BUDGET FRAMEWORK PAPER FY 2017/18

Presented to the National Legislature of the Republic of Liberia on 30th April 2017 at the Capitol Hill, Monrovia, Liberia

This *Budget Framework Paper* is compiled using the latest accessible information from various departments within the Ministry of Finance and Development Planning in addition to other external sources. Some of the materials contained in this document are unedited or subject to revision.
Additional copies of this document can be obtained at:

Communication & External Relations Unit
Ministry of Finance & Development Planning
P.O. Box 10-9016
1000 Monrovia, 10 Liberia

The document is also available online at: www.mfdp.gov.lr

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ACRONYMS

AfT	Agenda for Transformation
BFP	Budget Framework Paper
CSA	Civil Service Agency
CSM	Civil Service Management
DMU	Debt Management Unit
DBDP	Department of Budget and Development Planning
ESRP	Economic Stabilization and Recovery Planning
EVD	Ebola Virus Disease
GDP	Gross Domestic Product
GoL	Government of Liberia
IFMIS	Integrated Financial Management Information System
IAA	Internal Audit Agency
LIPA	Liberia Institute of Public Administration
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
WEO	World Economic Outlook

FORWARD

The Budget Framework Paper for FY2017/18 presents the context in which the National Budget preparation takes place. Liberia's recovery from the adverse effects of the Ebola Virus Disease (EVD) is constrained by the persistent decrease in the global prices of the country's key commodity exports – rubber and iron ore. This, in addition to the significant drawdown of UNMIL personnel from Liberia, has also exacerbated the inflow of foreign currency into Liberia and demand for services especially in the services and hospitality sectors. The combination of aforementioned factors has resulted into weak economic activity and this has constrained the government's revenue generation potential. The government, nonetheless, through appropriate and effective policy interventions remains committed and steadfast in addressing these challenges to enhance the delivery of basic services including the development of the country's human resource capacity.

FY2017/18 will be the sixth consecutive year during which the Medium Term Expenditure Framework (MTEF) planning will be implemented. The first cycle of the MTEF budget (FY2012/13 to FY2014/15) saw gradual improvements in budgetary systems and service delivery, however it experienced greater challenges in terms of higher revenue risks and expenditure pressures, later fueled by the EVD eruption in FY2014/15. This incident strongly affected the country's ability to deliver adequately on its goals and targets as enshrined in the Agenda for Transformation (AfT) which provides the vision for Liberia to become a middle income country by 2030.

To place the economy back on the trajectory for sustained growth, an Economic Stabilization and Recovery Plan (ESRP) was crafted. Despite the fact that we have managed to contain the EVD outbreak, we have not succeeded in reversing the downturn in economic activities partly as a result of the persistent fall in the global prices of rubber and iron ore which are out of our control. However, we have embarked on a series of austerity measures aimed at guaranteeing the unhindered delivery of basic social services.

The macroeconomic background under which the current budget is being prepared depicts a challenging outlook. In 2016, real Gross Domestic Product (GDP) was projected to grow at 2.5% but could not be realized as revised estimates showed that the economy instead contracted by 0.5% during the period. This also affects the outlook for 2017 where growth is reduced from 4.7 % to 3.2%. However, there are bright prospects over the medium term, contingent upon the implementation of sound macroeconomic policies, the conduct of free, fair and transparent elections that will lead to smooth political transition.

The National Budget is therefore formulated keeping these constraints and priorities in mind. It is also important to note the increasing expenditure demands placed on the budget, as the country faces critical security and democratic transitions, coupled with the implementation of existing and earmarked priority projects. Therefore the National Budget is being prepared to address critical public expenditure demands as the country faces two major changeovers: the approaching 2017 elections and the UNMIL drawdown. The budget will also finance on-going priority schemes in key intervention areas as stipulated in the ESRP and the reprioritization of the AfT. It is also important to note that the Government of Liberia will continue to invest in the transmission and distribution networks for electricity expansion, essential educational services, crucial health supplies, construction of roads and bridges, economic diversification through agriculture and manufacturing through the implementation of the Liberia Agriculture Transformation Agenda (LATA), meeting counterpart funding payments to continue rehabilitation of critical economic infrastructure, debt service payments, and also funding legislative projects for rural development.

Hon. Boima S. Kamara
Minister of Finance & Development Planning
April 2017

EXECUTIVE SUMMARY

Budget Process

1. The MTEF procedure has three main objectives: allocating resources in line with national priorities; guaranteeing fiscal discipline by projecting what resources the public sector can generate; and ensuring national resources are used resourcefully.

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. The Budget Framework Paper (BFP) is the final output of the strategic phase of the budget.

3. 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 MTFF. 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 (MTEF) presents the Government's policy priorities and how, given the resource envelope identified in the MTFF, these will be reflected in the budget.

Policy Agenda

4. The Agenda for Transformation (AfT) remains the overall roadmap for Liberia's medium-term economic growth and development strategy. Meanwhile, the Ebola epidemic necessitated the Economic Stabilization and Recovery Plan (ESRP) 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.

5. The MTEF is designed to draw consistent linkages between the medium and long-term policy objectives as set out in the AfT and Vision 2030, and the framework for resource allocation – the national budget.

6. The AfT as part of the Liberia Rising 2030 provides the overall roadmap for the country's medium-term economic growth and development strategy. Launched in December 2012, the AfT 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 then subsequently drafted and begun implementation of its ESRP in FY2014/15 in the wake of the Ebola outbreak to mobilize funding for investment in key sectors of the economy.

7. The overall policy priorities for FY2017/18 revolve around ensuring a smooth democratic transition by fully funding the requirements for the conduct of the 2017 National Elections. Also, in light of the UNMIL drawdown and to maintain security for the elections, budgetary emphasis is also placed on the security sector. In order to revitalize the economy and to lessen the dependence of the economy on the volatile mining sector, a policy of economic diversification is being adopted. Under this, the agriculture sector is being prioritized and the Liberia Agriculture Transformation Agenda (LATA) has been operationalized. Focus on infrastructure, education and health remains a priority for the Government.

8. As part of preparation for the FY2017/18 budget, Sector Working Groups held joint budgeting and planning forums 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 downturn in the prices of the country's primary export products and presented a refocused set of priorities that can be used to craft another medium term development plan. 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

9. Like FY2016/17 national budget, the proposed framework for FY2017/18 budget will be prepared under a challenging macroeconomic environment. With global growth forecast being revised downward; progress in the domestic economy is being sharply undermined by reduction in the country's term of trade, depreciation in the exchange rate, UNMIL drawdown, rising unemployment and uncertainty in the political climate.

10. The Liberian economy is estimated to perform moderately in 2017 as economic activities improve, followed by on-going infrastructural projects enhancement.

11. Real GDP grew steadily up to 2013 (8.7 percent), but experienced massive fall in 2014 (0.7 percent) as a result of the EVD outbreak coupled with the fall in the global prices of the country's key commodity exports and UNMIL drawdown. The economy stagnated in 2015 with a growth rate of 0.0 percent and further contracted by -0.5 percent in 2016. It is however expected to grow slowly in 2017 by 3.2 percent and in 2018 by 5.2 percent.

12. The price of rubber and iron ore (which remains Liberia's key export commodities) have fallen persistently since 2013. This has adversely impacted the economy and the budget execution in particular, since the country generates much of its revenues and foreign exchange earnings from companies and concessionaires operating in these sectors. However, the outlook looks bright as growth in the medium term will be driven by services, forestry, agriculture production, and a rebound in mining as a result of improvement in global commodity price of iron ore.

13. To stimulate economic recovery and to place the economy on the trajectory of sustained economic growth, the proposed fiscal framework for FY2017/18 budget prioritizes spending on key government programs that have the potential to spur economic growth and to create the conducive political environment to sustain growth.

14. The resource envelope for FY2017/18 is projected at US$576.7 million. The revised revenue projection for FY2016/17 is US$521.4 million against the approved National Budget of US$600.2 million. The reduction is due mainly to 18.0 percent fall in domestic revenue due to the downward revision of the economic growth projections.

