ANALYSIS OF BUDGET PERFORMANCE REPORT

FOR THE FIRST HALF OF FISCAL YEAR (FY) 2024

January 1st – June 30th

PUBLIC ACCOUNTS, EXPENDITURES AND AUDITS COMMITTEE

LIBERIAN SENATE

September 1, 2024

Storyline

- **Estimated economic growth on track in the first semester of FY 24 reflected in strong revenue performance, although the LRA could improve performance.**
- **Spending on essential services (health, education, youth, gender and children, water and sanitation, and others), infrastructure, and goods and services is low compared to the same period in FY23, which, if not reversed, could have a contractionary effect on the economy and affect the 5.6% estimated growth by year's end.**
- **A concerted effort must be made to expand the economy and create jobs by implementing prudent fiscal and monetary policies.**

1. Tax Revenue Summary

Table 1 below shows that revenue collection from domestic taxes (excluding customs) accounted for 68%, or $236.1M, while International Trade (customs) accounted for 31%, or $108.7M, and unclassified sources accounted for 1%, or $4.4M, of the total mid-year revenue of $349.1M. There were no disbursements from external revenue resources for the first semester of the year.

While domestic tax and international trade exceeded their target for the first semester of the year, significant headwinds in the details must be highlighted and brought to the attention of the fiscal authorities at the Ministry of Finance and Development Planning (MFDP) for redress. Below are the key observations:

1. The economy is set to grow by 5.6% this year, yet we are experiencing poor performance of tax types like GST and CIT, and withholding on services rendered is concerning.
2. The decline in revenue performance at various sector ministries and agencies, such as the Ministry of Foreign Affairs, Liberia Immigration Services, Ministry of Transport, etc., is alarming.

3. State-owned enterprises are not meeting their budget support payments to the budget but are making Corporate Social Responsibility (CSR) contributions.
4. The decline in the road fund revenue while LPRC reports profits, and
5. The revenue contribution from international trade or customs appears to be underperforming compared to macroeconomic performance.

Table 1: Total Revenue Collected During the First Half of 2024

Revenue Sources	Appropriation	Projection YTD	Mid-Year Actual	Balance Collectable
Tax Revenue	342,839,855.00	151,125,403.00	182,073,205.00	160,766,650.00
Non Tax Revenue	155,901,045.00	61,824,459.00	53,989,426.00	101,911,619.00
Domestic Tax- Sub Total	498,740,900.00	212,949,862.00	236,062,631.00	262,678,269.00
Taxes on International Trade (Custom) - Sub Total	197,684,652.00	103,381,685.00	108,651,480.00	89,033,172.00
External Resources	42,434,275.00	-	-	42,434,275.00
Unclassified	-	-	4,388,278.00	(4,388,278.00)
Total	**738,859,827.00**	**316,331,547.00**	**349,102,389.00**	**389,757,438.00**

2. Mid-Year Revenue Figures Erratum

Table 2: Mid-Year Revenue Performance Summary

Revenue Sources	Appropriation	YTD Projection	YTD Actual	Var (+/-)	% of Variance	Balance Collectable
Total	**738,859,827**	**316,331,547**	**349,102,389**	**32,770,842**	**0.1**	**394,145,716**
Tax Revenue	540,524,507	254,507,088	290,724,685	36,217,596	14.2	249,799,822
Non Tax Revenue	155,901,045	61,824,459	53,989,426	(7,835,033)	(12.7)	101,911,619
Unclassified			4,388,278	4,388,278	4,388,278	
External Resources	42,434,275					42,434,275

Source: Department of Fiscal Affairs, MFDP

The mid-year review report that the MFDP released appears to have a couple of inconsistencies with one that may have overstated what is left to be collected by **$4,388,278** on page 19 of the report (Table 2 above). According to the Mid-year report, the balance left to be collected to get to the $738,859,827 (approved appropriation) is **$394,145,716** (last column of Table 2). The problem is that $349,102,389 has already been collected at mid-year, if you do the arithmetic ($349,102,389 plus $394,145,716) you get a total of **$743,248,105**, $4,388,278 more than the total. MFDP failed to reduce the balance to collect by the unclassified amount collected of $4,388,278.

On page 22 of MFDP's mid-year report, the fiscal authority did not complete the below table correctly. As you can see below the total appropriation is incorrectly stated as **$155,901,045**, the total appropriation for the tax revenue category is left blank (see red rectangle) on Table 4 in the report, balance to collect here is $351,711,441, a completely different number than the one above.

