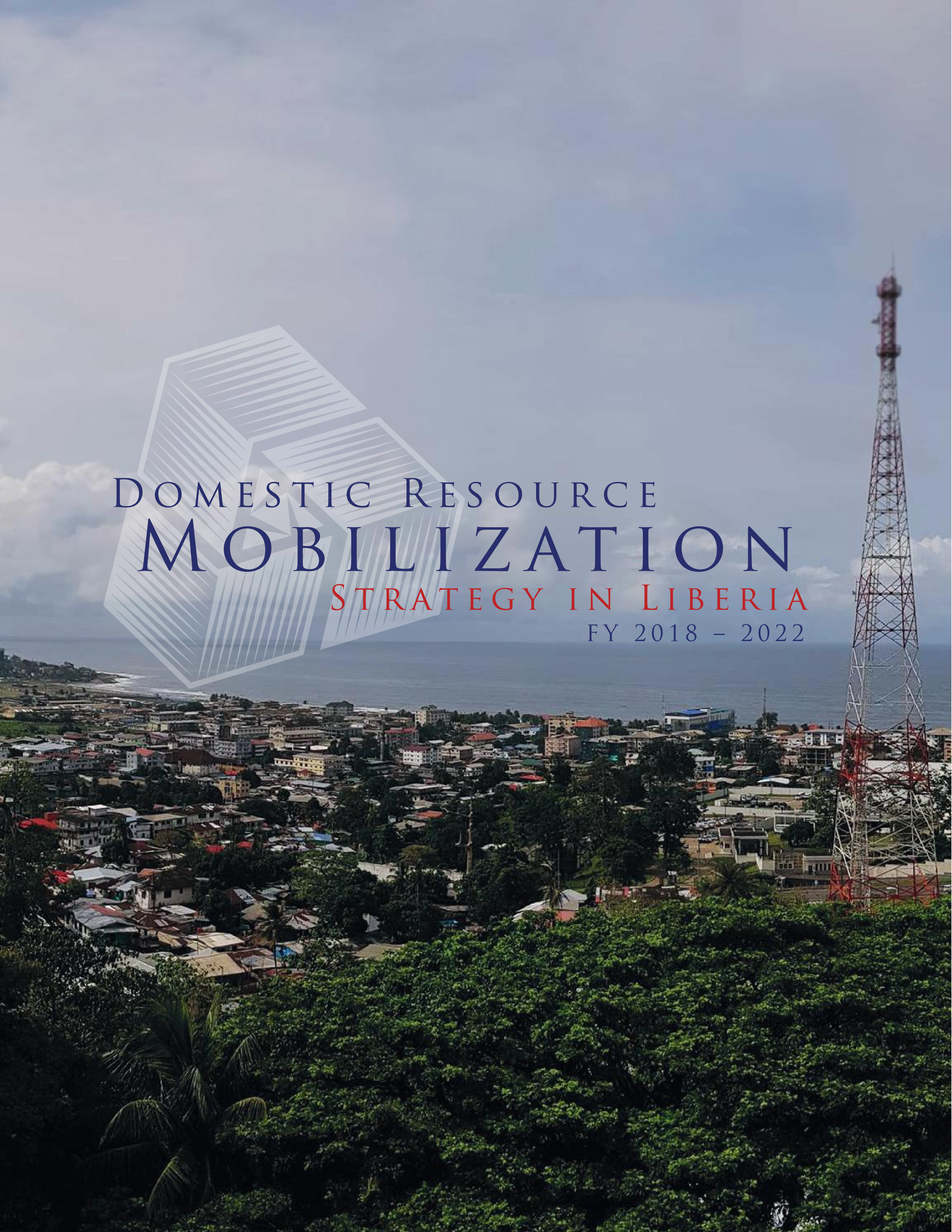
Domestic Resource Mobilization Strategy in Liberia

FY 2018 – 2022



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foreword by

H.E.

George Manneh Weah

President of the Republic of Liberia

The overall objective of the national DRM Strategy is to identify and guide national initiatives to garner sustainable domestic resources, to finance inclusive growth and poverty reduction, in furtherance of 'Liberia Rising 2030'.

The Pro-Poor Agenda for Prosperity and Development, FY 2018 – FY 2022, which my Government launched today sets our country on a path to eliminating extreme poverty and achieving middle income status by the timeline set by Liberia Rising 2030. Efforts to attain our national socio-economic goals have been supported steadfastly by our development partners including national governments, international and non-governmental organizations, especially during very trying times. While the country expects continued engagement of the international donor community in our development, we must play a greater part by ensuring that every citizen and business that earns an income in Liberia contributes by paying lawful taxes.

Towards this laudable national effort, my Government has crafted a Domestic Resource Mobilization (DRM) strategy in tandem with the Pro-Poor Agenda to increase funding for development and poverty reduction in our country. The revenue proposals originated from nationwide dialogues attended by Government officials, taxpayers, business associations, civil society organizations, community opinion leaders and donor partners. The overall objective of the national DRM Strategy is to identify and guide national initiatives to garner sustainable domestic resources to finance inclusive growth and poverty reduction in furtherance of 'Liberia Rising

2030'. It is intended to enhance funding for the country's Pro Poor Agenda and achieve the Sustainable Development Goals (SDGs), while strengthening national frontline defenses against downside socio-economic risks such as a fall in international commodity prices and emergencies such as the Ebola Virus Disease.

The DRM strategy seeks to raise the revenue effort by introducing digitalization and modern information technology, expanding access to tax administration services, enhancing the efficiency and effectiveness of taxation, turning tax discount into tax premium sectors, financial deepening to encourage more savings for private investment and exploiting the nexus between foreign development assistance and DRM. The scope of activities touched by the DRM Strategy is widened to ensure that while there are no major increases in tax rates in consonance with the Pro-Poor Agenda, the revenue base is expanded so that every citizen and business contributes a fair share.

For compatriots, a culture of paying taxes must be embraced as the most successful source of financing development in all countries of the world. Indeed, loans and grants from other countries though expedient at this stage of our development, also constitute savings of, and taxes paid by, inhabitants of other countries. For every Liberian, obtaining a tax identification number (TIN) as an income earner or business owner is, for all intents and purposes, the first sign of a true patriot. In paying taxes, we fulfill our social contract with the State, as the Holy Bible enjoins us to do: 'give onto Caesar what is Caesar's.' In return, public officials must earn your confidence through accountability, transparency and probity in the use of public resources.

I call upon all Liberians to get acquainted with the DRM to seriously ask themselves how best to contribute to its realization. This call extends to our able and distinguished sons and daughters in the Diaspora, for whom the DRM has customized instruments to facilitate their participation in the development of the motherland. I am convinced, and my Government is resolved, to overcome our socio-economic and financial constraints through our own efforts foremost, and then strengthened collaboration and partnership with all friends of Liberia – bilateral governments, multilateral institutions and civil society organizations. Let us boldly move from a DRM strategy in formulation to full implementation that results in more revenue to keep millions of Liberians out of extreme poverty.

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His Excellency George Manneh Weah

President of the Republic of Liberia

Preface to the Domestic Resource Mobilization Strategy in Liberia

Hon. Samuel Tweah

Minister of Finance and Development Planning

In line with the global efforts at United Nations level to garner more domestic resources to finance the Sustainable Development Goals (SDGs) monitored under SDG 17.1, and at the continental level to meet Aspiration 7 of the Africa 2063 Agenda and the 2015 Addis Ababa Action Agenda on Financing Development, Liberia's Pro-Poor Agenda for Prosperity and Development (PAPD), FY 2018 – 2022, has a financing gap of US$ 1 Billion which the Government will endeavor to raise domestically.

The DRM in Liberia for the same period takes a broader definition to encompass public and private savings as sources of development and budget financing from tax and non-tax revenues and domestic debt. The DRM proposes that the efficiency and effectiveness of taxation will be enhanced through training, technical assistance,and digitalization and automation of tax administration. We have gone beyond traditional medium term revenue frameworks in two major respects: delving into development transformation projects and tweaking them to aid more revenue collection to turn tax discount into tax premium sectors; and, expanding institutions, markets and instruments to strengthen financial deepening for higher private savings.

We will endeavor to reap more revenue from our natural resources sector for the benefit of Liberians while encouraging private investment. Key highlights include a market-oriented agriculture along the agro-pole model in support of private sector-led growth strategy to engender private enterprise and generate employment as sources of income and taxes. In the mining sector, a Precious Metals Marketing Corporation with public and private stakes will be established for buying and selling, to promote value addition such as polishing diamonds, and provide developmental extension services to the artisanal sector. In the Fisheries subsector, joint ventures will be promoted between foreign and domestic companies to facilitate technology transfer and higher employment for Liberians. Paradigm shifts will be introduced in untapped subsectors like tourism to turn its fortunes to become a significant foreign exchange earner and employment source as well as realize the tax premium status it registers in most countries.

Financial deepening including the establishment of a capital markets will be embarked upon. Two debt instruments will be floated as sources of financing of short-term liquidity and medium to long term funding. With regard to the former, President George Manneh Weah Treasury Certificates will be introduced having maturities of three and six months with market-based returns set on a mobile platform for cost effective administration. The TCs will be in small

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denominations of US$ 100 to US$ 500 targeting small savers wishing to support a successful Pro-Poor Agenda. For the latter, diaspora bonds targeting subscription from Liberia's sons and daughters resident abroad will be marketed. The bonds will be earmarked for specific development projects that holders can follow online its physical progression to completion. Given the undesirable history of public debt issues in this country, safeguards will be built into these marketable securities to give comfort to investors by ensuring earnings and safety of capital.

I therefore call on my fellow Liberians at home and abroad for each to play a part in the ownership of our common development destiny and meeting emergencies such as the Ebola Virus Disease. The cost of implementing the DRM is estimated at US$ 79 million including foreign investments and technical assistance requirements which donor partners are better endowed to proffer. Thus, I also commend this DRM strategy document to them to work with the Government in their respective roles to put revenue generation on a higher trajectory to meet immediate development priorities in the PAPD and future needs of the people.

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Honorable Samuel Tweah,

Minister of Finance and Development Planning

Acknowledgments

Hon. Thomas Doe Nah

Commissioner General, Liberia Revenue Authority

The Domestic Resource Mobilization (DRM) Strategy, FY 2018 -2022, was approved by the Government of Liberia at a Cabinet meeting held in Gbarnga on October 26, 2018, and launched the next day in Ganta as an integral part of the Pro-Poor Agenda for Prosperity and Development (PAPD) by His Excellency, President Dr. George Manneh Weah. It is my distinct pleasure to present Liberia's DRM strategy and to acknowledge the many contributors who got us the blueprint.

This DRM document is the product of an extensive consultative process seeking to solicit shared national perspectives and direction on how, what types and levels of taxation Liberians want. Stakeholders were brought together throughout the country at five Regional Dialogues attended by representative of Government, private sector, business associations, donors, civil society organizations and academia; and, student, religious, community and opinion leaders. Those gatherings were followed up with in-depth individual and focused-group interviews by the DRM Consultant in more than 30 meetings. The process was concluded with a National Revenue Symposium in Monrovia on July 18, 2017, where a synthesis report was tabled for discussion and chaired by the erstwhile President, Madam Ellen Johnson Sirleaf.

A first draft of the DRM strategy coincided with assumption of office by the Government of President Dr. George Manneh Weah. Financing the new government's Pro-Poor Agenda took center stage in further development of the strategy. The draft was shared with the new Ministers culminating in a presentation to a Cabinet Retreat chaired by the President. In addition, comments received from technical reviews by Management of the Liberia Revenue Authority (LRA), ministries and agencies as well as the international donor community informed the document you have in your hands. The DRM strategy was mainstreamed as Chapter 7 in the PAPD, denoting the financing sources.

The DRM strategy is intended to finance the PADP and inclusive growth as well as attain the Sustainable Development Goals (SDGs). It seeks a sustainable growth trajectory in resource mobilization to guard against national vulnerabilities occasioned by a fall in international commodity prices and provide frontline defenses against such emergencies as the Ebola Virus Disease pandemic. The strategic priorities are to expand the revenue base, minimize revenue loss, engender financial deepening in the money and capital markets, and exploit the nexus between DRM and official development assistance.

The critical enablers are raising the tax effort, a conducive Legal Infrastructure for taxation, greater effectiveness and efficiency in the tax system, macroeconomic stability (and accountable and transparent public expenditure management to meet the priority needs of taxpayers), public confidence in the tax system, comprehensive enterprise risk management, and income growth while turning tax discount into tax premium sectors. However, four headline risks inhibiting revenue collection have been identified in Liberia namely, informality, corruption, capital flight and low human and institutional capacity. The DRM proposed strategies which also mitigate against these downside risks to achieving optimal results in resource mobilization.

Implementation of the DRM strategy will be driven by digitalization of the tax system on electronic and mobile platforms (e & m-Tax Project); Legal amendments involving paradigm shifts in taxing the natural resource sector; Transformational investments and institution building in the economic sectors prompting game changers for the benefit of tax collection; Infrastructure development to modernize and expand tax administration offices throughout the country to engender wider access to services; Studies and process changes; and, Capacity building and technical assistance.

The DRM strategy seeks to generate an estimated One Billion United States Dollars at a cost of US$ 79 Million, both over five years. This will support the PAPD's overarching goal of lifting One Million Liberians out of extreme poverty by June 2023. This is a national imperative which the LRA is committed to achieve and all natural and legal persons eligible to pay lawful taxes in Liberia are urged to voluntarily comply.

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I acknowledge the contributions to this DRM Strategy by my predecessor, Madam Elfrieda Stewart-Tamba, and past and present members of the Senior Management of the LRA in the persons of Mrs. Decontee King-Sackie, Deputy Commissioner General, Technical Affairs, Oliver Rogers, Deputy Commissioner General, Administrative Affairs, Darlingston Talery, Commissioner, Domestic Tax and Saa Samoi, Commissioner, Customs. The LRA team that supported them came from every department and too numerous to recount here. Let me just mention the core team that was behind the process and they are Messrs. Molley O. Kiazolu, Robert Sei Kamei Jr., Wellington Jah, Yankoi F. Miller, Sebastian A. Weah, Ambrose Bonney and Augustine Chenoway as well as Ms. Nyankor Matthew. I salute all who had any role in this document.

My gratitude goes to Hon. Momodou S. Foon, DRM Consultant, who elaborated the DRM strategy and currently serving the LRA as Advisor. His tireless work ethic and technical guidance was indispensable throughout the process up to the implementation stage. Similar sentiments are extended to the UNDP for its technical and financial support through the hiring of the Consultant. The World Bank has since the beginning of this year supported the technical assistance provided by Hon. Foon, kudos to them as well.

Finally, I urge all who have been involved to stay the course so that Liberians will realize the fruits of this DRM strategy.

On behalf of the LRA, thank you one and all.

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Hon. Thomas Doe-Nah, Commissioner General, LRA

The United Nations Development Program (UNDP) and the World Bank supported the Government of Liberia in the elaboration of the Domestic Resource Mobilization (DRM) Strategy, FY 2018 – FY 2022, through funding the technical assistance provided by Hon. Momodou Foon, DRM International Consultant/Advisor.[1]

"We commend tne LRA for preparing a comprehensive document that outlines key Government priorities in the Domestic Resource Mobilization (DRM)".

Larisa Leshchenko (Ms), World Bank Country Manager

"Revenue reforms have considerable potential to directly expand the resource envelope and facilitate a needed increase in social spending. The mission notes the recent finalization of the Domestic Revenue Mobilization Strategy. It recommends that the authorities pursue the envisaged reforms, including excise tax, tax exemptions, and compliance".

(IMF Staff Mission 2019 Article IV to Liberia)


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Executive Summary

Domestic Resource Mobilization (DRM) in developing countries involves increasing public and private savings to finance social expenditure in education and health and investment in critical infrastructure to achieve inclusive growth and poverty reduction. "Domestic resources are the largest untapped source of financing to fund national development plans"[1], and developing countries that have achieved and sustained high growth rates have typically done so through the mobilization of domestic resources[2]. Furthermore, DRM not only expands the fiscal 'space' but also widens the policy 'space' as it empowers national ownership of development policy which when driven by foreign tied aid is crowded out by donor policy strings and conditionality[3].

Liberia went through over a decade of civil wars and characterized as fragile state in the traditional sense[4].Since the advent of the Government of Madam President Ellen Johnson-Sirleaf in 2006, the country has recovered but still remains among the 50 fragile states in the world as defined by the OECD's 2015 Fragility Report[5]. A symptom of fragility in Liberia's case has been a meltdown in domestic savings which recovered by 125% from an ebb of dis-saving at -142% of the gross domestic product (GDP) in 2007 to -58.8% of GDP in 2016. The financing of national consumption and investment came from foreign savings in the form of overseas development assistance (ODA) and foreign direct investment (FDI) in the natural resource sector. The bulk of ODA was associated with building peace and security in the country, in line with global trends in the use of donor aid.

However, progress was interrupted in 2014 by the Ebola Virus Disease (EVD) which ended with over 4000 deaths in 2016. Albeit, economic growth remained less than half its pre-EVD peak level of 8.7% in 2013. About 83% of the 4.5 million population live below the poverty line of USD 1.25 with a high disparity in wealth between urban and rural, the former inhabited by a dominant ethnic group and the elite, and the latter by less empowered ethnic groups and

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1 Domestic resource mobilization and taxation, International Monetary Fund, World Bank Group, July 2016

2 'Do It Yourself' Development: A Synthesis Report on Domestic Resource Mobilization in Africa" by Roy Culpeper and Aniket Bhushan, IMF.

3 Ibid

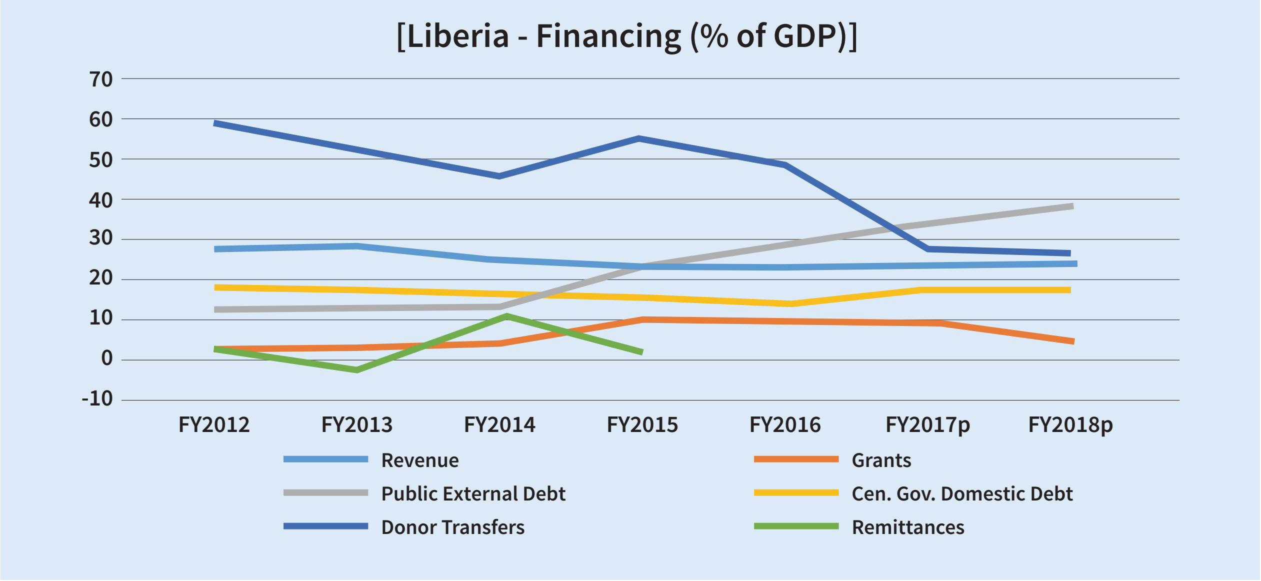
4 A **fragile state** is a low-income country characterized by weak state capacity and/or weak state legitimacy leaving citizens vulnerable to a range of shocks. The World Bank, deems a country to be 'fragile' if it (a) is eligible for assistance (i.e., a grant) from the International Development Association (IDA) (b) has had a UN peacekeeping mission in the last three years, and (c) has received a 'governance' score of less than 3.2 (as per the Country Performance and Institutional Assessment (CPIA) index of The World Bank).

5 States of Fragility 2015, Meeting Post-2015 Ambitions, OECD, defines fragility in the context of SDG 16, assesses fragility beyond fragile states: "it takes three indicators related to targets of SDG 16 and two from the wider SDG framework: violence, access to justice, accountable and inclusive institutions, economic inclusion and stability, and capacities to prevent and adapt to social, economic and environmental shocks and disasters. It applies them to all countries worldwide, and identifies countries that rank among the 50 with the highest vulnerability risk in more than one dimension".

religious minorities[6]. These disparities are a major socio-economic challenge to the country's aspiration to leave no one behind under its development vision 'Liberia Rising 2030' and inclusive growth under the Agenda for Transformation (AfT) 2012 – 2017, and going forward, with the Pro Poor Agenda of the new Government of President George Manneh Weah, who assumed office in January 2018.

Yet, for national development and budget financing, Liberia is currently confronted with stagnating growth in revenues and domestic debt, declining grants and donor transfers, rising external public debt and volatile net remittance flows (Figure I). The overarching challenge of the DRM is therefore, to close the financing gap left by a declining ODA and slowdown in the rate of growth of the foreign loans to keep debt sustainability from reaching high distress levels, especially against export receipts vulnerabilities occasioned by volatile commodity prices. The outward remittances which are highest in Liberia than anywhere else in Africa must be stabilized to nurture net gains in these rising inflows from the Diaspora to augment domestic resources.

Figure I: Sources of Financing in Liberia, 2012 - 2018



Source: 2016 IMF Article IV Consultations

The overall objective of the national domestic resource mobilization strategy is to identify and guide national initiatives to garner sustainable domestic resources to finance inclusive growth and poverty reduction in furtherance of 'Liberia rising 2030'. It is intended to fund the country's Pro Poor Agenda and achieve the Sustainable Development Goals (SDGs)[7] while strengthening national front-line defenses against downside socio-economic risks such as a fall in international commodity prices and health emergencies such as the EVD.

6 USAID Office of Food Security Desk Review for Liberia, 2016 – 2020

7 IMF, 2011, Revenue Mobilization in Developing Countries (IMF: Washington DC); OECD, IMF, UN and WBG, 2011, Supporting the Development of More Effective Tax Systems; IMF, 2015, Current Challenges in Revenue Mobilization: Improving Tax Compliance (IMF: Washington DC).

It is intended to fund the country's Pro Poor Agenda and achieve the Sustainable Development Goals (SDGs)

Figure II: DRM Framework

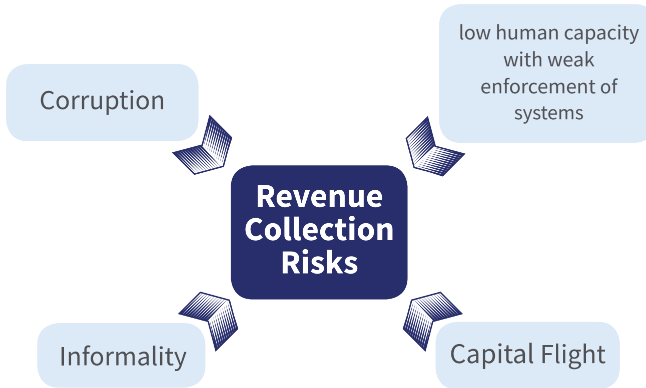
The strategic priorities of the DRM Strategy, as indicated in Figure II above, are to expand the revenue base through the greater use of technology, investment in key sectors and increase in voluntary compliance. It is also intended to minimize revenue loss and enable financial deepening for savings generation as savings leakages are plugged and exploit the nexus between DRM and ODA. During the post-civil war Government, 2006 to 2017, revenue collection grew more than fivefold from USD 84.6 million to USD 461.8 million. This quantum leap understandably is from a very low base but has since reached a plateau at between 20% and 23% of the gross domestic product (GDP) since the Ebola Virus Disease (EVD) struck in 2012. Liberia stands out as one the countries in world with two highs, a level of dis-savings at -58.8% of GDP and aid dependency that positions Liberia among the top four recipients in the World for the past four years.

Critical Enablers of the DRM

The DRM identified critical enablers to get Liberia out of this domestic resources mobilization malaise. Raising the tax effort was seen as sine qua non for expanding the tax base to get to a higher growth trajectory. The essential elements include engendering:

- Greater effectiveness and efficiency in tax system through expanded access to tax administration services and use of modern information technology;
- Macroeconomic stability including accountable and transparent public expenditure management to deliver pro-poor socio-economic services;
- Strengthened Legal Infrastructure for taxation;
- Strengthening public confidence in tax system in order to enhance and the social contract between the Government and the people in order to achieve higher levels of voluntary compliance;
- Application of an automated and dynamic Enterprise Risk Management Framework for the entire revenue administration organization;
- Turning tax discount into tax premium sectors;
- Financial deepening through introduction of new money and capital players, markets and instruments; and
- Donor engagement in DRM through technical assistance and investment funding in the initial years of DRM implementation.

The DRM identified four headline risks in the socio-economic fabric of Liberia inhibiting the realization of higher tax intake and domestic savings ratio, namely: Informality, corruption, capital flight and low human and institutional capacity. These headline risks represent cross cutting issues which are mitigated against in the strategies proffered by the DRM.



The pillars of this DRM's medium term framework go beyond the Medium Term Revenue Strategy (MTRS) by the Platform for Cooperation on Tax[8]and Strengthening Domestic Resource Mobilization – Moving from Theory to Practice (2017) by the World Bank Group in two respects namely: a) turning tax discount into tax premium sectors; b) legislations and regulations supporting growth of financial institutions, markets and instruments (see Table I).

Table I: Comparative definitions of medium term revenue frameworks

World Bank Group	Platform for Tax Medium Term Revenue Strategy (UN, WB, OECD, IMF)	DRM Strategy
Strengthening the administrative and policy aspects of tax systems	***Redesigning tax policy setting (efficient, equitable & effective systems)***	***Effective and efficient tax policy***
Enhancing the quality of tax system	***Reforming the revenue agencies (efficient, equitable and effective implementation of policy by revenue agencies)***	***Effective and efficient of tax administration***
Encouraging constructive state-society engagement around taxes.	***Strengthening the legal framework***	***Public confidencein tax systems through engagements (who, how & when pay taxes)***
		Legal infrastructure for taxes
		Turning discount sectors into premium sectors
		Legislations and regulations supporting growth of financial institutions, markets and instruments

The former allows this DRM to delve into structural impediments to taxation in the sector and the latter expands the definition of domestic resources to include private and not public savings alone. It therefore covers more than the traditional short-term tax initiatives and extends to a structural sector approach to identify game changers that would diversify the novel sources of tax to help expand the tax base and put it on a sustainable and higher growth trajectory. Those eligible for paying taxes and persistently evading taxes and the large informal segment in those sectors are targets for additional tax effort. It further seeks to frontally address factors widening the policy tax gap or revenue loss emanating from

...four headline risks in Liberia: capital flight, informality, corruption and low institutional and human capacity.

8 The Platform for Collaboration on Tax is a joint effort launched in April 2016 by the International Monetary Fund (IMF), the Organization for Economic Co-operation and Development (OECD), the United Nations (UN) and the World Bank Group (WBG)

the Liberia Revenue Code (LRC), Concession Agreements (CAs), Executive Orders on Tax Collection (EOTC) and other relevant Government policies. It intends to build public trust and confidence in the tax system to engender a culture of voluntary tax compliance by incentivizing compliant behavior with an accent on preventative enforcement.

The DRM document is in three main parts - public savings, private savings and a nexus between DRM and foreign savings. The strategies proposed are driven by three principles:

- Feasibility – within reach given "the financial, human and technical capacity needed to implement the specific financing mechanism. Moreover, it also bears in mind the timeframe required to effectively mobilize resources";
- Resources – "capacity to generate substantial resources"; and,
- Sustainability – "It is important that the new sources of finance are sustainable and predictable, in order to support medium to long-term fiscal planning.

The methodology takes a risk mitigation approach in recognition of four headline risks in Liberia: capital flight, informality, corruption and low institutional and human capacity[9].These are inhibitors to tax collection and thus, every strategy proposed seeks to treat these risks for optimal results in increasing tax and non-tax revenue and national savings. In support, the international literature on the empirics on taxation suggest that withholding, automation and use of technology, efficiency of the tax system and spending by RAs are main drivers for growth in tax collection[10]. Economic diversification, macroeconomic stability, a great business environment including rule of law and sanctity of contracts as well as basic infrastructure, and opportunities are necessary for investment in businesses and employment creation to engender revenue diversification and higher savings[11].

The order in which the strategies are presented above follows the logical sequencing of a typical tax reform process. In the short term, policy makers should concentrate on ways to deepen the tax base in the most efficient and fairest way – removing tax preferences, dealing with transfer pricing abuses by multinational enterprises and taxing extractive industries fairly and transparently. In the medium run, structural concerns require strategies that target the informal sector, enhance fiscal legitimacy, tap the potential of some sectors such as urban property, boost administrative capacity and harness international cooperation to improving resource mobilization.

In the long-term, however, fine tuning the current tax systems under the current economic structures will not yield substantial increases in revenue. Structural economic transformation will be necessary in order to broaden the tax base. Strategies to achieve this goal include: scaling up infrastructure investment to reduce production and trade costs (thus encouraging investment and trade); promoting private sector development including small and medium enterprises; consolidating governance reforms to improve the efficiency of the tax systems as well as the investment climate (thus encouraging private sector activity and increasing the tax base); and regional integration to increase market size and encourage trade (and thus raise revenue from trade taxes). In addition to other efforts, this strategy still requires financial support from development partners to fill the massive financing gaps as well as providing technical assistance consistent with the Addis Ababa Initiative.

The expected benefits of the DRM in the first order are higher revenues and savings ratio and second order include income generation, jobs, institution building, skills training, policies and process changes. Two projections on revenue streams are proffered by the DRM over and above current flows: an optimistic scenario view and a conservative one at annual average of USD 381 million and USD 203 million respectively, from FY2018 to FY2022. Sector rigidities such as the dominance of subsistence farming in agriculture and policy inexpediency of total elimination of tax expenditures are among the factors that differentiate them. Given the long gestation periods and complicated lag structures, an estimate is not provided for the savings ratio. The risk analysis also shows two Pessimistic scenarios: one pertaining to no paradigm shifts in tax expenditures resulting in revenue of USD 124 million; and another,assuming minimal external funding and private

These are inhibitors to tax collection and thus, every strategy proposed seeks to treat these risks for optimal results in increasing tax and non-tax revenue and national savings.

9 MSM Taxpayer Compliance Risk management Program, 2017 to 2021, MS Foon, 2017.

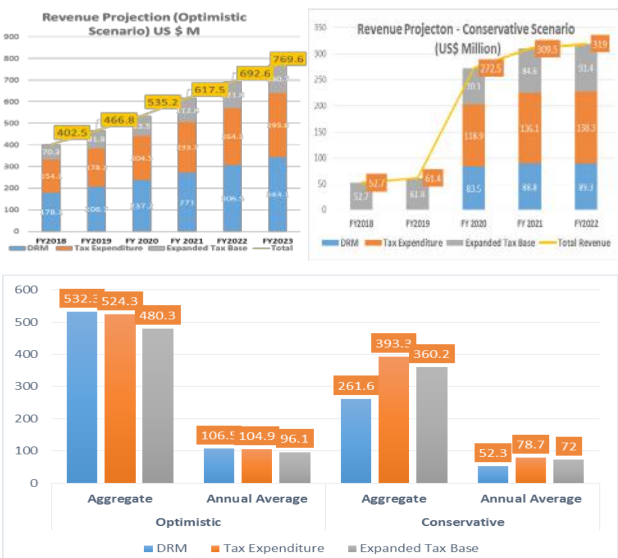
10 "Current Challenges In Revenue Mobilization: Improving Tax Compliance": M. Keen, et al, IMF, 2015

11 Export Diversification and Growth In Liberia, Anne Oeking, Atsushi Oshima, and Rodgers Chawani, IMF 2016; Revenue Diversification: Non-Traditional Sources of Development Finance as Game Changers in Africa, Abdoulie Sireh-Jallow, 2015; World Bank Doing Business 2017;2017 OECD Global Forum on International Investment

investment or low absorptive capacity in sectors, resulting in unrealized revenues from the transformational projects envisaged in the sectors and thus, leaving intake at USD 151 million. However, the discourse in the DRM strategy moves along the Conservative scenario (See Figure III).

The conservative scenario has revenue flows predicated on implementation of the e and m-Tax project and sector interventions as well as significant scaling down of tax incentives as proposed. The Government's Pro Poor Agenda has a financing gap of about USD 1 billion which the DRM strategy at USD 1, 015 million stands to fill.

Figure III: Revenue Scenarios



A breakdown of the total cost of the DRM implementation at USD 79.83 million by Components is presented as:

DRM Strategy Cost Summary

Component	USD (million)
Component 1: Revenue Administration and Turning tax discount into premium sectors	70.68
Component 2: Financial Deepening for Mobilizing private savings	4.16
Component 3: Secretariat	4.99
Total	***79.83***

The DRM proposes sources of funding from donors and GoL. It has an implementation strategy that is results based and engages taxpayers and donors in the governance structure. At the apex is the President and the Economic Management Committee while under it a DRM Steering Committee (supported by a Secretariat) reports to the Minister of MFDP. The DRM strategy was presented and well received at the Cabinet Retreat chaired by His Excellency, Dr. George Manneh Weah, in Buchanan in May 2018. The revenue initiatives in the proposed fiscal budget for FY 2018 presented at the Retreat is driven by the DRM strategy. The next steps in DRM implementation involve establishment of the Secretariat, a donors' meeting and full implementation.

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ACRONYMS

AAA	Accra Agenda for Action
AAIN	African Agribusiness Incubation Network
ACET	African Center for Economic Transformation
ADR	Alternative Dispute Resolution
AFDB	African Development Bank
AFT	Agenda For Transformation
AIM	Alternative Investment Market
BDT	Budget Deficit Target
BEPS	Base Erosion and Profit Shifting
BRT	Budget Revenue Target
BWIs	Bretton Woods Institutions
CAs	Concession Agreements
CBL	Central Bank Liberia
CCD	Commissioner for Customs Department
CDTD	Commissioner for Domestic Tax Department
CET	Common External Tariff
CG	Commissioner General
CPI	Consumer Price Index
CSOs	Civil Society Organizations
CSR	Corporate Social Responsibility
DCG	Deputy Commissioners General
DCGAA	Deputy Commissioners General for Administrative Affairs
DCGTA	Deputy Commissioners General for Technical Affairs
DRC	Democratic Republic of Congo
DRM	Domestic Resource Mobilization
DRMRDs	Domestic Resource Mobilization Regional Dialogues
DTD	Domestic Tax Department
EBAFOSA	Ecosystem-Based Adaptation for Food Security Assembly
ECA	Economic Commission for Africa
ECF	Extended Credit Facility
ECOWAS	Economic Community Of West African States
EOTC	Executive Orders on Tax Collection
ES	Executive Summary
ESRP	Ebola Economic Stabilization and Recovery Plan
EU	European Union
EVD	Ebola Virus Disease
FDI	Foreign Direct Investment
FRM	Foreign Resources Mobilization
FY	Fiscal Year (July-June)
GDP	Gross Domestic Profit
GEF	Global Environment Facility

GNI	Gross National Income
GRA	Ghana Revenue Authority
GST	Goods and Services Tax
HIPC	Highly Indebted Poor Income Countries
HWIs	High Wealth Individuals
ICT	Information and Communications Technology
IDA	International Development Association
IIC	Investment Incentive Code
IFFs	Illicit Financial Flows
IMF	International Monetary Fund
IRED	Institute for Research and Democratic Development
IRS	Internal Revenue Service
LATA	Liberian Agricultural Transformation Agenda
LEITI	Liberia Extractive Industries Transparency Initiative
LICs	Low Income Countries
LINTA	Liberian National Tourism Association
LISGIS	Liberia Institute of Statistics and Geo-Information Services
LRA	Liberia Revenue Authority
LRC	Liberia Revenue Code
LTD	Large Tax Division
MDA	Ministries, Departments and Agencies
MDGs	Millennium Development Goals
MFEP	Ministry of Finance and Economic Planning
MICE	Meeting, Incentives, Conference and Exhibitions
MNCs	Multinational Companies
MOU	Memorandum Of Understanding
MOW	Ministry Of Works
MSME	Micro, Small and Medium Enterprises
MSMT	Medium Small and Micro Taxes
MSMTD	Micro, Small and Medium Taxes Division
MTEF	Medium Term Expenditure Framework
MTRS	Medium Term Revenue Strategy
NASSCORP	The National Social Security and Welfare Corporation
NAPA	National Adaptation Programs of Action
NERF	National Emergency Response Fund
NGOs	Non-Government Organizations
NIC	National Investment Commission
NOCAL	National Oil Company of Liberia
NPA	National Post Authority
NRS	National Revenue Symposium
ODA	Overseas Development Assistance
ODI	Overseas Development Institute
OECD	Organization for Economic Cooperation and Development
PAYE	Pay As You Earn

PER	Public Expenditure Review
PFM	Public Financial Management
PIP	Public Investment Program
PIT	Personal Income Tax
PMMC	The Precious Metal Marketing Company
PSBR	Public Sector Borrowing Requirement
RA	Revenue Administration
RAs	Revenue Authorities
SDGs	Sustainable Development Goals
SIC	Sector of Industrial Classification
SOE	State-Owned Enterprises
SSA	Sub-Saharan Africa
TADAT	Tax Administration Diagnosis Assessment Tool
TAL	Tourism Association of Liberia
TDA	Tourism Development Area
TOR	Terms of reference
TPAF	Tax Policy Assessment Framework
TPS	Taxpayer Perception Survey
UNDP	United Nations Development Program
UNMIL	United Nations Mission in Liberia
USAID	United States Agency for International Development
VAT	Value Added Tax
WAMZ	West African Monetary Zone
WORLD	World Revenue Longitudinal Dataset
WTO	World Trade Organization

1.0 Background

Domestic Resource Mobilization (DRM) in developing countries involves increasing public and private savings to finance social expenditure in education and health and investment in critical infrastructure for inclusive growth and poverty reduction. "Domestic resources are the largest untapped source of financing to fund national development plans"[12], and developing countries that have achieved and sustained high growth rates have typically done so through the mobilization of domestic resources[13]. Furthermore, DRM not only expands the fiscal 'space' but it also widens the policy 'space' as it empowers national ownership of development policy which when driven by foreign tied aid is crowded out by donor policy strings and conditionality[14].

