law Sector in FY2018/19 First Quarter was **US$2.1 million** and **US$0.2 million** lower than disbursements made to the sector in FY2016/17 and FY2017/18 correspondingly. Moreover, disbursement issued to the Social Development Services Sector in FY2018/19 First Quarter was **US$0.3 million** and **US$0.5 million** lower than the corresponding quarter in FY2016/17 and FY2017/18 respectively. Furthermore, in FY2018/19 Quarter One disbursement for the Industry and Commerce Sector was **US$0.2 million** lower compared to FY2016/17, and was relatively the same compared to the disbursement made in the first quarter of FY 2017/18.

Disbursement was lower than the two preceding years because of austerity measures to free up fiscal space for PSIPs implementation.

Figure 7: FY2016/17 to 2018/19 First Quarter Disbursement by Sector



3.3 FY2016/17 to 2018/19 First Quarter Disbursement by Economic Classification

Section 3.3 provides a comparative analysis of disbursement issued by economic classification during quarter one of FY2016/17 to FY2018/19. This analysis depicted by Figure 8 below.

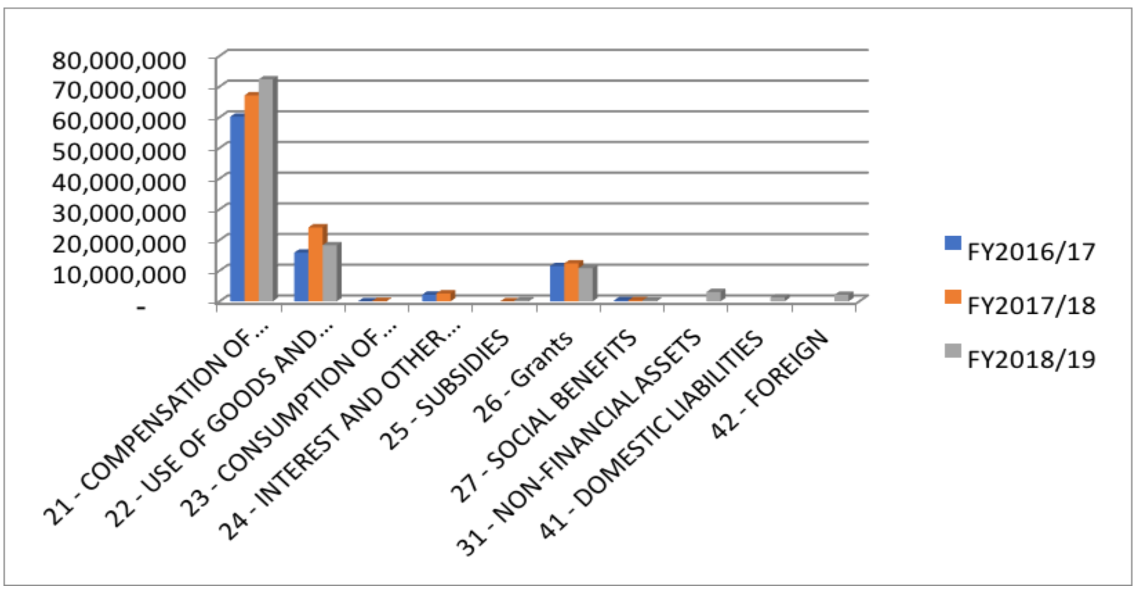
As Illustrated in Figure 8, the FY2018/19 Quarter One disbursement for Compensation of Employees and Use of Goods and Services are **US$72.4 million** and **US$18.3 million**. This represents **66.7 percent** and **19.9 percent** of the aggregate disbursement amount of **US$108.4 million** for the first quarter of FY2018/19. It also depicts a **20.2 percent** and a **15.2 percent** increase for both expenditure categories when compared with FY2016/17 Quarter One disbursement of **US$60.2 million** and **US$15.9 million**. When compared to FY2017/18 quarter one disbursement of **US$67.1 million** and **US$24.1 million** for both expenditure categories, it shows a **17.8 percent** increase for compensation of employees and a **24.1 percent** decrease for use of goods and services.

In addition, Consumption of Fixed Capital and Interest and Other Charges have a quarter one disbursement of zeroes for FY2018/19, a **0.00 percentage** share of the total disbursement of **US$108.4 million**. Comparatively, this shows a **100 percent** reduction for the abovementioned expenditure categories when matched with FY2016/17 Quarter One disbursement of **US$0.04 million** and **US$2.2 million**. The same holds true for FY2017/18 Quarter One disbursements of **US$0.1 million** and **US$2.6 million**.

Also, Subsides, Grants and Social Benefits have first quarter disbursement of **US$0.3 million**, **US$10.8 million**, and **US$0.2 million** respectively, representing **0.3, 10.0** and **0.2 percent** share of FY2018/19 Quarter One disbursement of **US$108.4 million**. In comparison with FY2016/17 First Quarter disbursement which were **US$0.00 million, US$11.4 million** and **US$0.3 million**, it shows a **100 percent** increase for subsides, a **6 percent** and a **25 percent** decrease for grants and social benefits accordingly. Also, when matched with the FY2017/18 First Quarter disbursement of **US$0.02 million**, **US$12.3 million** and **US$0.3 million** respectively, it implies a **1128.4 percent** increase for Subsides, **12.8 percent** and a **23.9 percent** decrease for Grants and Social Benefits.

Moreover, Non-Financial Assets, Domestic Liabilities and Foreign Liabilities have a first quarter disbursement of **US$3.0 million**, **US$1.2 million** and **US$2.1 million** correspondingly which constitutes **2.8**, **1.2** and **2 percent** of the share of the overall quarter one disbursement of **US$108.4 million** in FY2018/19. These expenditure categories had no disbursement in the first quarter of both FY2016/17 and FY2017/18.

Figure 8: FY2016/17 to 2018/19 First Quarter Disbursement by Economic Classification



4.0 CONCLUSION

Public spending in the past has been mostly directed towards recurrent expenditure to facilitate general government operations than towards public sector investment. Allotments and disbursements made for the Public Administration, Municipal

Government, Health, Education, Energy and Environment and Infrastructure and Basic Services Sectors in Quarter One of FY2018/19 exceeded the corresponding period in FY2016/17 and 2017/18 respectively. Given the prevailing macroeconomic challenges, such as exchange rate depreciation, rising inflation, declines in the market prices of the major export commodities, and Government aspirations to implement its Pro-Poor Agenda for Prosperity and Development, more needs to be done to direct public expenditure towards public sector investments with greater social and economic impact.

5.0 RECOMMENDATIONS

To ensure that public expenditure is directed towards public sector investment with greater social and economic impact, the Government should take deliberate actions to:

- Align public expenditure to development priorities in the Pro-Poor Agenda for Prosperity and Development (PAPD),
- Allocate a minimum of **20 percent** of the budget per annum for PSIPs, specifically, PSIPs that contribute toward social and economic development,
- Enhance budget execution and ensure budget credibility and integrity by significantly reducing off-budget expenditure;
- Freeze employment in the public sector and conduct a comprehensive analysis of the payroll of all spending entities in order to resolve issues of payroll deficits;
- Ensure that there is coordination between Departments of Budget and Development Planning and Fiscal Affairs to avoid allotment being in excess of available revenue;
- Ensure that spending entities abide by the fiscal rules.