Table 4: Mid-Year Detailed Domestic Revenue Performance

Revenue Sources	Appropriation	YTD Projection	Mid-Year Actual	Var (+/-)	% of Variance	Balance Collectable
Total	**155,901,045**	**316,331,547**	**349,102,389**	**32,770,842**	**47.2**	**351,711,441**
Unclassified			**4,388,278**	**4,388,278**		
Tax Revenue		**254,507,088**	**290,724,685**	**36,217,596**	**14.2**	**249,799,822**
Taxes on Income and Profit	244,948,303	100,407,736	138,400,782	37,993,046	14.9	106,547,521
Taxes on Property	5,116,161	3,490,795	3,212,347	(278,449)	(0.1)	1,903,814
Taxes on Goods and Services	83,525,391	43,976,872	34,950,076	(9,026,796)	(3.5)	48,575,314.96
o/w Maritime Revenue	*14,000,000*	*6,692,785*	*7,975,000*	*1,282,215*	*0.5*	*6,025,000*
o/w Motor Vehicle Taxes	*9,166,421*	*5,204,519*	*5,747,414*	*542,895*	*0.2*	*3,419,007.18*
Taxes on International Trade	197,684,652	103,381,685	108,651,480	5,269,795	2.1	89,033,172
o/w ECOWAS Trade Levy	*7,461,297*	*3,629,045*	*3,738,871*	*109,826*	*0.0*	*3,722,426*
Other Taxes	9,250,000	3,250,000	5,510,000	2,260,000	0.9	3,740,000
Non Tax Revenue	**155,901,045**	**61,824,459**	**53,989,426**	**(7,835,033)**	**(12.7)**	**101,911,619**
Property Income	127,455,209	50,093,541	43,629,857	(6,463,684)	(12.9)	83,825,352
o/w SOE/Budget Support/Dividend	*9,289,000*	*12,633,743*	*6,782,126*	*(5,851,617)*	*(46.3)*	*2,506,874*
o/w Road Fund	*40,625,156*	*13,553,151*	*14,920,236*	*1,367,085*	*10.1*	*25,704,920*
o/w Royalties and Rent	*58,508,000*	*22,135,277*	*21,672,838*	*(462,438)*	*(2.1)*	*36,835,162*
Adminisrative Fees and Charges	27,942,326	11,322,362	9,936,757	(1,385,605)	(12.2)	18,005,569
Fines, Penalties & Forfeits	501,372	406,417	422,640	16,223	4.0	78,732
Miscellaneous & Unidentified Revenue	2,138	2,139	173	(1,966)	(91.9)	1,965

Source: Department of Fiscal Affairs, MFDP

Moreover, on page 8 of the report, the MFDP misrepresented a decrease in inflation as an increase instead. The statement below is a direction quotation from the Mid-year report: "***The average headline inflation rate of the period under review was 6.2 percent as recorded at the end of June 2024, indicating a 50 percent increase in the year-on-year inflation rate during the same period of FY2023, when the average inflation rate was 12.4 percent."***

These inconsistencies are grave and question the accuracy of the entire document and suggest that the fiscal authority needs to pay more attention to its calculations because mistakes can have severe consequences on the nation's financial resources.

3. Recommendations on Revenue Enhancement

a. The Committee on Public Corporation should increase its oversight through the Bureau of State Enterprises of SOEs and work to understand the fiscal implications and risks they pose to the national budget and the LRA must use its garnishing power in the Budget Act. The goal is to make them net contributors to the national envelope.
   i. Implement the Corporate Social Responsibility Framework.
   ii. Implement the Dividends Policy consistent with the PFM Act.
   iii. Consistent with the Law, review the financial statements of SOEs to determine the appropriate level of budget support, and
   iv. Ensure that SOEs are making regular payments of withholding on salaries and GST.

b. The Liberia Revenue Authority (LRA) must improve its compliance monitoring of taxpayers to deter and detect under declaration, nonpayment, and non-filing of GST, CIT, and Services Rendered-Resident in the Large and Medium Tax Divisions.
   i. Ensure a more robust tax administration of the Road Fund.
   ii. The LRA provides the following reports to the Ways and Means and Public Accounts, Expenditures, and Audits Committees:
      1. CIT, GST, Services Rendered-Resident payments for the last two years.
      2. Road Fund and SOEs budget support and dividends payments for the last two years.

c. Determine the root causes for the decline in revenue performance at various sector ministries and provide corrective action to mitigate this decline.

d. The Minister of Finance and the Commissioner-General of the LRA be called to a special hearing to explain why projected revenue seems to be underperforming in both Domestic and Customs against the macroeconomic performance of the economy set to grow by 5.6%.

4. Expenditure: How much of the government expenditure target has been achieved in the first six months?

Overall, 80.5% or $258.9M was disbursed against an allotment of $321.5M for the first semester of the year. This translates to disbursement of 35% of the total appropriation for the year which is about 12% behind in spending against the full year in terms of revenue collection.

Spending on salary and wages for the first semester of the year stood at 78.5% of the allotted amount of $ 156.4 million but 41.1% against the total appropriation for the year. This means many civil servants may not have gotten their salary payments on very concerning time.

Additionally, spending on vital sectors, like Agriculture, Health, Energy, and Infrastructure was not prioritized in the first half of the year judging by the amounts disbursed. These sectors are essential parts of the government's ARREST agenda for inclusive development.
And, comparing year-on-year spending, overall spending for the first six months was down 32% this year against last year's same period. Spending on goods and services and capital expenditures were significantly lower this year than in the same period last year.

This decision by the fiscal authority to withhold spending is antithetical to the prevailing economic environment and undermines the performance of revenue. This austerity approach to fiscal policy is contractionary, meaning it might slow or reduce aggregate demand and hurt the circular floor leading to losses for businesses, taxes on goods and services, job loss, and dissatisfaction among citizens in an economy that is on track to grow by 5.6% this year.