The focus on DRM has been a central plank of development economics and recently refocused upon by the International Community to finance sustainable development. It was cited as one of the 'six leading actions' at the 2002 Monterrey Conference on Financing for Development, the 2008 Doha Declaration on the same subject, the 2011 Fourth High Level Forum on Aid Effectiveness, in Busan, South Korea, and highlighted as pivotal for African countries to finance the Post-2015 Sustainable Development Goals(SDGs) and Africa Action Agenda 2063.

In particular, SDG 17.1 is the target set to track and measure strengthening DRM in countries through taxation as a key means of implementation while enjoining the donor community to support domestic capacity building for tax and other revenue collection[15]. In 2016, the Addis Tax Initiative attended by African countries and representatives of International donors proclaimed: "Domestic resource mobilization and effective use is the crux of our common pursuit of sustainable development and achieving the SDGs[16]". Thus, an international consensus positions DRM as the fulcrum for financing development. DRM consists of tax revenue collected by revenue authorities (RAs) like the Liberia Revenue Authority (LRA) and private savings in domestic money and capital markets.

A 2010 African Development Bank (AfDB) study focusing on taxation across 50 of its members showed that taxes per capita have been increasing in Africa over the last two decades although the increase has been modest in low income countries (LICs)[17]. As a low income country beset by a protracted civil war for fourteen years and an Ebola health emergency in 2014 which lasted for about two years, Liberia has been for the most part out of conformity with this desirable trend in Africa. However, while tax-to-GDP averaged 10-20 % in African countries, it is still well below the 30-40 % in OECD countries.

More than a decade of civil wars and the Ebola Virus Disease (EVD) in 2014 have combined to substantially depress economic activity and domestic resources mobilization (DRM) in Liberia.

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12 Domestic resource mobilization and taxation, International Monetary Fund, World Bank Group, July 2016

13 'Do It Yourself' Development: A Synthesis Report on Domestic Resource Mobilization in Africa" by Roy Culpeper and Aniket Bhushan, IMF.

14 Ibid

15 United Nations: Outcome Statement, Open Working Group on the Sustainable Development Goals, September 2014.

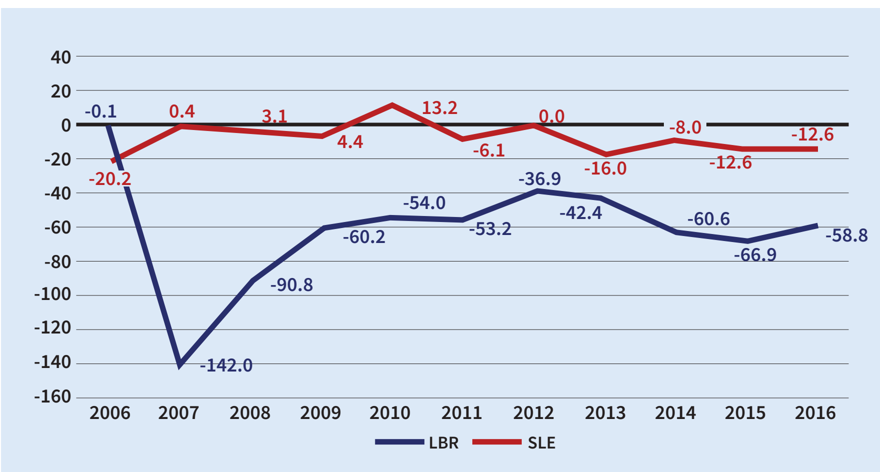
16 Addis Abba Action Declaration, 2016, It is curious that no resources have been provided at the center to drive DRM apart from a talk shop.

17 Domestic Resource Mobilization across Africa: Trends, Challenges and Policy Options, 2010

2.0 Introduction

Financing development from domestic sources has had a checkered history. Fundamentally, growth patterns dictate the country's ability to generate domestic savings to meet development financing and recurrent social services including education and health. The most formidable challenge to DRM in Liberia is therefore the low savings rate. However, the country is unique in West Africa for registering a negative domestic saving level that reached an ebb at -140% of GDP in 2007. In subsequent years to 2016, there was a rebound by 125% to -58.8% of GDP (Figure 2.1) but the level remains the lowest in the sub-region. Sierra Leone had similar experiences with regard to a prolonged civil war and EVD, but domestic saving has trended less in negative territory than Liberia. Therefore, overall, Liberia needs a DRM to set domestic savings on a higher growth trajectory from an annual average rate of 13.9% between 2007 and 2016 towards its prewar level of 18%.

Figure 2.1: Domestic Saving (%GDP)



Source: World Development Indicators, World Bank

Inflows of external savings mostly in overseas development assistance (ODA) and foreign direct investment (FDI) filled the national savings-investment gap to keep positive capital formation during this period at around 19% of GDP. Secondly, this DRM is therefore seeking a diversified financing portfolio for national development and depart from aid dependence in particular. The role of ODA in Liberia as depicted in Table 2.2 makes it a necessary starting point in a discourse on mobilizing resources to reckon with its current central place if only to streamline it. ODA dominates funding of the national development plan, peace and security and national emergences such as EVD. However, the United Nations Mission in Liberia (UNMIL) which was the main source and catalyst for external inflows to prop up socio-political stability has been winding down and ends in 2018. Inflows of human and material resources occasioned by the health emergency have also ceased.

Going forward, the international aid appetite for ODA from bilateral sources, which as implications for multilateral flows, is turning to aid fatigue exacerbated by rightist shifts to nationalism in major donor countries including the USA under President Trump and Germany, though to a lesser extent. "While coverage of right-populist movements has mainly focused on Brexit and the rise of Donald Trump, the far right has been strengthening throughout the West"[18]. These inward-looking forces gaining political momentum share sentiments of anti-globalization, anti-immigration, and don't have foreign development assistance as a priority on their policy platforms. The US, the World's and Liberia's leading donor, reduced contributions to the UN and withdrew from UNESCO and International Climate Agreement[19]. To sustain Liberia's development finance,

18 "The Rise of the Far Right", By Audrey Sheehy | February 11, 2017, Harvard Political Review,

19 "In 2016, the United States remained the largest donor to the United Nations, contributing more than $10 billion, roughly one fifth of its collective budget. The arrival of the Trump administration, however, has risen questions about how much the United States will continue to contribute. If President Donald J. Trump is able to follow through on his proposed cuts to foreign

this

ODA dominates funding of the national development plan, peace and security and national emergences such as Ebola Virus Disease (EVD).

DRM recognizes these emerging trends and proposes a re-balancing between DRM and ODA to mitigate against the rightist risks to Western donor assistance to developing countries like Liberia.

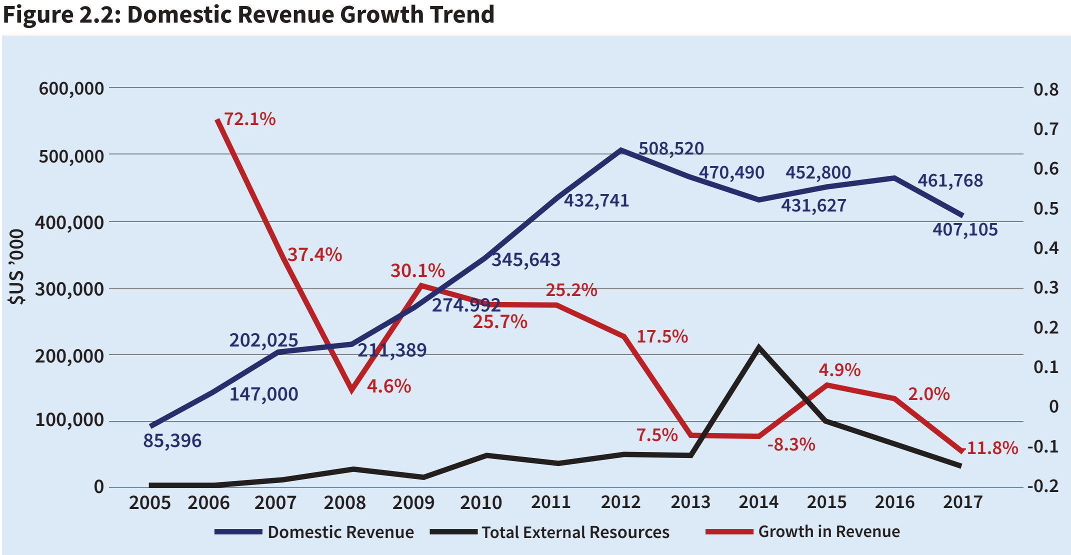
For generating savings for investment, national development and poverty reduction, this DRM considers limited higher tax rates and more tax types in the short term and goes further to expanding the tax base by way of medium to longer term structural measures such as setting up institutions and markets as well as growing businesses and employment through consolidating and diversifying the sources of income in the economic sectors; reducing savings leakages and revenue loss; and, enthrone effective and efficient tax administration. The strategies for mobilizing domestic savings pertain to public saving (taxation), measured by tax-to-GDP growth, and private saving (financial deepening) as measured by broad money to GDP growth. In the event of a stock exchange, the stake of residents in an increasing market capitalization would be a relevant indicator of success in domestic savings mobilization.

The point of departure for more domestic resources must be the country's natural resources. Liberia is endowed with iron ore, gold, diamond, rubber, forests, fisheries, year round sunshine, pristine and wide beach front, abundant rainfall patterns and probably oil and gas[20]. The DRM proposes strategies to enable Liberians derive more income and savings from the wealth based on these formidable potential assets. It is not about nationalization or natives but managerial, institutional and market approaches that empower the Liberian nation to benefit and share with partners in these gifts of nature by making investments in value addition.

The long term revenue collection trends witnessed an almost five-fold increase in the post-civil war period and the advent of the Government of HE President Ellen Johnson Sirleaf from USD 84.6 million in FY 2006 to USD 407.1 million in FY 2017 (Figure 2.2). A peak was reached in 2012 at USD 508 million driven by an underlying GDP growth of 7.8% and one-off payments of rents and royalties dominated by new entrants in the natural resource sector. The trough experienced in 2014 was occasioned by the EVD national health crisis, whereas the latest fall in 2017 was largely due to revenue inflows stuck in the legal system.

In relation to GDP, revenue collection reached a plateau between FY 2012 and FY2014 at 20% and 23% of GDP. By FY2017, it was still within this range at 21.8% however, in the previous year, the IMF revised upwards the Nominal GDP (NGDP) estimates by about 56% from USD 2,101 Million to USD 3,285 Million, which reduced the tax-to-GDP ratio to 14%. This figure sets a new base in FY 2017 for revenue performance and indicator of the DRM effort of the new Government of HE President Dr. George Manneh.

Figure 2.2: Domestic Revenue Growth Trend



Sources IMF Article IV Consultation Report 2016/2018 of each country& ATO 2016

aid spending ($50 billion), the United Nations will likely need to undergo significant changes" (Council on Foreign Affairs) Article by Amanda Shendruk, September 21, 2017.

20 Current prospecting for oil and gas by companies such as Exxon are yet to come up with finds, source LRA.

On the basis of the revised GDP figures, the IMF stated in the Article IV Consultations 2018 that in Liberia "….domestic revenue generation is low relative to peers". On the basis of the previous GDP estimates Liberia was ahead of its peers in the WAMZ,however, with the revised GDP data, it is only performing higher than Nigeria and Sierra Leone and still above the average in the grouping. The GDP estimates are a point of contention in various regards including this one, and as recommended by the IMF, it is imperative to conduct the requisite national account survey to arrive at figures with a methodology that conforms to international standards.

Table 2.1: Comparative Revenue Ratios WAMZ Countries

Country	Revenue to GDP (%)	
	2016	
	GDP Previous	GDP Revised (2018)
The Gambia	15.1	
Ghana	17.3	
Liberia	***21.8***	***14.0***
Nigeria	5.3	
Sierra Leone	10.9	
Guinea	19.7	
WAMZ Average	**15.7**	**13.7**
ATO Average	17.6	
OECD Average	25.7	

2.1 Financing the National Development Plan

The DRM is required to finance the recurrent budget and make contributions to financing the national development, leaving any gaps to be filled by domestic borrowing and external resources. The "Liberia Rising 2030" is the development blueprint setting a path of economic, political and social transformation towards a middle-income country by the timeline, leaving no citizen behind. The 18-year vision seeks to make public institutions and governing systems efficient, responsive, and accountable; and, to ensure that all Liberians have equal opportunity and protection under the law, regardless of ethnicity, affiliation, or socio-economic background.

The Agenda for Transformation (AfT), 2012 – 2017, is a five-year development plan that constitutes the first step to Liberia Rising 2030[21]. The Aft was reviewed in 2016 and showed significant progress in the first two years with growth reaching a peak at 8.7% and thereafter arrested by the EVD to plummet to annual average of less than 1% for the rest of the period. Financing for the plan did well, dominated by foreign inflows at 52% of the total and domestic funding at 48% (Table 2.2). Overall performance was mixed on the pillars (Peace, Security and Rule of Law, Economic Transformation, Human Development, Governance and Public Institutions and Cross-Cutting Issues) on the back of the EVD mid-way in the plan period that also coincided with lower international commodity prices. These two shocks have slowed Liberia's climb out of fragility[22].

The overriding need for DRM rests with meeting the financing requirements of the budget, national

21 Agenda for Transformation: Steps to Liberia Rising, 2012 – 2017, Republic of Liberia

22 Liberia Article IV Consultations 2016

development plan and to meet the SDGs. While Liberia's Agenda for Transformation (AfT), 2012/13 – 2016/17 was replaced by the Post-Ebola Economic Stabilization and Recovery Plan 2015 – 17, both have reached their timelines. In tandem, the national plebiscite for a new Government and National Assembly members ended with Dr. George Manneh Weah as the President sworn-in on 22 January, 2018. Thus, this DRM coincides with an interregnum that affords an opportunity for its recommendations to be implemented by the new Government of HE President Weah under its Pro Poor Agenda. The country is therefore at a threshold which makes it possible to move away from business as usual and make paradigm shifts to address extensive revenue leakages driven by stated policies and headline risks. The new Government has an opportunity to embark on a sustainable development financing trajectory driven by enhanced utilization of the country's human and well-endowed natural resources.

The composition of development finance for the Pro Poor Agenda will not deviate much from the AfT however, this DRM proposes to accord a greater share of domestic resources. Traditional development financing consists of domestic resources (taxes and borrowing), foreign loans and grants (Official Development Assistance), remittances and private capital inflows (bank loans, foreign direct and portfolio investments). More generally, public and private savings from foreign and domestic sources are required while this DRM strategy focuses on the latter[23].

The AfT, consistent with the Vision 2030, aimed to raise the country from its current low income status to middle income by the vision date. That is, from a gross national income (GNI) per capita of USD 720 Purchasing Power Parity (PPP) in 2015 to USD 1,036 by 2030[24]. Apart from wealth growth, the Aft sought inclusiveness with particular emphasis on Peace, Security and rule of law, infrastructure and economic transformation, human development, and good Governance and building capacity of Public Institutions. The estimated total cost of the Aft over five years was USD 3.21 billion and its Mid-Term Review (April 2016) puts actual investments at USD 2.4 billion: Agriculture– USD 152.9 million; Roads and Bridges–USD 1.32 billion; Energy – USD 751.3 million; and, Roberts International Airport and Sea Port – USD 124 million.

Total financing for the Liberian development plan and budget support stood higher at USD 3.8 billion. USAID led both bilateral and multilateral sources with actual disbursements of close to USD 400 million, while the World Bank came second and led the latter grouping at slightly less than USD 250 million. In FY2015, disbursements for projects and programs accounted for 77.1% and budget support at 12.2% as well as 9.8% to the Trust Fund[25].

Table 2.2:Main Sources of Financing AfT I

	FY2012	FY2013	FY2014	FY2015	TOTAL
Government (%)	57	55	39	41	48
ODA (%)	43	45	61	59	52
Total (US$)	**973.7**	**981.9**	**1188.9**	**640.4**	**3784.9**

Source: Mid-Term Review of AfT

However, about halfway into the period of implementation, the AfT was stopped in its tracks by EVD pandemic that was reported in March 2014 and ended in 2016. The human cost was high with 4,810 deaths[26], lowered life expectancy to 57 years and substantial setback in gains on poverty reduction. The socio-economic fabric grinded to a halt with schools shut down and already mediocre health facilities stretched past capacities. The GDP plummeted from 8.7 in 2013 to 0.7 % in 2014, no growth in 2015 and went into negative territory by 0.5 % in 2016. Economic growth averaged 7.8 % in the pre-Ebola period (2006 to 2013) but just 1.6 % in the post-Ebola period (2014 to 2017). Preliminary data suggests that the recovery projected at 3.2% in 2017 by the IMF[27] on the back of higher gold production and growth in the agricultural sector supported by the Liberian Agricultural Transformation Agenda (LATA) may have been overestimated. In parallel, a Mid-Term Review of the AfT done in October 2016 and the IMF's World Economic Outlook (April 2017), projected that returning to the 2013 level of economic growth would not be attained before 2020.

Significantly, the Government made bold attempts to restore economic stability while the country was not declared totally Ebola free until June 2016. The international goodwill that poured into the country was largely in-kind (human and material resources) particularly, medical assistance to arrest the spread of the disease. The post-Ebola Economic Stabilization and Recovery Plan (ESRP), 2015 – 2017, designed by the Government to usher a rebound to growth trends compatible with the AfT and cost at USD 1.3 billion was underfunded by as much as 61%or over USD 800 million. This result already exemplifies unrealized expectations from ODA which is another motivation for this DRM.

23 'Do It Yourself' Development: A Synthesis Report on Domestic Resource Mobilization in Africa" by Roy Culpeper and Aniket Bhushan, IMF.

24 World Bank Development Indicators

25 GoL - Annual Economic Review 2015, MFDP, April 2016

26 Centers for Decease Control: https://www.cdc.gov/vhf/ebola/outbreaks/2014-west-africa/case-counts.html

27 Liberia: Fifth And Sixth Reviews Under The Extended Credit Facility Arrangement, Request For Waivers Of Nonobservance Of Performance Criteria, Augmentation Of Access, And Extension Of The Arrangement

Still, the ODA is significant enough for the MFDP's FY2015 Annual Development Assistant Report to declare that "Official Development Assistance (ODA) is critical to Liberia's socio-economic development, as it represents a larger share of resources than the national budget itself". This DRM would be amiss without giving ODA the prominence it deserves, if only to give further justification for recourse to a greater role for local savings in financing the country's Pro Poor Agenda.

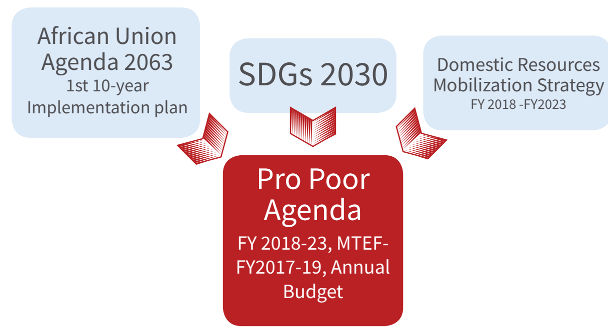
2.2 Achieving the SDGs

The AfT coincided with last three years of the Millennium Development Goals (MDGs) to 2015. The country had a late concerted effort to meeting the MDGs and thus overall made limited advances. Poverty remains high and pervasive in rural areas. It showed much volatility recently, declining from 64 %in 2007 to 54 %in 2014 before returning to the level in the earlier period in 2016. Poverty reduction strategies of the Government supported by the international donor community, public and non-government organizations (NGOs) were behind the successful period and the EVD was responsible for the subsequent slippage. Food insecurity in Liberia remains precarious slightly less than half the households being so affected.

With 74% characterized as vulnerable employed points to the level of informality which permeates virtually every aspect of economic activity. Concomitant with a rather curiously low unemployment rate at 3%in 2014, the level of under-employment is very high in Liberia. In the midst of pervasive informality and low livelihoods at42%of the population under 15, swell the ranks of Liberians who cannot fully realize their expectations in the job market. This is a demographic pressure that is present across Africa quite reminiscent of the tinderbox that fueled the Arab Spring[28].

These are socio-economic vulnerabilities which must be frontally addressed in a subsequent development plan, apart from taking on board the Review of AfT, Liberia Rising 2030, the SDGs, the Africa we want 2030 and its 10-Year Implementation as well as this DRM. In turn, the PAPD will inform the Medium Term Expenditure Framework (MTEF) that cascades down into the Annual Fiscal budget. Figure 2.2 establishes these relationships and the timescales involved. These relationships are recognized in the Road Map for Domestication of the SDGs and AU Agenda 2063 and a process was approved by Cabinet to effect these linkages[29].

Figure 2.3: Policy Frameworks for Implementing SDGs,



Agenda 2063 and DRM

The Road Map calls for "Work towards linking the PAPDto the national budget cycle to avoid the experience of the unavailability of funds to implement critical activities and undertake interventions in time. This will also improve the tracking of budget ceilings and disbursement needs as well as what spending entities plan to and have achieved in terms of implementing the PAPD[30]". However, the Road Map does not proffer a solution to this critical missing link between the Pro Poor and the Annual Budget. The link is the Medium-Term Expenditure (MTEF) that squares revenues with expenditures by sector within a three-year horizon, a timeframe more or less between a five-year national plan and the Annual Budget (Figure 2.3).

For the purposes of measuring and monitoring SDG 17.1, a key measure of country performance on DRM, the Addis Compact 22 does not set revenue targets but has accepted "nationally defined targets and timelines" on total government revenue (tax and non-tax) as proportion of GDP as the internationally accepted measure[31]. It is also part of the Addis Ababa Accord that the source of the data will be the IMF's World Revenue Longitudinal Dataset (WoRLD).

28 Abusharif, I. N. (2014).Parsin "Arab Spring". Qatar: Northwestern University. The Arab Spring led to the fall of three governments in Tunisia, Egypt and Libya and sowed the seeds of the six-year civil war in Syria.

29 Domesticating Agenda 2030 for Sustainable Development & AU Agenda 2063 using the New Deal Principles: Draft Roadmap For The Republic of Liberia

30 Ibid

31 Domestic resource mobilization and taxation, International Monetary Fund & World Bank Group, July 2016

2.2.1. Strategy Mainstreaming SDG 17.1 in the development plan

The DRM is already mainstreamed in the Pro Poor Agenda as Chapter 7 of that document, which would inform the MTEF and then into the annual fiscal budget. SDG 17.1 would be recorded and monitored as an indicator of DRM narrowly defined as the ratio of total revenue (tax and non-tax) to GDP.

2.3 Overall Objectives of the DRM Strategy

Mobilizing domestic resources in Liberia is challenged by overloaded tax legislation, weak tax compliance culture, undiversified productive base and low national savings characterized by leakages as well as headline risks such as informality, corruption and low institutional and human capacity. These risks permeate the socio-economic fabric and institutions across sectors and sections of the society. This DRM proposes strategies that address these threats with particular reference to collecting more taxes and increasing private savings.

The overall objective of the Liberia's domestic resource mobilization strategy is to identify and guide national initiatives to garner sustainable domestic resources for financing national inclusive growth and relief poverty. It is aimed at funding the PAPD and achieve the Sustainable Development Goals (SDGs)[32]and prop up national front-line defenses to meet shocks occasioned by a fall in international commodity prices and emergencies such as the Ebola.

Raising the tax effort was seen as sine qua non for expanding the tax base to get to a higher growth trajectory. The specific objectives are to engender:

- Greater effectiveness and efficiency in tax system through expanded access to tax administration services and use of modern information technology;
- Macroeconomic stability including accountable and transparent public expenditure management to deliver pro-poor socio-economic services;
- Strengthened Legal Infrastructure for taxation;
- Strengthening public confidence in tax system in order to enhance and the social contract between the Government and the people in order to achieve higher levels of voluntary compliance;
- Application of an automated and dynamic Enterprise Risk Management Framework for the entire revenue administration organization;
- Turning tax discount into tax premium sectors;
- Financial deepening through introduction of new money and capital players, markets and instruments; and
- Donor engagement in DRM through technical assistance and funding of infrastructure in the initial years of DRM implementation.

2.4 Methodology

The "Prospects of Non-Traditional Sources of Development Finance in Ethiopia" by UNDP, established three principles of resource mobilization:

Feasibility – within reach given "the financial, human and technical capacity needed to implement the specific financing mechanism. Moreover, it also bears in mind the timeframe required to effectively mobilize resources";

Resources – "capacity to generate substantial resources"; and,

Sustainability – "It is important that the new sources of finance are sustainable and predictable, in order to support long-term fiscal planning" (UNDP Ethiopia 1/2012).

Indeed, strategies must be time bound in the traditional approach of short (less than 1 year), medium (1-3 years)

32 IMF, 2011, Revenue Mobilization in Developing Countries (IMF: Washington DC); OECD, IMF, UN and WBG, 2011, Supporting the Development of More Effective Tax Systems; IMF, 2015, Current Challenges in Revenue Mobilization: Improving Tax Compliance (IMF: Washington DC).

and long term (more than 3 years). The quantity of resources to be collected should also be significant and cost effective. Sustainability is the edge that domestic resource mobilization must have over recourse to foreign financing.

Each part of the DRM has endemic driving principles which would be invoked in the relevant area. The narrative's underlying framework answers to questions which are essentially two sides of the same coin: i) "what traditional and non-traditional sources of financing can be tapped to achieve the overarching goal of increasing domestic resources?" and, ii) "what factors or events or risks can impede, inhibit or hinder the overarching goal of increasing domestic resources". The former lends to increasing revenues and savings while the latter addresses revenue loss and savings leakages.

In addition, the discourse moves between high level strategies for policy making and particular operational details including tax rates, capacity issues, systems and procedures. This is deliberate to facilitate estimation of resource flows and answer to the LRA's wish to have the DRM identify so-called low lying fruits (taxes) which can be reaped in the short run.

Elaborating this document involved a process of national consultations with taxpayers on priority DRM strategies which was also meant to stimulate national tax consciousness and promote a culture of voluntary compliance. The events started over a year ago conducted by the LRA with UNDP support dubbed Domestic Resource Mobilization Regional Dialogues(DRMRDs) bringing together stakeholders in each of the fifteen counties of Liberia. The finale was a National Revenue Symposium in Monrovia on July 18, 2017, chaired by Her Excellency, President Ellen Johnson Sirleaf, that attracted cabinet members, representatives of the regional dialogues, academia, stakeholder institutions and associations in the public and private sectors, civil society organizations (CSO's) and donor community.

A Medium, Small and Micro Taxpayers Compliance Risk Management Program, 2019 – 2021[33], in Liberia was prepared by the LRA with UNDP support. From this work, four headline risks are identified in this country: capital flight, informality, corruption and low human and institutional capacity. These risks encapsulate events which can stop Liberia from achieving the objectives of the DRM. Therefore, strategies proposed will seek to treat such risks as detailed in Box 1.

Benchmarking in this DRM is mostly against countries with similar economic structures dominated by the natural resources sector categorized as low income countries (LICs) and another fragile state, Sierra Leone. Particular reference is made of those countries that Liberia shares the same financial and economic aspirations towards monetary union, a single currency, under the West African Monetary Zone (WAMZ[34]). Since the AfT is aiming to lift Liberia from LIC to middle income country (MIC) status by 2030, Ghana and Nigeria, have achieved this goal and therefore act as pacemakers among the WAMZ grouping.

The paucity of data is pervasive. Therefore, the approach to missing data and evidence used in this DRM virtually follows the method of the World Bank's study on Liberia's Inclusive Growth Diagnostics (Box 2). As noted earlier, articulation of this DRM went through Regional Dialogues covering all 15 counties in Liberia and a National Revenue Symposium attended by over 400 stakeholders. The Drafter of the DRM held 40 in-depth bilateral meetings and focused-group discussions with all relevant Ministries and Agencies (MACs), business fraternities, academia, donors, CSOs, ethnic, community and religious opinion leaders (Annex 8.1).

The process of elaborating the DRM document will conclude with second round regional dialogues for comments on the draft DRM Strategy and concluding with a national validation by representatives of the stakeholders listed in Box 4.

33 This document was elaborated by Mr. Momodou Foon, 2917, for the LRA with UNDP support. The country's tax expenditures were drafted in 2018 by Al and Associates and provide estimates of revenue loss arising from the GoL policies.

34 WAMZ is constituted by The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone

Box 1: Headline Risks	***Exposing and mitigating (Sources of revenue loss and saving leakages)***
Capital Flight/ Illicit Financial Flows	Over the last 50 years, Africa is estimated to have lost in excess of $1 trillion in illicit financial flows (IFFs) (Kar and Cartwright-Smith 2010; Kar and Leblanc 2013). This sum is roughly equivalent to all of the official development assistance received by Africa during the same timeframe. Currently, Africa is estimated to be losing more than $50 billion annually in IFFs. Liberia experiences IFF and outward remittances of an annual average of $966 million (Source: Financial Integrity International, 2004-2013) and $378.8 million (World Bank, 2004 -2016) respectively. (Illicit Financial Flows in Africa - Mbeki Report, 2015). Avenues of capital flight - Tax avoidance, repatriation of profits, external savings accounts and asset acquisition; of IFF – tax avoidance, gambling proceeds, organized crime, smuggling, money laundering, illegal natural resources sales.
Informality	Africa's vast "informal economy" –workers and companies operating outside the reach of the law or public administration –is a major obstacle to broadening the tax base and collecting direct taxes. In particular, it poses a wide range of economic challenges: not only are taxes not collected, but informal firms are also often less productive and there are no labor and social protection schemes for workers. (Domestic Resource Mobilization across Africa: Trends, Challenges and Policy Options, AfDB, 2010). Liberia's informal employment and Vulnerable Employed Rates are 64.9% and 74.1% respectively (Source: LISGIS, Household Income and Expenditure Survey 2014). Michael Keen, IMF, in Taxation and Development – Again, 2012, makes an argument that "informality is not the issue". In the annex, a rebuttal is made is why informality is the issue.
Corruption	Undetected and unchecked corruption in the public sector can cause serious damage including: • undermining public trust in government (and taxpayer compliance) • wasting public resources and money • causing injustice through advantaging some at the expense of others • inefficiencies in operations • reputational damage which makes it difficult to recruit and retain quality staff or obtain best value in tender processes. It may also be more difficult to attract business investment, adversely affecting prosperity. Globally, the World Economic Forum has estimated that the cost of corruption is about US$2.6 trillion a year. The impacts of corruption disproportionately affect the most vulnerable people in society. Widespread corruption deters investment, weakens economic growth and undermines the rule of law (International Commission Against Corruption). When Madam President Johnson-Sirleaf took office in 2006, she announced that corruption was "the major public enemy." In 2017, the year she leaves Office, before the National Assembly said she was not able to make significant progress.
Low (human and institutional) capacity	Administrative capacity constraints are generally known to be major obstacles to improving tax policy in Africa. The administrative constraints are such that they limit policy options. Many governments often cite the lack of skilled staff as a major impediment to tax collection. Furthermore, despite great progress in adopting Information and Communication Technology to increase revenue collection, more can still be done across Africa. (Domestic Resource Mobilization across Africa: Trends, Challenges and Policy Options, AfDB, 2010). Liberia is a post-conflict country with significant infrastructure and human capital deficits (Annex 1 - IMF Article IV Consultations 2016).

Box 2. Data, Interviews and Anecdotal Evidence

Data and anecdotal evidence in Liberia. In the process of undertaking this Inclusive Growth Diagnostic, the authors analyzed as such data as were available from different sources (government, development partners, private sector, etc.); reviewed relevant theoretical and empirical literature; and conducted extensive interviews with more than 30 groups of representatives from public sector, private sector, development partners, NGOs, and the civil society. Public representatives provided an overview of historical events, discussed current plans and policy goals, and pointed to information critical for the analytical exercise. Private sector representatives contributed their views on socio-economic issues, and shared their expectations, plans, and concerns about the development process. Development partners shared their experiences, plans, and knowledge from projects. NGOs and civil society groups also shared their experiences, expectations, frustrations and hopes. All of these groups presented anecdotal evidence to illustrate or enhance our understanding of Liberia's development process. This evidence is presented throughout the report, with the necessary caveats (Also in Liberia Inclusive Growth Diagnostics by World Bank).

2.4.1 DRM Framework

Vision: A nation striving to lift the people from poverty and seeking to achieve it through her human and natural resources.

National Goals: Financing the PAPD. Financing the attainment of the Sustainable Development Goals (SDGs) 2030.

DRM Strategic Priorities: Expanding the revenue base and minimizing revenue loss; Financial deepening for savings generation and plugging savings leakages; and, exploiting nexus between DRM and ODA.

Critical Enablers for Raising the tax effort: Greater effectiveness and efficiency in tax system – policy and administration; Conducive Legal Infrastructure for taxation: Accountable and transparent public expenditure management; Public confidence in tax system; Turning tax discount into tax premium sectors; Greater access and efficiency in money and capital markets; and, Greater access to foreign savings and engagement of donors in DRM implementation.

Headline Risks (Cross cutting issues); informality, corruption, low human and institutional capacity, and Capital flight/illicit flows.

For implementation, the DRM Program, FY2018 – FY2023,as structured within the DRM Strategy Framework: The Desired Outcomes are overall raising revenues which would be achieved by efficiency gains in taxation, expanding the registered taxpayers and raising incomes of enterprises (CIT) and individuals (PIT) in revenue discount sectors to turn them into revenue premium sectors. The flagship projects and interventions are highlighted and costed with potential donors mentioned.

Implementation arrangements with institutional roles and responsibilities as well as M & E framework are detailed below. The entire package of resources for funding the DRM would be lodged in an escrow account at the CBL. It will have overall supervision by a Cabinet sub-committee and administered by the DRM Steering Committee supported by a Donor's Coordination Committee and a Secretariat. The LRA would lead management of Component 1, Revenue Administration and Turning tax discount into premium sectors while the CBL would lead Component 2, Financial Deepening for Mobilizing private savings. Component 3 is the secretariat with the DRM Coordinator as head.

2.5 Structure of DRM document

This DRM has the following three parts:

Part I– Expanding the Tax Base and Minimizing Revenue Loss

The Government mobilizes domestic resources for financing the budget and development projects through taxation and other local revenue. The aim is to expand the tax base led by tapping opportunities presented by potential sources of revenue while taking a sector of industrial classification (SIC) approach and minimizing revenue losses posed by tax expenditures and risks (threats) in the external and enterprise (LRA) environments.

This part has strategies embedded in the following subcomponents:

- Raising the tax effort
- Greater effectiveness and efficiency in tax system – policy and administration
- Conducive Legal Infrastructure for taxation
- Accountable and transparent public expenditure management
- Public confidence in tax system
- Turning tax discount into tax premium sectors

Part II– Financial Deepening and Capital market Development

Enhance private resources mobilization by channeling savings via the financial intermediation process[35]. Expanding domestic financing sources by attracting private savings through financial deepening, strengthening financial intermediaries and innovative financial instruments such as Diaspora bonds, treasury certificates, and the Islamic Development Bank. The institutional responsibility for the second part is the Central Bank of Liberia (CBL),supported by MFDP, in consonance with their shared responsibilities on the issuance of domestic debt.