15. As of end-December 2016, the total revenue collected (excluding contingent borrowing of US$56.35 million from the International Monetary Fund and World Bank) amounts to US$263.6 million. Of this amount, tax revenues accounted to US$169.0 million representing 64.0 percent while non-tax revenues and grants account forUS$32.6 million and US$5.7 million respectively representing 12.4 percent and 2.2 percent respectively.

16. 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 FY2015/16, a total of US$770.7 million was recorded as aid disbursement, representing 85.7 percent of aid projection. In FY2016/17, off-budget financing (i.e. grants and loans) disbursed for specific projects in various sectors amounted to US$284.3 million as at end September 2016. This represents 43.12 percent of the revised off-budget aid for the fiscal year.

Medium Term Fiscal Framework

17. The projected resource envelope for FY2017/18 is US$576.7 million. This represents 3.9 percent decline in value compared to the FY2016/17 approved budget of US$600.20 million as a result of a decrease in receipts from tax on income and profits (tax revenue); and on-budget support (grants and loans). Non-tax revenue, however, is projected to grow marginally by 0.05 percent, spurred by weak projected performance of tax receipts from property income.

18. In FY2017/18, tax revenue is projected at US$457.7 million (constitutes 79.4 percent of total resource envelope); non-tax revenue US$101.0 million (17.5 percent); grants US$17.9 million (3 percent); there is no contingent revenue thus far.

Medium Term Expenditure Framework

19. The Medium Term Expenditure Framework (MTEF) for FY2017/18 is based on the resource envelope of US$576.7 million. The proposed FY2017/18 budget consists of US$547.1 million of recurrent expenditure which includes Compensation of Employees, US$269.3 million, Grants, US$61.0 million, Goods and Services, US$110.9 million and General Claims (including debt servicing), US$105.9 million; while US$29.6 million is projected for expenditure on the Public Sector Investment Program (PSIP).

20. To achieve this government's policy priorities, fiscal rules have been aggressively formulated to guide expenditure claims on the proposed resource envelope.

LEGISLATIVE REQUIREMENTS

In section 11 of the Public Financial Management Law of 2009 and in Part D.6 of its associated regulations, the requirements for the Budget Framework Part are set out as shown 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 2009updated to reflect the draft budget submitted to the Legislature.
2. The budget framework paper shall contain the following:
    i. An analysis of the economic and fiscal trends, and the assumptions underlying the medium term macroeconomic and fiscal framework of the budget;
    ii. An explanation of the government's policy priorities and how these are reflected in the budget;
    iii. A statement of key fiscal risks that may affect budget execution;
    iv. The essential features of the medium term expenditure framework, where this has been prepared; and
    v. 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);
    vi. 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);
    vii. 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;
    viii. 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;
    ix. 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;
    x. 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.

ECONOMIC AND FISCAL OVERVIEW

In Brief:

- Like the FY2016/17 budget, the proposed framework for FY2017/18 budget will be prepared under a challenging macroeconomic environment with global growth forecast being revised downward. Progress in the domestic economy is being sharply undermined not only by the then EVD but also by shock in the country's term of trade, the alarming depreciation in the exchange rate, transitioning diversification and UNMIL drawdown.
- The Liberian economy is estimated to perform moderately in 2017 as ongoing economic activities are expected to improve follow by on-going infrastructural projects. Real GDP is expected to grow at 3.2 percent in 2017.
- Resource envelope for FY2017/18 is projected at US$567.7 million, 3.9 percent below the FY2016/17 approved budget of US$600.2 million.

GLOBAL MACROECONOMIC OUTLOOK

21. Global growth has been projected at 3.1 percent in 2016 and slightly improving to 3.4 percent in 2017. The factors affecting global economic performance are becoming more complex and they include a combination of geo-political risks and a range of other non-economic factors.

22. But prospects differ sharply across countries and regions, with emerging Asia in general and India in particular showing robust growth and sub-Saharan Africa experiencing a sharp slowdown. In advanced economies, a subdued outlook subject to sizable uncertainty and downside risks may fuel further political discontent, with anti-integration policy platforms gaining more traction.

23. Growth in emerging market and developing economies is expected to strengthen slightly in 2017 to 4.6 percent down from 4.2 percent in 2016 after five consecutive years of decline. However, the outlook for these economies is uneven and generally weaker than in the past. While external financing conditions have eased with expectations of lower interest rates in advanced economies other factors are weighing on activity.

24. The largest economies in sub-Saharan Africa (Nigeria, South Africa, and Angola) are experiencing sharp slowdowns or recessions as lower commodity prices interact with difficult domestic political and economic conditions. This region is expected to grow at 2.8 percent in 2017 compare to 1.6 percent in 2016.

25. The rebalancing of China's growth from manufacturing to service, export to domestic, investment to consumption is of greater concern since she remains the single largest trading partner to sub-Saharan Africa especially Angola, Sierra Leone, DR Congo and Liberia, where raw materials export to China account for a significant share of total exports. This triple transitional diversification in China is an exogenous shock impeding growth in the export economies mainly in sub-Sahara Africa.

26. World trade volume is projected to grow at 3.8 percent in 2017 down from 1.9 percent in 2016. According to the October 2016 version of the World Economic Outlook (WEO), import growth in advanced economics is estimated at 3.9 percent in 2017 relative to 2.4 percent in 2016 while exports are projected

at 3.5 percent in 2017 compared to 1.8 percent in 2016. In Emerging Markets and Developing Economies, import growth is projected at 4.1 percent in 2017 compared to 2.3 in 2016 while export is projected at 3.6 percent in 2017 compared to 2.6 percent in 2016.

27. Inflation in Emerging Markets and Developing Economies is projected to decrease to 4.4 percent in 2017 compared to 4.5 percent in 2016. In sub-Sahara Africa, it is in double digits and it is projected to decrease to 10.8 percent in 2017 relative to 11.3 percent in 2016.

28. Oil price on average in 2017 is projected to improve to 19.9 percent, up from a 15.9 percent decline experienced in 2016. For non-fuel commodities, prices are projected to narrow moderately by 2.1 percent in 2017 up from a decline of 2.7 percent in 2016.

DOMESTIC ECONOMIC PERFORMANCE AND OUTLOOK

29. From 2005 to 2013, the Liberian economy grew gradually until the period 2014 and 2015 when it was derailed by the deadly EVD epidemic in addition to a persistent fall in the country's terms of trade which then led to a downturn in economic activities.

30. The current outlook is increasingly challenging for the Liberian Economy. Not only is it weighed by the impact of the EVD as well as the lingering commodity price shock but also by slower-than-needed progress toward economy-wide diversification, UNMIL drawdown, the alarming depreciation in the Liberia currency as well as the uncertainty on the part of the international community given imminent General and Presidential elections all place substantial strain on the government's revenue-generating capacity. However, falling global prices of fuel and food will help mitigate the abovementioned impact.

31. In spite of the challenges, activities in the domestic economy are expected to rebound with improvement particularly in the mining & panning sector – the main driver for growth as evident by **Figure 1** – followed by the forestry sector. Additionally, with gleams of hope in diversification coupled with the continuation of key infrastructure projects as well as policy measures to tackle this mild recession, relatively low but stable growth is highly anticipated.

32. Real GDP growth is projected at 3.2percent in 2017 compared to a contraction of 0.5 percent recorded in 2016. This represents a downward revision of the values relative to the projections made in the FY2016/17 BFP of 4.7 percent for 2017 and 2.5 percent for 2016. Besides services and agriculture & fisheries sectors, recovery is still being constrained by low performances in the other sectors evident by **Figure 1** thus signaling a medium-term growth forecast that is a challenge as shown in the sector real GDP growth as contained in **Table 1**.