Table 5: Expenditure Breakdown

OVERALL	80.50%	Overall, GoL disbursed $258.9M against allotment of $321.5M over the last six months representing 80.5%.
WAGES & SALARIES	78.50%	Actual of $122.8M were spent on wages representing 78.5% of the $156.4M allotment over the first half of the year.
GOODS & SERVICES	95.30%	Actual spending on the purchase of goods and services represents 93.5% of the $38.9M alloted over the first half of the year.
SUBSIDY, GRANTS & SOCIAL BENEFITS	83.10%	Actual spending on subsidy, grants and social benefits representing 83.1% of the $52.5M allotment over the first half of the year.
NON-FINANCIAL ASSETS	95.30%	Actual spending on the purchase of non financial assets (Investment Projects) was 184.7% of the $21.7M allotment over the first half of the year.

5. What were the potential impacts of the budget on citizens during the first half of FY 2024?

HEALTH

In Thousands	HEALTH
Allotment YTD	$32,618
Disbursed YTD	$24,780
Total Appropriation	$80,101
Percent disbursed vs.allotment (YTD)	**76%**
Percent disbursed vs.total appropriation	**31%**

Actual Spending on Health for the first six months of the year was $24.8M, representing 76% of the total allotment for the period but only 31% when you compare this to the total appropriation of $80.1M for the year. This slow disbursement of funds to support the critical healthcare needs of the citizens, including purchases of medicines and vaccines for preventative care, is fiscally irresponsible, especially when revenue collection overperformed.

EDUCATION

In Thousands	EDUCATION
Allotment YTD	52,825
Disbursed YTD	45,086
Total Appropriation	111,329
Percent disbursed vs.allotment (YTD)	**85%**
Percent disbursed vs.total appropriation	**40%**

Spending on education for the first six months of the year was $45.1M, representing 85% of the allotment for the period but 40% against the total appropriation of $111.3M for the year. While disbursement was better in Q2, MFDP needs to do more to provide the essential funding to support the educational requirements of the country to support schools and teachers.

SOCIAL SERVICES

In Thousands	SOCIAL SERVICES
Allotment YTD	4,584
Disbursed YTD	3,890
Total Appropriation	26,338
Percent disbursed vs.allotment (YTD)	**85%**
Percent disbursed vs.total appropriation	**15%**

Spending on the social services sector including children and social protection for the first six months of the year was $3.9M representing 85% of the allotment for the period but only 15% against a total appropriation of $26.3M. This low level of disbursement for protection from violence against women and children, youth activities, refugee repatriation, and other social services reflects the ‘do-not-care’ attitude to this sector and the people.

6. What were the potential impacts of the budget on the economic drivers during the first half of FY 2024?

AGRICULTURE, ENERGY & INFRASTRUCTURE

In Thousands	Agriculture	Energy & Environment	Infrastructure & Basic Services
Allotment YTD	2,462	7,533	15,818
Disbursed YTD	1,867	5,060	23,261
Total Appropriation	8,825	26,315	54,248
Percent disbursed vs.allotment (YTD)	**76%**	**67%**	**147%**
Percent disbursed vs.total appropriation	**21%**	**19%**	**43%**

Spending on Agriculture, a key pillar of the ARREST agenda for inclusive development was only $1.9M representing 76% of allotment for the period but 21% when compared to total appropriation of $8.8M for the year. Energy & Environment and Infrastructure remain low at 19% and 43% compared to the total appropriation of $26.3M and $54.2, respectively.

Table 10: PSIP Mid-Year Disbursements against Allotments

PSIP	Appropriation	YTD Allotment	% of YTD Allotment	YTD Disburment	% of YTD Disbursement	Balance in Appropriation	% of Balance in Appropriation
Total	95,144,000	13,283,359	14.0	20,296,716	152.8	81,860,641	86.0

Spending on PSIP for the semester was only $20.3M or 21.3% against a total appropriation of $95.1M for the year. This is how much priority the government has put into the investment projects of the country that should expand the economy to create opportunities for Liberians.

7. Recommendations on Expenditure Management to Support Economic Growth

1. The MFDP should be advised to prepare clear and credible budget performance reports in the future, avoiding mistakes that undermine the credibility of its reports and delay Legislative discussions and decision-making.
2. The MFDP should be admonished to ensure that budget execution aligns with the revenue performance and the prevailing state of the economy.
3. MFDP be encouraged to work with spending entities to increase payments to basic social services providers and the protection of women and children sector to support and benefit the poor and vulnerable members of society, especially during the rainy season when hardships increase.
4. MFDP should work with spending entities and, if possible, deploy fiscal officers to critical spending entities, to assist them with the preparations of needed documents to accelerate disbursements to support the economic cycle (support government effectiveness and increase tax revenues, keep household spending power steady, and pay businesses for goods and services rendered) and help meet growth targets and drive inclusive development.
5. Develop and align the budget for 2025 within the framework of the ARREST agenda for inclusive development.