This part has strategies embedded in the subcomponent-Greater access and efficiency in money and capital markets.

Part III- The Nexus between DRM and Foreign Resources Mobilization (FRM) in Annex 8.1

This part reinforces the view that DRM and Foreign Resource Mobilization (FRM) are not mutually exclusive but can actually reinforce each other through shared objectives, building on synergies and making coordinated interventions to finance economic development in Liberia.

This part has strategies embedded in the following subcomponent - Greater access to foreign savings and engagement of donors in DRM implementation.

35 ‘Do It Yourself’ Development: A Synthesis Report on Domestic Resource Mobilization in Africa” by Roy Culpeper and Aniket Bhushan, IMF.


D7

3.0 Part I: Expanding the Tax Base and Minimizing Revenue Loss

Expanding the tax base involves opportunities for revenue generation and tax collection while minimizing revenue loss focuses on the policy and taxpayer compliance challenges faced in collecting taxes. Broadly, these two aspects are required to minimize and arrive at the optimum tax gap[36].

3.1 Introduction

A major part of the DRM strategy involves expanding the tax base and minimizing revenue loss which are predicated on the policies and administration of the tax system. The blueprint of the system is embodied in the legal instruments that enable taxation sanctioned in the Liberia Revenue Code 2011and supporting regulations as well as the annual fiscal budget proposed by the Executive and enacted into law by the Legislature. Public confidence, trust, motivates taxpayer voluntarily compliance with the tax laws and constitutes a central pillar of the tax system. The principles of effective tax system are

36 Keen, IMF, 2015

fairness, efficiency, equity, simplicity, transparency, and administrative ease[37].

A risk-based approach is taken to arrive at the desired strategies to mitigate the events that lead to taxpayer non-compliance, ineffective performance and inefficiency of tax administration. Voluntary taxpayer compliance is an objective of the LRA requiring citizens to honor tax obligations preferably by self-registration, self-filing returns on time, self-reporting accurately and self-payment on time. The role of RAs is to facilitate this process at least cost and much ease for taxpayers to comply. The institutional risks or enterprise risk management, which is akin to managing a modern business seeking to maximize value for stakeholders, workers, clients, regulators, and the public at large, focus on mitigating internal risks and threats and exploiting opportunities to reach corporate goals and objectives[38]. For the task at hand, the institutional aspects relate to the effectiveness of the LRA in collecting taxes.

The rest of Part I entail a review of the tax system and revenue performance, estimates of revenue potentials by sector, factors which can stop Liberia from attaining its potential and then strategies that would help to make gains towards 'full' potential and enterprise risk management as a strategy for effective revenue administration.

37 Ibid

38 Protiviti –Independent Risk Consulting, 2006

3.2 The Effectiveness and Efficiency Tax Policy and Administration

DRM as it pertains to the generation of government revenue seeks to increase tax and non-tax (royalties, licenses, levies or other income) revenues."Taxation is a defining feature of state power, making its improvement a key aspect of state-building"[39], a key consideration of this DRM[40].It is the tax system that provides the framework for generating revenue from citizens as it establishes a 'fiscal contract' between a Government and the governed. How revenue gets collected is as important as the amount of revenue generated. The impetus for tax policy formulation and implementation should not be to raise revenue only but to "establish a tax system that is efficient, growth-oriented and equitable"[41].To achieve these tax reform principles, the public must have the confidence that the Government is fair in spreading the tax burden and can be trusted to use the tax revenue for the benefit of the taxpayers[42]. While the aim is to forge ahead and raise tax revenue, equity and trust are internationally accepted principles of taxation and thus embraced by this DRM.

The specific objectives of increasing tax revenue and an effective and efficient policy and administration have certain desirable reform outcomes that drive this narrative: increased revenue performance, integrity of the tax system supportive of good governance and transparency in Government, quality laws and

39 "Revenue Mobilization in Developing Countries", Fiscal Affairs Department, IMF, Carlo Cottarelli, 2011

40 OECD: "Fragile States Report 2014, Revenue Mobilization in Fragile States"

41 OECD Post-2015 Reflections, 2015

42 Ibid

regulations, cost effectiveness of systems and procedures, voluntary taxpayer compliance at minimum costs to the taxpayer and overall effective service delivery by the tax administration (OECD 2012; IMF 2015). However, in the tax reform literature, it is recognized that one-size does not fit it all and reform priorities may "differ across countries and regions, reflecting variations in stages of development, administrative capacity, and scope of tax abuse" (Russell, IMF 2010).

Optimizing revenue collection entails expanding the tax base which is dependent on the level of per capita incomes, size of the taxable population and sources of revenue while minimizing revenue loss involves reducing the exemptions provided by tax policy inherent in the laws, non-compliance by taxpayers and ineffective tax administration practices. A successful tax reform package therefore requires a good external environment, effective and efficient revenue administration and taxpayer voluntary compliance (AfDB 2010; IMF 2010; OECD 2010; EU 2010).

3.2.1 Tax effort, Tax-to-GDP Ratio and Tax Gap

Three measures of overall performance efficiency and effectiveness in tax collection are broached here, tax effort, tax-to-GDP and tax gap[43]. Ideally, a tax gap analysis would also proffer a measure of the difference between what the revenue code stipulates to be collected against actual intake. The approach is to seek compliance by measuring a tax gap and treating the risks manifesting non-compliance. A tax gap has not yet been estimated for Liberia but studies have been done by the IMF in South Africa (5 to 10% of potential VAT revenue), Uganda (50%), across EU (20%) and Latin America (30%)[44]. All anecdotal evidence suggest that Liberia cannot be less than Uganda's given the number of concession agreements and magnitude of tax expenditures, illicit flows and discount status of taxes from all sectors particularly, agriculture including forestry and fishing and real estate (below).

More precisely, a total revenue (tax and non-tax) and tax collection, combined or separately, as a proportion of GDP are acceptable measures of performance for international comparison. The AfDB study cited above showed that the trend of collected tax revenues on the African continent has been rising on average from 22% of GDP in 1990 to 27% in 2007. Likewise, in Liberia, tax revenues have grown throughout the tenure of this Government from 16% of GDP in 2008, a peak of 21% in 2012, to 19.9% in 2013 (Figure 2.2). Non-Tax and Grants maintain a share equivalent to 5 to 7% of GDP throughout the period. However, total revenue, tax and non-tax including grants, has been higher reaching a peak of 26% of GDP in 2012 and 2013 (Figure 2.2).

With regard to tax effort, the AfDB estimated that African countries collect about half of what would be expected while in other parts of the world it is 2 to 3 times over. "Tax effort is calculated by dividing the actual tax share by an estimate of how much tax the country should be able to collect given the structural characteristics of its economy"[45]. The study of tax effort found that in 2007 performance ranged between 50% to 250 – 300% with 24 countries having a tax effort on an index (including resource-related tax revenues) higher than 1 and 18 lower than 1 (or 100%). In that study, Liberia's tax effort was above 100% both for when taxes on natural resources are included or excluded. The study maintained that the goal for countries must be to aim for the higher effort at 2½ to 3 times.

However, a later study in 2012 on the tax effort of ECOWAS countries showed deterioration for Liberia at 83% with natural resources tax and 65% without. While all countries are below 100%, Liberia was below the average among the group of West African Monetary Zone (WAMZ) countries (The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone), when it came to total taxes minus natural resources but when included, the country is above the average (Figure 2.3). However, the country is below 100% by both measures and therefore considered to be below its revenue mobilization potential.

However, across Africa tax revenue accounts for the bulk of total domestic revenue and in Liberia it has fluctuated between 2008 (75%) and 2016(88%) and therefore, dominates the trend in total revenue. Secondly, since the tax lever is the main handle of Government's public policy management and creation of fiscal space, it remains the focus of policy makers and this DRM.

With the advent of Ebola in 2014, growth of both NGDP and total revenue dropped from a peak a year earlier and

43 While the LRA uses TADAT to monitor progress in the implementation of its strategic plan, it is limited to institutional performance and not highly relevant at this stage of the discourse on policy deign as denoted by one its principles: "As far as practicable, performance assessments should focus on outcomes rather than on outputs or inputs – hence the TADAT does not consider major inputs such as tax policy design, organization design, staffing levels and the human resource management framework".

44 For a discussion of various measures of tax collection potential, please refer to "Revenue Potential, Tax Space, and Tax Gap, A Comparative Analysis". Munawer Sultan Khwaja, Indira Iyer, The World Bank

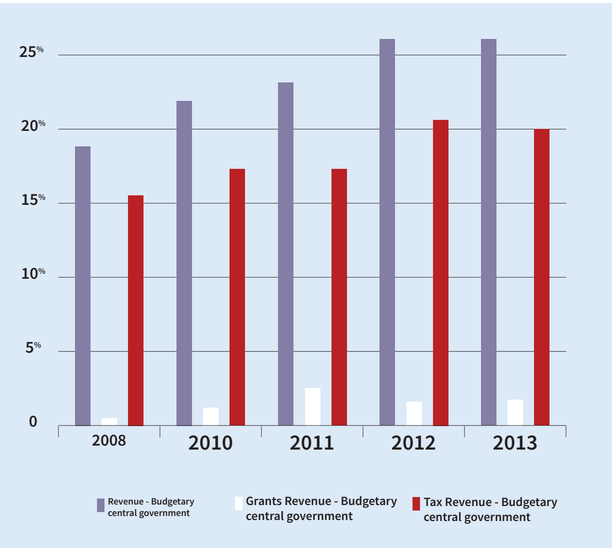
45 Domestic Resource Mobilization across Africa: Trends, Challenges and Policy Options; Prepared by: Alex Mubiru Cleared by : Mthuli Ncube, Chief Economist and Vice President Léonce Ndikumana, African Development Bank

stagnated on an annual average basis over the following four years and kept a virtual plateau, between 18.9 and 22% (Figure 3.3)[46]. With a rebasing of the GDP estimates in 2018 starting in FY 2016, the new level is around 14%of GDP (see Table 3.1 below). While grants rose substantially to USD 199 million in FY 2015 and FY 2016 due to the EVD crisis, they dipped back to slightly above past trends to USD 30 million in FY 2017. In the same year, however, revenues fell by 10% to USD 407 million from USD 453 million in the previous year.

The health emergency induced recession combined with a fall in commodity prices and UNMIL draw-down to occasion a deeper trough. Previously, revenue growth outpaced GDP in line with other WAMZ countries and thus denoted an economy with capacity for more tax generation, however, recent developments have changed that scenario. A rebound is not expected until 2018 when GDP growth is projected above 5% by the IMF[47].

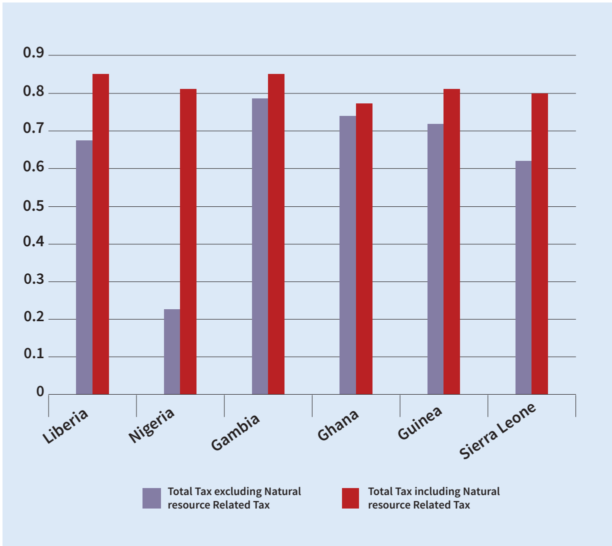
Tax gap analysis is becoming the preferred method for measuring non-compliance in taxation[48]. That is, measuring the difference between the taxes prescribed by the revenue code and what is actually collected. It allows

Figure 3.1: Revenue and Tax Revenue as % of GDP (2008 -2013)



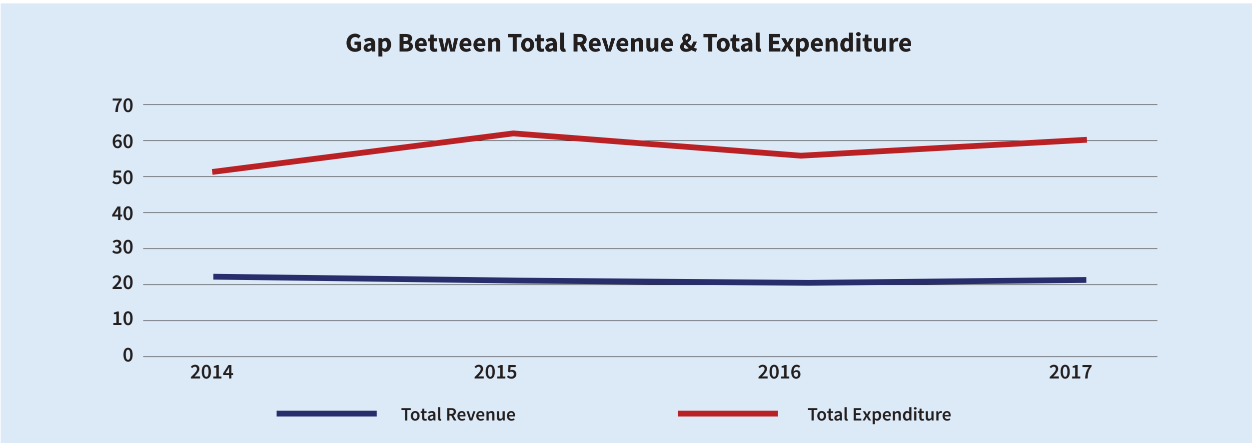
Data Source: IMF Government Finance Statistics

Figure 3.2: Tax Effort in WAMZ Countries



Data Source: M. B. Ndiaye & R. D. Korsu ; Graph by Author

Figure 3.3: Revenue Plateau , 2014-2017 (% of GDP)



Data Source: IMF Government Finance Statistics

46 The SDGs Road Study has of "an average tax receipts of 32 % of GDP" is not supported by the data sourced from the Liberia Revenue Authority and IMF Fiscal Statistics. It does state reference period but it certainly not between 2008 and 2017. The contention by the Fiscal Space Study that taxes are high may also be based on this faulty data.

47 IMF-Liberia Article IV, 2016: The data for Revenue in 2015 is USD 447 million in the Article IV and USD 437 Million in LRA data, so we defer to the latter.

48 M. Keen, et al 2015

Table 3.1: Key Indicators of Revenue and Grants (FY2012 to FY2017)

		FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	Ann. Ave.	Share (%)
Key Indicators	**Revenue Collection**								
	Total Revenue and Grants	459	555	549	636	652	638.8	581.6	
	Revenue	431	509	471	437	453	461.8	460.5	79
	Grants	28	46	78	199	199	177	121.2	21
	Growth Rates								
	Total Revenue & Grants		21	-1	16	3	4	7.2	
	Revenue		18	-7	-7	4	10	3	
	Grants		64	70	155	0	-11	46.3	
	Share of GDP								
	Total Revenue & Grants	26	28	27	31	31	27.8	28.5	
	Revenue	24	26	23	21	22	24	23.3	
	Grants	2	2	4	10	9	8	5.8	
	Memorandum Items								
	Real GDP (%)	8.9	8.7	0.7	0	-1.6	2.6	3.2	
	NGDP Growth Rate (%)		9.91	2.53	1.23	3	0.1	2.8	
	Nominal GDP (US$M)	1,768	1,962	2,013	2,083	2,101	2,301	2,031	

Source: IMF Government Finance Statistics

for separating non-compliance due to policy measures in the code such as tax expenditures and non-compliance by taxpayers. Internationally, Tax gaps in the EU are estimated at 20%, Latin America at 30%, South Africa at 6-10% and Uganda at 50-60%[49]. Indeed, all of the tax gap studies are done using VAT but Liberia is still on GST and the country is yet to do a tax gap study.

The optimal tax gap implies that the gap should not be reduced to the utmost possible but predicated on the 'enforcement elasticity of taxable income', that is, "the responsiveness of taxed income (reflecting changes in both evasion and real decisions) to increased spending on RAs. The compliance gap is 'too large' if the enforcement elasticity of taxable income exceeds the (adjusted) ratio of administration and compliance costs to tax revenue. The intuition is simply that the revenue gain—a sufficient statistic for the direct welfare impact—then exceeds the costs of collection"[50].

3.2.2 Revenue Performance by Tax Type

The LRC has many features that seek the desirable outcomes of a modern tax administration. The evolving tax system from the legislation entails tax types and segmentation by size which is standard across RAs in all English-speaking African Countries (Box 5)[51].

49 M. Keen, et al, 2015
50 Ibid

51 Medium, Small and Micro Taxpayers Compliance Risk Management Program, FY 2017 – FY2021, Momodou Foon, January 2017

Box 5: The tax types under the Liberia Revenue Code:

i) The Personal income tax – PIT and Corporate Income Tax – CIT. The PIT presents a progressive tax regime from with a threshold of income at Liberian Dollar (L$) of 70,000 below which is zero-rated and up to 800,000 above which the tax is rate 25%. The CIT also attracts a rate of 25%;

ii) The transactions a tax is a Goods and Services Tax – GST at 7 and 10%;

iii) Excise Taxes stand at 10% prior to 2016 Amendment;

iv) Customs Duties are ad valorem;

v) The Real Property Tax – RPT is at 10%;

vi) Obligatory payments under Mining Law or Petroleum Law (for example, concession fees, social development fund charges, signature bonus payments), are non-taxes under LRC but the persons with obligatory payments may be treated as a taxpayer in accordance with LRC procedures; and,

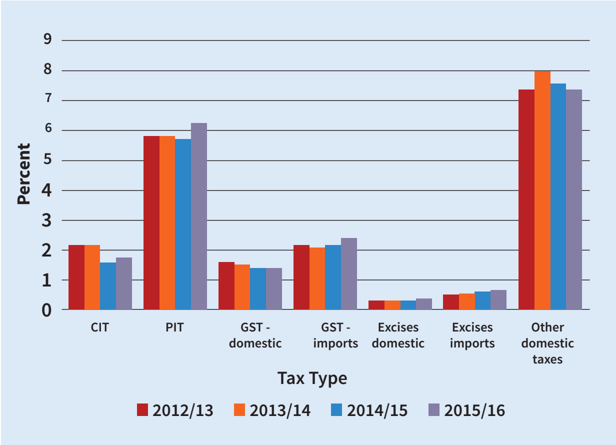
vii) Withholding tax (WT), goods and services (GST) and Excise Tax on imports and domestic transactions.

WT which envelopes PIT, CIT and GST collected on behalf of RAs by institutions, businesses, MACs as well as non-government organizations accounts for about a half of total revenues. This is expected as GoL accounts for the largest share of PIT in the formal sector with 21% of the employed, while the 54% in the private sector is constituted by self-employed in the informal sector and subsistence farmers who hardly pay taxes. The taxpayers in the formal sector are legally registered with tin numbers[52], fixed addresses, structured operations supported by financial documentation, and therefore, relatively easier to collect from when compared with the informal sector. It also supports the empirical findings of the IMF that Withholding Tax is correlated with high tax collection at lower cost to RAs and Taxpayers[53]. Seeking for opportunities of Withholding would therefore be an integral component of any strategy pursuing gains in efficiency of tax collection. PIT in the form of PAYE dominates in terms of number of taxpayers and accounts for an average annual intake of 30% of total revenue over the past four years (Figures 3.4 and 3.5).

There is a discernible trend in lower revenue from international trade recorded by Ghana and Sierra Leone, Lower middle income and upper middle countries between 2000 and 2014 (Table 3.2). Liberalization across countries including accession to WTO and CET for ECOWAS countries to promote global and intra-regional trade is behind this development. Liberia went against this trend as revenues collected by Customs have risen from about 30% of total revenues in 2014 to slightly over 40% in the following two years largely explained by the payment of royalties due from companies in the extractive sectors to Customs at the point of export rather than ex-factory gate as domestic tax (Table 3.2). It should be noted that all countries in West Africa have realized growing revenues from VAT following accession to the CET. Liberia, which is still on GST, has this consumption tax rate at 10% while the CET dictates a band with an upper end of 20%. The CET therefore presents an opportunity to raise the GST by 10% (discussed further below in the context of the full effects of Liberia's migration to CET).

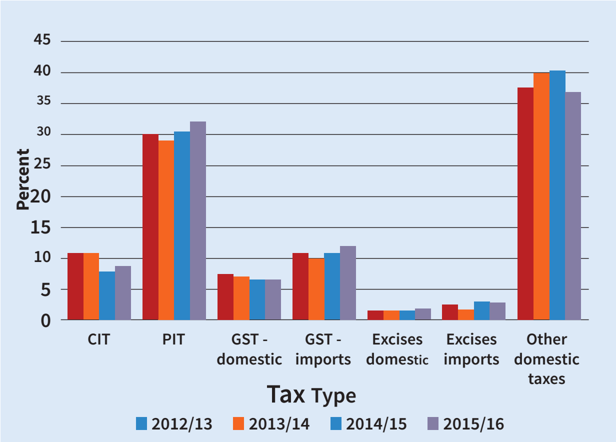
The draw-down in UNMIL activities to 2015/16 has contracted the tax base on account of the goods and

Figure 3.4: Tax Types by Share of Total Revenue, FY2012 – FY2015 (% of GDP)



Source: IMF Government Finance Statistics

Figure 3.5: Tax Types by Share of GDP, FY2012 – FY2015 (% of GDP)



Source: IMF Government Finance Statistics

52 Household Income and Expenditure Survey (HIES), LISGIS, March 2016

53 "Current Challenges in Revenue Mobilization: Improving Tax Compliance", Michael Keen, IMF, 2015

Table 3.2: Increase in Tax Collection by Tax Type 2000 - 2014

Country	Taxes on income, profits and capital gains		Taxes on goods and services		Taxes on International	
	% of revenue		% of revenue		% of revenue	
	2000	2014	2000	2014	2000	2014
Ghana	22	25	15	27	32	17
Liberia		*31*		*12*		*30*
Nigeria	11	27	2	3		
Sierra Leone	15	28	8	24	29	9
Sub-Saharan Africa		25		29		12
Low income		23		35		12
Lower middle Income	21	25	33	36	11	7
Upper Middle Income	19	20	35	33	6	4
High Income	25	25	32	32	1	1
Country	**Other taxes**		**Social Contributions**		**Grants and other revenue**	
	% of revenue		% of revenue		% of revenue	
	2000	2014	2000	2014	2000	2014
Ghana					31	31
Liberia		*3*				*23*
Nigeria					87	70
Sierra Leone	0				48	39
Sub-Saharan Africa		2				19
Low income		2				21
Lower middle Income	2	1			23	18
Upper Middle Income	1	1	11	9	12	16
High Income	2	2	29	30	10	11

Source: World Bank Development Indicators Data

services which the organization and its personnel used to purchase locally, though neutral for customs revenue, contributed to lower PIT from fallowed local staff and CIT from goods, services and real estate businesses. In addition, the aggressive pace of auditing by LTD in 2014/15 decelerated in the following year. There was a concomitant decrease in revenues from this source for the same period precipitating a decline in domestic tax revenue by 17.9% to USD157 million in 2015/16. On the obverse, Customs revenue increased due to royalty payments by a couple of concession companies which offset this drop to result in an increase in total tax revenue by 5.1% to USD 401.9 million.

The Challenges in revenue collection by tax types include very low payment of CIT by Multinationals and Concession companies in the extractive sectors, lackluster performance of Excise and Real Estate taxes, and GST taxes on account of business to consumer transactions. The multinational companies are the primary candidates for transfer pricing and exaggeration of interest costs against which the LRA has active court cases. Under-invoicing is the main ways of tax evasion by importers cum wholesalers. Through assistance from the OECD and IMF, the LRA is building the requisite capacity to combat these tax avoidance practices and more is proposed below.

3.2.2.1 Strategies -Collection by Tax Types

The Government recognizes more can be done with Excise taxes and in late 2016 increased the rates at varying rates on tobacco, alcohol, non-alcoholic beverages and water as well as introduced it for voice call on mobile phones. Taxing by Excise ought to commodity specific whether ad valorem or by unit. Though this tax initiative increases coverage of Excise, there is room for more when compared with the scope of coverage of this type registered in neighboring countries. However, due consideration must be given to the Excise taxes on 150 imports which are not imposed on domestic production of the same goods because it contravenes the non-discrimination principle under the WTO[54].

GST intake from business to consumer transactions administered through withholding arrangements are fraught with a number of challenges ranging from a lack of issuance of receipts to low surrender of withheld taxes by businesses. Issuance of a receipt as evidence of consummation of a transaction must be enshrined in law. Secondly, the Government should intervene to popularize use of POS machines by medium and small taxpayers by providing the machines on cost recovery basis.

Migration from GST to Value Added Tax (VAT) is a commitment made by GoL as part of the ECOWAS Common

B0X 6: CURRENT PRACTICES

Introducing Large Tax Departments

Culled from IMF 2015

While Africa trailed earlier adopters in Latin America (Argentina, Peru, and Uruguay), and the absence of integrated administration rendered some early efforts ineffective (Egypt, Kenya, and Uganda), an LTO is now the norm [though gaps remains, as in SACU (except South Africa)]. LTOs have accomplished much (Baer, 2002) and can likely do more: in resource taxation, for instance (as is beginning in Ghana, Uganda, and Mongolia), and by developing specialist units to deal with high wealth individuals. Their very effectiveness, however, can create difficulty: the ease of collecting from large firms may lead governments to disadvantage smaller companies (Auriol and Warlters, 2005), and the focus can distort competition and be perceived as unfair (factors contributing to the disbandment of Uganda's first LTD). The natural next step is to deliver similarly high-quality services and compliance enforcement to non-large taxpayers, with medium taxpayer offices emerging (in Indonesia and Francophone Africa) and some innovative small taxpayer approaches (Tanzania, and small taxpayer offices in Algeria and some Francophone African countries).

54 Box 1, p.53, DTIS Update 2015

External Tariff. The timeline was originally set for 2013, but Liberia is yet to do the switchover. It is recommended the transition from GST to VAT would at this time involve a change of nomenclature only while keeping the rate unchanged at 10%. However, it is noteworthy that rates in the rest of the ECOWAS sub-region range between 15% and 18%. The GoL should take a medium to long term view on the rate hikes concentrating tax effort in the short term to expanding the VAT tax base and perfecting the mechanics of administering it. This process may be assisted by conducting a comprehensive mapping study of the movement from GST to VAT with a road map, milestones and timelines. Deliverables include line item comparisons between Brussels Definition of Value (BDV) and CET, simulation of gains and loss and on the net, current state of preparedness at LRA in terms of infrastructure, human and institutional capacities and detailing the process to VAT compliance by Taxpayers including right to offsets. It should specify the requisite enabling regulations, process and institutional arrangements for VAT collection by Domestic Tax Department (DTD) and Customs Department (CD), human and institutional capacity building as well as requirements of automation infrastructurefor tax services at the LRA.

3.2.3 Revenue Performance by Size of Turnover

Liberia's tax regime classifies natural and legal persons by size of turnover into Large, Medium, Small and Micro taxpayers with the following thresholds: Large taxpayers - businesses or individuals with annual turnover or income above L$30,000,000; Medium taxpayers - between L$30,000,000 to L$3,000,000; Small taxpayers - between L$3,000,000 to L$200,000; and, Micro-taxpayers (petty traders) - below L$200,000[55]. Segmenting the taxpayer population has enabled a better allocation of administrative resources and facilitated more focused management strategies including risk-management approaches to compliance. Large, medium, small, and micro taxpayers offer very different revenue possibilities and compliance concerns. As noted above, the need for focused attention on large taxpayers is now a universally accepted best practice.

Tax administration at the LRA is demarcated accordingly into core functions of Domestic Tax Department and Customs Department with the support services as Technical Department and Administration Affairs. The Divisions in DTD are delineated by taxpayer size: Large Tax Division (LTD) and Medium Tax Division (MTD), Small and Micro taxes Division (SMTD). However, sector, functional and geographical classifications are intertwined with size categories as well (Box 6). The entire Natural Resources and Agriculture Sectors as well as Telecommunications are made up of large, medium, small and micro taxpayers but are nested within LTD.

If there is a redeeming factor for the tax incentives extended to taxpayers, it is that it forces large enterprises that want to benefit to register with the LRA. Thus, virtually all large businesses are registered taxpayers. On the other hand, medium, small and micro taxpayers that do not benefit from such tax perks constitute the bulk of potential taxpayers hiding in informality. The MSM Taxpayer Compliance Risk Management Program summarizes that "The taxable population failing to register include those without knowledge about who, how, when and where to register, those who deem it too costly not only in terms of taxes due but also transaction costs, those who wish to avoid paying taxes and those who have decided not to pay taxes".

In FY 2017 large taxpayers consisting of the list of taxpayers under the Large Tax and Natural Resource Divisions accounted for4.2% of the 88,667taxpayers and 76.2% of USD 227.7 Million collected in domestic taxes. (Table 3.3). Medium and Small (M &S) taxpayers constituted the bulk,over 90% of taxpayers, and contributed 10.9% of domestic tax revenue in the same year. Micro taxpayers are on presumptive tax of 4 with very high number of payees and small returns in revenue intake.

Informality and high collection costs stand as headline risks for expanding the tax base of M&S taxpayers. The informal economy is pervasive in Liberia constituted by 67.9% of Informally Employed and 74.2 of Vulnerable Employed[56]. Operators in these sub-sectors are characterized by lack of knowledge and culture about taxation without the following: ID cards, business registration numbers, bookkeeping and accounts as well as point of sale receipts. They transact on cash basis for even salaries and are highly mobile with changing locations.

The per capita tax collected for large taxpayers is USD 82,000 compared with USD 310 for M&S taxpayers. The cost of a dollar collected by LTD is substantially lower than that of MSMTD. Notwithstanding, "in both efficiency and equity terms too, some tax on smaller businesses may be warranted—even if the revenue is less than the cost of

55 LRC, Section 200nt

56 Source: HIES 2014, Defines informal employment as "not contributing to social welfare through taxes and a more difficult labor relationship, without recourse to proper arbitration in case of labor conflicts". The data from this source must be treated with caution as the report expresses contrary statistics on the informal sector. While Table 8-1Distribution of informal and vulnerable employment and unemployment rates has Informal Employment at 67.9 %, the write-up below the table explaining the data referred to Informal Employment as 81.2 %. An unemployment rate of 2.8 % for Liberia is quite contentious.

collection—to ease the competitive advantage they would otherwise enjoy over larger, taxed firms and to ensure the fairness of the tax system"[57]. However, innovative strategies are required to address informality and minimize costs in order to increase the contribution of Medium, Small and Micro (MSM) taxpayers to domestic revenue generation and this is discussed further under informality below.

Table 3.3: Tax Revenues by Size and Number of Taxpayers

Segment	FY2014		FY2015	
	$ Million	% Share	$ Million	% Share
Domestic Tax Department	*262.3*	*100*	*243.9*	*100*
Large Tax Division	191.8	73.1	157.0	64.4
Medium and Small	43.3	16.5	53.7	22.0
Real Estate Tax Division	4.7	1.8	6.1	2.5
Natural Resource Tax Unit		0.0		0.0
Sector Ministries Section	20.8	7.9	23.0	9.4
TBOs	1.7	0.6	4.1	1.7
Segment	**FY2016**			
	$ Million	% Share	$ Million	% Share
Domestic Tax Department	*265.7*	*100*	*43,411*	*100*
Large Tax Division	142.6	53.7	815	1.9
Medium and Small	53.8	20.2	38,533	88.8
Real Estate Tax Division	5.2	2.0	3,894	9.0
Natural Resource Tax Unit	38.5	14.5	169	0.4
Sector Ministries Section	22.7	8.5	A	
TBOs	2.9	1.1	B	

A - Public sector employees do pay PIT but they don't have TIN numbers and therefore not recorded separate
B - Taxpayers recorded by TBOs are included under Medium, Small & Micro taxpayers
* - Natural Resource Tax Unit largely hived off Large Tax Division

Source: LRA

3.2.3.1 Strategies- Tax Collection by Size of Turnover

The LRA had MSM taxes under the same division, however, in 2017, Medium-sized taxpayers as a group was hived from Small and Micro into a separate division to strengthen performance. Promising Medium taxpayers may be targeted and nurtured over time for transition to Large Tax. The strategies proposed are from the MSM Taxpayers Compliance Risk Management Program, 2017 – 2021, predicated on those who fail to register, fail to file and fail to pay taxes on time:

Failure to register - of the estimated 900,000 income earners in Liberia, the bulk fall below the income tax threshold of L$ 70,000[58]. The registration data on the Standard Integrated Tax Administration System (SIGTAS) has a number of challenges including those who are not paying taxes being kept on, multiple registrations and a number of misclassifications on turnover, sector, among others. The on-going data-cleanup exercise has shown that registered taxpayers excluding Micro taxpayers, stood at 88,667. Micro taxpayers, who pay a presumptive tax, are registered 'wholesale' through their associations and unions, numbering in thousands but minuscule contributions to revenue.

The MSM taxable population failing to register include those without knowledge about who, how, when and where to register, those who are trying to evade taxes and those who have decided not to pay taxes and hiding under informality. The identified sub-genres of this registration risk include 'Poor awareness of LRA taxpayer services', 'inadequate access to LRA information and services', and, 'limited access to business registration offices'. Being steeped in informality remains the main challenge for MSM taxpayers refraining from registering. They are constituted by individuals with a phobia about everything official, lack of tax awareness, limited access to LRA information and services. The corruption related events affect those who have gotten away with not registering and would want to continue to do so. Public trust issues -perceptions that demonstrate a lack of confidence in the tax system, largely with the conviction that it is not working for them. There are those who are discouraged by the high transaction costs (travel) to register a business at LBR and as Taxpayer at LRA because of limited access to both.

The strategies for registering more taxpayers are to (i) Articulate and implement education policy that spells out a well targeted information campaign; (ii) e-Registration targeting (Large) and Medium taxpayers; (iii) m-Registration and kobo-collect for small and micro taxpayers; (iv) simplification of information products and forms (v) enhanced electronic and physical access to LRA services; and, (vi) Fully automated Help line by LRA.

Failure to file risks-Of the 3,545 Medium taxpayers, only 18.3% or 648 have filed taxes in FY2015 while Small and Micro taxpayers are on presumptive taxes of 4%. Small taxpayers should be encouraged to file returns as if any of them has net earnings below the tax threshold, however, they would not be required to pay taxes. The strategies to have Medium taxpayers filing returns involve articulating and implementing an education policy on how, when and where to file; information campaign including simplification of information products and forms;

57 M. Keen 2015
58 Source: LRA SIGTAS

institutional support including designation of Risk Owners for sub-genres of failure to file risks and advisory services for filing taxes and access to LRA physically, via E-filing and Help line on social media and telephony (mobile). These strategies are also applicable for mitigating the risks of failure to pay taxes.

Failure to pay taxes risks –Large and Medium taxpayers would be targeted for e-Payment while Small and Micro would be on mobile money platforms. The indicators of non-payment on time are post-audit payments and build-up in arrears. The inherited debts from the days of Department of Revenue within Ministry of Finance lingers on, but the buildup since then has not been very significant. To mitigate against non-payment risks, it is essential to build the knowledge and competences of Auditors, supported by long and short term technical assistance, in the financials of the premium sectors and natural resources sectors. Building Auditors' knowledge and competences would aid in combating sophisticated illegal transfer pricing, exaggerating costs and minimizing revenues for tax avoidance. Embracing risk-based auditing would be another critical practice to have cost-effective auditing. With regard to arrears, having a unit within the legal department to date and collect arrears is a good practice option.

3.2.4 Liberia's Accession to WTO and CET

In 2016, Liberia acceded to the WTO with a package that included Offer on Goods (Tariffs) which is based on ECOWAS CET (Common External Tariff and Customs Union) and Offer on Services. The United States and EU remain the premier export markets of Liberia for its rubber, iron ore, gold and diamonds, whereas the BRICS[59] are the country's main sources of imports[60]. While Liberia's imports from the ECOWAS increased from a share of 4.8% to 18.7% between 2008 and 2011, exports to the region did not rise as much, from 5% to 7.6%. Liberia stands as the least prepared to take advantage of the free trade area with only 1% of businesses in the country engaged in exports (Figure 3.4) compared to Togo and Ghana at the other end of the spectrum with about a quarter of their enterprises already engaged.

In 2013, ECOWAS adopted the CET towards a customs union in support of economic integration in the sub-region. It sets common custom duties, import quotas, preferences or other non-tariff barriers to trade for all goods entering anywhere in the community. Liberia is currently on Brussels Definition of Value (BDV) method and since, 2016 acceded to WTO General Agreement on Trade and Tariff (GATT) Method through the ECOWAS CET. Overall, the duties prescribed under the CET are higher than Liberia's. Until October 2017, Liberia has migrated 24% of 5,916 tariff lines under the CET. There are challenges requiring technical assistance to have a closure by ascertaining the full extent of the impact of the switchover in terms of the net effect of rate changes to revenue and expediting the use CET tariff lines.