Table 1: Selected Economic Indicators, 2015 – 2018

	2015 Est.	2016 Est.	2017 Proj.	2018 Proj.
(Annual percentage change)				
Real GDP	0.0	-0.5	3.2	5.2
Consumer prices (annual averages)	7.7	8.7	9.7	8.1
(Percent of GDP, fiscal year)				
Total revenue and grants	32.5	31.4	30.9	27.6
Total expenditure and net lending	40.9	35.6	39.4	33.6
Overall fiscal balance, incl. grants	-8.4	-4.2	-8.5	-6.0
Public external debt	23	28	33.6	37.4
(Percent, unless otherwise indicated)				
Credit to private sector (annual change)	8.1	9.0	7.6	10.2
(Percent of GDP, unless otherwise stated)				
Current account balances (incl. grants)	-32.2	-31.8	-28.2	-24.4
Gross Official Reserves (millions of U.S. dollars)	446	469	501	528
Gross Official Reserves (months of imports)	2.6	2.9	3.2	3.2
CBL's net foreign exchange position (millions of U.S. dollars)	164	181	192	219

***Source**: MFDP and the IMF Staff estimates and projections*

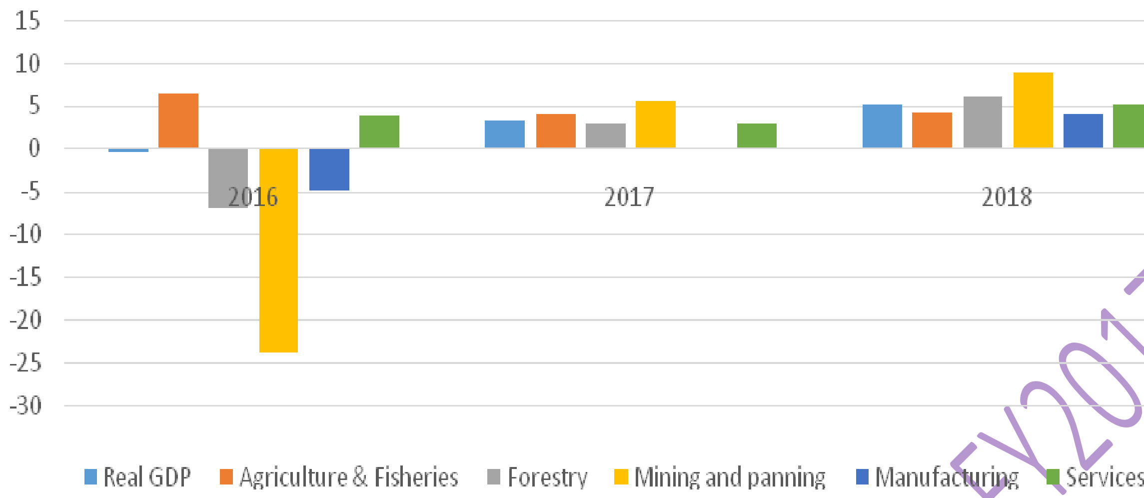
33. Consumer prices are broadly expected to remain in single digit as activities in manufacturing and services sectors rebound. Headline inflation is projected at 9.7 percent in 2017 from the 8.7percent in 2016 and it is further projected at 8.1 percent in 2018.

34. Due to the slump in economic activities, government revenue as percentage of GDP is projected at 30.9 percent in 2017 down from 31.4 percent in 2016 while expenditures are projected to balloon – given the cost of the UNMIL drawdown and the national elections – from 35.6 percent of GDP in 2016 to 39.4 percent in 2017. Thus, the overall fiscal balance (including grants) is projected to double from 4.2 percent of GDP in 2016 to 8.5 percent in 2017.

35. As a consequence of limited public resources, the public external debt is projected to worsen from 28 percent of GDP in 2016 to 33.6 percent in 2017 and increase progressively thereafter. Credit to the domestic private sector will contract in 2017 to 7.6 percent down from 9.0 percent in 2016 and to increase thereafter.

36. Over the medium term, there will be improvements in the country's current account balance, the gross official reserves (both in dollars and in months of import cover), and the CBL's net foreign exchange position.

Figure 1: Sectorial Real GDP Growth Rate, 2016--2020



37. The medium-term outlook is relatively promising but requires robust efforts toward the diversification of the economy.

38. Though more needs to be done to overcome the deepening crisis of the terms of trade, it seems that with the firming up of global commodity prices, the mining and panning sector could again boast growth if the current modality continues in full swing. To further enhance and sustain growth, additional appropriate policies for economic diversification and expanded fiscal space are required.

39. 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 (**Table 2**). Furthermore, with the falling of aid (budget support) to the nation's total resource envelop due largely to the front loading of it during the EVD epidemic coupled with the reduction in term of trade as well as UNMIL drawdown, the economy could be exposed to external shocks as the source of foreign exchange earning dries out. Like most economies, the Liberian economy was already experiencing series of macroeconomic shocks just before the EVD arrival. These shocks included declining terms of trade (rubber and iron ore prices), reduced aggregate demand due to UNMIL drawdown, infrastructural challenges across sectors, 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.

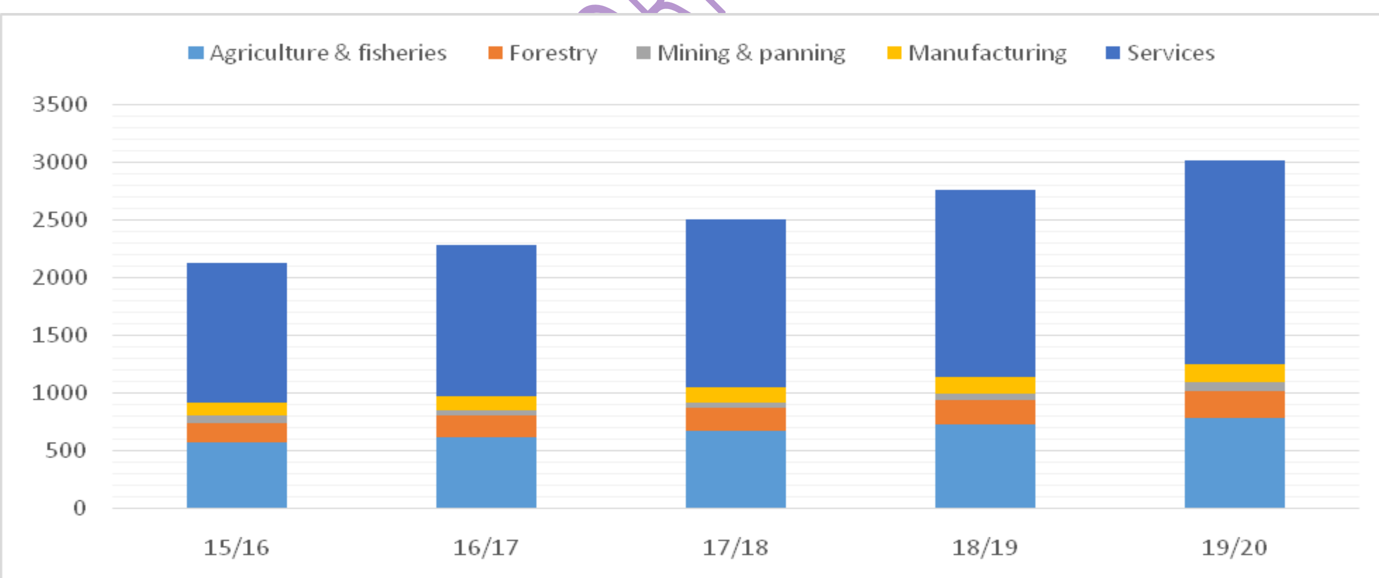
Table 2: World Annual Prices for Liberia's Key Export Commodities

Commodity	Price per Unit	2014 Est.	2015 Est.	2016 Proj.	2017 Proj.	2018 Proj.
Iron Ore	US$/MT	97.4	56.0	57.7	69.9	57.0
Gold	US$/troy ounce	1,266.0	1,160.0	1,282.0	1,357.0	1,374.0
Rubber	cts/lb.	88.8	70.7	74.5	116.5	116.8
Round Log (Hardwood)	US$/M3	282.0	246.0	274.4	256.4	256.4
Round Log (softwood)	US$/M3	174.3	162.0	159.5	186.1	200.4
Sawn wood (Hardwood)	US$/M3	897.9	833.3	738.9	680.3	680.3
Sawn wood (Soft wood)	US$/M3	307.3	308.7	295.8	299.5	299.5

Source*: The International Monetary Fund Monthly Commodity Table*

40. Growth overtime in the Liberian Economy in nominal term has seen some level of diversification as evident by **Figure 2**. The services sector has shown the largest growth rate in nominal GDP, followed by the agricultural and fisheries sector. The forestry sector is growing moderately follow by the manufacturing sector which was also hit by the EVD epidemic. The mining and panning sector is gradually recovering from its current deteriorating conditions; however, there are downside risks that could adversely affect recovery.