The main benefit of the CET is the common market that allows every country to trade across the community and exploits the economies of scale that would make industries which were nonviable in one country because of market size now turned into a viable proposition. Secondly, given a CET, the winners would be countries that have the lowest costs of doing business with appropriate trade related infrastructure. More trade leads

Liberia Migration to CET as of October 2017

Liberia Migration to CET as of October 2017	
Total Tariff Lines	5,916
Balance Non-Redundant Lines that will go through migration plan	4,486
Total lines Migrated	1,430
Percentage of total tariff migrated	24%

Liberia Migration to CET as at October 2017

Benefits of CET

Intra-Regional Trade would be Increased

- The CET would guarantee predictability and stability in trade
- As a result of the predictability and stability in trade, more foreign direct investments would be attracted.
- Increased turnover resulting from an enlarged domestic market.
- Increase in economies of scale resulting in the enlargement of domestic industries.
- Increased production and productivity
- Discourage smuggling: to certain extent, smuggling is encouraged by the disparity in tariffs.

Table 3.5: ECOWAS Common External Tariff (CET)

ECOWAS Common External Tariff (CET)		
0	0%	Essential Social Goods.
1	5%	Goods Of Primary Necessity, Raw Materials and Specific Inputs.
2	10%	Intermediate Goods.
3	20%	Final Consumption Goods.
4	35%	Special Goods for Economic Development

59 Brazil, Russia, India , China and South Africa (BRICS)
60 CBL Data

to higher intake on international taxes, growth in incomes of trading businesses and an expanded direct tax base. The population of ECOWAS is 335 million with Nigeria at 177 million and Cape Verde 539,000 (Liberia 4.5 million), whereas per capita incomes range from US$ 400 in Niger to US$ 4,400 in Cape Verde (Liberia US$ 455).

Liberia is least positioned to be a winner under the CET in terms of trading across borders of the ECOWAS common market. According to the World Bank's Trading Across Borders indicators, Liberia is a laggard vis-à-vis on all counts notably, a trading across borders, distance to frontier (DTF) score of 72.23% compared with its closest neighbors, Cote D'Ivoire, Guinea and Sierra Leone at 45.85%, 53.76% and 51.01% (Table 3.6). For example, the agreement signed between MFDP and the world steel Giant, ArcelorMittal, required multi-use of the rail link from the iron ore mines to Buchanan port with access granted to mining companies on the Guinean side of the Nimba range that the two countries share. The Guinean Government gave permission to Sable Mining SBLM.L, which was to start production in 2015 at a projected output of 5 million tons per year, to export through the port of Buchanan as it is closer than the Kosagi port in Conakry.

Table 3.6: Trading Across Borders

Economy	Trading Across Borders DTF	Trading Across Borders rank	Time to export: Border compliance (hours)	Cost to export: Border compliance (USD)	Time to export: Documentary compliance (hours)
Guinea	46.24	165	72	778	139
Liberia	*27.77*	*177*	*193*	*1113*	*144*
Cote d'Ivoire	54.15	155	110	387	120
Sierra Leone	48.99	162	55	552	72
Economy	**Cost to export: Documentary compliance (USD)**	**Time to import: Border compliance (hours)**	**Cost to import: Border compliance (USD)**	**Time to import: Documentary compliance (hours)**	**Cost to import: Documentary compliance (USD)**
Guinea	128	91	909	156	180
Liberia	*155*	*217*	*1013*	*144*	*230*
Cote d'Ivoire	136	125	456	89	267
Sierra Leone	227	120	821	137	387

Data Source: World Bank

Although, this deal is yet to be realized, it is probably more important going forward that while Liberia has the basic infrastructure in place though requiring expansion, its costs and compliance for exports are higher and pose a risk of a future competitive bid from its neighbors. The geography is in Liberia's favor to provide a transportation corridor for iron ore export from South East Guinea to the Atlantic coast; it is also well positioned to dominate a re-export trade to the same area. However, the trading across borders indicators are poorer and ranked 177 out of 186 countries, with Guinea doing 12 positions better while the other neighbors score higher.

The challenges driving these low scores include Liberia's level of trade within the sub-region, number of national companies doing business in the sub-region, poor road networks, high trade transactions costs including local transportation, processing time and charges at the ports, rent seeking at the ports and on the roads. Indeed, the income accruing to the rail line would be taxable and the handling would attract the usual port charges. However, the country has to focus on making the requisite trade facilitation investments to turn around the dismal trading across borders scores in order to ensure that this deal does not end as a missed opportunity.

The country has not yet migrated from GST to VAT as required under the CET since 2013. Indeed, Liberia has the entire South East of Guinean, eastern Sierra Leone and western border areas of Cote D'Ivoire as a potential re-export markets for imported goods landed at Liberian ports, if only the country would invest in the rail link, requisite roads (Monrovia to Ganta, Buchanan to Ganta) and increase efficiency by reducing the throughput time to 48 hours at the ports, streamlining the tasks of the five agencies wishing to enforce their mandates by insisting on viewing every imported item into the country and turning around the low ratings on other trading across borders indicators.

3.2.4.1 Strategy - Improving trade facilitation under CET

Businesses report that it can take as long as 14 days to clear a container that lands at the Monrovia port while official sources put it at about 10 days. The LRA has been blamed by stakeholders for being part of the problem with no clarity about the current customs regime, switching from Brussels Definition of Value (BDV) method to WTO-GATT by adherence to the CET. The use of BIVAC pre-shipment is widely seen as increasing compliance costs and the number of agencies at port without hierarchical relationships between them complicates port clearance and adds to the clearance costs and time spent. The final arbiter at the nation's ports of entry is Customs and an institutional pecking order should follow suit.

For its part, the LRA stands to take automation to another level under its e-Tax project by centralized processing of customs declarations. The aim is to reduce import and export compliance costs and clearance time at the ports through efficiency gains occasioned by automation and the internet, to allow users to access the LRA's ASYCUDA WORLD server to clear goods without interpersonal contacts with LRA staff which would eliminate rent seeking as well as work with other official agencies (Liberia Immigration Service, Drug Enforcement Agency, Ministry of Commerce and Industry, Police, National Security Agency)to reduce nuisance checks at the ports. Gone are the days pacing Customs offices to find out the status of declarations, lodgment, signing of bills and exit notes. The system will enable users to fill declaration forms, upload supporting documents and payment details and receive clearance, all done online for twenty-four hours a day and seven days a week. It will make it possible for importers and exporters as well as brokers to make declarations in the comforts of their offices at minimum transaction costs.

3.2.4.2 Strategy - TradeMark West Africa

TradeMark East Africa (TMEA) is a private non-profit organization with headquarters in Nairobi, Kenya, seeking to increase prosperity in the East African community through trade. The transmission mechanism it espouses is that trade contributes to economic growth which reduces poverty and therefore increases prosperity. Its mission is "to promote rapid advances in East Africa's integration, trade and global competitiveness for all East Africans". TMEA works closely with East African Community (EAC) institutions, national governments, the private sector and civil society organizations to increase trade by unlocking economic potential through:increased physical access to markets; enhanced trade environment; and, improved business competitiveness. The organization and its projects are funded by the Government development agencies of Belgium, Canada, Denmark, Finland, Netherlands, Norway, United Kingdom and United States of America.

It is proposed that TradeMark West Africa (TMWA) would be established along similar lines of TMEA. TMWA would also be a private sector organization to promote integration, trade and global competitiveness in the ECOWAS. The ECOWAS and member countries would provide the enabling environment for TMWA to operate in all countries. It will start out by seeking a close partnership with TMEA to share a community of practice.

3.2.5 Non-Tax Revenue

Social security payments account for more than half of non-tax revenue which, like tax revenue, has reached a plateau. It declined by 3% between FY2015 and FY2016 to USD30.7 million (Table 3.7). The National Social Security and Welfare Corporation (NASSCORP) maintains that the bulk of the formal sector is now on-board and efforts to attract new contributors must be devoted in the informal sector. However, the perception is that actors in this sector have a shorter horizon for their use of funds and would probably require innovative pension payment facilities with such maturities. Inroads into the informal sector will be promoted through intensive education drive to engender a culture of contributing to the Fund by both employers and employees. For example, in Ghana, the first thing a maid does is to hand over his/her social security number to a new employer and demand contributions are paid[61]. The aim is to instill a level of consciousness and ownership awareness in the informal sector. Therefore, the shared challenge by the LRA and the NASSCORP is to attract new payers from the informal sector.

With regard to other non-tax revenues, property income (dividends, royalties and rents), mostly from the natural resource sectors almost doubled in the last two years to USD 28 million due to 36.6% increase in new entrants paying dividends while royalties and rents stagnated during the same period on the back of the lull in international commodity prices. Strategies proffered to raise revenues in the mining sector are also relevant for

61 Cited from interview with Mr. Bomb Bright, Chief Financial Officer, NASSCORP, October, 2017

raising non-tax revenues. Streamlining the proliferation of non-tax revenue actually increases the effective tax rate and concerns this DRM as discussed in Sub-section 3.3.5.

Table 3.7: None Tax Types

	REVENUE (USD Million)			NUMBER OF PAYERS	
	FY 2015	FY 2016	FY 2017(i)	FY 2015	FY 2016
Total	*62.60*	*78.85*	*616,844.98*	*17,563*	*15,992*
PROPERTY INCOME	*15.6*	*28.0*	*20,450.02*	*298*	*404*
Dividend	3.7	16.3	12,705.00	3	2
Royalties & Rents	11.9	11.5	7,659.66	295	394
Sale of Government Assets	0.87	0.26	85.36	0	8
ADMINISTRATIVE FEES	*11.8*	*18.4*	*595,291.00*	*12,214*	*11,698*
FINES, PENALTIES & FORFEITS	*3.6*	*1.8*	*1,103.96*	*5,051*	*3,890*
Other Ministries & Agencies (Private)0	0.05	0.09	270.19	16	9
Administrative Penalties & Interest	3.5	1.71	833.77	5,035	3,881
Social Security	*31.60*	*30.65*			

3.2.5.1 Strategy -Non-Tax Revenue

The imposition of fees and charges must be centralized in the MFDP to be determined by the ministry while taking into account tax rates in order to have a handle on the incidence of total tax and non-tax rates on the citizens. Businesses in particular, reckon with all the fees and charges that affect and impact their bottom line. It should be explicit in the budget what the total effective tax is in the economy. The recording, monitoring and regular publication of non-tax revenue ought to be regularly reported by the LRA together with tax revenues in similar detail as the latter. A comprehensive study is proposed to catalogue and analyze non-taxes with a view to streamline them and get rid of any nuisance levies. It will also provide a framework for recording, monitoring and forecasting revenues from non-taxes for inclusion in the fiscal budget in greater detail.

In some of the MACs, the LRA already has a presence to facilitate collection of charges and fees, etc. Mitigating these flows from the headline risks would be done by automation, making these flows cashless transactions. The digitalization and e-Tax initiative will be extended to all MACs collecting revenue while establishing an interface with LRA and allowing payees to effect payments into the designated banks.

3.2.6 Efficiency of Tax Collection

Both efficiency (whether the tax enhances or diminishes the overall welfare of those who are taxed) and equity (whether the tax is fair to everybody) are central to the analysis. Overall, the evidence suggests that spending by tax administrations increases tax collection and that "higher spending on RAs has little short run impact, but is associated with significantly better compliance if sustained"[62]. The caveat is countries with poor compliance that use expenditure to compensate. In the literature,four concepts are used to fathom efficiency in the operations of RAs: cost of tax collection to revenues,cost of tax collection to GDP, tax buoyancy and elasticity. FY2014 and FY2015, spending on tax collection was the equivalent of 3 and 4% of revenues respectively. Compared with the ATAF member countries which averaged 2.1% or OECD's 0.9% of revenue[63], the LRA's costs are higher. The highest ratio in Africa at 5.1% was recorded by Swaziland. A breakdown of LRA's expenses showed that 75% was on account of compensation of employees. This level of personnel outlays is quite typical of nascent RAs such as the LRA, seeking qualified professionals and competing to keep them in a market with limited talent.

Up to 2013 when the LRA was established, tax collection was discharged by a department in the Ministry of Finance. Establishing a semi-autonomous RA warranted meeting additional manpower needs in its entire operations particularly, non-core areas of administration and finance and in-house supporting technical services. Secondly, in an environment with corruption as a headline risk, pitching emoluments at appropriate levels is the right strategy to help preserve the integrity of staff. The LRA has recently experienced a loss of staff as they seek better opportunities in the country, notably the Central Bank of Liberia (CBL) and political offices. However, as the institution matures the recruitment drive would reach a sustainable level matching acceptable level of staff productivity, an optimal scale of operations and a desired quality of service delivery.

62 M. Keen, et al, IMF, 2015

63 ATO 2017, the 20 ATAF member countries are Botswana, Benin, Burundi, Cameroon, The Gambia, Kenya, Mauritius, Mozambique, Nigeria, Rwanda, Senegal, Seychelles, South Africa, Swaziland, Tanzania, Togo, Uganda, Zambia and Zimbabwe.

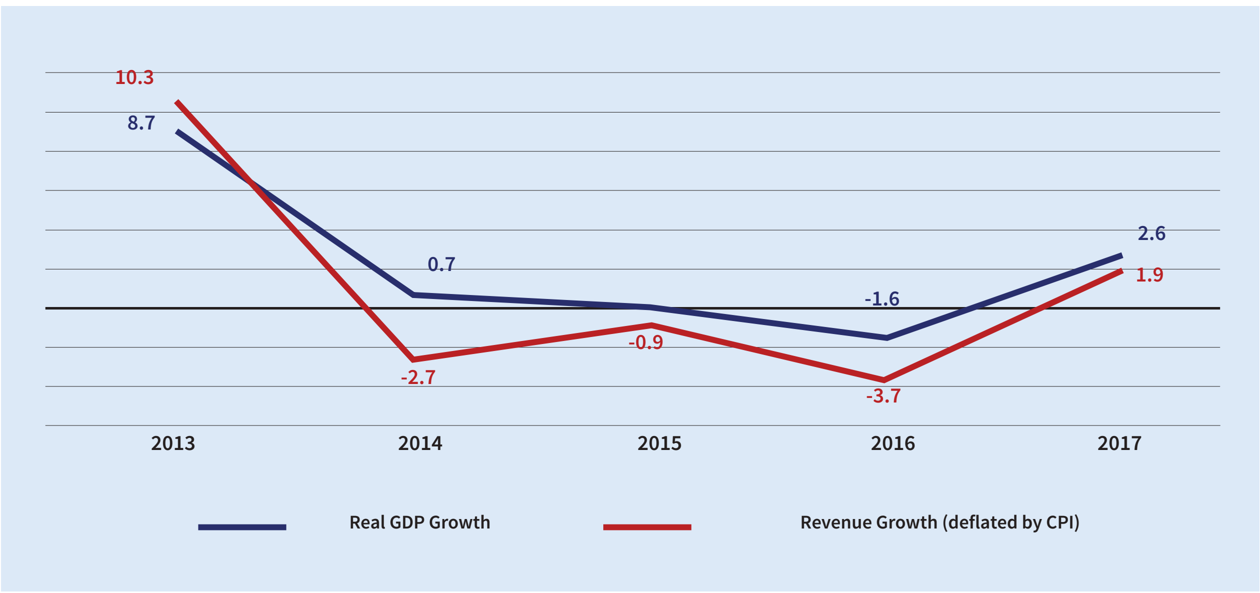
Cost of collection to GDP against the revenue to GDP ratio gives an indication of efficiency by comparison. For example, in 2015, Senegal spent slightly more than 0.1% of GDP to collect revenues equivalent to 25% of GDP compared with Zimbabwe that expended 1.0% of GDP to generate the same level of revenue[64]. Ceteris paribus, revenue collection is more efficient in Senegal than in Zimbabwe. Liberia lies marginally above midway between these two countries with a cost of revenue collection at 0.6% of GDP yielding a revenue to GDP ratio of 23%, suggesting that revenue collection in Liberia is more efficient than Zimbabwe but less so with regard to Senegal.

Alternatively, average spending for tax collection of 0.1% of GDP resulted in 0.8% of tax to GDP in revenue for the twenty RAs that are members of the ATAF[65]. Countries such as Zimbabwe with spending levels that offer below this ratio are considered to be below par and encouraged to take measures to improve value for money in collecting taxes. In Liberia, spending on tax collection equivalent to 0.1% of GDP in FY2015 led to 0.2% of tax to GDP growth[66]. This is in a year when revenue growth declined by 7% in two consecutive years and recovering slower than the GDP that registered positive growth of 2.5 and 1.2% (Table 2.1).

Buoyancy measures the total change in revenue driven by changes in income. A tax is buoyant if the tax revenues increase more than proportionately in response to a rise in national income, GDP or output. For a good year like 2013, buoyancy of tax revenue is positive revealing that a 1% increase in GDP would lead to 18% increase in revenue, that is, taxation is buoyant (Figure 3.7). However, in the following year when Ebola hit the economy, yearly buoyancy became negative with the average between 2013 and 2017 suggesting that taxes have not been buoyant during the post Ebola period, at 0.078. The average of the start and end data points of buoyancy suggests a result closer to 0.95. A study by Moyi and Muriithi (2006) on the Kenya tax system found buoyancy as being 0.662[67]. The CPAK study that went through with each tax type also found in the aggregate non buoyancy in Kenya at 0.73[68]. Other measures of efficiency, already touched upon above, are put into context in Table 3.3

Other measures of efficiency relate to compliance costs to the taxpayer as measured by the total tax rate and ease of being compliant. 'Paying Taxes 2017' by the World Bank Group and PWC[69], overall, ranked Liberia far ahead of its comparator countries in the WAMZ. The country stands at 72 out of 189 countries worldwide, Guinea (184), Nigeria (182), The Gambia (171), Ghana (122) and Sierra Leone (87). The cost of paying taxes to taxpayers as measured by

Figure 3.7: Buoyancy Parameters



Source: IMF GDP data; LRA Revenue data; Author's estimate

64 Data from ATAF 's Africa TAX Outlook, 2017

65 Ibid

66 Obs! The data in this sentence is in financial year while the ATAF average is in calendar year and therefore not completely compatible but nonetheless indicative.

67 "A Historical Perspective to Kenya's Revenue Performance", The Institute of Certified Public Accountants of Kenya (CPAK), 2016.

68 Ibid

69 'Paying Taxes 2017' by the World Bank Group and PWC, "Everyone benefits if tax systems are well understood and are effective and efficient. To achieve this, systems need to minimize the administrative burden that they place upon governments and taxpayers while raising the revenues that are needed to fund public services. The Pa y i n g Ta x e s study looks at how easy it is for a standardized, medium-sized domestic company to pay its taxes".

the total tax rate and ease of paying taxes is lower in the post conflict countries of Liberia and Sierra Leone largely on account of significantly lower total tax on labor.

In 2015, the total tax rate is 45.9% of commercial profit in Liberia, higher in The Gambia and Guinea at 51.3 and 68.3% but lower in Nigeria, Ghana and Sierra Leone at 34.3, 32.7 and 31% respectively (Figure 3.8). In terms of time spent by taxpayer to transact with RAs for payment of taxes, Liberian taxpayers spend the least time to transact and comply at 140hours compared with 224 in Ghana and 908 hours in Nigeria while the other countries lie in between (Figure 3.9).

Figure 3.8: Total Tax Rate, % of Commercial Profit

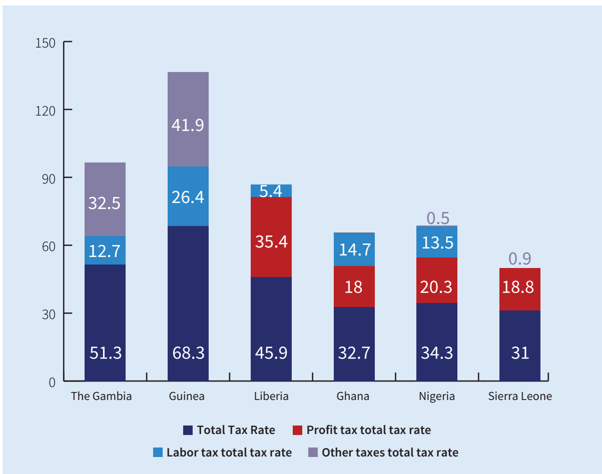
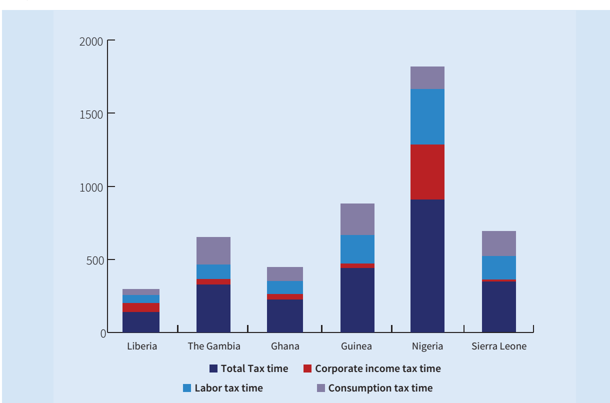


Figure 3.9: Time to Comply, Number of Hours



It is an unexpected result that a Liberian taxpayer spends less time to transact with the LRA than his Ghanaian counterpart with the Ghana Revenue Authority (GRA) when the level of automation, a defining feature of ease of transaction, is significantly higher in Ghana in all respects, registration, filing and payment of taxes. For example, in Ghana, obtaining a tax clearance certificate and duty payments can be done on line but not in Liberia. The problem may concern varying interpretations of the standard questionnaires provided by the World Bank for Paying Taxes 2017[70].

3.2.6.1 Strategies Efficiency of Tax Collection

The level of income, use of Information Communication Technology (ICT) and productivity of staff are three distinguishing factors that separate costs of tax administration incurred in LICs, LMICs, HMICs and HICs (Figure 3.8). LRA's costs are at 3-4% of revenue. Exploitation of ICT also provides the grounds for utilization of a more efficient and more advanced management system in the organization. "Information technology (IT), computerization of systems and business processes of the tax administration, data networking,and associated technological devices—is a key enabler, and its importance continues to grow, as does the pervasive role of IT in everyday life"[71].

The overarching strategy for enhancing efficiency in LRA is for a comprehensive e-Tax project taking taxation in Liberia into the digital age buttressed by accelerated institutional and human capacity building. The use of ICT to improve tax administration is gaining strength across the global income spectrum. "Of the 46 reforms captured by the paying taxes indicators, 26 economies either implemented new online systems for filing and paying taxes or improved the already online platforms in 2015"[72]. The pace of change is driven by the rapid innovations in ICT and the efficiency gains realized by the RAs from its use. It reduces the costs of operations, eases taxpayer compliance and mitigates against headline risks such as informality, corruption and low human capacity.

The goal to increase use of automation, information technology and electronics is for greater efficiency and tapping economies of scale in LRA's service delivery. ICT drives down costs by reducing overheads and increasing staff productivity and reduces transaction costs of taxpayers with the LRA. It will be particularly effective with regard to taxpayer registration, filing, declaration and payment of taxes, reducing human error and mitigate against risks as well as enable real-time EOI through computerized interconnections among taxpayers, tax

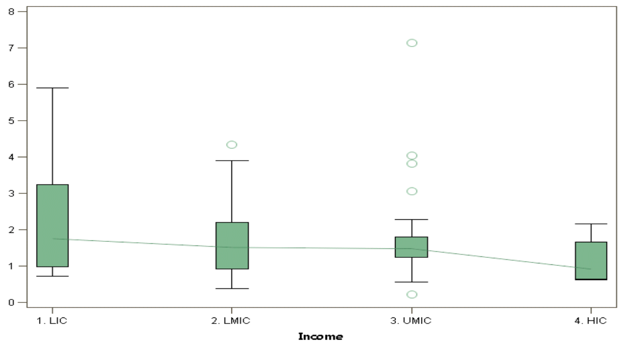
70 This view came across from discussions with LRA officials that filled out the Paying Taxes 2017 questionnaire.

71 Digital Revolutions in Public Finance, IMF, Gupta, Keen, et al, 2017

72 World Bank's Doing Business 2017

services and Government MACs and as well as Electronic Fiscal Devices (EFDs).

Figure 3.10: Cost of Tax Collection as Proportion of Income



Source: IMF RA-FIT data in IMF 2017, M. Keen et al.

The central pillar of the efficiency strategies is to use IT and electronic connectivity to reduce administrative and taxpayer compliance costs to improve productivity with the following interventions:

- Digital communication and use of social media and apps (for registration, filing, declaration and payment of taxes, education, EOI, etc.) between LRA and Large, Medium and Small Taxpayers as well as exporters and importers;
- Large Taxpayers including importers and exporters to use electronic invoicing to replace paper invoices using mandated or otherwise certified electronic devices that are generated by suppliers' and purchasers' accounting systems. This mitigates against over and under invoicing and significantly reduces costs for both firms and the LRA;
- Facilitate Large Taxpayers to electronically submit accounting data which can be interrogated with audit software to quickly and cheaply validate returns and identify compliance risks;
- Establish use of mobile telephony communication with Small and Micro taxpayers on presumptive tax for EOI and payment of taxes;
- EOI – Establish interconnectivity of databases between SIGTAS and ASYCUDA within the LRA and between LRA and LBR, Ministry of Commerce, Bureau of Fisheries, NIC and all other MACs with significant client base and revenue intake for third party information. MOU will be signed by the LRA with each MAC;
- EOI with other RAs and sources abroad also rests on IT systems and LRA signing the relevant conventions;
- Establish interconnectivity of databases between LRA and Treasury and CBL for direct automated payment of Government withholding taxes;
- Establish interconnectivity between CBL and commercial banks used for payment of taxes to facilitate direct debiting of Commercial banks accounts with the CBL for taxes received. Have the LRA in the loop for record keeping purposes;
- Consolidate the on-going 'One-stop shop' under the LPDS project supported by the UNDP for all interactions between citizens and businesses and government (Ministry of Commerce, LBR and LRA) to be rolled out in all 14 counties outside Montserrado;
- Pre-population of returns by LRA from registration and third-party data to be in ready mode for engaging taxpayers;
- Technology-based compliance control to support customer segmentation by channeling taxpayer contacts to the most appropriate services in real time. This is especially suitable for e-filing, call centers, and other; and,
- Introduce an internal automated management system within LRA to facilitate real time communication, EOI, administrative data and information record keeping, appointments and transmitting management decision making.

The downside risks of e-Tax system include frequently interrupted power supply, low IT quotient of administrators and users, hackers, 'zappers': software that falsifies recorded sales. Also, as tax administrators automate so do fraudsters go higher up the technology ladder to avoid detection.

The GoL's e-Government Strategy, 2014 – 2018, "aims to provide a clear road map to accelerate Liberia Government's effort toward delivering quality and responsive services to the public. In addition, it shall facilitate greater coordination within the public sector and guide the modernization of the Government's complex administration". A USAID Digital Liberia and e-Government Project has started with the shared objectives of the strategy as the e-Tax. The synergies will be exploited to ride on the backbone already commenced by the project to benefit the e-Tax particularly, with regard to LRA's interface with MACs.

3.3 Turning Tax Discount into Tax Premium Sectors

Rising income of the taxable population increases the efficiency of tax collection by expanding the tax base to raise revenue and minimize enforcement costs. While the ratio of tax revenue to GDP answers to the tax capacity of an economy, buoyancy is another measure of an efficient tax system. Indeed, an efficient tax system should be able to appropriately respond to the increase of GDP or GNP.

The analysis is now taken to sector level and those which are currently on a discount with regard to the tax burden are targeted as having tax potential. A sector exhibiting a discount or premium is measured by a ratio of a sector's share in revenue against its share of value addition in the GDP. As such, premium sectors are highly desirable for narrowing the budget deficit. Thus, with other areas remaining the same, a discount sector presents an opportunity for more revenue generation to get it to a share of revenue that at least matches its contribution to the GDP.

Two implications are obtained from the sector tax burden approach:

> "First, care should be taken in imposing any further taxes on a premium sector as it already shoulders a disproportionately higher tax burden; and,
>
> . Second, if closing budget deficits is a policy objective, as it is indeed for Liberia, developing premium sectors should be part of overall fiscal management and economic development strategy. Each dollar of additional economic output from a premium sector would generate a relatively large contribution to government revenue[73]".

While the preceding quotation refers to the revenue benefits of output growth in an existing premium sector, the preoccupation in this DRM is primarily to increase the number of premium sectors that would derive such tax outcomes in the Liberian economy. The main distinguishing factor between tax premium and tax discount sectors in this country is the extent of formality that exists in premium sectors including institutional frameworks against little presence of the same with dispersed middle, small and micro economic actors in discount sectors. Withholding taxes dominate the former sectors as an effective catchment of PAYE, GST between a business/government body and client, and CIT from own income. On the other hand, tax discounts are dominated by unregistered self-employed and underemployed.

The main sectors of the Liberian economy are operating as tax discounts Agriculture and Mining. Under the Services sector, the largest at 42% of GDP, the sub-sectors of Transportation, (information) and Communication (TIC, 58.33%) and Financial and Insurance Activities (FIA, 85.00%) and Government Services (GS, 58.82%) are the tax premium sectors (Table 3.8). While TIC and FIA are moving in line with international trends, GS reflect the public sector's predominant employer position and the effectiveness of collecting taxes through withholding of PAYE by the Treasury. Tourism and Real Estate are tax premium sectors in many countries such as The Gambia and Senegal however, in Liberia, years of civil war, the EVD and lackluster political resolve and policy direction and ineffective administration efforts have kept these potential big winners in tax collection in the discount column.

On the other hand, the discount sectors are Agriculture and Fisheries (83.87%), Mining and Panning (62.11%) and Manufacturing (28.6%) as well as Services sub-sectors, Construction (80%), Imputed Rent (100%) and Trade & Hotels (57.1%). On average over the past three years to 2016, low commodity prices have turned a dominant Mining sector that contributed 18%, traditionally a tax premium sector into a tax discount (Table 3.8).

As at 2017, moving discount sectors to premium presents an estimated revenue effort of US$ 155.41 million, that is, over 51.6% of the $301.5 million (Direct taxes plus non-tax minus customs) actually collected (Table 3.8). Financial Institutions and Transportation and Communication registered tax collection rates with output at dollar for dollar and above a dollar respectively (Figure 3.11). Among other factors, the size of share capital, gestation periods and returns on investment and overall profitability are determinants that differentiate tax rate per dollar of output in the Mining Sector and Manufacturing and other sectors.

When projected over the next five years, 2017 – 2022, the revenue effort is required to turn the discount sectors

73 Oxford Economics, 2012

into premium averages over 6% of GDP or US$ 174.6 million per annum, and set a new trajectory at an annual average revenue of 30.7% of GDP, up from 24.3% under the Liberia's Article IV. The total impact over five years is a revenue effort amounting to US$873 million, indicating an upper limit and target for revenue collection efforts (Table 3.9).

In many respects, the requisite tax effort to realize a premium sector is not effectively different from a tax gap analysis. The differences include the focus on the revenue code by tax gap which from the beginning excludes subsistence agriculture and informal sector operators with earnings below the threshold which the discount and premium approach include. Bringing those outside the code into the tax analysis forces a focus on informality and in this DRM to ask two questions. What can be done in the sector to turn informal participants to formal? What structural factors can be addressed to generate higher incomes by setting up businesses and higher employment to get many more above the threshold?

Michael Keen, IMF, presents a fresh argument that informality is not a tax compliance issue. This may be so for HICs or MICs where informal sectors are less than 10% of economic activity. However, in LICs like Liberia where tax collection is reaching the outer limits of the formal sector and the informal sector is about two-thirds of the economy or more, leaving out the latter is not an option. While increasing the efficiency of tax collection and eliminating tax expenditures can still earn more revenues, the bigger gains are in making inroads into the informal sector. Is it part of the function of the tax authority?

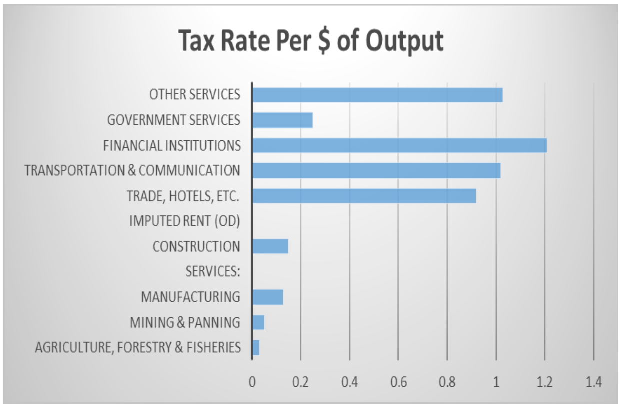
Of course, the Authority must at least have views on ways and means of bringing those out of the provisions of the code into it. Furthermore, it is incumbent on a DRM strategy that goes beyond taxes to cover the national savings ratio to discuss the informal sector. From the LRA's perspective, efforts are already underway to organize and tax artisanal operators in Mining and Fishing, petty traders and other Small and Micro taxpayers by way of presumptive taxes. Mindful, that it may not be optimal to close a tax gap in its entirety due to efficiency of enforcement costs on the extra revenue intake (Keen, et al, 2015). The same considerations do apply to reaching a premium sector.

In Liberia, the overarching strategies for sustaining the contributions of the premium sectors to expand the tax base entail increasing efficiency of tax collection and protecting tax proceeds from corrupt practices through automation. The technical capacity of the LRA staff to enforce and audit the highly computerized and technologically evolving operations of the private sector tax premium sectors must be up-scaled to keep abreast with these developments. Given the quantum of daily transactions that number tens of thousands in telecommunications and somewhat less in financial services, enforcing and auditing outside their systems will yield mediocre results. Therefore, LRA staff must have the capacity to do compliance work within the systems. Another risk in these premium sectors dominated by multinationals is to mitigate against capital flight and base erosion and profit shifting (BEPS)[74]. In general, the tax types and rates applicable to these performing sectors must be consolidated in the short to medium term to allow greater efficiency at such levels, more users, financial inclusion and overall economic growth to drive more revenue intake.

Undoubtedly, the biggest wins in expanding the tax base can be found in turning informal actors into reliable taxpayers. These sectors present the largest discounts and

74 Under the auspices of the G20, the global leadership on the harmful effects of capital flight, the BEPS program driven by OECD and IFIs are

Figure 3.11: Tax Rate per Dollar of Output



Source: LRA, Author's Estimates

Figure 3.12: Tax Discount and Premium Sectors

Source: LRA, Author's Estimates

Figure 3.13: DRM and Article IV Revenue Trajectories

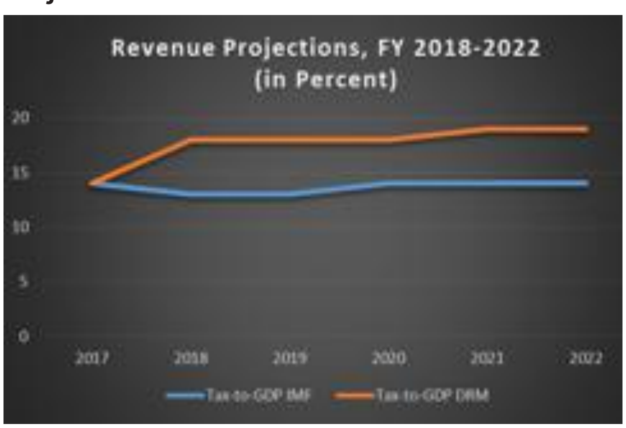


Table 3.8: Discount and Premium Sectors

	FY2017			
Sector	***Tax Rate Per $ of Output***	***Sector Share of GDP***	***Sector Share of Tax Base***	***Tax Discount & Premium Sectors %***
Agriculture, Factory & Fisheries	0.03	0.31	0.05	(83,87)
Mining & Panning	0.05	0.18	0.07	(61,11)
Manufacturing	0.13	0.07	0.07	_
Services:				
Construction	0.15	0.05	0.01	(80,00)
Imputed rent (OD)		0.05	0.01	(80,00)
Trade, Hotels, etc.	0.92	0.14	0.07	(50,00)
Transportation & Communication	1.02	0.05	0.12	58.33
Financial Institution	1.21	0.03	0,20	85,00
Government Services	0.25	0.07	0.17	58.82
Other Services	0.13	0.04	0.24	83.33
Total				

	FY2017		
Sector	***Sector Premium Potential (US$Million)***	***Actual Direct Taxes Collected (US$Million)***	***Sector Gap to Premium (US$)***
Agriculture, Factory & Fisheries	(93,46)	16.24	(77,22)
Mining & Panning	(54,27)	21.33	(32,94)
Manufacturing	(21,10)	20.34	(0,76)
Services:			
Construction	(15,07)	4.26	(10,81)
Imputed rent (OD)	(15,07)	3,55	(11,52)
Trade, Hotels, etc.	(42,21)	20.88	(21,33)
Transportation & Communication	21.12	36.21	
Financial Institution	50.46	59.36	
Government Services	1.21	2.05	
Other Services	84.62	115.07	
Total		***301.49***	***(155.41)***

Table 3.9: DRM Revenue Potential Projections

	2016	BASE-YEAR 2017	2018	2019	2020	2021	2022	Total Impact Over 5	Annual Average Over 5
NGDP US$ Million	3278	3285	3341	3542	3810	4044	4429	19166.0	3833.2
NGDP Growth Rate		0.002	0.017	0.060	0.076	0.061	0.095		
RGDP Growth (US$)	155	155.4	158.1	167.6	180.3	191.3	209.6	906.8	181.4
IMF Revenue Projection	452	464.0	436.0	467.0	520.0	569.0	623.0	2615.0	523.0
DRM Revenue Projection		619.4	594.1	634.6	700.3	760.3	832.6	3521.8	704.4
Tax-to-GDP (IMF)		0.14	0.13	0.13	0.14	0.14	0.14	0.14	0.14
Tax-to-GDP (DRM Potential)		0.19	0.18	0.18	0.18	0.19	0.19	0.18	0.18

Sources: Projection for Real GDP & CPI Growth Rates and Total Revenue to GDP from IMF Article IV 2018, and the rest are Author's estimates

thus significantly below tax potential[75]. The actors operate in acash based economy without paper trails which are so useful in tax collection. The strategies pertaining to the discount sectors will focus on multifaceted approaches including, mitigating against revenue loss from tax expenditures and tax incentives; supporting record keeping and insisting on evidence of transactions such as receipts; mass tax education and sensitization on who, where, when, how, and why topay taxes; to derive economies of scale, promote mass registration via trade fraternities such as the retail traders union; simplification of returns and taxpayer information products; and, accessible LRA services and assistance, in the short term. Since there are structural factors at play, in the medium to long term, advocate for business startups and job creation for more taxes; propose institution building and markets for withholding taxes; deepen computerization and automation to raise efficiency; fashion financial instruments for higher national saving; and, build institutional and human capacity building to increase productivity for effective tax administration.

What can inhibit revenue collection in Liberia from turning a sector from a tax discount to premium? The answer includes non-compliance with the tax code but goes beyond to consider informality that is keeping other business and employees from growing to reach the tax threshold that would bring them into the tax net. Non-compliance has three main aspects: policy induced non-compliance, citizens' non-compliance with revenue laws and ineffective administration of the enabling statutes for revenue collection[76]. Policy non-compliance is embodied in the tax code and other tax policy regulations and in Liberia, manifested by tax expenditures, concession agreements, Execution Orders and memorandum of understanding (MOU) signed by the MFDP. Achieving tax compliance from taxpayers is as complex as their individual personalities influenced by socio psychological determinants such as attitudes, norms, fairness, motivational postures; political determinants dealing with the complexity of law and tax system and fiscal policy; and, the economic factors including income, tax rates, audit probabilities and fines. Hence, assessing the factors which impact on the ordinary taxpayer is a prerequisite for finding ways of increasing tax compliance[77].

Beyond those factors, increasing the tax base is also due to structural factors including the pervasiveness of informality and indeed, of the 22% share of GDP emanating from Agriculture, 12% is on account of rice and cassava production by largely subsistence farmers who are out of the tax net. Other front-line risks, corruption, capital flight and capacity constraints add to the mix of drivers of non-compliance. Of course, the context, the environment within which revenue collection takes place, warrants a survey of the opportunities and threats to collecting more taxes.

3.4 The External Environment

The ideal tax system should raise lawful revenue to minimize Government borrowing without acting as a drag on private sector output and conforming to international best practices[78]. It should avoid fiscal dominance, adhering to a private sector-led growth strategy as well as raises issues on the relative efficiency in the use of resources between the public and private sectors. The

75 Potential can also be measured the effective tax rate by the sector's income.

76 Australia Tax Office, 2010.

77 "Understanding the Determinants of Tax Compliance Behavior as a Prerequisite for Increasing Public Levies" Lecturer Ph.D. Larissa-Margareta Batrâncea, et al,

78 "Revenue Mobilization in Developing Countries", IMF 2011, "Principles of Good Tax Administration", OECD 1999/2001.

latter pertains to the effectiveness and efficiency of tax policy and administration. The goal must be to engender a sustainable fiscal balance to maintain macroeconomic stability to permit inclusive growth and poverty reduction. The role of tax administration is to collect taxes in accordance with the law at reasonable human and material costs while constantly adapting and adopting to better work processes, mitigating internal risks to revenue loss and improving its public image.

The specific aspects of external environment that impact on taxation are the legal infrastructure that provides the enabling legislation, economic context as measured by the level of output and per capita incomes and stable macroeconomic conditions; public opinion and trust of the citizens in their Government is fathomed here by the outcomes of the Regional Multi-Stakeholder Dialogues on Taxation held throughout Liberia which culminated in a National Revenue Symposium in July 2017 and a role for Civil Society Organizations (CSOs) in taxation. The enabling legal infrastructure ought to provide for minimal loopholes and simplicity for enforcement and taxpayer compliance purposes. Overall Fiscal policy in terms of the level of the budget deficit and its governance structure and processes for management and approval are integral to revenue mobilization. The former pertains to the annual budget revenue target that compels collection of specific revenue amounts on an annual basis and the latter to the budget legislative process[79].

3.4.1 Strengthening the Legal Infrastructure for Taxation

The legal infrastructure of the tax system in Liberia is constituted by the Liberia Revenue (LRA) Act 2013, the Liberia Revenue Code (LRC) 2000 as amended in 2011, various intervening specific code amendments such as Section 16 in 2017 and supported by fifty (50) revenue regulations effective since 2007; of which, thirty-three (33) relate to direct taxes and the rest to indirect taxes. Furthermore, One Hundred and Two (102) regulations are in the pipeline, mostly on account of processing the latter. The LRA Act is one of the latest to be enacted in West Africa and embodies much of the international best practices in RAslegislation. The governance structure and tenure of senior management conform to the desired autonomous status of RAs.

The code is a source of a policy tax gap on account of Section 16, Special Investment Incentives, which grants tax exemptions and holidays, while there are customizedConcession Agreements and Executive Orders which accord similar privileges. These legal instruments result in revenue losses sanctioned by the Government. Secondly, these are avenues that effectively tantamount to uses of revenue albeit forgone. Significantly, these expenses do not pass through the transparency of legislative scrutiny of the annual fiscal budget. Although, Concession Agreements involve a modicum of oversight by the legislature, Executive Orders, on the other hand, are pure fiat without recourse to the lawmakers and at best akin to special powers vested by a state of emergency, and at worst, reminiscent of Military rule by decree.

3.4.1.1 Tax Expenditures

Tax expenditures are granted by Revenue Authorities in the form of special tax credits, deductions, exclusions, exemptions, liability deferrals, and preferential tax rates, export processing zones which substantially reduce the revenue the government collects from income taxes but can help achieve national social and economic goals. However, it is not always easy to determine how successful tax expenditures are in achieving their intended policy goals[80].In developing countries, studies from academia and by the IMF, OECD and ECA and AfDB, agree that the benefits are not realized and can be outweighed by the revenues foregone displacing funding for investment in much needed infrastructure, education and health services.

Liberia grants exemptions, like most countries, under international conventions and the national revenue code. With regard to the latter, Liberia has two instruments: Concession Agreements – "An agreement made between a country and a corporation based in a different country, in which the country offers incentives, such as reduced taxes and other "concessions", to the corporation in exchange for the corporation investing in that country"[81]; and, tax exemptions based on the Investment Incentive Code (IIC) – Section 16 of the LRC as amended in 2017 - administered in collaboration with the National Investment Commission (NIC). A third window is via Executive Orders as directives to grant tax exemptions in specific cases. A forth window is the tax credits granted under Memorandum of Understanding (MOU) signed by the Minister of MFDP and investors largely in the logging industry who build road infrastructure to move the produce. While the data for the total cost of tax expenditures involve direct and indirect taxes, data is only available for duties waived which

79 M. Macpherson 2017 (UNDP Consultant) provides a recent study on Fiscal Space in Liberia

80 US Government Accountability Office: http://www.gao.gov/key_issues/tax_expenditures/issue_summary

81 http://www.investorwords.com/7075/concession_agreement.html#ixzz4hCLfc3VC

accounted 46% of all custom exemptions in 2015[82].

Overall, the companies granted tax exemptions are new investors mostly in the natural resources sectors (mining, agriculture, forestry, oil and gas), manufacturing and real estate, among others. The standard justification is on the premise of an infant industry argument granted during the gestation period and at the low end of a productive activity learning curve (Box 7). The total amount duties waived in FY 2016 was USD 91.5 million on goods (93%) and petroleum (7%). This is equivalent to 23% of tax revenue and 4.5% of GDP of the same year. About half the exemptions went to the public sector and the other half to non-State actors including enterprises, diplomatic missions and non-government organizations.

The downside risk of tax expenditures to revenue collection is amply demonstrated by the LRA's recent experiences. The reaction of two multinationals is indicative of the body of evidence being built to support the view that tax incentives do not weigh heavily in the investment firm's decision making. During the commodity price slump in 2015, a multinational made plans to shut down operations despite the generous concessions it has in duty waivers and tax exemptions, denoting that price considerations trump the incentives. Another multinational after 70 years with concessions is still asking for yet another agreement for another 15 years[83]. If it cannot be weaned in the past period, it can safely be predicted that it cannot be expected to do so in future. Normally, an enterprise has a share price to support; loss making subsidiaries are therefore primary candidates for cost cutting and would not survive for those many years.

Box 7: Investment incentives in Liberia have a liberal business climate intended to attract foreign investment and stimulate economic growth and development. Incentives granted under the Investment Incentive Code include exemption from custom duties, income tax, stamp fees and other benefits to new and expanding businesses for approved investment projects in manufacturing, agriculture, forestry, fishing, mining, building and construction, transport and communication.

Approved investment projects may also be eligible for support in securing loans and guaranteeing credit by the Central Bank.

- Exemptions from Trade Taxes: - Machinery, equipment, raw materials, semi-finished products and other supplies to be used in the project are exempt from import duty up to 90% of their dutiable value; and – Manufactured goods exported from the production of the project are entitled to full rebate on import duties and full refund of both income tax and excise tax.

risk-bearing capital is not less than one-third of the borrowed capital (if any). In granting incentives, the NIC takes into consideration the location of the project, its environmental impact and its potential for job creation.

- Exemptions from Income Tax: - Reinvested profits are exempt from income tax. However, if the reinvestment is in employee housing, the exemption is subject to prior approval from the National Investment Commission ("NIC"); and - Profits not reinvested are exempt from 50% of the income tax otherwise payable.
- Other benefits: Approved investment projects may receive certain additional benefits on application to the government, such as the lease of land in government-owned industrial parks at a preferential rate, reasonable tariff protection, purchase of project products by government agencies, etc.

82 LRA Annual Report 2015

83 LRA Estimates

- Conditions to be fulfilled In order to be eligible for the incentives summarized above, the project must:
- Fall within one or more of the areas listed under priority areas of investment such as energy, tourism and hotel operations, hospitals and medical clinics, as well as manufacturing of finished products having at least 30% local raw material content;
- Make a minimum investment of USD $1 million under the revised Investment Code of 2008;
- Employ and train Liberians at all levels and increase their numbers in case of expansion;
- Use raw materials and other supplies of Liberian origin when their quality and price is roughly equal to that of imports, as determined by the government;
- Produce local value added of 25% or more; and
- Leave an option open for Liberians to purchase shares or otherwise participate in the ownership of the project.

In addition to the conditions listed above, the investor needs to ensure that the investor's own

Liberia Extractive Industries Transparency Initiative (LEITI) measures revenues by mixing up revenues paid to the LRA, levies to communities and payments for services rendered by National Port Authority (NPA) (Annex Char1). NPA payments are part of operational costs of companies that involve a quid pro quo and materially different from taxes and community levies which do not. Otherwise, transport and other services received would also qualify. Thus, the LEITI definition exaggerates revenue to the tune of payments to the NPA. If the intention is to capture cash flows from the sector to the rest of the economy, purchases of all goods and services should also be included while discounting the costs to have a net effect.

This definition includes taxes, fees, rents, royalties and other payments to the public sector and communities from the 42 Concession Agreement Companies (CACs) in the extractive sectors (mining, agriculture and forestry, oil and gas). These flows registered USD 100.7 million in FY 2015, equivalent to 5% of GDP, 38.8 and 15.6% of domestic tax revenue and total revenue (tax and non-tax) respectively. The payments from these sources are made to the LRA, National Oil Company of Liberia (NOCAL), National Port Authority (NPA), University of Liberia and the local concession communities. Among these recipients only the LRA's intake feeds into the GoL consolidated revenue fund to finance the national budget while the rest retain the funds (Annex Chart 1, LEITI FY 2015 Annual Report). Furthermore, the plethora of 45 payments is an effort by every relevant authority to derive revenue from the sector. It adds to the complexity of revenue collection as some border on nuisance taxes.

In 2015, the CACs benefited from USD 18.1 million in duty free imports (excluding direct taxes) and paid only USD 2.1 million in duties, yielding a net USD 16 million revenue loss in international taxes (Table 3.3). When compared with the USD 17.1 million in direct taxes paid by Concessions, there is a net tax gain of only USD 1.1 million to the Government. It is noteworthy however, that the bulk of direct taxes received from this group of companies are withholding on PIT, local employees' pay-as-you-earn, services received, etc. (details on Table 3.8).

The state of the concession agreements leaves a lot to be desired. These companies paid minimal CIT for either being in a gestation phase or making losses year in and out. One company has been accumulating losses for a good part of decades of its operations in the country and still applying for one. Companies also seek a reduction of a presumptive tax of 2%, paid upfront and deductible from the CIT of 25%at the end of the period. It is just logical that if an enterprise does not expect to pay profit tax, it would not want to pay any amount against it.

In these agreements, companies also request for duty free for importing rice for its employees, well outside of its remit, not to mention the drag on local production of the country's main staple food because of cheaper imported rice available in the local market. There are companies that also want the ECOWAS trade levy of 1% CIF reduced, oblivious of the consequences to Liberia's commitments to regional integration.

Granting Concessions Agreements to companies in the Forestry sub-sector is a particularly vexing issue. The enterprises are involved in felling and transporting trees for the local market or export. The forests are bequeathed from nature to the Liberian nation, yet 44 logging companies are licensed on this basis[84]. It is curious that felling down trees can qualify for concession agreements, when the country could grant to mankind a greater gift by preserving the rain forest, which covers about 42% of the country, to make a contribution to slowing down global warming. This type of forestry activity neither requires an investment period nor is it capital intensive as mining. The justification largely rests on the impassibility of the roads during the raining season.

There is hardly any investment period apart from those that construct or repair roads, bridges and culverts to move the logs. A Memorandum of Understanding (MOU) was signed between the MFDP and Concessionaires in

84 LEITI Annual Report, FY 2015

forestry to grant a refund in the form of tax credits for such costs. This MOU addresses desirable goals of upgrading roads and bridges in rural areas. However, the end does not always justify the means. The MoU constitutes a tax expenditure that bypasses the established sanctioning of budget outlays through an Act proposed by the Executive, approved by the Legislature and assented to by the President. It is a short-cut in due process and weakens the rule of law.

Furthermore, this is a constituency that does not pay CIT, so asking them to sponsor infrastructural developments that directly benefit their businesses constitutes unwarranted subsidies. It distorts the budget priorities unwittingly skewing it in favor of high wealth individuals (HWIs) who own these businesses while the financial returns to the public are absent and positive spillover effects to the communities limited as the quality of infrastructure that they build is not durable and below acceptable standards. In many parts of the world, wherever companies build access roads for their businesses that benefit the community at large, these are in-kind expenses treated as part of their corporate social responsibility (CSR). It is acknowledged by the communities where they operate and increases public acceptability especially, if there are negative spillover effects which the citizens have to endure including loss of access to breeding grounds for livestock, land degradation, air, noise or other forms of pollution[85]. In the case of Liberia, full financial compensation is granted in tax credits for these works[86].

Furthermore, under the MOU, there are no assurances for value for money in the quality of works. The companies do the cost estimates, hire workers, get the job done and bill the Government with no supervision or representation by the Authorities. There are no control mechanisms, approved scope of works, standards in terms of road specifications on its nature, size and standards, procurement rules or independent verification of the bill of quantities. The Ministry of Public Works (MPW) issues a Certificate of Completion de facto and fields an Auditor to back up its determination.

Box 8: Provisions of Tax Expenditures in Liberia Revenue Code
Section 9. Exempt Persons:
Section 501. Attributable Income of a Trust
Section 301. Calculation of Partnership Income
Section 219. Medical Tax Credit
Section 213. Foreign Tax Credit
Section 14137. Exemption for Military Aircraft
Section 14243. Goods Conditionally Exempt from Duty
Section 1708. Exemption from Import Duties
Section 1713. Administrative Exemptions from Payment of Duty Authorized
Section 3. Privilege of Exemption from Duties.
Section 53. Exemption from Taxation
Section 16. Special Investment Incentives.

Source: LRC

A study in 2018 showed that tax expenditures amounted to USD 133.7 million and USD 116.6 million in 2015 and 2016 respectively, and averaged about 30% of revenues and 6% of GDP per year[87]. This revenue loss is essentially low lying fruits waiting to be harvested to support the national Pro Poor Agenda. After almost 100 years of Concession Agreements the country does not have the assets to show for the quantum decline in nonrenewable natural resources given up. The new GoL has an opportunity to try something new, a paradigm shift.

Governments may cite various arguments for the use of tax incentives, such as addressing different types of market failures, attracting foreign firms (e.g. Liberia, Comoros, Cameroon) or stimulating exports (e.g. Namibia) or meeting infrastructural deficiencies (e.g. Liberia). Tax preferences are also used to increase or decrease the progressivity of the taxation system or to benefit some groups over others for political reasons (Sierra Leone). Yet, tax preferences are difficult to target and may not yield intended outcomes. Significant tax revenue losses and other unforeseen effects may result instead. Recent studies have shown there is very little empirical evidence that tax incentives in developing countries are effective, or that the benefits outweigh the costs (Bhushan and Samy, 2012). What is more, country case studies by the North-South Institute show that the lost potential revenue can be a significant drain on domestic revenue mobilization; this is backed up by other research (Parys, 2012).

To capitalize upon their mineral resources, countries have realized the need for modern, open and transparent regulatory frameworks which can efficiently and effectively be administered to meet the objectives of the tax system[88]. Revenue codes with inherent tax expenditures defeat this purpose and increase non-compliance gaps in developing countries. No matter how well intentioned, their administration is marred by significant lapses with sub-optimal outcomes, and Liberia, in particular, for the following reasons:

85 The national environment protection policy is being administered by a nascent agency which is highly under resourced with the bulk of its funding going to overheads with less than 10% left over for program administration.

86 This assessment is from cases reviewed by the LRA

87 Report on Tax Expenditure Framework for Liberia Revenue Authority, 2018.

88 Mining in Africa, DLA Piper, 2012

I. The data and information and indeed the analysis, that goes into the Government's decision making for a CA is provided by the applicant. The Government does not have the technical capacity to elaborate an independent position in the negotiations for a CA. In this regard, it enters these arrangements with a handicap and blinkered by the data set that the other party presents. The depth and access of technical acumen in accounting, investment and sector specific knowledge and skills in a multinational enterprise cannot be matched by the dearth of capacity in the Liberian bureaucracy. The disparity in technical preparedness is so vast, that negotiations on detailed terms and conditions of a CA end up as an elaborate act, masking the dictation by the multinational.

   Recently, the ODI is providing technical assistance to support the Government however; this analysis also relies on the data provided by the enterprise even where benchmarking techniques are used to cross check with third party sources of data and information. A basic data requirement for monitoring and taxes such as output is not verified on-site, as some countries do have on oil rig platforms or factory sites. On the price side, the technical knowhow and instruments for measuring the quality/grades/carats of minerals is not available. Arms-length prices which can be brought to bear for tax purposes can always be disputed. Ideally, the country and the enterprise should technically concur on the quality of the minerals being produced by the company on-site and not only on paper. The responsible authorities do not have the geologists and gem experts or the technological support. Thus, the high caliber technical analysis is also confined to the only available data provided by the enterprise.

   Financial analysis is done but not a social cost benefit analysis as the latter is technically harder to conduct with the paucity of data. This gap reduces a fuller appreciation of the returns to the country for the employment, health and education services offered by Concessionaires. It is noteworthy the TA assists in the decision making process on whether to agree to a CA and does not extend to monitoring and evaluation of existing CAs.

II. No monitoring and evaluation mechanism or reports exist for the CAs. The relevant provisions are in the CA (and Section 16 of the LRC) but no such report was done by the Government and therefore, the Authorities are not fully informed about the performance of the CAs already signed. On the Government's side, The LRA ends up as the source of data submitted by companies for tax purposes, as they withhold PAYE of employees and the GST paid by service providers. However, the data and information requirements for monitoring and evaluating a CA go beyond financials and production relevant for tax purposes to encompass the efficiency of employment, education and health services as a cost to Government in tax expenditures against other alternatives of providing the same jobs and services. Therefore, using LRA as a data source is inadequate and cannot be a replacement for the scope of review customized to the CA as stipulated by the agreement. Such monitoring and evaluation is not done by the Government and whatever state of work-in-progress analysis that is available, again, comes from the enterprise.

III. There are specific provisions in the CAs that further undermine Liberia's adherence to a fair and transparent tax system. Tax incentives present significant preferential tax treatment to specific taxpayer groups, which is a bone of contention for local businesses that generally don't enjoy the same privileges. Thus, a source of tension in the business sector. Local businesses, especially those without any import content, accuse the Government of unfairness by favoring big and foreign-owned companies[89]. A basic principle of taxation is fairness and non-discriminatory practices, and perceptions to the contrary encourage non-compliance.

IV. According to LEITI, the transparency provisions provided in the process of acquiring CAs are not followed to the letter and key stakeholders such as relevant CSOs are left out. The limits set by law are exceeded and the prequalification requirements enshrined in the LRC are ignored in the decision making. This includes a cost-benefit analysis of tax exemptions which is not done largely because of capacity constraints. Therefore, at every level, transparency in the decision making process leaves much to be desired either by capacity constraints on the Government side or by omission.

V. The companies seeking CAs in Liberia come from countries that provide ODA to Liberia. The political leverage that the CA applicants have in the negotiations stems from this fact which presents an asymmetry in power relations. At the very least, the Liberian side is weighed down by the gratitude owed to even consider ring-fencing a CA negotiation from all other aspects of the relationship with the Applicant's country. This mismatch comes into bold relief when the applicant's Embassy staff gets

89 This view held by the Liberia Business Association.

involved in the talks, even if indirectly. The pressure for Liberian Authorities to conclude on a positive note is always there to avoid the linkage of a negative outcome to other aspects of the bilateral relations. Given Liberia's depth of gratitude owed on account of the list of who is who in ODA (Part III), the country ends up agreeing to every CA presented. Has there been any agreement rejected by the Government? The answer is none, which is eloquent testimony for the absence of a walk away option in these deals that weakens any negotiator[90].

VI. In some of the CAs, companies eschew involvement of third party inspectors. This ensures that the technical capacity handicap of the Government cannot be remedied by drawing on other sources of technical assistance such as the OECD's Tax Inspectors without Borders. This keeps the competence gap unchanged in favor of the company and a technically competent and credible monitoring and evaluation of the CAs a remote prospect.

VII. Tax expenditures erode the efficiency of the RA by increasing the cost to human resources devoted to make proper assessments of taxes due. The complexities of netting out tax breaks require additional man-hours to do justice to taxes payable and all the while in an effort to arrive at lower amounts due.

VIII. There is a consensus among development theoreticians and practitioners and the evidence supports the view that tax incentives do not yield the desired benefits which can actually be outweighed by the costs. Companies never get off infancy into maturity as the hypothesis professes but continue to demand incentives or declare endless loses. These enterprises may not even rate the tax breaks as high in the decision to invest as their supporters in country do. A review of certain ventures in Liberia found that the net effect of the incentives on the bottom line would not change the economic return of the enterprise. Yet, the revenue foregone in duty payments can sustain 5 high schools and 5 clinics for a year. As a consequence, Governments "grant excessive tax exemptions to powerful multinational corporations, often in the natural resources sector and potentially in violation of their own domestic laws (OECD/AfDB/UN ECA, 2010; OECD, 2013b). Furthermore, such incentives erode resources for the real drivers of investment decisions – infrastructure, education and security" (OECD 2014).

3.4.1.1 Strategy Tax Expenditures

The strategy proposed is to discontinue Concessions Agreement and tone down Section 16 of the LRC and limiting tax incentives to zero rating duties on capital and intermediate capital goods for investors. All variable cost related items and final consumption goods and services will not be exempted from taxes. The Concession Agreements would be replaced with a pure licensing regime. Use of Executive Orders in tax administration would be restricted to provisions under a State of Emergency and MOUs for tax credits to be discontinued. The GoL gains revenue by putting concession agreements in abeyance and it is expected that no major investor will leave because of losing these so-called incentives. The Executive and the MFDP always has the annual budget to put in place any tax administrative initiative. By using this route the GoL send a message of predictability in the making of tax laws and shuns ad hoc approaches to the rule of law which is bad for doing business[91].

Given the weight of the evidence, the political will must be mustered to make a paradigm shift to a pure licensing regime in the mining sector while taxing in full company income and consumption while maintaining tax exemptions or zero-rating imports of fixed and intermediate capital, machinery and equipment only during the investment phase of the enterprise.

3.4.1.2 Strategy Fiscal Budget Allotment to LRA

LRA Act Part V, Section 27, 1 (a) stipulates that its funds must be appropriated by the National Assembly. In turn, the Public Financial Management (PFM) Act 2009 sanctions the budget execution process and Section 23 states that Annual Revenue and Spending Plans must be agreed to by the Minister of MFDP and according to sub-sections (f) Approve and issue the spending plans; and (g) Prepare and issue allotments based on the agreed plans. The plans are on a monthly basis and allotment made on the same timeframe.

Indeed, a timeline is actually specified in the LRA Act 2013, Section 27(2) which states: "The Minister shall issue quarterly Orders to the Central Bank of Liberia to debit the Consolidated Fund and pay to the Authority within the first fifteen days of each quarter the amount of the quarterly installment appropriated to the Authority".

However, in reality, the allocation of budgeted resources to the LRA by the MFDP is done on a monthly basis and sometimes discharged well into the following month. This contravention of the law poses deleterious risks. The same predicament may affect other MACs in the queue at the Treasury however, the LRA stands out as a special case mindful of the amount of resources that is under its purview, a case not too dissimilar with CBL which has

90 Getting To Yes", Harvard University Negotiation Project

91 Doing Business 2017, World Bank

a budget funded, approved and expensed internally. The late payments present a risk in the preservation of the integrity of the LRA staff confronted routinely with opportunities for rent seeking. Not being paid a salary on time creates avoidable pressures when one has pressing monthly financial obligations due to be discharged. In an environment with corruption as a headline risk, the institutional systems and procedures should not be a source of what compels staff to entertain untoward advances.

3.4.1.3 Strategy Garnishment & Enforcement Penalties

The laws must provide for effective deterrence to non-compliance. The current penalties are too low to ensure such outcomes,as ordinary enforcement measures such as garnishment is limited to three days initially and then requires a court order. There is no direct access to taxpayer bank accounts without the intervention of the courts;therefore, lack of this critical source of third party information makes it difficult to enforce compliance. In some countries, e.g. Uganda, the Uganda Revenue Authority (URA) has the right to offset tax owed against bank deposits of a debtor taxpayer. The LRC ought to be amended to grant such powers.

On the other hand, for enforcement effort to end in court cases is costly and quite acrimonious, and in some instances spells a death knell for the business of the taxpayer that loses a court case. Another goal of the LRA is to facilitate businesses and not to kill them. Therefore, all avenues for a resolution must be explored and court cases reserved as a last resort. Also, in many cases the court process drags out for a protracted period without a judgement. The Authority must engage in preventative enforcement, to educate, advice and assist, before the taxpayer becomes delinquent. Secondly, to expedite the resolution of disputes at lower costs to the taxpayer and LRA, the LRC ought to be amended to accommodate intermediate legal steps such as Alternative Dispute Resolution (ADR), before a court case.

3.4.1.4 Executive Orders on Tax Collection

Recent public pronouncements and Executive Orders putting in abeyance enforcement provisions in LRC included clauses on garnishment of taxpayer properties and penalty and interest. These actions send mixed signals on taxation to the public. For example, the latest in a series, Executive Order 89 issued in October 2017, titled Instituting Policy Measures to Stimulate Economic Growth by Reducing Administrative and Business Process Requirements on Concessionaires, Small and Medium-Sized Businesses, and Manufacturers stipulated the following: (i) elongated the expiry date of a tax clearance to 6 months to reduce the frequency of applications; (ii) strict adherence to duty waivers granted under Concession Agreements and Section 16 of the LRC; (iii) waiver of penalties and interest for none payment of taxes on due dates;(iv) importers are no longer required to obtain permits from Ministry of Commerce for bone fide importation of goods except for registration purposes; (v) a surcharge on importation of goods produced locally, to protect manufacturers; and, (vi) a revised schedule of charges for logging.

The stated aim is to boost economic growth however; the lull in business activity in particular is more on account of uncertainties associated with the political inter-regnum than costs of paying taxes[92]. One can argue that removing an additional layer of bureaucracy can lower prices through additional supply that would benefit citizens. This regulation administered by the Ministry of Commerce for importation of essential commodities such as rice, is prone to abuse and therefore, the Order on duty waivers also strengthens the rule of law. On the contrary, rescinding penalties and interest on non-payment of taxes, no matter how well intentioned, has the deleterious effects of lower tax collection, weakening the rule of law and encouraging non-compliance. In an environment with corruption as a headline risk,enhancing rule of law and closing the windows of opportunity for malpractice are two potent tools for combating the scourge[93]. As things stand, a taxpayer wishing to avoid taxes has the opportunity without any deterrence from the enforcement arsenal of the LRA as neither penalties and interest payments nor garnishment are allowed because of Executive Orders.

A tax clearance is issued upon due diligence for compliance and therefore indicates a taxpayer's good standing with taxes due. Relaxing it has the unintended effect of blunting an enforcement tool. However, in so far as taxpayers would pay their principal taxes due before getting it, tax intake can spike in the short term if they take the offer. On the obverse, it is hardly certain that imports would increase because the reason businesses are not making orders at this time is the uncertainty of the outcome of the political elections for the presidency,exacerbated by a court case which has delayed timely results for a final winner.

Going forward, a more sustainable way of having tax

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92 Business conditions in Kenya deteriorated sharply last month on the back of uncertainty over the General Election, according to the latest Stanbic Bank-HIS Markit Purchasing Manager's Index. The situation is likely to persist after the Supreme Court nullified the Presidential election.

93 Transparency International: How to Win Corruption in Africa, https/www.transparency.org/

clearance is to give taxpayers real time automated access to their accounts, and then make it possible for them to print their own tax clearance certificate once cleared within the system. The taxpayer would no longer need to come to the LRA and can obtain a certificate which would be valid for a period as may be prescribed by the Authority.

Cognizant of corruption as a headline risk, Executive Orders can have long term undesired side-effects including the optics of a government working at cross purposes which erodes public confidence in Government institutions and not only the LRA. Changing laws too often complicates the rule of law and inculcates a culture of impunity, as after all the perception is upheld that the laws can be changed. It sends a wrong signal to investors of a laxity in the rule of law even if they may benefit in the short term[94]. Changes in tax laws should be restricted to the annual fiscal budget and Executive Orders on tax collection used under state emergency provisions.

3.4.1.5 Adjudication of Tax Cases

The duration of the process of dispensation of justice by the judiciary on tax matters has adversely affected expected revenue intake in the last two years. In one such case over 7% of total revenue in FY 2016 was involved. Therefore, an amendment to the Court Act on processes is required to ensure that tax cases are adjudicated within the pertinent fiscal year in order to enable the attainment of projected revenue and attendant GoL budgeted expenditures in the same period.

3.4.2 Macroeconomic Management and Growth

Increased economic activity, as measured by growth in GDP with rising per capita income and stable macroeconomic conditions are a sine qua non for a sustainable increase in tax revenue. With the advent of the democratic government of President Johnson Sirleaf in FY2006, putting behind almost two decades of civil war, the economy grew steadily at an average annual rate 7.8%to FY2013 with mining and agriculture and services as big contributors in the midway years. The accumulated GDP per capita growth is estimated at 30% during the same period. Thereafter, the EVD[95]emergency combined with falling commodity prices arrested economic growth in FY2014 and plummeted to zero growth in FY2015 and then into negative territory by 0.5 % in FY2016[96], thus, wiping out a third of the per capita income gains in the pre-Ebola period.

Expectations of a robust economic rebound in the post-Ebola period have been dampened by slower recovery of commodity prices which have depressed activities in the Agriculture and Mineral sectors. While gold prices have remained buoyant, production did not pick up. Private enterprise activity as measured by the banking sector's credit to the private sector, rose marginally in nominal terms as a proportion of GDP to 21.1% in FY2015 from 20.1% in FY2014, and thus stagnated in real terms, given the inflation level. The consumer price index (CPI) is rising largely driven by a pass-through of a depreciation of the Liberian dollar onto food prices. The average annual inflation rate ticked up by a full percentage point to 8.7% in FY2015 from a year earlier.

In FY2015, exports contracted by about 1% of GDP due to a drop in iron ore production occasioned by hiatus in production by China Union and output decrease by Metal Steel. Imports also declined by 3% of GDP due to the decrease in Ebola and UNMIL-related grants. The current account deficit remained virtually unchanged over the previous year at 32% of GDP. The Central Bank of Liberia' gross official reserves increased to US$469 million at end-2016 (2.9 months of imports) from US$446 million at end-2015 (2.6 months of imports).

The exchange rate of LD directly affects the valuation of exports and imports in LD terms and thus affects CIT, PIT and GST of taxpayers in the external sector. The IMF's LD Index showed that the currency depreciated in USD terms by 11.2% between January-October 2016 compared to 4.2% in the same period in 2015. The real effective exchange rate (REER) remained broadly stable in the first nine months of 2016 but is seen as overvalued by about 20%[97].

The growth in the pre-Ebola period was accompanied by higher inequality and not commensurable employment. The 'lack of inclusive growth' is occasioned by the over-dependence on exports of natural resources (rubber, logs, iron ore, gold and diamond) with no value-added, accounting for the bulk of investment, economic activity, fiscal revenue and foreign exchange, a Dutch Disease.

The IMF cited risks to the economic conditions of Liberia to include external sector vulnerabilities associated with overdependence on the mining sector for growth, exports and taxes, resurgence of Ebola and any lack of security[98]. Mitigating these risks are the priorities of the current regime and indeed all Liberians and friends abroad.

94 Adherence to the rule of law is the principles of the Doing Business framework of the World Bank

95 http://www.who.int/mediacentre/factsheets/fs103/en/

96 IMF Country Report on Liberia, No. 16/392, December 2016.

97 IMF-Liberia Extended Credit Facility, December 2015

98 IMF-Liberia Extended Credit Facility, December 2015

3.4.3 Poverty, Human Development and Taxes

The argument is ever present that poor people cannot pay taxes or rather they should not be taxed. A pro-poor fiscal stance dictates that they should not be taxed leading to no taxes for subsistence farmers and thresholds that seek to exclude the extremely poor out of the tax net. The state of poverty and deprivation is therefore a consideration in this DRM. In 2014, Liberia was ranked 177 out of 185 countries on the World HDI; however, the country's HDI score improved by over 10 points in the new Millennium from 0.396 in 2000 to 0.427 in 2015.

This is a lackluster performance when compared with the Sub-Saharan Africa average increase which was more than double that outcome. Inequality Adjusted HDI raises its ranking by one position. Absolute poverty is 58% in Inequality. "Inequity in access and inequality in outcomes is extreme between wealth rankings, counties, urban-rural"[99].Thus, Liberia counts among one of the ten countries with least human development and highest inequality. Indeed, in 2015, over 63% live below the national poverty line and 68.6% below PPP USD 1.90 a day. The Multidimensional Poverty Index scores 70% or over 3 million of the population being so affected, of which, 35.4% live under an extreme state[100].

The average non-mining per capita GDP during the post-Ebola period to 2017 averaged USD 465 which is USD1.27 a day. The per capita tax rate averaged USD 107 for the same period, that is, 23% of income per capita. The state of poverty suggests that hiking rates ought not to be the preferred option for raising revenue but rather expanding tax base through economic diversification and growth, spreading the tax burden by targeting under taxed sectors and plucking loopholes in the LRC.