Figure 2: Sectorial Composition of Nominal GDP



Source*: Department of Economic Management, MFDP, Liberia*

41. Although the ESRP remains challenged by the existence of an 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, to sustain investment in infrastructure, to expand the horizons of inclusive growth and development, to promote the diversification of the economy, to invest in the sustenance of a favorable political environment and most importantly, to create jobs that will guarantee welfare improvement.

42. However, prominent on our list of priorities for FY2017/18 are the following:
    - Financing the conduct of general and presidential elections and the ensuing political transition;
    - Financing the security sector transition in the wake of the UNMIL drawdown;
    - Financing the timely servicing of the country's debt obligations;
    - Financing the continuation of on-going infrastructure projects; and
    - Financing the diversification of the agriculture sector so as to increase income and enhance food security.

FISCAL PERFORMANCE

43. In FY2017/18, fiscal policy will depend on the prevailing macroeconomic challenges. The continuation of the reprioritized strategies under the ESRP, the AfT, the Health Investment Plan, the coming general and Presidential elections and ongoing UNMIL drawdown will be some key challenges that the government coffers will have to address.

44. Through financial measures 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.

45. For FY2017/18, the government will continue to support programs and projects, including actions to restore growth beyond pre-Ebola level while strengthening the budget process, and improving public financial management and supervision. Financing the security sector transition following the UNMIL drawdown and the ensuing presidential elections are imperatives for this fiscal year. The current decline in concession activities and the weak domestic demand have posed enormous fiscal challenges for the Government. This has been further exacerbated by the slow post-EVD recovery, UNMIL drawdown and external macroeconomic shocks.

46. From FY2005/06, core revenue grew steadily until in FY 2013/14 when it demonstrated a slight decrease reflecting the intensity and adverse impact of the EVD epidemic. The steady increase in core revenue was induced by prudent fiscal and monetary management that enhanced the performance of the economy and by extension domestic resource mobilization.

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

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

BUDGET PROCESS AND AGENDA

BUDGETARY PROCESS

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

50. To support 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.

51. The Budget Framework Paper (BFP) is the final output of the strategic phase of the budget. The FY 2017/18 edition of the BFP, like early ones, 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 2017/2018.

52. 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.

53. 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:

A. Credible and Comprehensive Budget

❖ **Implementing the budget as planned:**

i. In furtherance of the government's effort to improve budget planning and execution, collaboration with the budget committees domiciled in Ministries, Agencies and Commissions as well as the

National Legislature are being strengthened, making spending entities more active and engaged with the Department of Budget and Development Planning (DB&DP). This collaboration which brings deeper understanding and consensus amongst stakeholders continues during FY2016/17 budget preparation process.

ii. A combined budget call circular for the FY2015/16 budget was issued in March instead of two call circulars that should have been issued respectively in December 2015 and February 2016. Usually, the first call circular provides guidance to spending entities on preparing strategic plans for budget submissions, while the second provides guidance on preparing detailed budget submissions. This combined call circular was issued less than two months to the date for the submission of the draft budget.

❖ **Improving coverage and reliability of donor funding in budget and accounts:**

i. During the year, transactions as at March 31, 2016 for Thirty (30) donor-funded projects were uploaded onto IFMIS. However, transactions are not executed on real-time basis due to issues associated with chart of accounts harmonization between SUN System and Freebalance.

ii. On predictability in aid flow, 12 percent of FY2015/16 aid projections were disbursed. Reasons for non-disbursement vary among donors, but non-achievement of budget support triggers are reasons for some donors. Lack of visibility and predictability of aid inflows – as evidenced by the wide variance between projections and actuals – remains a persistent challenge for budgeting, planning, and liquidity management.

B. Revenue Mobilization

❖ Early in 2016, the Government of Liberia contracted an international IT auditing firm to conduct forensic audit of the SIGTAS and ASYCUDA to provide assurances as to the integrity of the two systems, and to build on the audit findings to improve the systems. Final audit report was issued to give the Authority a firm basis to institute additional controls and to proceed with new reforms.

The contract for the second phase of SIGTAS implementation is under review. The contract to be signed between the Government of Liberia and SOGEMA Technologies, Inc. includes upgrade, maintenance and support, interfacing SIGTAS with ASYCUDA and Liberia Business Registry, tax e-services, amongst others. Fifteen (15) tax business offices (TBOs) mostly in the Monrovia area, including the LRA Headquarters are currently automated, and the implementation of the second phase of the contract is expected to bring on more TBOs to enhance efficiency in tax collection.

POLICY AGENDA

54. Over the medium term, the Agenda for Transformation (AfT) remains the overall roadmap for Liberia's economic growth and development strategy. Meanwhile, the Ebola epidemic 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 developmental agenda through recovering output and growth, strengthening resilience and reducing vulnerabilities, strengthening public finance to

enhance service delivery; all designed with the intend of placing the country on the trajectory of sustained economic growth and development necessary for achieving the objectives of Vision 2030.

55. The MTEF is designed to draw consistent linkages between the medium and long-term policy objectives as set out in the AfT and the Vision 2030 and the framework for resource allocation – the national budget.

56. 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 especially the private sector. The ESRP is meant to bring back the economy on track from its deviation as a result of the Ebola's epidemic.

57. 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 FY2017/18 budget, 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 downturn in the country's economic activities and presented a refocused set of priorities that can be delivered over the remaining one year 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.

58. With the end of the AfT in 2017, process is underway to develop the successor medium term development plan. This new plan will incorporate the Global Sustainable Development Goals (SDGs) and the African Union's Agenda 2063. The focus will be on presenting the bottom up sectoral priorities in the draft plan, to which the new administration can add the top-down priorities to form a comprehensive agenda for development for the next five years.

REVENUE AND DEVELOPMENT PARTNERS' SUPPORT

REVENUE PERFORMANCE AND PROJECTIONS

59. To broaden the tax base and improve revenue collection, the Government has continuously embarked on numerous tax policy reforms aimed at strengthening domestic resource mobilization. This might steadily improve tax compliance over the years and it could lead to increase in revenue collection over the medium term. Total revenue collected, including grants and borrowing, as at the end of the second quarter in FY2016/17 amounted to US$263.7 million against a projection of US$270.8 million with an end-of-year revised projection of US$521.4 million.

60. The end of year revised projection of US$521.4 million, against the approved national budget of US$600.2million, 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 FY2016/17 includes continuous depreciation of Liberian Dollar and the uncertainties surrounding donor budget support due to the uncertain political transition.

61. The projected resource envelope for FY2017/18 is US$576.7 million (**Table 3**). This is 3.9 percent lower than the FY2016/17 approved budget of US$600.2million but 10.6 percent higher than the projected end-of-year amount of US$521.4 million for FY2016/17. However, the projected FY2017/18 budget excludes borrowings. The increase is triggered mainly on account of an increase in tax and non-tax revenues.

62. Total domestic revenue for FY2017/18 is projected at US$576.7 million, which is 9.8 percent higher than the total domestic revenue for FY2016/17. Domestic resource mobilization is expected to improve over the medium term.