Gender parity rates compare about even with WAMZ countries, with respect to the 53rdLegislature at 12.7% women and 87.3% men; and Executive with Cabinet Ministers at 30 and 70% respectively. However, low participation of females in the political life of Liberia was trumped by the election of the first woman President in Africa. Currently, the country also has a female Vice President, Chief Dr. Jewel Howard Taylor. The record of Madam President Ellen Johnson Sirleaf, yet to be reviewed holistically, would inform whether a female at the helm is good for overall gender parity. However, it is undoubtedly inspirational for all African girls and this is invaluable for the self-worth, ambitions and prosperity of females in Africa.

3.4.3.1 Strategy Poverty, Human Development and Taxes

The Grameen Bank and micro-finance institutions experiences around the developing countries have amply demonstrated that poor people do save[101]. Indeed, taxes are savings of natural and legal persons appropriated by the state. Should the 63% of Liberians below the poverty line be paying taxes?[102]While private savings can lead to individual investment and future income under the Grameen Bank model, taxes, on the other hand, erode disposable income and reduce the taxpayer's ability to engage in personal growth and can send the poor deeper into poverty by further compressing consumption. The justification lies in the services provided by the state which should fully compensate taxpayers to make the tax system neutral. The lowest marginal threshold attracting zero tax rating and a progressive tax system are used in deference to poorer citizens. It is noteworthy that in advanced countries these groups also receive direct subsidies[103].

About 69% are living at PPP $1.90 per day in Liberia[104]. However, the stated aim of the AfT is to lift the population to middle income status or income level of at least $2 per day. The current threshold for eligibility for income tax is L$ 70,000 or the equivalent of $1.70 per day. Although lowering the threshold expands tax base, there is loss of efficiency associated with higher costs of collection. The smaller marginal tax intake with regard to these small and micro enterprises and poorer households, who are disproportionately rural and headed by women, can outweigh the taxes collected. While the African Tax Outlook (ATO) 2017 views the threshold from the impact of inflation and proposed indexing to discount its effects[105], that approach would have distortionary effect as the bottom section when the taxable population is pinned on real income while all others are maintained on NGDP. The result would be an asymmetry with slower rate of growth

99 UNICEF 2010

100 Human Development Report, 2016

101 http://www.grameen.com/; Forbes' 50 Top Microfinance Institutions - https://www.forbes.com/.../microfinance-philanthropy-credit-biz-cz_ms_1220microfi...

102 Taxing the Poor: Doing Damage to the Truly Disadvantaged (Wildavsky Forum Series): 2011

103 "According to the OECD, Sweden, Denmark and Finland devote almost a third of their GDP to social transfers. Germany and France devote about a quarter. America redirects only 14% or so of its national income in this way". Taxing the poor to pay the poor – Economist - http://www.economist.com/node/2553322

104 All dollar signs are United States dollars unless otherwise indicated.

105 African Tax Outlook, 2017.

of tax intake at the bottom occasioned by virtue of real versus nominal income.

An alternative view seeks to index the threshold against exchange rate, that is maintaining its equivalent in USD when the L$ 70,000 was introduced in 2011. This suggestion would result in a threshold of L$100,000 at current exchange rates. The same rebuttal directed at an inflation indexation also applies to an exchange rate peg of the threshold. NGDP allows a pass through of exchange rate changes, arresting it for the threshold also leads undesired dual approach to taxing income.

Instead, in support of the government's quest for a middle income status and poverty alleviation objectives, it is proposed that a floor marginal tax level be raised to the $2 per day, that is, L$ 83,000[106] to keep income earners, micro businesses and individuals, below this line out of the tax net. The efficiency (whether the tax enhances or diminishes the overall welfare of those who are taxed[107]) gains derived from concentrating RA resources on higher income margins would outweigh the lost revenue and probably more important, the tax policy would engender consistency with the poverty reduction strategy of the government rather than work against it.

3.4.4 Government Fiscal Policy

While the central issues of government policy vis-à-vis domestic resource mobilization pertain to widening the fiscal space and closing the budget deficit, the DRM strategy takes the discourse to issues of equity, good governance (transparency and accountability), the impact increased public resources on the lives of taxpayers, relative efficiency in the use of resources between public and private sectors and the gap between tax policy and administration.

Since the advent of the regime of Madam President Johnson-Sirleaf, the budget has been financed by high ODA inflows driven by a global resolve to secure the peace in the country leveraging a special relationship between Liberia and the United States administered through the USAID[108], the lure of the country's vast natural resources for investors, the President's swell of goodwill as the first female president in Africa and a retired senior UN Executive. The resulting foreign inflows qualified Liberia as one of the top four ranking countries on aid dependency in the World.

106 At current L$: US$ exchange rate at 113:1.

107 "Tax Policy for Developing Countries", Vito Tanzi, Howell Zee, International Monetary Fund, 2001

108 The Senate of the United States: RESOLUTION Reaffirming the United States-Liberia partnership, and calling for free, fair, and peaceful elections in Liberia in October 2017.

When the biggest UN intervention in Africa ended, the EVD in 2014 pushed ODA again to new highs but transposing a security project into a health emergency, the difference being the over 4000 lives lost. However, the deficit with grants averaged 6% per annum for the last four years since that year, and without grants at 14%[109]. To fill this gap in the years to 2021, the IMF projects domestic revenue to grow from 23.6% of GDP in 2017 to just 24.8%[110]. This presents a baseline scenario with no major tax effort that can lead to a higher trajectory, this DRM proposes to do just that. In parallel, the structure of spending poses challenges to be addressed in order to keep the public sector borrowing requirement (PSBR) at levels that would not exacerbate upward pressures on interest rates and crowd-out private investment.

Apart from an imbalance in the fiscal account, other challenges yawning for a fix from the Government include the significant disparity in wealth which is a risk to national cohesion against the fragile peace. The public perception is an abject lack of equitable growth, with residents of Montserrado County seen as the primary beneficiaries of the jobless growth in the pre-Ebola period[111]. home when a resident of the South East asked the President, who was chairing the National Revenue Symposium (NRS), whether the taxes they pay are meant for development in Montserrado only.

Box 3: Cyclical fiscal policy in developing countries: the case of Africa

Abstract. "The paper documents three pieces of empirical evidence on fiscal policy in Africa. First, a bigger government increases the volatility of output growth. Second, fiscal policy has substantially Keynesian effects. Third, fiscal policy instruments in Africa behave either pro-cyclically or a-cyclically, but practically never counter-cyclically. Taken together, these three findings imply that fiscal policy does not contribute to output stabilization. Quite the contrary, in several African countries fiscal policy is a source of volatility. Given the large development costs of volatility, ways to encourage the adoption of a counter-cyclical fiscal policy stance are then discussed".

By Fabrizio Carmignani

109 IMF 2016, Article IV

110 Ibid

111 Malcolm McPherson, Fiscal Space study, 2017

The level of poverty and a low access to Government services from heath facilities, schools, roads, etc, to water and electricity underscore the prevailing inequity between greater Monrovia and the rural areas. Robust strategies for inclusion of rural areas, religious and ethnic minorities in the social, political, economic, financial and infrastructural developments of the country are indispensable for sustaining the peace and spreading the national wealth to leave no one behind, a desired principle of the SDGs[112]. The Aft recognized this national imperative and noted: "Instability and conflict remain the primary risk to long-term wealth creation in Liberia. To minimize this risk, the Government must include all citizens in the growth process and give them a stake in ensuring stability. The challenge will be to turn away from the traditional practice of concentrating wealth and power in the elite and in Monrovia".

DRM to finance public expenditures has its own multifacetedcontroversies. The Neoclassical view of fiscal management has always argued for keeping resources in private hands on the premise that the profit motive behind private enterprise is more efficient in the allocation of scarce resources. A contrary Keynesian view holds that the market takes a business cycle and the troughs leave underutilized production capacities and higher unemployment.

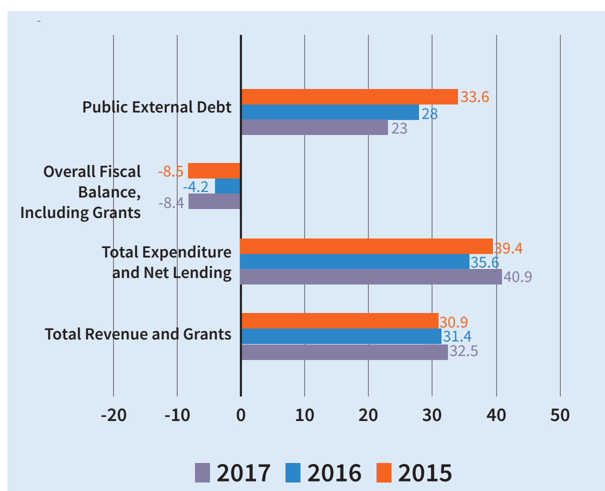
Therefore, Government expenditure can be used countercyclical to get economies out of recessions (Box 3). Furthermore, there are essential services or public goods (infrastructure, police, defense, social welfare, etc.) that the private sector may not offer or even if they do, there would be people left behind on account of the profit motive. The implications are fewer taxes or less Government, for the former and more taxes or bigger Government for the latter[113]. The World Heath Report (2010) looked at the evidence on the relative efficiency of private and public sectors in the use of resources in hospitals in Sub-Saharan Africa (SSA). It concluded that in the achievement of progress registered, the roles of the private and public sectors are equally shared in healthcare provision. Therefore, the issue is no longer a question of private vs. public but rather, 'what is the best and most efficient mix for the local context?' It is what works, so that there is the right balance between efficient allocation of resources and social returns[114].

While tax revenue hovered between 21and 24%of GDP from 2014 to 2017, expenditure increased by about 10%to 33.6% of GDP. This was largely debt financed which rose by the same magnitude between FY2014 and FY2015 and mostly from external sources (Figure 3.14). The Debt Strategy Analysis (DSA)in 2016 puts the country at moderate debt distress with "intensified vulnerabilities" particularly risks related volatilities in exports[115].

On domestic financing, the Fiscal Authority sets an annual Budget Revenue Target (BRT) with the LRA to meet expenditure. The BRT is set against total domestic revenue, tax and non-tax, collected by the LRA and actual collection outperformed forecast in the past two years. For example, in FY 2015, the LRA over-performed on the target USD 36.5 million or by 8.8% of GDP. However, the overall deficit including grants registered 8.5% of GDP. The tendency is that revenues are consistently playing catch-up with expenditures.

In the discourse of the budget deficit in Liberia, there is a temptation to deemphasize domestic resource generation in favor of streamlining government expenditure given the substantial amount, almost a half billion dollars, that passes through the budget with not much to show for it in terms of infrastructural development and provision of social services particularly outside Monrovia. The focus on the efficacy and efficiency of outlays is certainly well placed. There is a low threshold for accountability in resource use associated with a lack of focus on value for money in public spending.

Figure 3.14: Central Government Operations, 2015 - 2017



112 For full treatment of the political economy of revenue utilization, see "The Efficient Expansion of Fiscal Space to Promote Inclusive Growth and SDG Acceleration in Liberia", 2017, M. F. McPherson,

113 To put this argument in its current theoretical construct with regard to fiscal policy in Africa see Box 2

114 These are empirics driving the views of practitioners, the theory does not lie in ideological neoclassical precepts but in mixed economies with sectors such as health dominated by the public sector as in Canada, Scandinavia and the UK, with bigger sizes of the public sector in Asian countries (Malaysia) with China at the extreme end of the spectrum.

115 IMF-Liberia Article IV, 2016

Source: IMF-Liberia ECF 2016

The budget is "over-extended and structurally unbalanced", wanting to do too much, and half of government revenue, that is, 11% of GDP expended on high wages and salaries displacing poverty reducing and growth related outlays to infrastructure, education and health, according to McPherson (2017).The World Bank's Public Expenditure Review (PER) covering the education, health and social protection sectors (2012) concluded that public spending on the human development sector in Liberia is low by SSA standards.

Thus, in terms of policy advice, the IMF, World Bank and McPherson are in unison: to create more fiscal space the Government ought to broaden the tax base through further deepening of the tax effort and "also with the objective of improving fairness." On the expenditure side, consolidate the review of civil service payroll with World Bank support, to contain the wage bill, and reform the state-owned enterprises (SOEs). Other measures taken by Government include a new Public Financial Management (PFM) Act, monitoring and evaluation units for public investment, launch of online procurement application system, and expansion of the Integrated Financial Management Information System (IFMIS) coverage to public investment.

Table 3.10: Revenue Forecast and Actual by Tax Sources in FY2015

Revenue Source	FY 15/16 (USD Million)				
	Forecast	%GDP	Actual	%GDP	Variance+/-
Total Domestic Revenue	416,309	19.7	452,816	21.4	36,507
Domestic Tax Department	232,580	11.0	258,578	12.3	25,998
Of Which: MSMTD	43,900	2.2	57,300	2.7	13,400
Customs Department	183,730	8.7	194,238	9.1	10,509

Source: LRA

Strengthening linkages between taxation and public governance also involves supporting institutions and organizations outside the revenue system such as the justice system, parliament and civil society (OECD/AfDB/UN ECA (2010). The rule of law in taxation starts with the tax code being fair and administered without fear or favor while promoting shared burden. The courts must adjudicate tax cases with fairness. The experience in Liberia is that the courts are seen to be lenient on suspected tax avoidance cases which, for this reason, invariably end up in court going beyond the available appeals process.

The legislature enacts the budget into law and has oversight over financial conduct in the Executive,but the level of the debate needs to be enhanced. While the budget parameters such as the deficit, is the bone of contention in parliamentary budget debates in advanced democracies, it does not have such a high profile in the National Assembly of Liberia. Although it approves external borrowing, the deficit that triggers this external debt is hardly the focus. The implications of PSBR to finance budget deficits go beyond the confines of Government to affect private sector and household savings and investment by a pass through of interest costs on loan-able funds. Aiming for and preserving macroeconomic stability with budget balance is, therefore, in the national interest and should be an enlightened responsibility and concern for the Legislature.

Transparency and accountability in managing public finances is also a concern for the Government, donors and CSOs such as Liberia Extractive Industries Transparency Initiative (LEITI) and Institute for Research and Democratic Development (IREDD)[116]. LEITI has emphasized transparency in the negotiation of Concession Agreements and advocating for appropriate representation by major stakeholders including CSOs. It holds that agreements are signed by decision makers that violate thresholds on incentives set by Government[117]. Another CSO, IREDD, during 2017 convened two symposia on DRM with an accent on accountability and transparency associated with tax expenditures and illicit financial flows.

Indeed, Section 16 of LRC stipulates that the LRA and NIC should provide the Minister with a cost and benefit analysis of concession agreements before signing but this is not the current practice. The Minister signs without this basic evidence for informed and prudent decision making. Mostly, the applicants' reflection of the terms of the agreement in their financials is available and serves as the basis but this presents a one-sided view. The challenge is building the technical capacity to do the required assessments which is currently being filled by technical assistance from the Overseas Development Institute (ODI).

CSOs are well placed to advocate for lower tax expenditures, these tax giveaways in the tax code lack the transparency of the annual fiscal budget scrutinized by the Legislature. Currently, the LRA publishes the tax expenditures with regard to duty exemptions in its Annual Report. As already noted above, estimation of the tax expenditures on domestic taxes has been completed and will subsequently form part of future annual published reports in order to present a complete picture. Such publication is a necessary first step to start an informed discussion on the merits and demerits. In the United States, the transparency of tax expenditures

116 The Author had interviews with both CSOs.

117 These views were expressed by the Head of LEITI during bilateral consultations with the Author.

is ensured by presenting them as an addendum to the annual budget estimates sent to Congress. Such an approach is proposed for Liberia but it probably would take some advocacy to be accepted as a best practice. In this regard, the CSOs, international donors and Bretton Woods Institutions (BWIs) can in their dialogues with the powers that be, promote its inclusion in the budget sent to the Legislature for accountability and transparency purposes.

3.4.4.1 Strategy Macroeconomic stability

The consensus has emerged that the bane of macroeconomic stability in Liberia is internally induced, unbridled, and inefficient. Government spending is displacing much desired outlays to education, health, social welfare and infrastructure. The World Bank referred to it as "the inefficient allocation of the country's relatively scarce financial resources to build up the human and physical capital necessary for investment and growth"[118], which McPherson 2017described as the country having a penchant for living above its means. These are two indicators that the country's fiscal expenditures are poorly managed, which work against entrusting more resources to Government. Therefore, DRM must be accompanied by streamlining the budget to get value for money spent at sustainable levels.

What can be done to contain fiscal expenditures going forward? If unchecked, expenditures would crowd out private enterprise and jobs creation. Unbridled expenditures will sustain a bloated appetite for resource mobilization that can put the social contract at risk, especially against the backdrop of high unemployment or underemployment in contradistinction to a highly paid civil servants serving as highly visible personifications of the inequality in the society. The IMF proposed to "expand revenue mobilization efforts, and streamline current spending while preserving key expenditures including health and education"[119], and that is the way forward.

Indeed, the efficiency of Government spending is a central argument in the quest for an efficient tax system and in this regard, the structure of the Liberian fiscal budget constitutes a downside risk[120]. Undoubtedly, the results of World Bank's Public Expenditure Review (PER) will certainly inform answers including reordering the budget priorities. However, fiscal rules or targets can help to contain the level of the deficit, mindful that those already in place were not adhered to by the Government.

118 "Liberia Inclusive Growth Diagnostics", World Bank,

119 IMF-Liberia, Article IV Consultations, 2016,

120 "Tax Policy in Developing Countries", IMF, Vito Stanzi and Howell Zee, 2001

For example, the 34% limit on salaries and wages in the budget was never met (McPherson 2017). However, a distinguishing feature between the status quo and what is proposed here, is that these fiscal rules were 'solely' determined and implemented by the MFDP and thus was expected to self-restrain or self-monitor, while now the restraint as measured by the budget deficit level will be jointly agreed with and monitored by the Legislature.

The PFM Act 2009 under review, provides an opportunity to strengthen the use of fiscal rules, the difference proposed here is to have a "Budget Deficit Target (BDT)" that would be the responsibility of the Legislature to specifically monitor as part of its oversight function. The Fiscal Space study proposes a balanced budget in the medium term, we concur with this proposal and wish to take the IMF's "expenditure streamlining" one step further by proposing a reform of the governance of the budget to reinforce the checks and balances inherent in the budget process.

To ensure that the PSBR is contained,success in the Legislature's oversight function would be explicitly linked to monitoring a budget deficit target. While the budget approval process in the Legislature in advance countries has this focus, it is lost in the drive for more expenditure by the Executive and the Legislature in Africa. The proposal is to have a BDT at 3% in the short to medium term and a balanced recurrent budget in 5 years[121]. This will ensure that future borrowing will not go to finance current consumption but rather capital expenditures to permit the accumulation of national assets with benefit streams that would compensate future generations who would pay in higher taxes for the Government debt associated with the current budget deficits[122].These assets coming from proceeds of iron ore, gold, diamonds and logs currently being mined and cut down would benefit future generations of Liberians who share these natural resources as their rightful inheritance.

3.4.5 Public Confidence in Tax System

A positive public image of the tax system and fiscal authorities is a clear manifestation of the trust and confidence reposed in the Government and represents

121 McPherson 2017, On Fiscal Space in Liberia also recommended a balanced budget in the medium-term but without the magnitudes posited here.

122 This is a long standing Golden Rule in Fiscal management, going back to basics: "The Golden Rule is a guideline for the operation of fiscal policy. The Golden Rule states that over the economic cycle, the Government will borrow only to invest and not to fund current spending. ... Therefore, over the cycle the current budget (i.e., net of investment) must balance or be brought into surplus" https://www.google.com/search?q=golden+rule+in+fiscal+management+&ie=utf-8&oe=utf-8&client=firefox-b-ab

a necessary condition for voluntary compliance. Therefore, gauging the public mood must be an input into decision making process for tax policy formulation and implementation. [123]"Attitude and perception surveys of current and potential taxpayers may also help to identify perceived weaknesses of the tax system, and enable tax authorities to focus attention efficiently on high-risk categories of taxpayers" (NORAD 2012). Indeed, Objective 2.3 of the LRA seeks to "attain a high level of client (public) confidence[124].

"Attempts to broaden the tax base require insights into how citizens experience and perceive the tax system, what they eventually pay, their views on tax administration and enforcement, and how their tax behavior is correlated with how they perceive the state"[125]. Developments in Monrovia in the first week of February 2017 brought into bold relief the interplay between taxation, good governance and public or political influences. There were street demonstrations and business shutdowns, industrial actions, against the tax proposals in the budget to increase GST rates from 7 to 10%, a new excise tax of USD 1 cent on mobile calls, among others, which accounted for tax and non-tax revenues amounting to USD 51 million in the budget estimates of FY2016.

This public outcry led the GoL to put a stay on the GSM tax as subscribers particularly complained about its deleterious effects on the promotional 'free' calls granted by the main service providers. The politically expedient climb down may be viewed against the backdrop of looming Presidential and legislative elections in October2017 and the overarching goal of maintaining peace. The IREDD took up the issue and sought national consultations on the theme: 'Fairer taxes in Liberia'. This question is therefore pertinent: whether taxation is fair in Liberia?

Public demonstrations,which happened more than once in 2017, are a barometer for the level of mistrust in the Government. In this case, it clearly derailed the GoL from its preferred policy options. It is universally recognized that public's cooperation is a necessary condition for a successful tax system. The LRA, with support from the UNDP, took the initiative to engage stakeholders through Regional Dialogues on DRM covering all the 15 counties in Liberia for over a year that ended in a National Revenue Symposium (NRS) in July 2017.[126]The main objective was to solicit perceptions on taxation and strategies for DRM to finance poverty reduction and economic development towards achieving the SDGs and Africa Agenda 2063.

The outcomes were varied suggestions on how to improve taxation and voluntary compliance. Furthermore, attendees challenged that 'there are no clear results on where tax monies go'. In the same vein, they called for Government expenditures that have direct impact on the local communities emphasizing that seeing how their taxes are spent would serve as the best incentive for them to pay. They called on Government to spend on socio-economic infrastructure (roads, hospitals, schools and other sector specific infrastructure) as the most eloquent advocacy for Liberians to be compliant with the tax laws. Thus, a public expenditure program, which is also an integral part of Government policy, that raises incomes and livelihoods of the population supports more tax compliance through greater confidence in tax system on the considerations of having real returns for taxes paid. They encouraged the government to expand the tax net by diversification of the productive base, a strategy taken one step further below.

The public perception of the LRA can affect the compliance behavior of taxpayers and if strongly negative, even poison the interpersonal contacts between taxpayers and tax officials. Non-cooperation and unwillingness to give information are a couple of the risks which can be motivated by 'dislike' perceptions of the citizens. The stakeholders at the dialogues agreed that LRA services are not readily accessible throughout the country, the tax laws and regulations need to be simplified for wider public consumption and public confidence in the Authority can be increased by greater accountability and transparency including credible and sustained fight against corruption.

3.4.5.1 Strategy Public Confidence in Tax system

Strategies proposed by the Regional Dialogues and NRS include:diversify economic production into tourism and agriculture and therefore the tax base; extending the services of the LRA country-wide and conducting a rigorous taxpayer registration drive; giving priority to simplification of the tax laws and sensitization of the taxpaying populace; Introduce Value added tax(VAT); The government should put in place a mechanism for officers with real estate properties who don't pay taxes due to be reported to the National Ombudsman; LRA ought to promote dispute resolution mechanisms and deemphasize court cases because it is less costly and

123 For a discussion of the political economy and governance of the fiscal space, please refer to Macpherson (2017) cited above.

124 Author's parenthesis

125 "People's Views of Taxation in Africa: A Review of Research on Determinants of Tax Compliance", Odd-Helge Fjeldstad, Collette Schulz-Herzenberg and Ingrid Hoem Sjursen, October 2012

126 The national dialogue on Taxation was supported by the UNDP.

quicker to conclude; coordination and prioritization with other agencies to access third-party source of taxpayer information, identifying and addressing potential revenue risk, among others; sharing of revenue collected with local communities should be a critical component of the DRM Strategy; all occupants in the Legislature, Executive and Judiciary as well as community leaders must have a shared responsibility for sensitization programs to educate taxpayers; introduce modern e-registration, e-filing and e-payment; Public disclosure and transparency in revenue collected and expenditures made to various sectors to demonstrate nation building by contributions from taxpayers; Institutionalize recognition and celebrate compliant taxpayers; LRA staff code should deal promptly and comprehensively with culprits and accomplices; Government to properly and promptly remunerate LRA to uphold integrity of its staff; and, Government should have automatic debiting for allocations to the LRA to ward off any hitches in its operations for the budget cleared by the MFDP during budget time.

An annual Taxpayer Perception Survey (TPS) administered by the LRA is proposed to elicit public opinion on the effectiveness of the services rendered by the Authority to the public. Tracking public opinion through the TPS is aimed at directly addressing those concerns or risks that if addressed, can boost public confidence and aid compliance. The TPS seeks to fathom public confidence and opinion about the LRA by posing questions on access and quality of the services offered. Respondents are asked to rate the effectiveness and usefulness of information and LRA support with regard to voluntary registration, filing, reporting and payment of taxes. Knowing one's customer is essential for serving well and that is the aim of the TPS. A summary evaluation template is attached to the TPS making the public's concerns explicit and actionable.

The NRS would be an annual event to be organized by LRA and chaired by the President of the Republic. The venue of the event may rotate around the country to reflect taxation as an equitable and shared national effort and that it is not just for Monrovia and its inhabitants. The Regional dialogues may be held once every four years to bring home to each county this imperative toward a shared prosperity for all Liberians.

3.4.6 Turning Tax Discount into Tax Premium Sectors

For many years, the government has enunciated a desire to broadening the tax base with only modest results (Aft Review 2016)[127]. Revenue collection rose by 247% from US$132 million in FY2006 to US$458million in 2017, largely on the back of Financial, Telecommunications and Mining sectors with some volatility. The tax system is weighed down by the dominance of agriculture as the main employer but dominated by subsistence farming, a large informal sector, low income per capita, dependence on a narrow productive base, significant and unhelpful ad hoc political interference in tax administration, policy oriented concessions and substantial tax exemptions, low culture of paying taxes deeply ingrained in public behavior, endemic corruption and low institutional and human capacity in tax administration.

Effective diversification of the tax base requires having a balanced mix of revenue from small, medium, and large sized businesses across many sectors of the economy. It also means strategically growing businesses in sectors that not only meet the needs of today's economy, but anticipating the needs of the economy of the future. Thus, it is important to continually adjust strategy so that the economy grows in a healthy and solid direction from today and 5, 10, 20 years to come. In this respect, expanding the tax base does not mean higher taxes only, but also a diversified economy accompanied by varied revenue sources which is critical for sustainability.

This DRM strategy takes a short, medium and long term perspective and therefore, delves into structural changes that engender economic diversification, good governance, change in public attitudes towards taxation and capacity building to realize an appreciable positive difference in revenue performance over time. Towards this end, this DRM highlights those sectors with potentials for income growth while identifying low hanging (taxation) fruits in the short term[128].

The size of the tax base is measured by the registered taxpayers (88,667) and its growth is predicated upon the population growth rate (2.5%), the tax-to-GDP ratio (23.1%)and the labor force participation rate (48.5%)[129]. Strictly, the tax yield of the taxable population is given by segmenting the employed into the income brackets specified in the tax code and weighted to arrive at a total tax intake[130]. This is quite appropriate for short term analysis without a longer term perspective. Here we

127 See Annex: Expanding the Tax Base

128 The scope of the sector analysis is indicative rather than exhaustive as that is left for the National Development Plan. Our purpose here is to identify growth sectors with greater jobs potential and significant next steps to make generating revenues more probable.

129 Available figures are dated in FY2015 except for labor force participation rate which was 2010.

130 The "Liberia Employment and Pro-Poor Growth", World Bank, 2010, used this approach using a Core Welfare Indicators Questionnaire done in 2007 and the period is quite dated for our purposes here. Income brackets are available on Non-

have opted for a short, medium to long term approach in favor of economic sector changes to have IT, corporate establishments and capacity building solutions that at the global stage work so well for taxation with greater efficiency, secure withholding taxes and higher productivity (IMF, Keen, 2017).

3.4.6.1 Strategy Diversifying the productive and tax bases

In Liberia, industrialization is quite low,although the Aft recognized that private sector-driven value addition in the mining and agriculture sectors are the primary avenues for higher growth. However, dogged challenges remain such as a weak investment environment with the country ranked 174thout of 189 countries in the World Bank's Ease of Doing Business 2017. The country's infrastructure is minimal, paved roads cover 10% of the 10,000 km network; electricity generation increased from 32 MW to 88 MW with the full commissioning of the Mount Coffee hydro dam in 2017, but would still be about half its pre-war level of 190 MW; rule of law performance places it at 11 out of 18 countries in the Sub-Saharan Africa region, 7 out of 12 among low income countries, and 94 out of 113 countries and jurisdictions worldwide[131].On the obverse, the country's accession to the World Trade Organization (WTO) presents an opportunity to enhance the domestic investment climate if the requisite legal reforms are implemented.

The sectors emphasized here do not match that of AfT, but are intended to inform PAPD. The tax potential of sectors is unleashed by moving tax discount sectors to tax premium sectors with recommendations and strategies to exploit value chains in Mining and Agriculture, and tapping the under-taxed Real Estate, Tourism and Fisheries sectors. This will lead to growth in businesses and jobs in those sectors, while consolidating revenues from Finance and Telecommunications sectors to reap varied taxable products.

The factors impeding diversification of the productive base according to the World Bank's "Liberia Inclusive Growth Diagnostics" include: "(i) lack of information about what sectors could emerge and contribute substantially to job creation; (ii) lack of coordination among government agencies, between government and private sector actors, and between government and development partners; and, due to the first two factors, (iii) inefficient allocation of the country's relatively scarce financial resources to build up the human and physical capital necessary for investment and growth". The sectors which can create jobs are the ones that generate income and taxes, and discussed in the next section.

The task here is not to engage in comprehensive sector analyses for employment generation because that is left for the national development plan. Rather,the goal is to proffer strategies on low hanging fruits predicated on legal, policy and institutional changes in some sectors that could lead to game changers delivering tax dividends. The goal is to establish institutions that assist in tax collection or grow enterprises (to withhold and pay corporate taxes, non-tax, etc.) which can create jobs (to pay income taxes), and identify opportunities in the sectors which can be exploited to generate more taxes. To engender the kind of coordination in development that the Word Bank found to be absent in Liberia, but which this DRM purposefully seeks out for expanding the tax base.

3.4.7 Taxing the Agricultural Sector

Agriculture, Forestry and Fisheries have together, the potential to increase revenue intake by 245% over its 2017 level to get to a level commensurate to their combined share of GDP. Achieving a higher tax effort goes beyond tax administration to involve structural shifts in production methods in this sector and its subsectors. In most African countries, the challenge remains a dominant Agricultural sector stuck in subsistence production, low productivity and little value addition. The African Finance Ministers at the October 2017 IMF/World Bank Meetings embraced a report by the Ghana-based African Center for Economic Transformation (ACET)[132], which posited that "Modernizing African agriculture will require policies to boost farm productivity and strengthen the sector's links with the rest of the economy. To achieve this, African countries must overhaul their land tenure systems and support farmers by making new technologies accessible, reducing business risk and educating them as business people".

This entails moving farmers from informal subsistence (minimal tax payments) to formal commercialization to run farm enterprises (that pay taxes) with aid from modern technology and IT such as e-farming as proposed in Liberia[133] and mobile telephony platforms supporting agricultural extension services as in Kenya. Many, like The Gambia, have resolved that the introduction of new technology and e-farming would be attractive to the teeming youth that left the rural communities to populate the informal and underemployed sub-sectors in the urban

131 The World Justice Project's Rule of Law Index 2016

132 Founded by former Executive Secretary of the UN Economic Commission for Africa, K.Y. Amoako,

133 Ministry of Agriculture: http://www.moa.gov.lr/content.php?content&sub=210&related=6&third=210&pg=sp&pt=Food Security and Nutrition (FS&N)

areas[134].

3.4.7.1 Strategy Taxing Agriculture

The Agricultural sector is a discount sector which can contribute US$ 77 million to get to a premium sector,while in 2017 it contributed only about a quarter of that amount or US$ 16 million. The cassava and rice subsistence growers who do not pay taxes generate 54% of value addition in the sector. Structural changes are required to commercialize agriculture by introducing taxpaying producers.

The strategy proposed is to target the youth as "agripreneurs", empowering them through skills training and given access to start-up capital (grants/loan) for agricultural enterprise development[135]. These youth will also be targeted by GoL to tap into facilities provided the AfDB-IITA-AGRA program Empowering Novel Agribusiness-Led Employment for Youth (ENABLE Youth), the African Agribusiness Incubation Network (AAIN) and FAO's YES Africa.

134 PAGE II, 2017 - 2019

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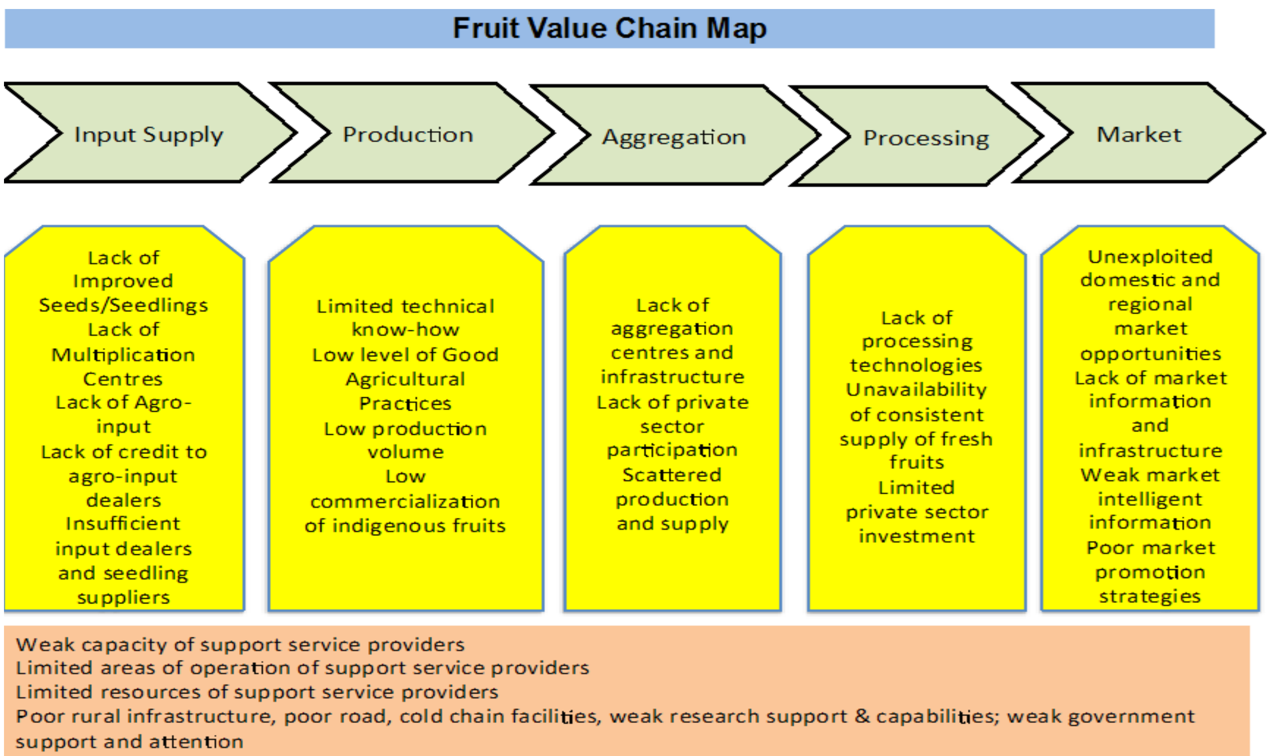
Figure 3.15: Fruit Value Chain



The youth are not interested in the drudgery of subsistence agriculture but in short gestation high valued products such as horticulture and fruits, commercial agriculture and value chains. The Food and Agriculture Organization (FAO) suggests a framework for analyzing fruit value chain:

Given the right climatic conditions, concerted efforts to meet the market conditions and skills training can put Liberia in good stead to produce fruits and vegetables at competitive prices for export to either US or EU markets. In this regard, Kenyan agricultural exports serve as a model for this country. The Government is required to take a proactive stance by liberalizing the land tenure system to facilitate access to land. Inputs such as seeds and fertilizer should initially be funded by grants. Support services on farming techniques, data and information, types of seeds and fertilizer will be provided by Ministry of Agriculture's e-farming platform and accessible by mobile telephony. Marketing information will be provided on e-Commerce platform managed by the Ministry of Commerce accessible via internet and mobile telephony.