Table 3: Disaggregated Resource Envelope and MTEF Projections (in millions US$)

	FY2015/16 Outturn	FY2016/17 Approved Budget	FY2017/18 Proj.	FY2018/19 Proj.
Total Resource Envelope	552.8	600.2	576.7	626.5
Domestic Revenue + Grants	470.0	555.2	576.7	594.8
Domestic Revenue	416.3	525.0	576.7	583.7
Tax Revenue	*372.9*	*429.2*	*457.7*	*498.1*
Non-Tax Revenue	*43.4*	*95.8*	*101.1*	*85.6*
Grants	53.7	30.2	17.9	11.1
Contingent Revenue	-	5.0	-	31.7
Borrowing	58.6	38.0	-	-
Budget Support Loans	58.6	38.0	-	-
World Bank IDA	30.0	20.0	-	-
African Development Bank	28.6	-	-	-
IMF (Ad Hoc Augmentation)	-	18.0	-	-
IMF (Rapid Credit Facility)	-	-	-	-
New Domestic Borrowing	-	-	-	-
Carry Forward	24.2	2.0	-	-

Source: *The Ministry of Finance and Development Planning, Liberia*

63. Tax revenue is projected to increase by 6.64 percent in FY2017/18 compared to FY2016/17 budget. This is due to the full swing implementation of the domestic resource mobilization as well as the tightening of government fiscal scope. Non-tax revenue is projected to increase by 5.5 percent due to improved performance of taxes on property income, miscellaneous, fines, penalties and forfeits and the likes.
64. Grants are projected to fall by 40.7 percent and this is due to the fact that most of the country's donor assistances were frontloaded during the EVD crisis. Moreover, due to the uncertainty surrounding the impending political transition, most donors are indecisive on spending in the economy.

DEVELOPMENT PARTNERS' REPORT

65. The Government continues to benefit from development partners' assistance through budget support grants and loan (on-budget), and project aid (off-budget).For FY2016/17, a total of US$714.68 million was approved as external resources in the national budget, of which on-budget support accounted for US$55.33 million (7.7 percent) while off-budget aid accounted for US$659.3 million (92.2 percent). The projected external resource envelope of US$714.68 million in FY2016/17 was revised downwards to US$623.62 due to uncertainty in donor support.

66. Actual external resource disbursed as at end 2016 (FY 2016/17 Quarter 2) is US$327.92 million, representing 52.6 percent of the revised projection for FY2016/17 but45.9percent compared to the total aid projection of US$714.7 million. Of the disbursed amount, US$260.2 million (79.3 percent) was grant while US$67.7 million (20.7 percent) was loan. Of the amount disbursed, 13.3 percent was channeled through the national budget while the remainder was channeled through trust fund and project aid mechanisms.

67. External resources projected for FY2017/18 is expected to decline substantially to US$274.55million, 56 percent lower than the revised projection for FY2016/17, due in part to the decline of aid that was front-loaded during EVD or due to international uncertainty regarding the 2017 elections. Of the total external resources projected for FY2017/18, on-budget support (grant) is projected at US$12.94 million. Off-budget support (grant and loan) is estimated at US$261.61million.

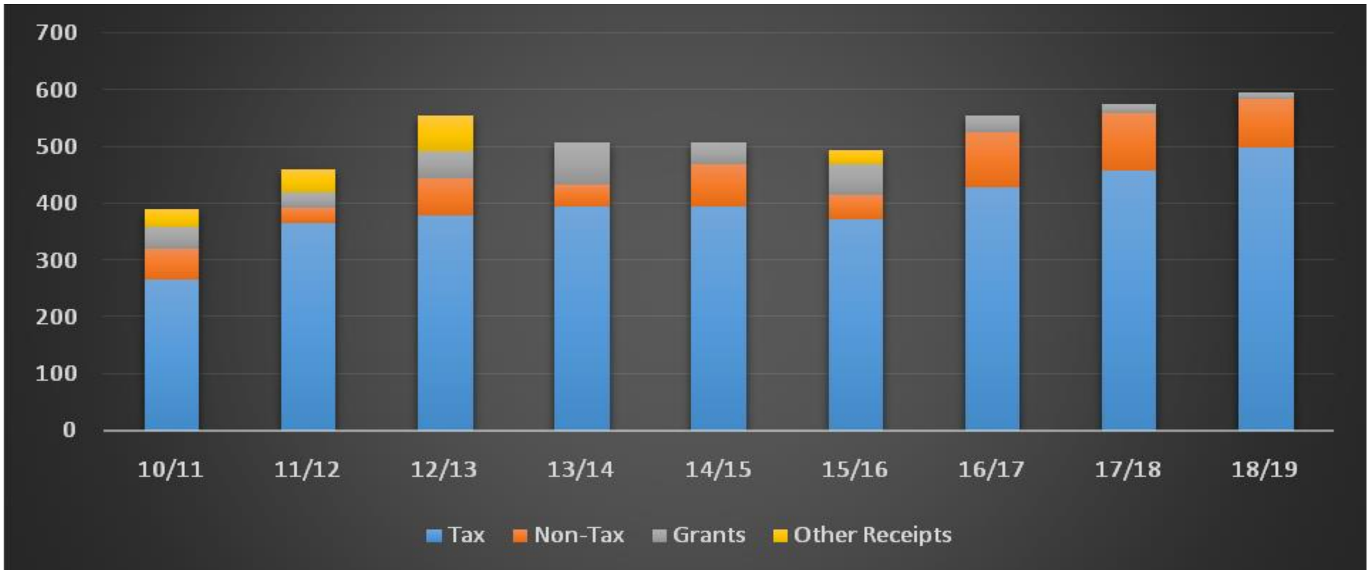
Table 4: Development Partners' Budget Support in the Medium Term

Donors	Disbursement FY2015/16		Disbursement As @ end Q2 FY2016/17		FY2016/17 Revised Projection		FY2017/18 Approved Projection		FY2018/19 Approved Projection	
	Grant	Loan	Grant	Loan	Grant	Loan	Grant	Loan	Grant	Loan
Budget Support	34.8	27.9	4.59	39.06	44.22	38.00	12.94	-	11.13	-
Off-Budget Support	304.7	26.8	255.61	28.67	245.91	15.70	-	-	-	-
Total	339.50	54.70	260.20	67.73	290.13	53.7	12.94	0	11.13	0
Grand Total (Grants + Loan)	394.20		327.93		343.83		12.94		11.13	

***Source**: Department of Economic Management, Ministry of Finance and Development Planning*

68. On-budget support grant for FY2017/18 is projected to be US$12.94 million, which is expected to come in its entirety from USAID.

Figure 3: Revenue by Sources (FY2010/11 -- FY2018/19)



Source: *The Ministry of Finance and Development Planning*

EXPENDITURE

69. Despite modest recovery from the EVD crisis, the government continues to prioritize public spending in line with its policy goals and objectives. This is in line with AfT, ESRP, and other sector plans.

70. Trends in government expenditure have shown a year-on-year increase since FY2005/06, from US$81.1million in FY2005/06 to US$213.6million at end December FY2016/17–an annual average upsurge ofUS$353.5million per fiscal year.

71. Although budget execution has improved in recent years but variations in its implementation remains a challenge. Revenue uncertainties, in-year transfer requests and cuts, government austerity (fiscal measures) and a limited absorptive capacity for project execution still remain a task. As of the first half of FY2016/17, the proportion of disbursement amounted to US$213.6million or 35.6percent of the fiscal year execution rate.