3.4.8 Forestry

Liberia has 42% (Gola) Forest cover and participating in the Reducing Emissions from Deforestation and Forest Degradation (REDD), an international response, under the auspices of the United Nations Framework Convention on Climate Change (UNFCCC), to the science that deforestation and forest degradation are responsible for 12-29% of global greenhouse gas emissions. Liberia lost 904,000 hectares or 22.3% of forest-cover from 4,058,000 in 1990 to 3,154,000in 2005 through pit sawing, commercial logging, and rural subsistence farming using land shifting agriculture. The aim is for prudent use of forest resources for sustainable development and future prosperity of the communities that depend on the forests for their livelihoods.

The REDD program is based on a results-based payments system providing funds to enable communities in the forest areas and the country benefit from conservation. The initiatives include a readiness phase for elaboration of a national REED Strategy and Roadmap, investments and reforms is the trial phase of pilot land use, and demonstration of result of land use changes that has reduced emissions. Reforms take on strengthening national policies and laws in support of REED initiatives for forest conservation and land use for shifting agriculture. Payments are based on results in the final phase, when Liberia can demonstrate that changes to land use have resulted in significant reduction of emissions from forest lost, and its REDD initiatives have met environmental and social safeguards.

The national REDD Strategy of Liberia has five priorities: to reduce forest loss from pit sawing, charcoal production and shifting agriculture, reduce the impacts of commercial logging, complete and manage a network of Protected Areas, Prevent or offset clearance of high carbon stock and high conservation value forest in agricultural and mining concessions, and ensure fair and sustainable benefits from REDD. The interventions required to implement the strategy have been planned and funded.

The Liberia Forest Sector Project (LFSP) is being administered by the World Bank and funded through the Liberia-Norway Letter of Intent. LFSP is comprehensive program of community forestry and sustainable agriculture activities at both community and landscape levels that will build capacity for the implementation of a REDD program at the national level. The Voluntary Partnership Agreement (VPA) project has complementary activities to improve the sustainability of the commercial forestry sector and improve the implementation and enforcement of forestry laws and governance.

LFSP and VPA and the REDD strategy take a practical and step-by-step approach to developing and implementing REDD, with actions on the ground that will demonstrate how land use changes can be achieved that protect forests and benefit forest-dependent communities. Successful activities will then be scaled up to produce measurable reductions in emissions at a landscape level and at the national level. REDD focuses on the short term period of one – five years, and medium term period of five – ten years, and include steps that will be taken toward the long term of national REDD program. The emphasis is on strengthening and expanding existing institutions and processes, and adding to the national framework for REDD only when there is a clear need.

3.4.8.1 Strategy Taxing Forestry subsector

Preserving the forests in Liberia under REDD is a policy choice that would support conservation and slow down the rate of deforestation. The country has two national parks, Lofa-Mano (2,300 square kilometers) and Sapo Parks, which is larger and second only to the Tai National Park in Cote D'Ivoire for preserved rainforests in West Africa. These nature reserves should be nurtured and protected from human encroachments which are threatening biodiversity and sustainability of the parks.

In the short term, it is proposed that taxing the forestry sector should support preservation. Two taxes are suggested: one on timber exports differentiated by species and another, an area tax to be covered by significant hikes in rents and royalties. It is intended to discourage putting wider areas for logging. Communities that sell their rights to log to Commercial ventures which are more intensive should be penalized to discourage the back door activity.

In the medium to long term, a replanting of trees strategy must be in place to replenish the forest stock and keep the sub-sector as a sustainable source of income and taxes. Also, the transportation of the logs for domestic use and export does significant and inordinate wear and tear on the roads and bridges. Immediately, specific roads built to handle the pressures from such heavy load must be designated for log transportation. While a rail link between the forest concentration areas and the port must be considered as a more cost effective alternative in the long run.

3.4.9 Fisheries

The Fisheries sub-sector is contributing to food and income security but well below its potential. The total catches is valued at an annual average of USD 12 million a year in the past 3 years while fish imports averaged USD 30 million over the same period. An estimated 15% of dietary animal protein supply with per capita annual fish and shellfish intake in Liberia is estimated at 5.0 kg,significantly lower than in neighboring countries like Sierra Leone (25kg) and Guinea (10.5 kg). Artisanal fisheries employ 33,000 people, of whom, 60%are women, at various points in the catching and distribution chain. The West African Guinea coast is ground reputed for illegal fishing and the extent loss to Liberia is estimated at about $75 million per year from the national economy.

To combat this malaise, the Government benefited from the West Africa Regional Fisheries Program (P106063) Project Development, (2009 to 2016) which aimed to "strengthen the capacity of Cape Verde, Liberia, Senegal and Sierra Leone to govern and manage targeted fisheries, reduce illegal fishing and increase local value added to fish products". Liberia received USD 9.0 million and USD 3.0 million in grants from the International Development Association (IDA) and Global Environment Facility (GEF) respectively.

In 2014, the fisheries sub-sector contributed about 12% of Agriculture's value addition and 3% of the overall GDP. Revenue collected for license fees, vessel registration fees, inspection fees, observer fees, import and export charges, and fines amounted to USD 400,000 in 2011, which rose substantially to nearly USD 6.0 million by mid-2013. The main reason behind the revenue increases was the fines levied by the courts on foreign vessels fishing illegally in Liberian waters[136]. Liberia is considered a frontrunner on arresting illegal fishing in its waters due to assistance received from US Coast Guard and UNMIL. However, Fish landing sites were not completed in Liberia and Sierra Leone by project closing to enable any post-harvest processing on land. Both facilities provided additional funding of USD 4.19 million (IDA) and USD 1 million (GEF) for January to June 2017 for the fish landing jetty, processing and offices of the Bureau in Capemount and Montserrado.

On 9 December 2015, the European Union and the Republic of Liberia signed a new, 5-year Sustainable Fisheries Partnership Agreement (SFPA) and associated protocol setting out the fishing opportunities for EU vessels with financial compensation to be paid by the Union and the modalities of sectoral support to the fishing sector of Liberia. The agreement makes provision for an advance fee that includes all national and local charges except for port taxes and service charges.

3.4.9.1 Strategy Taxing Fisheries Sub-Sector

The Liberia – EU Sustainable Fisheries Partnership Agreement presents opportunities to grow the fisheries subsector by renegotiating the next round into joint ventures between the EU Fishing companies (currently French and Spanish companies) and Liberian companies. Secondly, in the short term Liberian youth should be employed as crew in these fishing vessels by providing training to acquire the requisite skills and financial support to obtain insurance cover. Thirdly, artisanal operators should pay presumptive taxes starting in the short term with stickers that would be issued and building the taxpayer data over time to delineate Medium, Small and Micro fishermen and women. Middle men and women who usually perform 'wholesale' and retail services with a bigger turnover, should be targeted for filing returns as Medium or Small operators.

Box 5 - Liberia – EU Sustainable fisheries partnership Agreement

The agreement and protocol mark the beginning of a new partnership given that there has never been a SFPA between the Union and Liberia. The new SFPA also further expands the Union's network of tuna fisheries agreements in West Africa.

The new protocol offers opportunities to 28 purse seiners and 6 surface long-line vessels to fish for tuna and tuna-like species in the waters under the jurisdiction of Liberia, based on a reference tonnage of 6 500 tons. In return, the EU will pay Liberia an average annual compensation of € 650 000, out of which 50% is earmarked to support the fisheries policy of Liberia including to reinforce its fisheries monitoring, control and surveillance capacity.

The member states with an interest in the new agreement and protocol are mainly Spain and France.

Following consent of the European Parliament, their conclusion has been approved by the Council on 24 May 2016.

Main issues of the SFPA

The Liberian Bureau of National Fisheries has low enforcement capacity and lacks resources to properly survey fisheries. Liberia is very vulnerable to catastrophic wild fisheries declines due to its high dependence on fish for food security. During the recent Ebola outbreak in Liberia and subsequent bans on bush meat consumption, sellers switched to the sale of fish as an alternative source of income The country has over 500 marine fish species classed as demersals and pelagics with room for more catches for domestic consumption and export. The job creation potentials cover appropriate facilities and services and improvement of the distribution system and cold storage facilities to preserve fish and reduce spoilage as well as expanding services in the value chain. The sector has significant unexploited linkages with the poultry industry as input into feed.

3.4.10 Mining - Gold and Diamonds

Taxing the gold and diamond sub-sectors is ever so challenging. All players, artisanal miners, brokers and licensed dealers are proving elusive to the LRA's tax effort characterized by significant tax evasion and avoidance. Contrary to the experiences of Ghana and Botswana, value addition and taxation in Liberia are limited. The Liberian nation is not realizing expected benefits from these natural resources. In these sub-sectors, the artisanal miners who do the spade work are not realizing a 'fair' price compared with what is obtainable from the international markets. The current big winners are the commercial mines and

136 "Fisheries and Aquaculture Policy and Strategy", 2014

licensed dealers and their external partners, while the artisanal miners, the poorest in the value chain and GoL are losers.

Recently, there is a case in court whereby a diamond licensed dealer is claiming that only his commissions should be taxed while the LRA has determined that the tax should be based on the sales price of the dealer plus the commission. Since this case is in court, it cannot be discussed further but it is symptomatic of the difficulty in realizing lawful revenue for the Liberian nation from gold and diamond. A case in the iron ore sub-sector is discussed below with regard to illicit financial flows and transfer pricing.

Box 6:Mining Sector

There are eleven (11) concession companies operational in iron ore, gold and oil in the mining sector registered with the LRA for tax purposes in 2015. The mining sector is primarily driven by contribution from iron ore, gold and diamond. The sector has attracted a huge amount of investment as compared to other sectors. However, as a result of the Ebola virus, there was no new signing of concession agreement in the sector in 2015. Currently, there are five (5) iron ore mining companies, fifteen (15) gold and diamond companies operating in the sector and six (6) petroleum companies with exploration rights.

Liberia's main mineral products are gold and diamonds, although iron ore is a major commodity too. Liberia remains largely unexplored but it has been shown that the country possesses a wide variety of minerals besides its already well-known high potential for primary and alluvial gold and diamonds. Other minerals include beryl, tin, columbite-tantalite, phosphates, zinc, copper, lead, rare earth minerals, nickel, molybdenum, beach sand (zircon, rutile, ilmenite, and monazite), bauxite, kyanite, chromite, uranium and silica sands. All are characteristically associated with Precambrian/Proterozoic rocks which underlie most of the country. The mining sector is primarily driven by contribution from iron ore, gold and diamond. The sector has attracted a huge amount of investment as compared to other sectors. However, as a result of the Ebola virus, there was no new signing of concession agreement in the sector in 2015.

Main Exploration and Prospecting activities

Gold: Construction work at the New Liberty gold mine was reportedly on schedule and about 33% completed at the end of 2013. Aureus Mining Inc. of Canada (AMI), which owned the mining rights to the project, completed a definitive feasibility study for the mine in May 2013. The new reserve estimate was expected to support an open pit operation with a capacity to produce an average of about 3,700 kilograms per year (reported as 119,000 troy ounces per year) for the first 6 years of operation. The New Liberty Mine, which is located about 90 km North of Monrovia, would be Liberia's first commercial gold mine. In November 2013, AMC Consultants (UK) Ltd. completed a National Instrument 43–101 resource estimate for AMI's Ndablama and Weaju gold projects in Liberia. Inferred mineral resources were estimated to be 6.8 Mt at a grade of 2.1 g/t gold for Ndablama and 2.7 Mt at a grade of 2.1 g/t gold for Weaju. Exploration was to continue in 2014. The Ndablama and Weaju projects are located within AMI's Bea Mountain mining concession area in North Western Liberia.

Production

The production of key mineral outputs between 2014 and 2015 is presented as follows

Commodity	Unit	Jan-Sept 2015	Jan-Sept 2014	Variance	(%)
Iron ore	Mt	4,085,120	4,159,501	(74,381)	-1.79%
Gold	Ounce	9,205	14,740	(5,535)	-37.55%
Diamond	Carat	53,158	57,885	(4,727)	-8.17%

Culled from LEITI Annual Report FY 2015

In the meantime, other African countries are moving forward with marketing models for gold and diamond that involve building an industry around those natural resources, adding value, creating employment, generating higher returns to the economy and more tax revenues. Liberia needs to take note and make amends in the interest of the citizens and build socio-economic assets from mining to benefit generations to come, as indeed, the natural resources mined today are part of their national inheritance. Two approaches are considered: the Debswana Diamond Company and The Precious Metal Marketing Company (PMMC) - Ghana.

Debswana Diamond Company - Botswana is a joint venture between the Government of Botswana and global diamond giant, De Beers[137]. The company was initially incorporated 1969 under as De Beers Botswana Mining Company (Proprietary) Limited and changed in 1992 to Debswana Diamond Company (Proprietary) Limited. The company's primary objective is diamond mining and associated processes.

It has developed a diamond industry adding value to the gems. It is involved in mining, cutting and polishing, and sales. This industry has turned out to be the most important economic activity for the country contributing 35% to fiscal revenue and 20% to GDP. De Beers also operates its global sales of diamonds, the Diamond Trading Company, from Gaborone. Since 2012, diamond traders converge in the nation's capital 10 times a year to buy wholesale stones at so-called 'sights'[138].Diamond mined in Botswana in 2015 was three times the output of 53,158 carats obtained in Liberia (Box 6).

The Ghana Precious Metal Marketing Company (PMMC) Ltd is solely owned by the Government of Ghana with the mission to "trade cost effectively in gold, diamonds, precious and semi-precious stones locally and internationally and effectively produce quality jewelry through highly skilled and motivated staff"[139]. Operating under the Ghana's companies code (Act 179 of 1963), the PMMC is a limited liability company with a business scope that includes: (A) To grade, assay, value and process precious minerals; (B) To buy and sell precious minerals; (C) To appoint licensed buyers for the purchase of precious minerals produced by small–scale miners; (D) To promote the development of precious minerals and the jewelry industry in Ghana; (E) To do all such things as are indicated or conducive to the attainment of its objectives and functions; (F) To export gold on behalf of third parties for a commission. They have an online jewelry shop that enters into our various departments.

PMMC produces jewelry made of 18K gold: wedding bands & rings, dress rings, engagement rings, pendants, necklaces & chains, jewelry sets, bracelets & bangles and cufflinks. The company also offers custom-made jewelry and in 22K gold. It does silver jewelry and polished diamonds, gold nuggets &tolar bars.

3.4.10.1 Strategies Taxing Mining (Gold and Diamond)

The establishment of a value addition, marketing and tax withholding institution in Liberia's gold and diamond trade:

Precious Metals Marketing Company - Liberia (PMMC)

It is the preferred option to set up a Liberia Precious Metal Marketing Company (PMMC) – as a joint venture between GoL and a technical partner or industry leader. The partner may be either a management outfit or a major international player in gold and diamonds. The primary purpose is to infuse private sector management style to pursue value chains in the production of gold and diamonds in Liberia and manage the prospecting and future marketing of significant list of precious metals detailed in Box 6. The similarities in economic structures, geographical and sub-regional affinities between Ghana and Liberia are significant factors to consider in choosing a PMMC with a difference in equity stakes.

The country is not realizing value from its gold and diamond resources to the same extent as Botswana and Ghana, apart from differences in production levels, the institutional management and marketing framework is a significant difference. The latter can be improved by introducing the PMMC - Liberia which would serve as an effective and efficient reservoir of withholding taxes for PIT and CIT from operators in gold and diamond mining and confer the following advantages:

I. PMMC-Liberia would be a semi-autonomous State-Owned Enterprise under the Ministry of Lands and Mines;
II. The responsibilities would include the buying, selling and certification of minerals, gold, diamond and other precious minerals;
III. Issue Kimberly certificates for diamonds;
IV. Enhancing value to the artisanal miners and the communities where the minerals are located by the PMMC controlling exporting market passing through to them a greater share of the international price obtained;
V. Organizing the precious metals sub-sector;
VI. Lands and Mines is organizing the artisanal miners into cooperatives which would reduce the number of accounts and counter parties that the PMMC has to deal with by registering the cooperatives as sellers;
VII. Facilitate the Cooperatives to do community policing of the resources;
VIII. L-PMMC will take over the roles of brokers and licensed dealers in the current system;
IX. Value addition by training Liberians to be polishers

137 https://www.debeersgroup.com/en/index.html

138 http://www.debswana.com/

139 http://www.ghana-mining.org/ghanaims/Institutions/PreciousMineralsMarketingCompanyPMMC/tabid/158/Default.aspx

of gems and goldsmiths and silversmiths to exploit the value chains to generate more returns and employment turning the mining into a value adding industry;

X. An auction market will be established with buyers welcomed from any part of the world and the LPMMC will be the only seller; and,

XI. The LPMMC will pay CIT and withhold PAYE of its employees, PIT and GST from sellers and buyers as well as goldsmiths and silversmiths.

In furtherance of the Liberia PMCC withholding taxes, Section 905 of the LRC would have to be amended to enable a resident company to withhold taxes.

3.4.11 Information and communication

Taxation policies and RA capacity to keep up with the pace of technological innovations in the telecommunications sector are emerging as a major challenge. Since the early 1980's, the changes have moved rapidly through Wireless, Cable and Satellite; Packet/IP Technology; E-Mail, Texting, SMS and MMS; PDAs, Smart phones and Tablets; and onto I-Cloud, etc. The technological change warrants a commensurable revision of tax laws of the sub-sector for tax administration to stay abreast with the pace of innovations. The substantial volume of transactions referred to data is unprecedented in any sector and measured in kilobits/second and megabits/second (1 mbit is equal to 1,000 kbits or 1,000 faster). Globally, a myriad of tax types are applied including excise taxes, Sales taxes, Use taxes, Gross Receipts taxes, Occupation Taxes and License Taxes. The Regulators levy User fees, Access and Utility fees. In sum, the incidence of taxes is two-fold: (i) taxes/fees imposed directly on the consumer or required to be passed on by the provider; and, (ii) surcharges/ fees which a carrier is legally allowed to recover from its subscribers. Telecommunication operators in many countries are subject to all regular business taxes plus some sector specific taxes.

The Peer-to-Peer (P2P) economy involves businesses that exist "in any online market where transactions can be characterized by exchange (sale) or rental (sharing) between two parties—often individuals" (Gupta, Keen, et al, 2017). This is a growing global e-business for goods and services which is expanding and taxable for those consumed by residents. The data is not available to determine the extent of Liberians' participation, but anecdotal evidence suggests the elite in the country do use these services. However, already, travelers purchase e-air tickets without paying the GST that this transaction attracts in this country.

Box 7: The (undesired) Case of Democratic Republic of Congo -

The rush to reap maximum taxes from the Telecoms sector can fall into the trap of 'killing the goose that lays the golden eggs'. In the Democratic Republic of Congo (DRC) for example, in addition to regular business taxes, the telecom sector was to two other types of taxes:

Direct contributions (paid by operators):

- Annual operation tax: 2 per cent of revenue (estimated);
- Frequency charges: 2.4 per cent of revenue (estimated);
- Numbering charges: 2 per cent of revenue (estimated); and,
- Tax on profits: 40 per cent. Indirect contributions (usually paid by the consumer):
- Network access and usage rights: 2 per cent;
- International in-bound surcharges (also known locally as regulation tax): 0.05 per cent;
- Tax on consumption: 18 per cent (in 2012, this is set to be replaced with VAT at 16%); and,
- Excise duty on airtime: 10 per cent.

The result was a stunted growth of the sector as its share of GDP declined from a peak of 6.6% in 2007 to 5.1% and 4.0% in 2010[1] and 2015 respectively. In May 2016, the DRC raised taxes on mobile communications companies from two (2) percent of revenues to three (3) percent. This, combined with other regulatory costs, prompted telecommunications companies to raise Internet prices, putting connectivity further out of reach for many Congolese[2].

1 "Taxing telecommunication/ICT services: an overview", International Telecommunications Union, June 2013

2 Exporter (helping US firms export): https://www.export.gov/article?id=Congo-Democratic-Republic-Telecommunication

Generally, telecoms companies across Africa pay the following taxes with some variations in Liberia, Nigeria and The Gambia: –

Tax Type:	Across Africa	Liberia	Nigeria	The Gambia
CIT	X	X	x	X
PIT	X	X	x	
VAT	X		x	X
GST		X		
Excise		X		X
Withholding	X	X	x	X
PAYE	X	X	X	X

Non-Tax:				
Business License	X	X	X	X
Spectrum Fees/ Frequency Fees	X		x	
Telecomm Development Fund/ Technology and Research Fees/ GSM Levy	X		X	X
Regulatory Fees	X		X	
Numbering Fees			X	
Stamp Duty				X

3.4.11.1 Strategy Information and Communication

Notwithstanding its tax premium status, revenues from Information and Communication declined precipitously with the withdrawal of UNMIL. The strategy of this sector is to allow for recovery and consolidation in the medium term mindful of the case of Democratic Republic of Congo (DRC) (Box 7) that witnessed a decline in both revenues and value addition following numerous tax hikes and multiplicity of tax types. Instead, the strategy is to increase the efficiency of tax collection from this sector through automation, and e-Tax services accessible by MTN and Orange for e-filing and e-payment. However, the excise tax of one cent on voice call which was never implemented because of the public uproar ought to be substituted by 0.05% on turnover on voice and data combined. Secondly, to upscale the competences of LRA staff to enforce and audit the service providers through their own internal automated systems. Furthermore, as innovations increase in the sector and the service providers roll out new products such as mobile money platforms, they would be taxed at the applicable CIT and GST rates.

Source: Digitalization of Public Finances, IMF, Gouta, et al, 2017

With regard to the P2P economy, international good practices are evolving to tax these transactions that take place in virtual spaces. In the short term, a better appreciation of the scale activities in Liberia is required by conducting a study. With regard to e-air ticket, this is a low lying fruit which must be tapped by taxing the resident subsidiary of the airline that issued it. The data is obtainable from the manifest of each and every flight. All air tickets issued for journeys that commence in Liberia are liable to pay GST whether purchased at an office or on-line.

Examples of Peer-to-Peer Platforms across Sectors	
INDUSTRY/SECTOR DESCRIPTION	EXAMPLES OF PEER-TO-PEER PLATFORMS
Couriers and Delivery Services	Deliveroom, Instacart, Postmates
Digital Currencies (Financial Intermediation, transaction	Bitcom, Ethereum, Ripple
Financial Services (Crowdfunding, Collaborative lending	Funding Circle, Lending Club, Kickstarter, Prosper
Retail Business (Online sales, distribution, auctions)	Amazon, Craigslist, eBay, Etsy
Software-knowlede and Media-sharing	Apple iTunes, Coursera, Dropbox, Wikipedia
Professional Services	Fiverr, Freelancer, Taskrabbit, Thumbtack, Upwork
Traveler Accommodation	Airbnb, Flipkey, Homeaway
Transit and Ground Passenger Transportation	BlaBlaCar, Careem, Didi Chuxing, Lyft, Ola, Uber

3.4.12 Tourism

The United Nations designated 2017 the International Year of Sustainable Travel and Tourism for Development. Tourism is one of the world's largest economic sectors that creates jobs, drives exports, and improves livelihoods worldwide. Liberia has sun, beach, sea, ecology, culture and forests which are valued by leisure visitors and eco-tourists. These are highly underutilized potential assets for a vibrant tourism market but which is currently contributing a lackluster 0.92% of total tax revenue.

The Liberian National Export Strategy on Tourism, 2016-2020, announced that "Liberia is a country in transition. Impressive strides have been made between the end of the civil war and the Ebola outbreak.

- Recent accession to the World Trade Organization (WTO)
- A decade of economic growth
- A private sector hungry for success
- A public sector willing to facilitate this growth.

With the epidemic under control and a Government determined to steer the brand of the country away from images of conflict and disease, the focus has converged on one sector: tourism".

Steps to be taken under this strategy include setting up a semi-autonomous Liberian national tourism authority to administer the enabling legislation and a President's Tourism Exploratory Committee to guide development efforts and advice policymakers. The country has two tourism Associations, the Liberian National Tourism Association (LINTA) and the Tourism Association of Liberia (TAL) mentioned in the strategy but no mechanisms to give them a say in managing the sector. How to streamline the strategy into the LRC, Investment Code and National Trade Policy is not fully articulated.

Tourism provides an abode for businesses (CIT) and employment (PIT) in hotels, restaurants, spas, night clubs, tour guides, security and other entertainment companies, imported consumption goods (duties), wholesale and retail trade (GST), artifacts market (GST) and transportation (GST). Other horizontal linkages to other sectors involve locally produced food items such as horticulture, which in The Gambia is largely grown by women in the outskirts of villages and towns. The sector supports homegrown fruit juice and beverages enterprises. If tourists come by charter, the airlines pay airport landing fees and taxes on goods and services purchased locally. All these transactions ultimately generate foreign exchange and contribute to value added in the domestic product. On the downside, the sector attracts more vice, alcoholics, prostitution[140] and pedophiles.

The drivers of tourism in The Gambia are political commitment at the highest level in Government, a Tourism Liaison Board (public and private members) steering the industry, a tourism school to train employees (now the Institute for Travel and Tourism of The Gambia), a Tourism Master Plan and designating the entire beach-front of the country as a Tourism Development Area (TDA), reserved land for establishments offering services to visitors (Box 8). The Government demarcated the TDA, put in the requisite access roads, electricity including street lights and water. The private sector was invited to build the hotels, restaurants, etc, with the Novotel as a world recognized franchise leading the way. The Sheraton joined in decades later. At the outset, the country had an external champion, Mr. Bertyl Harding, a Swedish entrepreneur in the business who brought the first charter visitors from his country[141].

Box 8: Tourism Product in The Gambia

The Gambia is a tourism destination with an unusual history. Many destinations developed on the basis of transit travel (such as Fiji) or via young independent travelers (such as Goa). The Gambia was developed from 1965 onwards as a winter sunshine destination for European package tours based on charter flights. It was the only such destination in Africa south of the Sahara; only a few others have followed, notably the Kenya coast and, for the French market, Senegal. As a destination, The Gambia is unique in a number of respects as it appears as a conventional Mediterranean (sun, beach and sea) package tour destination that is located in Africa. However, the country needs to develop business related tourism, meetings, incentives, conference and exhibitions (MICE).

The sector in good years contributed 12-15% of GDP and ranks second to Agriculture in terms of employment, providing more than 16,000 formal and informal jobs. It is the second foreign exchange earner and provides a ready export market for sectors with which it has forward and backward linkages. This is achieved by way of local populations and businesses providing restaurants, hotels, co-visits, cleansing services, rented properties for long term visitors, security services and guided tours as well as food supplies including horticultural products largely grown by women. The country is seeking to diversify the product by spreading the fruits of tourism to combat the rural-urban divide in poverty by creating attractions for tourists to travel upcountry for eco-tourism, cultural safari and river cruises.

Tourism sector is more labor intensive than the average of the rest of the economy, except subsistence agriculture. Second, leisure travel is relatively elastic as household disposable incomes in the source countries (USA, Europe and Africa) increase, their spending on travel/tourism increases even more rapidly. Most types of travel/tourism have income elasticities of demand that are greater than 1. This makes tourism worldwide a premium sector for taxes, that is, its share of revenues is higher than its contribution to GDP.

Given the elasticities, the industry is quite price sensitive. Liberia would be competitive in mid to down market for sun and beach holidays as well as eco-tourism, given that 45% of the land mass is forest dotted with tress which are centuries old. Current logging practices stand as a risk to maintaining the forests as an attraction. Albeit, for generating income, tourism and carbon credits stand as viable and sustainable alternatives to logging for the benefit of local communities and generations of Liberians yet unborn. With the appropriate hotel infrastructure and conferencing facilities, the country can compete

140 Prostitutes are organized and taxed in many Western countries and Asia but Africans generally see the practice as abhorrent and detestable.

141 "History and Development of Tourism in The Gambia" by Sheikh TijanNyang, Head of Institute of Travel and Tourism of The Gambia, 2017.

for the lucrative regional and international meetings by organizations that the country belongs.

3.4.12 Strategies Taxing Tourism Sector

To diversify the productive base and increase tourism value addition, the Government ought to take some critical steps; elaborate a Tourism Master plan, central to which are the legal infrastructure and institutional framework which -turn the current tourism office into an upgraded Tourism Bureau with public private partnership in its management; establish the Liberia Travel and Tourism Institute; and, designate the entire beachfront of the country as a Tourism Development Area (TDA).

3.4.13 Real Estate

The United Nations Population Fund (UNPFA, 2007) estimates that Africa's urban population will more than double between 2000 and 2030 from 294 million to 742 million. Real estate taxes should grow in tandem with the increasing housing stock for residential, commercial and industrial use to accommodate this population growth. These taxes are progressive and administratively easy to collect and therefore stand as low lying fruits for more revenues. However, across Africa property tax is yet to get anywhere near its current potential.

In Liberia, property taxes are collected by the LRA, whereas in most countries it is a source of revenue for local governments. It is the liability of the property owner to pay the property tax. So far, the Authority is only covering Monsterrado County, where the city of Monrovia is located, which has half the inhabitants of the country at 2.37 million. Against a registered housing stock of 11,919, it means only a tip of the iceberg is covered in taxes, even without much needed cadastre data for the city and its environs.

Real estate revenue collection averaged US$ 4.6 million in the last three years to FY 2016 and rose by 34.3% to US$ 5.3 million in FY2015 before declining by 10.4% in FY2016. Those revenues are largely from Montserrado county, one out of sixteen counties, although it is home to half the country's population. In the absence of cadastre (a register of property) and tile deed data, anecdotal evidence based on the number of towns and villages outside the tax net, suggests that an exponential growth in property tax is possible on the back of effective enforcement. However, real Estate owners in Liberia, particularly in Monrovia, are constituted by High Wealth Individuals (HWIs) identified globally as hard to tax[142]. In this particular instance, there is a tendency not to declare rental income rather than using loopholes in the code which is used by HWIs in more advanced countries. Generally, the bulk of real estate proprietors are not in the tax net.

While the so-called yard rates are administered by local governments in most jurisdictions, real estate taxes are collected by the LRA in Liberia. Municipalities have limited avenues for revenue generation currently restricted to mostly charges and rents. A new local government decentralization law was enacted which going forward, has fiscal decentralization provisions. The Government

142 M. Keene, IMF, 2015

Table 3.12.: Real Estate Tax Revenue, Taxpayers and Housing Stock

FY2014					
	Residential	Commercial	Industrial	Undeveloped Land	Total
Taxes (USD)	239,448.61	3,680,847.35			3,920,295.96
Montserrado (Number of Taxpayers)	5,137	2,180			7,317
Housing Stock					
FY2015					
	Residential	Commercial	Industrial	Undeveloped Land	Total
Taxes (USD)	297,694.52	4,965,979.98	103,121.62		5,263,674.50
Montserrado (Number of Taxpayers)	6,358	3,482	103		9,840
Housing Stock					
FY2016					
	Residential	Commercial	Industrial	Undeveloped Land	Total
Taxes (USD)	345,398.43	4,369,882.08	173,444.28		4,715,280.51
Montserrado (Number of Taxpayers)	8,347	3,282	37		11,629
Housing Stock	6,011	5,908	24	113	11,919

also amended the law in 2016 to increase tax rates on improved and unimproved land.

The fluctuating fortunes suggest enforcement challenges in addition to political, structural and data challenges which include: Relatively low re-estate tax rate - which the Government sought to remedy in 2016 by increasing the rate for developed land; Outdated property rights laws; Lack of a cadastre mapping; Outdated real property values which is a perennial issue throughout English speaking West Africa; Political intervention in property valuation; Limited use of information technologies in the appraisal process; Lack of provision for formal education and training of assessors/appraisers; Weak enforcement of property related taxes; Lack of uniform property valuation systems and methodologies; and, high cost of collection.

The country's decentralization strategy states that ultimately property taxes ought to be a source of revenue for local government, but within a comprehensive decentralization strategy. The LRA has a five-year window to set up systems and procedures for collecting real estate taxes before handing over collection to local governments. In 2016, the LRA started a pilot to engage local government authorities in a formula for working together to collect the taxes and retaining a share for the local government. Political intervention in the enforcement exercise has stalled further. This is a winning recipe but it should be run by elected representatives of local governments for accountability to the communities. Political decentralization must precede fiscal decentralization to avoid the politically connected capturing these resources or political parties in power using these resources as so-called motivation for the boys at the grass roots. To incentivize communities to pay taxes and promote a culture of paying taxes, they should see returns to their taxes by the provision of infrastructure such as markets, parks and football fields, cleansing services and whenever the intake permits, roads, schools and clinics.

3.4.13.1 Strategy Taxing Real Estate Sub-Sector

The strategies proposed for collecting property taxes range from strategic to sector specific as well as operational issues that must be addressed to unleash the tax potential of the real estate sector. Overall, as an incentive to compliance, rates should be kept affordable and earmark property tax receipts for upkeep of the environment of the public by spending on collecting garbage, cleaning the streets and developing and maintaining public spaces. Other specific strategies include:

- Modernization of the land tenure system
- Introduce a new mortgage law and registration requirements benchmarking current international best practice
- Comprehensive cadastre mapping to have a better appreciation of the housing stock
- The creation of a Valuation Database and Information System while depoliticizing property valuation
- Increase the tax net through massive public awareness and community engagement throughout the country
- There is need to improve the balance between different taxes in the long run. Urban property taxes could yield a much higher return if decentralized, as local governments usually have a more direct access to the relevant information. Therefore, articulate a comprehensive decentralization strategy including political and fiscal decentralization
- Conduct comprehensive real estate tax compliance risk management study to raise revenues and how to share the receipts in the short-term pending the implementation of a fiscal decentralization policy
- Box 9 details operational issues currently pertinent to the LRA collecting real estate taxes

Box 9: Short-term Strategies for LRA Real Estate Tax Collection

- Effective and efficient enforcement to benefit from economies of scale in the sector
- The creation of an electronic or computerized administrative and record management system to back-up and manage all assessments or valuation records presently in manual form and to generate computer-based reports: tax declarations, assessment rolls, notices, and etc. Electronic Field Appraisal and Assessment Technology
- Use of single valuation base for all real property taxes
- Aim to: 1. Raise the quality of public and private sector valuations, 2. Provide consistency and understanding between providers and users of valuations; 3.promote transparency and reliability of valuations; 4. reduce financial risk for users of valuation.
- Strengthened monitoring and coordination of efforts of the LRA with other government ministries and agencies
- Development and adoption of Mass Appraisal Guide Book consistent with LRA's operating context that details the step- by- step procedures in achieving market-based values through mass appraisal, provides background guide on valuation of special purpose properties, and provide framework for the introduction of a basic course on mass appraisal training to capacities assessors/valuators

3.4.14 Wholesale and Retail Trade

This sector is steeped in informality and dominated by an absence of any paper trail to enable records for determination of sales and income for tax purposes. It is characterized by wholesalers who are importers, retailers, self-employed and underemployed such as street vendors. Women and the youth account for the bulk of the operators. Petty trading is popular as source of raising fish money for family consumption. The current GDP data is not disaggregated between Trade and Hotels which share a tax discount of 50%.

Overall, Liberia's accession to WTO promises benefits of increased integration to global trade, but first the country must address constraints such as the quality of trade and transport facilitation encompassing physical infrastructure, logistics services, and administrative procedures. Macroeconomic stability eroded by the EDV crises must be re-established foremost, and supported by improving the l business environment, modernizing customs procedures, and increasing trade facilitation capacity. The country has low cross border indicators including delays and high charges in the clearance of goods at entry and exit points. Starting and conducting a business is constrained by limited access to housing space, finance, and electricity[143].

The GoL has forged initiatives to improve the trading climate. The overall objective of Liberia National Trade Policy (LNTP), 2014 – 2019, is "to promote international trade and a competitive domestic private sector by supporting the agricultural, industrial and services sectors to trade at the local and international levels, thereby contributing to employment generation, improvement of the livelihood of the Liberian people, and reduction in poverty". The wholesale trade sub-sector dealing also in imports and exports is large enough to be visible to tax authorities. The use of tax clearance certificates for clearing goods also ensures frequent contact and a paper trail. The main challenge to tax collection in retail trade sub-sector is the unavailability of business records including sales. The issuance of receipts is not a common practice. Informality in the sector with widespread use of cash, highly mobile actors, pervasive illiteracy and herd instinct, conspire to keep tax intake quite low.

3.4.14.Strategy Taxing Wholesale and Retail Trade

To mitigate against a lack of availability of basic sales data for tax purposes, the strategy is to legislate the issuance of receipts and introduce two types of automated POS machines: electronic cash register (ECR) and electronic tax register (ETR). An ECR is a device used by traders to record sales and issue receipts, long used by taxpayers. It also stores information such as sales, stocks, and can also issue reports e.g. daily sales.

ETR is also a cash registerwith more sophisticated fiscal and read only memory to store tax information at the time of sale. It has a seal, memory, serial number, special technical specifications, and more, and can be a standalone or configured into a network. For implementation, ECR is largely for small scale retailers and ETR for bigger retailers and wholesalers, accommodation and entertainment businesses, etc.