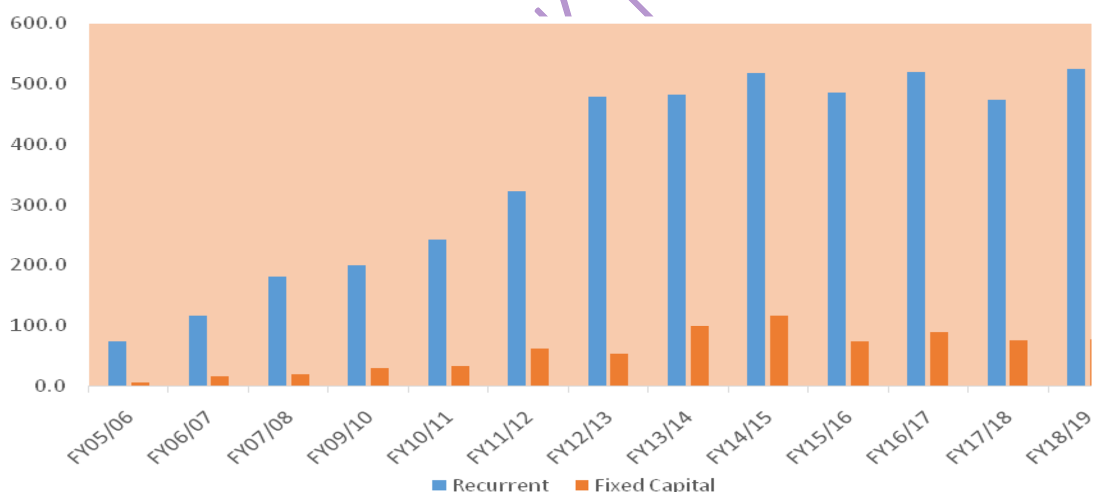
72. Since the introduction of the first round of MTEF (FY2012/13-FY2015/16) budgeting, capital spending has relatively improved. The creation of the Public Investment Unit within the MFDP to evaluate project proposals and implementation has further enhanced the effectiveness of resource allocation towards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

Table 5: Disbursement versus Approved Budgets FY2005/6–FY2015/16 (Millions, USD)

Fiscal Years	Approved Budget	Disbursement	Execution (%)
FY 2005/06	97.8	81.1	82.92
FY 2006/07	135	134.6	99.70
FY 2007/08	199.4	202.9	101.76
FY 2008/09	298.1	231.5	77.66
FY 2009/10	372	277.6	74.62
FY 2010/11	369.4	384.6	104.11
FY 2011/12	516.4	485.7	94.05
FY 2012/13	672.1	593.5	88.31
FY 2013/14	582.9	530.6	91.03
FY 2014/15	635.2	621.7	97.90
FY 2015/16	622.7	568.4	91.2
FY2016/17*	600.2	213.6	35.60

Source: *The Ministry ofFinance and Development Planning*
**Disbursement is still ongoing*

Figure 4: Split between Recurrent and Capital Expenditure (FY 2005/06---FY 2018/19)



Source:*The Ministry of Finance & Development Planning*
Note: FY 2013/14----FY2018/19 include PSIP

FINANCING

73. Government financing has continuously relied on external support since the completion of the Highly Indebted Poor Country Program (HIPC) in 2010. Concessional external financing is utilized to spur investments in badly-needed capital and infrastructure to generate economic returns over the long-term.

74. In FY2016/17, the government projected US$38 million of external borrowing. Actual cash carried forward amounted to US$2.0 million. As of end 2016, US$40 million is expected from the World Bank-IDA while US$18 million is expected from the IMF ad hoc augmentation.

75. Total external resources (both borrowing and grant) on-budget realized at end Quarter 2 FY2016/17 amounted to US$62.0 million (90.9 percent) of the fiscal year external resources on-budget projection. Of the actual external resources receipts, US$39.1 million came from the World Bank IDA while US$17.3million was sourced from the International Monetary Fund. Additional grants on-budget amounted to US$5.7 million (9.2 percent of the total external resources receipts).

76. As at end of Quarter 2 FY2016/17, total aid modality on off-budget disbursement on various sector projects amounts to US$284.3million (43.12 percent) of total off-budget aid projection. This disbursement is driven by the Energy & Environment Sector (27.3 percent), followed by Infrastructure & Basic Services Sector (22.6 percent), Health Sector (8.8 percent), and Social Development Services Sector (7.3 percent).

77. In FY2016/17, the MFDP in collaboration with the Central Bank of Liberia and in compliance with the IMF program requirement, has continuously issued Liberian-dollar denominated Treasury Bills (T-bills) with the objective of managing revenue volatility (bridge financing) and developing and deepening the domestic debt market. This is also a monetary policy instrument used by the CBL to manage Liberian-dollar liquidity. From July 2016 through December 2016, a total of L$338.5 million (including interest) worth of T-bills were offered, of which L$94.0million were redeemed.

Table 6: Treasury bill Issuance

Date	*Maturity Date*	*T-Bill Offered*	*Interest Accrued*	*Total Settlement*	*Status*
2-Apr-16	2-Jul-16	44,910,806.86	339,193.14	45,250,000.00	Redeemed
3-May-16	5-Aug-16	44,894,342.70	355,657.30	45,250,000.00	Redeemed
2-Jun-16	1-Sep-16	45,394,795.46	355,204.54	45,750,000.00	Redeemed
7-Jul-16	6-Oct-16	46,903,387.95	346,612.05	47,250,000.00	Redeemed
4-Aug-16	3-Nov-16	46,400,206.11	349,793.89	46,750,000.00	Redeemed
1-Sep-16	3-Dec-16	48,388,451.94	361,548.06	48,750,000.00	Pending
6-Oct-16	5-Jan-17	96,786,023.98	713,976.02	97,500,000.00	Pending
5-Nov-16	4-Feb-17	48,601,095.88	398,904.12	49,000,000.00	Pending
1-Dec-16	2-Mar-17	48,866,232.00	383,768.00	49,250,000.00	Pending
Total		471,145,342.89	3,604,657.11	474,750,000.00	

Source: *The Ministry of Finance and Development Planning*

MEDIUM TERM FISCAL FRAMEWORK, FY2016/17—FY2018/19

78. 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). FY2016/17 marks the fifth year of rolling MTEF budgets since its adoption in FY2012/13.

79. As outlined in the AfT and the ESRP and to guide government's fiscal measures, the MTFF provides the framework for prudent spending and borrowing to provide responsible and sustainable way to finance the achievement of key national priorities.

80. Despite the slow pace of the economic recovery in FY2016/17, real GDP is projected to increase moderately in 2017 to 3.2 percent, which is higher than the contraction of 0.5 percent obtained in 2016. This growth in real GDP is driven mainly by the service and agricultural & fisheries sectors.

81. Considering the slow pace of economic activity in various sectors of the economy due to the impact of reduced term of trade, the continuous depreciation in the Liberian dollars, and the front loading of budget support to mitigate the EVD in 2014 and 2015,the government is projecting a highly constrained resource envelope in FY2017/18 as well as in the outer years of FY2018/19 and FY2019/20.

82. Total revenue (including contingent revenue) is projected in FY2017/18at US$576.7 million, representing a3.9 percent decrease compared to the approved FY2016/17 budget of US$600.20 million.

83. Excluding grant, core revenue is projected to moderately increase by 6.4percent in FY2017/18to US$558.75 million, compared to the approved budget of US$524.97 million for FY2016/17. Tax and non-tax revenues are set to decrease by 6.7 and 5.5 percent respectively in FY2017/18when compared to the budget figures in FY2016/17. Similarly, when compared to FY2015/16 approved budget, Tax revenue and Non-Tax revenue increased by 11.0 percent and 64.5 percent respectively.

84. Due to the growing global economic challenges including anticipated decline in external resources, resource mobilization remains a task over the medium term period. Nonetheless, efforts are being rapt towards tax policy measures as well as narrowing the fiscal scope through government's own austerity.

Table 7: Medium Term Fiscal Framework

	FY16/17	***FY 16/17***	*FY17/18*	*FY18/19*
US$ '000s	Approved Budget	Revised Estimates	Projection	Projection
Resource Envelope	600.2	521.2	576.7	626.5
Total Revenue + Grants	**555.2**	521.2	**576.7**	**626.5**
Core Revenue	525	434.6	576.7	594.8
-Tax Revenue	429.2	**359.2**	457.7	498.0
-Non-Tax Revenue	95.8	**75.4**	101.0	85.6
Grants	95.8	**30.3**	17.9	11.1
Contingent Revenue	5	-	-	31.7
BORROWING	38	**56.4**	-	-
Budget Support Loans	38	**56.4**	-	-
World Bank IDA	20	**39.1**	-	-
African Development Bank	-	-	-	-
IMF (Ad Hoc Augmentation	18	**17.3**	-	-
IMF (Rapid Credit Facility)	-	-	-	-
New Domestic Borrowing	-	-	-	-
CARRYFORWARD	24.2	0.2		

***Source**: The Ministry of Finance and Development Planning*

MTEF ASSUMPTIONS

85. The revenue forecast is based on the latest available economic assumptions and adjustment to historical trends based on revenue performance in the current fiscal year and expectations for concession revenues. From the recent macro-framework, the GDP and inflation projections of the MTFF are based.

Table 8: Key Macroeconomic Data Inputs to Revenue Forecast

	FY15/16	FY16/17	FY17/18	FY18/19	FY19/20
	Actual	Est.	Proj.	Proj.	Proj.
Real GDP growth (%)*	0.00	-0.5	3.2	5.2	5.7
Nominal GDP	2,034	2,112	2,224	2,427	2,685
Nominal GDP growth (%)	1.0	3.8	5.3	9.1	10.6
Nominal GDP growth excl. mining & panning (%)	7.0	8.0	10.0	10.0	9.0
Agriculture and Fisheries	574.00	623.48	675.30	733.51	794.30
Forestry	174.51	183.39	198.34	213.89	231.27
Mining and panning	67.72	53.05	47.98	53.35	71.22
Manufacturing	103.12	112.80	130.77	148.25	161.76
Services	1,218.58	1,316.59	1,460.04	1,618.17	1,766.78
Consumer price growth(average, %)	7.70	8.70	9.70	8.10	7.50

Source: *The Department of Economic Management, MFDP & IMF Medium Term Outlook, 2014--2021*
**Real GDP growth rate is based on fiscal period*

BORROWING

86. Since the completion of the HIPC debt-relief program, there has been no formal domestic debt market established in Liberia. In the recent past, the only domestic borrowing activity has been through the CBL. The government has made significant progress in advancing the operationalization of the Treasury bill issuances.

87. The Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) framework is currently being used for recording and analyzing debt statistics.

88. The financing of development programs through borrowing has been guided by the Medium Term Debt Strategy (MTDS) prepared in July 2014. Over the medium term, FY2017/18 to FY2019/20, 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; and
- 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.

89. 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.

MEDIUM TERM EXPENDITURE FRAMEWORK

EXPENDITURE PRIORITIES

90. For FY 2017/18, Government will continue its focus on diversification of the economy and emphasizing the Agriculture and Infrastructure Sectors, to lessen Liberia's dependence on the extractive sector, which are vulnerable to external shocks. Education and Health remain top priorities, while in FY 2017/18, ensuring a smooth and efficient democratic transition, and maintaining security in light of the UNMIL drawdown remain of prime importance.

91. The FY2017/18draft budget proposes US$576.7 million of total expenditure, of which recurrent expenditure accounts for US$545.0 million; while the remainder will go towards PSIP expenditure.

Table 9: FY 2017/18 MTEF Projections

	FY2015/16		FY2016/17	FY2017/18	FY2018/19
	Budget	Actual	Budget	Proj.	Proj.
RESOURCE ENVELOPE	**622,743,420**	**569,812,625**	**600,204,076**	**576,687,015**	**626,501,319**
TOTAL DOMESTIC REVENUE *(core revenue+carry forward + contingent revenue)*	564,137,716	541,915,297	562,204,076	576,687,015	626,501,319
CORE REVENUE	529,958,716	519,915,289	555,229,076	576,687,015	594,820,535
Tax Revenue	*412,336,087*	*400,716,391*	*429,183,935*	*457,735,227*	*498,046,818*
Non-Tax Revenue	*61,391,948*	*50,965,325*	*95,784,881*	*101,011,788*	*85,643,717*
Grants	56,230,681	68,233,572	30,260,260	17,940,000	11,130,000
CARRY FORWARD	**24,179,000**	**22,000,008**	**2,000,000**	**-**	**-**
IMF RCF	-	-	-	-	-
Consolidated Fund	*22,000,000*	*22,000,008*	*2,000,000*	-	-
Maritime Revenue	*2,179,000*	-	-	-	-
CONTINGENT REVENUE	**10,000,000**	**-**	**4,975,000**	**-**	**31,680,784**
Tax Revenue	-	-	*2,500,000*		*24,666,366*
Non-Tax Revenue	-	-	*2,475,000*		*7,014,418*
Grants	*10,000,000*		-		-
EXPENDITURE (On-Budget)	**514,940,808**	**485,756,577**	**520,455,947**	**576,687,015**	**525,140,568**
Recurrent	*514,940,808*	*485,756,577*	*520,455,947*	*547,110,849*	*525,140,568*
PSIP	-	-	-	*29,576,166*	-
FINANCING GAP (Revenue - Expenditure)	**49,196,908**	**56,158,720**	**41,748,129**	**-**	**101,360,751**
IDENTIFIED FINANCING (On-Budget)	**58,605,704**	**27,897,328**	**38,000,000**	**-**	**-**
BUDGET SUPPORT LOANS	58,605,704	27,897,328	38,000,000	-	-
African Development Bank	*28,605,704*	*27,897,328*	-	-	-
World Bank – IDA	*30,000,000*	-	*20,000,000*	-	-
IMF ad hoc augmentation (contingent loan)	-	-	*18,000,000*	-	-
IMF RCF	-	-	-	-	-
DOMESTIC BORROWING	-	-	-	-	-

Source: *The Ministry of Finance and Development Planning*

Table 10: Expenditure Breakdown

	FY2015/16		FY2016/17	FY2017/18	FY2018/19
	Budget	**Actual**	**Approved Budget**	**Proj.**	**Proj.**
TOTAL EXPENDITURE (Recurrent + PSIP)	746,616,896	575,371,160	600,204,076	576,687,115	627,316,475
RECURRENT	638,814,284	508,362,286	520,455,947	547,110,949	553,148,099
Compensation of Employees	*254,583,501*	*260,799,500*	*272,173,115*	*269,311,801*	*281,774,832*
Consumption of Fixed Capital	*12,256,713*	*8,228,481*	*10,512,778*		*4,160,200*
Grants	*92,156,719*	*77,274,819*	*98,032,834*	*60,995,307*	*97,543,074*
Social Benefits	*1,584,000*	-	*1,731,000*		*1,057,427*
Use of Goods & Services	*141,869,958*	*128,835,942*	*125,273,262*	*110,945,228*	*113,375,690*
Other General Claims	*12,489,917*	*10,617,835*	-	-	*27,229,345*
DEBT SERVICING	21,605,709	22,605,709	12,732,958	68,042,784	28,007,519
GENERAL CLAIMS	102,267,767	-	-	37,815,829	12.3
Compensation of Employees	*24,885,900*	-	-	-	-
Grants	*12,109,434*	-	-	-	-
Use of Goods & Services	*51,119,470*	-	-	-	-
Social Development Contributions	*14,152,963*	-	-	-	-
PSIP	**107,802,612**	**67,008,874**	**79,748,129**	**29,576,166**	**74,168,376**
CORE PSIP	**107,802,612**	**67,008,874**	**79,748,129**		
SECTOR PROJECTS	**76,270,000**	**61,057,207**	**25,524,000**		
Ongoing Roads	*27,000,000*	*6,554,989*	*18,000,000*		
Other Sector Projects	*49,270,000*	*54,502,218*	*7,524,000*		
NATIONAL PRIORITY PROJECTS	**31,532,612**	**5,951,667**	**54,224,129**		
Elections	-	-	*20,000,000*		
UNMIL Drawdown	*5,000,000*	*3,000,000*	*10,000,000*		
Support to Agriculture Sector	-	-	*5,000,000*		
Counterpart Funding	*26,532,612*	*1,540,812*	*7,344,129*		
LACE Special Project	-	-	-		
Renovation of Executive Mansion	-	*1,410,855*	*7,000,000*		
Legislative Projects for Rural Development	-	-	*3,650,000*		
Thermal Diesel (HFO)	-	-	*1,230,000*		
CONTINGENT PSIP	-	-	-		
Elections	-	-	-		
Support to Agriculture Sector	-	-	-		
Counterpart Funding	-	-	-		
Renovation of Executive Mansion	-	-	-		
UNMIL Drawdown	-	-	-		
NHA Housing Policy Project	-	-	-		
Ongoing Roads	-	-	-		

Source: *The Ministry of Finance and Development Planning*

RECURRENT

92. The recurrent expenditure budget projection for FY2017/18 is US$547.1 million. This amount represents a 5.1 percent increase compared to US$520.5million approved in the FY2016/17 budget.

93. Recurrent expenditure is broken down, according to economic classification as follows:
    - ❖ A projected amount of US$269.3million is appropriated for compensation of Employees which is 49.2 percent of recurrent expenditure. This amount represents a decrease of 1.1 percent compared to FY2016/17 allocation.
    - ❖ Goods & Services appropriated in FY2017/18 is US$110.95 million. This amount accounts for 20.3 percent of recurrent expenditure. This represents a decrease of 11.4 percent compared to the FY2016/17approved allocation.
    - ❖ Grants are US$61.0million, representing 11.1 percent of total recurrent expenditure. This indicates a decrease of 37.8 percent compared to FY2016/17approved budget.
    - ❖ Debt Principal and Interest is estimated at US$68.0million, which is 12.4 percent of total recurrent appropriation.

Table 11: Recurrent Expenditure by Sector

	FY2016/17	FY2016/17*	FY2017/18	FY2018/19*
	Approved Budget	Revised Budget	Proj.	Proj.
Total Resource Envelope	**600,204,076.00**	**576,687,015**	**576,687,015.00**	**552,765,451.00**
Total Expenditure	**600,204,076.00**		**576,687,015.00**	**721,917,684.00**
Recurrent	**520,455,947.00**	**545,763,301**	**547,110,848.61**	**647,749,308.00**
Public Administration	170,844,836.00	171,792,707	213,249,019.61	217,666,088.00
Municipal Government	21,336,660.00	22,441,852	14,286,660.00	23,888,044.00
Transparency & Accountability	23,405,176.00	40,370,903	23,415,006.00	44,096,694.00
Security & Rule of Law	84,948,667.00	85,467,239	82,402,967.00	98,704,139.00
Health	77,407,841.00	62,608,475	77,272,341.00	80,592,244.00
Social Development Services	10,216,828.00	9,775,325	9,899,828.00	11,495,833.00
Education	84,965,512.00	86,544,576	84,663,399.00	89,837,930.00
Energy & Environment	13,668,254.00	17,020,253	11,482,458.00	17,630,242.00
Agriculture	6,897,485.00	10,539,392	6,338,238.00	12,112,785.00
Infrastructure & Basic Services	18,017,125.00	32,006,609	15,542,877.00	42,578,422.00
Industry & Commerce	8,747,563.00	7,195,968	8,558,055.00	9,146,887.00
PSIP	**79,748,129.00**		**29,576,166.39**	**74,168,376.00**

Source: *The Ministry of Finance and Development Planning. * Figures are still undergoing revision.*

94. 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;
- While recurrent expenditure is projected to decline at 9 percent and it is 85 percent of domestic revenue, domestic revenue is projected to grow at 6.4 percent, intended probably to reduce the funding gap;
- There is a slight variations in the proportion of total expenditure received by each sector relative to the share received in the FY2016/17 approved budget;
- The percentage of recurrent expenditure received by priority sectors, as specified in the AfT, increases by 5 percent in each fiscal year from the base year of FY2016/17, while the remaining 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 not set equal to 20 percent of tax revenue, in order to comply with the ECOWAS convergence criteria; it is 4 percent below this target.
- Social Development Fund contributions is subject to developments in the relevant sectors (i.e. mining, forestry, and agriculture) and it might return to the level set out in the approved FY2016/17 budget.
- Grants is maintained at its FY2016/17 level; the ECOWAS trade levy remains at the FY2016/17level.
- 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 PLAN (PSIP)

95. The estimated PSIP portfolio for FY2017/18 is US$29.6million, which accounts for 5.1 percent of total expenditure. This represents a decrease of 62.9 percent in PSIP relative to the FY2016/17 approved budget of US$79.75 million and also a 55.9 percent decrease compare to theFY2015/16 outturn of US$67.01million.

ANNEX I. FY2016/17 DEVELOPMENT ASSISTANCE

Table 12: 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: *The Ministry of Finance & Development Planning*

Table 13: Medium Term Off-Budget Grants and Loans Projections by Development Partners

	FY2016/2017		FY2017/2018		FY2018/2019	
Donors	**Grant**	**Loan**	**Grant**	**Loan**	**Grant**	**Loan**
Abu-Dhabi Fund		3,000,000				
African Development Bank	43,113,500	12,340,000	26,000,000	15,700,000		
BADEA		7,500,000				
China	89,000,000					
China EXIM Bank		50,000,000				
European Union	60,883,050					
France	-					
Germany	33,560,000		12,490,000		5,830,000	
Global Fund						
IFAD	-	360,000				
IDA (World Bank)	95,303,195	52,196,189	9,250,000		7,250,000	
International Monetary Fund						
Ireland	5,666,440					
Japan	26,588,942					
KfW			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					
OFID		5,000,000				
SAUDI FUND		5,000,000				
Sweden	553,030		92,424			
UNDP						
United Nations Children Fund	25,059,980		12,370,231			
UNHCR	1,315,418				2,276,307	
United Nations Population Fund	5,895,984					
UNOPS						
USAID	128,233,946		94,589,293		73,072,864	
World Food Programme	13,548,549					
Grand Total	**655,460,234**	**142,896,189**	**245,910,709**	**15,700,000**	**153,695,370**	-

Source: *The Ministry of Finance & Development Planning*

Table 14: Medium Term Aid Projections by 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: *The Ministry of Finance and Development Planning*

Table 15: Medium Term Aid Projections 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				
Infrastructure 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: *The Ministry of Finance and Development Planning*

Table 16: Medium Term Aid Projections by AfT Pillar

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

Source: *The Ministry of Finance and Development Planning*

Table 17: Medium Term Aid Projections by Donor

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: *The Ministry of Finance and Development Planning*

ANNEX II: STOCK OF PUBLIC DEBT AND FY2016/17 DEBT SERVICE

Table 18: Public Debt as at end December 2016 (in millions of US$)

Domestic Debt Details	QTR I	QTR II
CBL	258.91	258.19
LBDI	-	-
ECOBANK	-	-
Infrastructure Loan	10.00	10.00
Sub-total Financial Institution	**268.91**	**268.19**
Supplier's Credit	0.13	0.07
Other Arrears	-	-
Total Domestic Debt (end of quarter)	**269.04**	**268.26**
External Debt Details		
Disbursed Outstanding Debt (period start)	477.75	501.36
Disbursements	-	-
Principal Repayments	-	1.49
Net Flows On Debt Stock	-	0
Interest Payments	1.20	-
Exchange rate /Other adjustments	-	-
Total Debt Service	1.20	1.49
Total External Debt (end of period)	477.75	507.29
TOTAL DEBT STOCK	**746.79**	**775.55**

Source: *The Ministry of Finance and Development Planning*

Table 19: Public Debt Service as at end December 2016 (in millions of US$)

	QTR I	QTR II
Domestic Debt Service Details		
Principal	-	1.49
Interest	0.28	-
Total Domestic Debt Service	**0.28**	**1.49**
External Debt Service Details		
Principal	0.41	-
Interest	1.20	0.43
Total External Debt Service	**1.61**	**0.43**
Total Debt Service	**1.89**	**1.93**

Source: *The Ministry of Finance and Development Planning*