Why ETR for retailers? Ordinary ECR is prone to falsification but in Liberian context it would best to start with low tech for small retailers to inculcate a culture of writing receipts

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and sharing information with LRA and reserve ETR for wholesalers and medium size retailers. ETR has tax memory that is programmable with read only memory (EPROM or PROM) which has data capacity for at least 5 years or 1800 day transactions. It allows the issuance of fiscal receipts easily verifiable for enforcement purposes and provides daily fiscal summary report.

Going forward when VAT is introduced, ECR should be phased out for claimants of offsets and Electronic Signature Device (ESD) and printers introduced for traders who computers in trading activities. One of the risks of VAT is false claims for offsets or refunds which have been treated in Kenya with ESDs and printers. There are various types of ETRs and each with its functions. Selection depends on the needs of a trader and each model/ machine will be vetted according to the stipulations of the law enacted for compulsory issuance of receipts. Connecting to Ethernet or internet or email enabled cash registers are low cost, standalone ETRs which can enable traders to be connected to LRA server to upload transactions at a prescribed frequency.

3.4.15 Maritime

During the regime of the 22nd President, Charles Taylor, the fiscal space was largely filled by revenues from logging and maritime, flags of convenience issued to international shippers. His rule ended in 2003, however, by the current decade of 2010, the contribution of maritime revenues has pale into relative insignificance. This is not withstanding that the war has ceased in Liberia and international merchandise trade and shipping has each grown by about 17.5% in last seven years to 2017. The latter increased from 44,506 in 2008 to around 52,000 merchant ships.

The Liberian International Ship & Corporate Registry (LISCRE) touted performance as follows: "The Liberian Registry has more than doubled in size over the past fifteen years. At the same time, it has strengthened its position as one of the safest and most quality-conscious flags in the world, consistently featuring in the White Lists of all independent arbiters of ship safety such as Port State Control and the U.S. Coast Guard. The best performing registries – which include the Liberian Registry – are on the "White-List." Mid-ranking registries are grouped on the "Grey List." The poorest performing registries are placed on the "Black List" (website, https://www.liscr.com/about-liberian-registry).

Yet, the revenues accruing to GoL recently from LISCRE plummeted by a more than half from USD 21.4 million in 2013 to USD 8.7 million. A breakdown of intake by the LRA showed that out of four different taxes and charges, Registration, Tonnage Tax, DCO distribution and Maritime corporate fees, only one, DCO distribution, is still realizing revenue. The Liberia Maritime Authority (LMA) is responsible for the collection of all monies collected by LISCR. According to the Maritime Authority Act, "these monies shall be deposited in the Government of Liberia's general revenue account with the CBL".

The Liberian Registry is administered by LISCR, a privately owned U.S. company based in New York. It has operated out of the U.S. since its creation in 1948. "Pursuant to the statutes, the Registry must be principally operated from the U.S. and managed by international maritime professionals for the benefit of the Liberian people (www.liscr.com)". LISCR remits a percentage of revenue to the LMA which in turn pays taxes to the LRA. DCO Distribution revenue increased somewhat, from USD 2.5 million in 2013 to USD 8.6 million in 2017, while all other sources of maritime revenue associated with the registry declined to nil in FY 2017[144].

The reasons proffered by the LMA for declining performance included stiff competition from other players in the market such as Marshal Islands, which is said to grant one year free registration to new entrants; and, uncertainty in global market occasioned by "economically unstable Europe" and "uncertain direction of World Trade under new African leadership"[145]. Simply put, the data and facts do not support this view. Indeed, as LISCR stated above from its website, business could not be more buoyant, and global trade in which Europe and the US are major players, actually grew by 4.7% in 2017, well above its past trend of less than 3%.

3.4.15 Strategy Maritime

The declining fortunes of Maritime revenues should be arrested as it is not supported by the fundamentals. While access to the financials of the LMA and LISCR is not available, anecdotal evidence warrants a major audit of both. Secondly, the GoL must take the political decision to review, whether it is worth the country's while, to have two institutions in New York and Monrovia in operation against net gain of USD 8.6 million in revenue. Other options should be entertained and three are proposed:

i. Merge the functions of LMA and LISCR in Monrovia;
ii. Build the requisite capacity to establish a unit in the LRA to deal directly with LISCR; or
iii. Build the capacity in the LRA to perform the functions of LISCR.

144 LRA Revenue data

145 Liberia Maritime Authority, https://www.facebook.com/LiberiaMaritime/

Any of these suggestions would improve the level of inflow into the GoL consolidated revenue from the shipping flag of convenience scheme. Immediately, there ought to be a tax audit of LMA and LISCR; and, a review of the institutional framework for taxing maritime.

3.4.16 Strategy Professionals and High Wealth Individuals

Professionals like lawyers, accountants, doctors,realtors and other high wealth individuals (HWIs) - are hard to tax whether employed or self-employed. Another group is those that own much of the prime real estate in Liberia pose high compliance risks. They escape the tax net by not registering, filing or paying taxes on time. They also tend to be politically connected and influential in the society which they use to the extent of intimidating tax officials. They should be treated as any high risk group and targeted for dedicated enforcement at the top of compliance behavior pyramid representing those unwilling to pay their dues. The full of the law should be come bear to treat this risk.

Accompanying measures include: Information reporting and withholding on payments to professionals (such as those to physicians by health insurance companies, hospitals, and other bodies); A specialized audit program that includes identifying unexplained wealth; cross-checking registers of professional associations and employers' data with the RA's database; requiring professionals and HWIs to present a valid TIN and obtain a tax clearance certificate for renewal of professional licenses and making outward remittances; and, awareness campaigns with professional associations, as preventative enforcement focused largely on new entrants and illiterate HWIs before they become delinquent taxpayers[146].

146 IMF, M. Keen, 2017, Practices by the Australian Tax Office

3.5 Headline Risks – Minimizing Revenue Loss

3.5.1 Introduction

Revenue loss works against achieving desired outcomes and optimal results the-in revenue collection efforts. The basic question is 'overall, what are the factors inhibiting the revenue authority from achieving its objectives, and from an economic sector perspective, what structural factors are inhibiting sectors from reaching collection of tax revenue –commensurate with its share of output'. From a compliance risk management model, these factors reside in the current state of taxation; the tax effort and tax gap; tax burden of the sector; the external environment, taxpayer compliance risks and the tax authority's enterprise risks[147]. In a nutshell, exposing and treating headline risks in the external environment, taxpayer voluntary compliance and institutional frameworks underscore the strategies proposed for reducing revenue loss in this DRM strategy.

The focus of the headline risks are captured as tax expenditures, corruption, informality, capital flight and low human and institutional capacity, which have already been treated within the strategies proffered in preceding sections, but discussed here at a more generic level to provide tools for tackling them in general. Capital flight is done here in greater detail as it was not always present in the strategies already proposed. Low human and institution capacity is focused under the effectiveness of tax administration and discussed in the next sub-section.

3.5.2 Tax Expenditures

Tax expenditures are policy related sources of non-

147 IMF 2010, OECD 2010 (the reference to sector tax burden is an addition by this author and enables the ensuing analysis on potential revenue and revenue loss. Thus being able to isolate the natural resource sector as the hardest hit by revenue loss)

compliance to the tax code, the policy tax gap which together with the taxpayer compliance gap, constitute the tax gap. The topic of tax expenditures was already discussed under the Legal Infrastructure, sub-section 3.4.1.1.

3.5.3 Corruption

Reformation of the tax system will only work when done in conjunction with anti-corruption measures. Otherwise corruption continues to undermine new tax administrations and policies (OECD, 2013b). Indeed, corruption is predicated on personal greed and diverts scare public resources from benefiting the nation to personal gain. Potential expenditures in health and education are defrayed in favor of personalized consumption usually luxury goods with utility that is not beyond the nose of the culprit with negligible effects for the society. These are items such as luxury vehicles, or invested in real estate, art, or precious metals (World Bank, 2006). They could also be stashed away as part of illicit funds in foreign accounts. The social impact of a Dollar spent on buying a yacht or importing champagne will be very different from a Dollar spent on primary education. Invariably, the corrupt individuals in 'lucrative' positions also wield political influence and swell the ranks of the HWI's who do not pay taxes.

Corruption is pervasive in Liberia and cannot be discounted in almost every facet of economic and financial transaction, as aptly lamented in its magnitude,endemic nature and scope by Madam President Ellen Johnson-Sirleaf in her Address to the Legislature in 2017:

"We have not fully met the anti-corruption pledge that we made in 2006. It is not because of the lack of political will to do so, but because of the intractability of dependency and dishonesty cultivated from years of deprivation and poor governance. We could not reap – you cannot reap – in government what has not been instilled in families, schools, churches, mosques and society in general".

However, it is noteworthy that Liberia is not bereft of a legal infrastructure to combat corruption but the enforcement of the rule of law serves as a stumbling block, thus, yielding dismal and disappointing results in combating the scourge. The Transparency International (TI) Corruption Perception (2016) index ranks Liberia 90 out of 176 countries surveyed with a score of 37. This is in spite of the international best practice institutions being in place and appropriate laws and regulations enacted. There is the Liberia Anti-Corruption Commission (LACC), General Auditing Commission (GAC), Public Procurement and Concession Commission (PPCC), and Internal Audit Agency (IAA). Liberia also has a presence at the global level in the fight against corruption.

Yet, over 6 years to 2016, the LACC opened just 22 cases, had 4 convictions and came to a closure on only 5 cases[148]. "Although the government continues to institute measures, programs and strategies to strengthen anti-graft institutions and laws, corruption remains endemic in the Liberian social fabric. In spite of a number of USG and other donor-funded assistance projects, lack of training, inadequate salaries, and a culture of impunity have undermined the judicial and regulatory systems, which in turn has discouraged investment"[149].

3.5.3.1 Strategies to combat Corruption

Fighting corruption in Liberia should involve a national effort at every level, homes, schools, churches and cries out for a cultural change to reset the moral compass of citizens to shun unlawful earnings. A program of social reorientation targeting hearts and minds to combat corruption should be elaborated and disseminated in schools, Churches and Mosques as well as on national and social media. Storytelling and drama societies should produce appropriate material to spread the good word lawful livelihoods and changes in behavior.

The rule of law is not working to enforce anti-corruption legislation. Liberia is probably the only country where a person accused of corruption would clamor to be taken to court, not to demand due process but in the comfort that the court system can be manipulated. Therefore, an urgent need exists to review the legal system and processes with particular reference to adjudicating corruption cases. An Anti-Corruption Court ought to be established to fast track due process and penalties enhanced to provide meaningful deterrence. NGOs should be given the track record of Judges to call out miscarriages of justice, to name and shame. With particular regard to combating corruption in the tax system, automation and e& m-Tax system will be implemented to minimize contacts between taxpayers and tax officials by e-Registration, e-filing and e-Payments.

3.5.4 Informal Sector

Taxing the informal economy, Africa's vast informal economy (workers and companies operating outside the reach of the law or public administration) is a major obstacle to broadening the tax base and collecting direct taxes. In particular, it poses a wide range of economic challenges: not only are taxes not collected, but informal

148 Liberia Anti-Corruption Commission: http://www.lacc.gov.lr/public/index.php/corruption-cases/concluded-cases

149 US State Department's Office of Investment Affairs' Investment Climate Statement, 8/10/2017.

firms are also often less productive and there are no labor and social protection schemes for workers. The size of the informal sector at two-thirds of economic activity necessitates delving into the sector especially, against the backdrop of reaching the outer boundaries of taxing the formal sector.

Michael Keen, IMF, in Taxation and Development – Again, 2012, stated that "Many micro and small enterprises—street traders and something more—are naturally thought of as "informal" in some vague sense of operating essentially untouched by government restrictions. But in tax terms, it is far from clear that they pose any particular problem: a balancing of traditional concerns, weighing the revenue foregone by excluding them from tax against the administrative and compliance costs (and the gain in production efficiency) from including them, would almost certainly imply that they should not be taxed (except indirectly through taxes, such as the VAT on their purchases, that are remitted by others—and perhaps by small fees that, many would quietly say, are there for show rather than as an attempt to raise serious revenue). That is, the optimal tax to be remitted by such operators themselves may very well be zero".

To consider informality in the context of small and micro enterprises in retail trade is quite restrictive, for which Keen's lack of "optimal tax to be remitted" would hold. However, the informal sector is also an abode for many others: medium taxpayers wishing to evade taxes; uniformed or unschooled businessmen and women who do not register or keep any records and transact on cash basis without receipts; and, those who do know about where, how, when and why, to pay taxes.

Thus, Everest-Phillips (2008) supports some level of formalization in order to create 'quasi-voluntary compliance' of MSEs (micro- and small-sized enterprises) making them contribute to state-building objectives by broadening the tax base and increasing the scope of institutionalizing state engagement with the sector in the political process. Perceived fairness is relative, but important, in inducing formalization and inducing informal operators to see 'taxation as state-building' (Everest-Phillips, 2008). Tax administrator attitudes, incentives and discretion can result in unequal treatment among taxpayer groups. However, it is not only unequal access to exceptions and prevalence of bribes that make the tax system unpredictable, but also an ever expanding, instead of contracting, informal sector.

Stern and Loeprick, 2007, propose improvements in the quality of tax administration, introducing simplified options to improve SMEs compliance, and a simple and fair tax regime (e.g. a single presumptive tax based on turnover or on specific indicators like floor space, number of employees, and electricity consumption); but also the regime would have to include safeguards against abuses. The strategy to tax it should be phased simplification of the taxation system for micro-and SMEs so that the informal operators may see the benefits of formalizing and of paying taxes. Thus the 'presumptive assessment' becomes a transitory method, mainly because its imposition may also help better accounting practices being adopted (Drine, 2009).

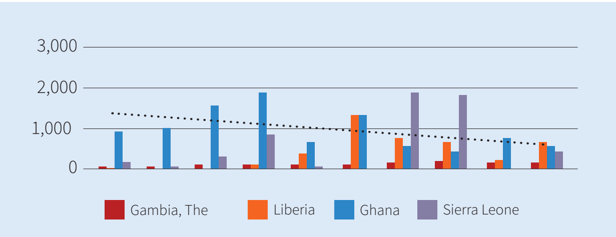
3.5.4.1 Strategy -Taxing the Informal Sector

Taxation of the informal sector then becomes possible through their association(s), since authorities can reach many enterprises or individuals at reasonable costs of tax collection. After all, not all informal operators are anti-tax even though for many others, the reason for going informal is not to avoid taxes but to avoid the hassle of excessively complex tax and unnecessarily harsh enforcement.

In specific sector contexts, artisanal operators in the natural resources sector: mining (gold and diamond), forestry, fishing and animal husbandry are part of the informal sector. However, they do contribute to value addition. The optimal tax to be remitted from these sources may well be more than zero and can be positive aided by tax withholding mechanisms such as a formal marketing body. For example, artisanal miners may be organized into cooperatives to do the marketing of their products, provide short term credits and exchange of information. Invariably, the turnover of the cooperatives would quality their organization as a large taxpayer. The proposed Liberia PMMC will do withholding with the cooperatives and work them to provide credit and extension services to members of the cooperatives.

On the obverse, if informality is considered in the context of subsistence farmers in agriculture another issue arises, whether subsistence farming should be taxed. In an environment beset by food insecurity, the simple answer is no. However, for this DRM, the scope goes beyond tax compliance as stipulated by the revenue code to weigh in on structural issues to propose changes in production methods to tap the value chains and high value products such as horticulture. The aim is to move the informal to, or be associated with, commercial agriculture which is taxable. Another method practiced in rubber planting in Liberia is a core commercial concern supplied by satellite farms. The farm at the center would withhold the GST on

Figure 3.16: Capital Flight from Liberia and Neighbouring English-Speaking Countries 2004-2013



Source: Global Finance Integrity

the sales of the smaller firm while it discharges the full complement of taxes due. Thus, this DRM has another interest for discussing and treating informality risks to answer to medium and long term development strategies for enlarging the tax base through proposals to get sectors currently at tax discounts to tax premiums.

3.5.5 Capital Flight/Illicit Flows

Illicit financial flows are defined to include tax abuse, transfer pricing and overpricing, market and regulatory abuse, corruption and abuse of power effected through money laundering. These malaise siphons away financing required for inclusive economic growth and poverty reduction in particularly, countries well-endowed with mineral resources in Africa. They are a significant drain on the revenue and resources that African governments have to fund their own development, and are both a cause and a symptom of poor governance and state fragility. "The most immediate impact of illicit financial flows (IFFs) is a reduction in domestic expenditure and investment, both public and private. This means fewer hospitals and schools, fewer police officers on the street, fewer roads and bridges" (OECD).

Capital flight from Liberia is quite acute averaging close to USD 1 billion a year and amounting to about USD 10 billion from 2004 to 2013 (Figure 3.16;). This level of outflows is half the country's GDP and could have been a source for USD 250 million in annual tax revenue, that is, about half the total revenue in 2015. When compared to other English speaking countries in West Africa, excluding Nigeria which is in a league by itself with an annual average of close USD 17 billion, Liberia is at levels twice that of its closest neighbors. It is also noteworthy that illicit flows spiked in all of these countries at the start of major production in natural resources, fueling the linkages.

In FY 2009, Ghana started oil production by a consortium led by UK-based Tullow Oil. It was projected to pump 55,000 barrels per day, increasing to 120,000 barrels in six months. BBC News reported that Ghana expected to earn $400m (£254m) in the first year[150]. Taking the oil price of $71.21 per barrel in that year and the recorded production, sales were at USD 2.3 billion and thus, the intake for the country was less than 18%. The standard practice is investors front-load depreciation and wish to have their money back by virtually taking first charge in revenues. How the investment is cost is major black hole for national governments with the requisite technical expertise to verify those costs.

In FY 2010, the Tonkilili iron ore mine in Sierra Leone started production. It is owned by African Minerals with Chinese interests and listed on London's Alternative Investment Market (AIM)[151]. London Mining was also quoted on the same market and operated in the country from the same year. Illicit flows from Ghana and Sierra Leone averaged annually at USD 401 million and USD 558 million respectively. Thus, the natural resource sector is the greatest source of illicit flows, as indeed, it is also this activity that can generate such quantum of liquidity.

Lack of technical expertise to manage the sector and weak tax laws leave gaps to be exploited by multinational companies. They shift activity to avoid taxation targeting locations with weak tax jurisdictions such as fragile states, thus further weakening the tax effort. The international community under the G20/OECD Base Erosion and Profit Shifting (BEPS) project are addressing these global concerns that also impact fragile states well-endowed with natural resources like Liberia.

The consequences of the IFFs are pervasive and inhibiting development of the affected countries. If these resources stayed in Liberia, the standard of living would have been about 50% more at US$ 774 instead of US$. 496[152]. The investment to GDP ratio would have reached 28.5% instead of 19%, increasing the capital stock with more roads, hospitals, schools, seaports and airport capacity, than at present. The revenue loss is shown to hit the Government by limiting the fiscal space to address major poverty concerns such as greater access to, and quality of, education and health services, undermining the desire to reduce under-five infant mortality, among other SDG goals[153].

The African Union (AU), in collaboration with the Economic Commission for Africa (ECA), diagnosed the IFF at the continental level. The findings of the so-called Mbeki Report on IFF are presented in Box 10". In the light of this analysis, it became clear that Africa was a net

150 BBC News website, 15 December, 2010

151 Mr Timis who owns the company is a Romanian-Australian who was previous convicted of dealing in heroine.

152 Estimate for 2017 from Liberia Article IV, 2016, IMF

153 Report of the High Level Panel on Illicit Financial Flows from Africa Commissioned by the AU/ECA Conference of Ministers of Finance, Planning and Economic Development, 2011 (Thabo Mbeki Report)

creditor to the rest of the world, even though, despite the inflow of ODA, the continent is continuing to suffer from a crisis of insufficient resources for development". However, untapped wealth in natural resources is abound in Africa and vastly below utilization, when one considers that in the Democratic Republic of Congo (DRC) alone the potential intake from mineral is estimated at US$ 24 trillion, more than the combined GDP of United States and European Union[154]. The strategies proposed for stemming this outward flow in the Liberian context take into cognizance the efforts at the regional level.

Multinationals and large scale traders (importers) engage in transfer pricing, mispricing on invoices and money laundering to move money out of a country. An illustration will help to expose the elements which can be involved in illicit flows to inform strategies to combat the practices. Money laundering and trade-based money laundering can work through anonymous companies which mask the ultimate beneficiary or real owner of a company. The true owners or people in control of the company are often known to no one in the outside world other than—possibly—a law firm or incorporation agent. Once created, anonymous shell companies do little or no actual business. However, they serve sources fake invoices and transfer pricing enabling tax avoidance and evasion.

3.5.5.1 Strategy Combating Capital flight/Illicit Flows

Improper transfer pricing by multinationals is an international problem that affects developed and developing nations alike. The main beneficiaries in terms of positive resource flows are the tax havens and the multinationals. While there are no solid figures measuring the size of the problem, the issue deserves serious attention from African governments and their development partners. The capacity of LRA LTD staff will be enhanced through local and foreign training and supported by Resident Advisors and OECD's Tax Inspectors Without Borders to enforce and audit multinational companies.

In unmasking Ultimate Beneficiary Owners (UBO), all companies should be required to disclose their ultimate, human, beneficial owner(s) when they are created, and this information should be listed in a central registry. Ideally, these registries should be freely available to the public, rather than just to law enforcement so that everyone has the ability to know with whom they are doing business. UK Government has promised to lead the world by establishing the first-ever public registry of beneficial ownership information for all UK companies. Legislation and implementation is currently pending. The European Parliament voted in March 2014 in favor of creating a similar registry for all EU companies and trusts, but further action by the EU Commission and European Council is pending.

Box 10: Main Findings of Mbeki Report on Illicit Financial Flows (IFFs)

- Illicit financial flows from Africa are large and increasing
- Ending illicit financial flows is a political issue
- Transparency is key across all aspects of illicit financial flows
- Commercial routes of illicit financial flows need closer monitoring
- The dependence of African countries on natural resources
- Extraction makes them vulnerable to illicit financial flows
- New and innovative means of generating illicit financial flows are emerging
- Tax incentives are not usually guided by cost-benefit analyses
- Corruption and abuse of entrusted power remains a continuing concern
- New and more efforts are needed in asset recovery and repatriation
- Money laundering continues to require attention
- Weak national and regional capacities impede efforts to curb
- Illicit financial flows
- Incomplete global architecture for tackling illicit financial flows
- Financial secrecy jurisdictions must come under closer scrutiny
- Development partners have an important role in curbing illicit
- Financial flows from Africa
- Illicit financial flow issues should be incorporated and better
- Coordinated across United Nations processes and frameworks

At the global level, eliminating 'secrecy jurisdictions' is a priority as they facilitate many more problems than just tax evasion. Automatic Exchange of Financial Information is one response whereby countries automatically exchange information on bank accounts, transactions, and financial flows with each other on a periodic basis, enabling law enforcement and tax authorities to follow up on any leads they may have.

The G20 nations declared in 2013 that automatic exchange is "the new global standard," and pledged to begin exchanging financial information automatically by the end of 2015. In 2014, every OECD member-state and a group of several other countries agreed to a multilateral automatic exchange of financial information. Multilateral system of automatic exchange should also serve the

154 Data source: Mining in Africa, a Legal Overview by DLA Piper, 2012

interests of the world's small economies like Liberia, but must also take into account the capacity of these countries to effectively utilize the data they would receive from this system. Technical assistance and capacity-building programs will be crucial to this effort, but developed countries should also consider exchanging information to developing countries without obligating them to return the favor, at least initially.

Multinational companies (or 'MNCs') use tax haven secrecy in slightly different ways then criminal tax evaders and money launderers. In general, MNCs use complicated corporate structures involving layers of tax haven entities and accounts to disguise or alter the character of their income in ways that (often legally) reduce their corporate tax bill, a process known as 'tax avoidance' (in contrast to 'tax evasion,' which is illegal). These strategies can be wildly successful for MNCs, bringing their tax bills down to zero or even triggering a tax refund from the government, while they enjoy massive profits.

Multinationals are always ahead of the curve, in the same way, illegal operators stay ahead of the law, continuous vigilance is the key. The laws also must constantly be reviewed to close loopholes in tax treaties and tax laws. However, it is suggested that a short cut to this maize of tax avoidance is to require multinationals to own up to their tax schemes.

In summary, eliminating anonymous shell companies and tackling trade mis-invoicing, will have the effect of making it more difficult to launder money. Make all felonies predicate offenses for money laundering, tax evasion to lead to money laundering charge. Countries should comply with all FATF standards and better enforce existing criminal laws. Bankers who knowingly commit crimes and allow bank accounts to be used to shelter criminal money should be held personally accountable.

Replacing Dual Currency Regime with Liberian Dollar as only National Legal Tender

The evidence suggests that capital flight is facilitated by having the US dollar as legal tender under Liberia's dual currency regime. It is reported that, given the porous and weak border controls, Liberia stands as a ready source of scarce foreign exchange for neighbors and traders far and near. A study by this Author, et al, on "Currency Options in Liberia: National, Dual and Dollarization", made such an assessment and quantified the national revenue loss emanating from use of the US dollar. To mitigate against capital flight and minimize seniorage loss, the country ought to embrace the conclusions of this study and maintain the Liberian dollar as the only legal tender.

3.5.6 Low Human and Institutional Capacity

The weakness in human capacity is a headline risk that affects effective performance in tax policy formulation and implementation. The LRA already has a 'Job Catalogue and Competency-Based Job Descriptions' currently being populated. However, the critical next steps include identifying training needs emanating from the competency gaps, aggregation and designing customized training programs to fill those gaps at the individual, divisional, departmental and institutional levels.

A multiple training approach is proposed for LRA staff. Basic academic qualifications, followed by professional certificates, post graduate for senior positions, short term courses, mentoring and in-house training by Resident Advisors, study visits, and exposure to international seminars, workshops and conferences. However, for all these capacity building efforts to bear fruit, it must have an impact on the job of individual staff, raising their productivity. For such an approach to be feasible, the following strategy is proposed.

Access to LRA services is concentrated in Montserrado County and sparse in the other fourteen counties. The headquarters of the LRA at ELWA is already inadequate for the institution's needs. The occupancy per square meter is quite high making mobility within offices quite inconvenient, the concentration and closeness of sitting positions is bordering on being unhygienic, few meeting rooms, training rooms are in adjacent properties, while the expense on rented office space is about three quarters of a million dollars a year. For a revenue authority which is a permanent feature of the government machinery, there would be net financial benefits in the long run to invest in a structure that meets the LRA's immediate requirements.

To promote wider access, stakeholders at the regional dialogues have consistently called for the presence of the LRA in the rural areas. The high transactions costs have been cited for - traveling to Monrovia to register a business, get a TIN and start paying taxes. The LRA is nested in GoL centers in many counties which are inadequate in terms physical space and standard, connectivity to the electric grid and water supply as well as preferred locations for tax purposes. Standalone housing facilities are therefore essential to make on good these shortcomings and facilitate digital connectivity by radio transmitters.

3.5.6.1 Strategy Human Capacity Building

Overall, the competences of staff will the up-scaled and supported by automation to raise productivity. The proposed e-Tax project will also slow down the rate of growth of staff recruitment and engender the redeployment of staff. Decelerating the rate of Staffing will bring down the wages and salaries bill in the medium to long term. On balance, the accent will be on staff training locally and abroad, reciprocal study visits and exchange programs with other RAs, workshops and seminars, and development of staff trainers for broad-based knowledge and skills required by the LRA. However, staff training must be evaluated based on cost/benefit analysis and sustainability of competences within the institution, inter alia.

The current training activities, the proposed e-Learning Center in the e-Tax project, and a training-for-trainers program under this DRM are the building blocks of the LRA Training Center. However, given the variety of knowledge, skills and significant costs involved in sustaining the requisite training for staff, a sub-regional approach through the West African Tax Forum (WATAF) should be embraced to establish a West African Tax Administration Institute (WATAI)[155]. This regional venture lower training costs and promote a community of practice among RAs in West Africa. WATAF has already picked this concept from this DRM and moving forward in collaboration with ECOWAS.

With the LRA, training needs would emanate from cascading from the corporate goals and objectives to individual staff terms of reference. From the strategic level, department plans are derived which in turn inform the divisional plans. At the divisional level, the sectional demarcations of AAA, Enforcement and Audit give boundaries to the competences required for the officers' positions. Terms of references are to be drawn for each office. The requisite competences are mapped and office holders are tested against basic requirements with variances drawn up as training requirements or to redeploy depending on the extent of the gap. A comprehensive and individual based capacity assessment should be conducted to ascertain the training needs of every individual officer, section, division, department and the LRA.

Given the pervasiveness of the capacity challenges, technical assistance would continue to complement and add value, in the foreseeable future, to efforts to build requisite competences at the LRA. Short term technical assistance will be targeted at critical skills gaps and longer term assistance as advisors to raise the knowledge and skills of staff during operational and policy paradigm shifts through customized training programs and mentoring. The organization needs streamline the management of technical assistance through an appropriate framework for monitory and evaluation as well as coordination of technical assistance. There should be appropriate processes for evaluating f on-going interventions and recording results and beneficiaries, to assess the effectiveness and sustainability of competences supported by technical assistance in the LRA.

This DRM can serve as a reference point for positioning and coordination of technical assistance. The current approach to technical assistance is on expressed need by the LRA that is catered for by donors. The DRM gives it a program context. It is proposed that traditional technical assistance sourced from the IMF, World Bank, AfDB, BSI, OECD, etc would continue however, with preference given to selecting experts with extended regional experiences. Furthermore, technical service providers in the private sector such as Tata and SGS, would be called upon for collaborative efforts aimed at filling human and institutional gaps.

3.5.6.2 Strategy Access to LRA Offices

The LRA would construct a state of the art customized and adequate headquarters, customs and rural offices to save on rent and usher in longer term efficiencies. A state of the art housing infrastructure would be constructed to support adequate office space and a digital network between the headquarters and TBOs in 14 counties and 11 Customs Border Offices. The former would have housing with standard specifications and the latter would also share a common standard. Given the scarcity of housing in many of these counties, adequate staff quarters would also be built in the rural areas and customs posts. Adequate services at the border posts are intended to answer to improving the country's trading across borders indicators consonant with preparedness for migration to CET and a rising cross border transactions.

155 See MSM Taxpayer Risk Compliance Management Program, FY2017 – FY2021, MS Foon

3.6 Enterprise Risk Management for effective Taxation

3.6.1 Introduction

Risk Management (RM) is currently a highly topical issue in academia and management studies and engenders a vibrant public debate. It is much sought after competence in modern organizational management. RAs have turned to risk management in order to allocate better scarce resources to achieve an optimum compliance strategy, one aimed at achieving the best long-term compliance for the resources employed. Without a systematic methodology to do this, resource allocation decisions are open to question and criticism and, for a revenue authority, potential tax revenue may be lost. RM as practiced by selected OECD countries goes beyond what obtains in the RAs such as Kenya and Malawi which have an ERM focus, to frameworks that integrate ERM and Taxpayer CRM. The international standards promoted by COSO, ISO, OECD and IMF and best practices of OECD RAs inform this LRA ERM Framework. ERM is a novel tool for African RAs that have it while CRM is yet to gain traction and thus, LRA lies at the forefront with a handful on the continent for instituting an integrated RM framework. The focus of this framework is on ERM and synergies with CRM will be highlighted to give a holistic picture of risks faced by the LRA.

Currently, the Large Tax Division (LTD), the Medium, Small and Micro Tax Division (MSMTD) and Customs Department have each separately articulated a CRM and the ERM Division also has a blueprint on enterprise risk management framework. The Enterprise Risk Management Framework (ERMF) consolidated these efforts while introducing new elements such as a different governance structure accompanied by critical reports that facilitate monitoring and evaluating risk, a Risk Dump, expanded risk assessment framework while recognizing the peculiar nature of taxpayer compliance risks in contradistinction to institutional or internal enterprise risks even as these two are merged and synergies maximized. The ERMF will be implemented as an adjunct for effective administration of the strategies proposed under the DRM.

The Liberia Revenue Authority Act was enacted in 2013 and the institution established on July 1 of the same year[156]. The primary objective of the Authority is "to administer and enforce the revenue laws in accordance with the Code (and other related laws under which it is assigned responsibility) for the purpose of assessing, collecting, auditing and accounting for all national revenues and to facilitate legitimate international trade and customs border management-enforcement"[157].

The LRA is semi-autonomous with a governance structure that consists of a Board of Directors at the apex responsible for overall management, strategic direction and policy formulation. The day-to-day running of the institution rests on the Commissioner General (CG)[158], supported by four other senior executives on two tiers namely, Deputy Commissioners General (DCG) for Technical Affairs (DCGTA) and Administrative Affairs (DCGAA) and Commissioners for Domestic Tax Department (CDTD) and Customs Department (CCD). The audit function is also under the direction of the Commissioner General[159].

3.6.2 LRA's Strategic Goals

The LRA's Corporate Strategic Plan FY 2016- – FY 2020 states its vision:

"To be a professional revenue administrator adhering to international standards and to serve as a model for revenue collection and service delivery" and the mission as: "To professionally, fairly, transparently and effectively collect lawful revenues and to facilitate legitimate trade and social protection for the people of Liberia". Its core values are Service, Commitment, Integrity and Teamwork.

156 Prior to this date, revenue collection was carried by a department under the Ministry of Finance and Economic Planning (MFEP).

157 "An Act to Establish the Revenue Authority of Liberia, Republic of Liberia, Approved September 13, 2013".

158 Mrs. Elfrieda Stewart Tamba is the current CG of LRA

159 Ibid, LRA Website

The LRA has four (4) goals and twelve (12) objectives:

LRA's Strategic Goals and Objectives

Goal 1: Administer Revenue legislation in an effective, fair and transparent manner

Objective 1.1: Generally attain the revenue targets

Objective 1.2: Increase effectiveness in the administration of tax (including real estate) and customs operations

Objective 1.3: Strengthen the legal and regulatory frameworks to maximize and facilitate revenue collection and legitimate trade

Objective 1.4: Increase domestic and international cooperation and partnerships

Goal 2: Maximize Voluntary Compliance

Objective 2.1: Enhance taxpayer knowledge of tax laws, their rights and obligations through effective outreach and accessible information

Objective 2.2: Diversity, expand and enhance service delivery and consistency in taxpayer treatment

Objective 2.3: Attain a high level of client confidence and trust through prompt, courteous, fair and professional treatment

Goal 3: Build an effective institution at all levels through excellence in leadership , accountability, technical and real infrastructure capacities

Objective 3.1: Introduce an effective Strategic Management System that will guide priorities, activities, and resource allocations over the planning period (5 years)

Objective 3.2: Adhere satisfactorily to local and international performance benchmarks

Objective 3.3: Own, upgrade and secure real infrastructure

Goal 4: Utilize effective Information and Communication Technology (ICT)

Objective 4.1: Deploy and operationalize modern revenue administration technology to improve compliance and effectiveness Objective 4.2: Deploy and operationalize essential enterprise management software and enhance internal support functions

3.6.3 Institutional Capacity Strengths and Weaknesses

The LRA is a nascent institution in existence on a semi-autonomous since 2013; it therefore, has the teething problems of all round low capacity endowments. On the TADAT revenues administration assessment the LRA's average score was a 'D', more due to unavailability of key capacities rather than poor performance. The state of institutional capacity is summarized by the strengths and weaknesses culled from the TADAT 2016 and the particular case of Medium, Small and Micro Taxes from the Author of this DRM is also presented. The central tenets of these institutional assessments dictate the choices of strategies proposed for institution building.

TADAT's LRA Summary Report highlighted institutional and operational weaknesses that include:

- Inaccurate and unreliable taxpayer registration database – the number of active and inactive taxpayers is uncertain
- Weak compliance risk management program
- Some critical enterprise risks are not adequately addressed
- Deficient taxpayer education function
- On-time filing and payment rates cannot be ascertained due to low reliability of taxpayer records
- On-time filing and payment rates cannot be ascertained due to low reliability of taxpayer records
- Risk-based audit case selection is decentralized and excludes cases outside headquarter Risk-based audit case selection is decentralized and excludes cases outside headquarter

The DTD have engaged a team that is cleaning up the SIGTAS database and work is progressing. All the other weaknesses identified a year ago by TADAT have been addressed in the DRM strategy, and the Enterprise Risk Management Framework focuses on the risk components. Filing and payments are answered by the e-Tax project.

3.6.4 Enterprise Risk Management Framework - Objectives and Policy

The ERMF has its own endemic objectives as to provide management and the Board with comfort that the risks confronting the LRA are being assessed and managed effectively; create an integrated risk management process that is both continuous and effective; and, ensure that the management of risk is integrated into the development of strategic and business plans, and the achievement of the LRA's vision and values.

The LRA will establish a platform that would record every known or suspected event and action that may stop it from achieving its objectives. This platform is an information and data base accessible by LRA staff and anyone from anywhere that has such information. It is proposed that a "Risk Dump" be introduced to allow anybody from anywhere to submit information regarding an event that could lead the LRA from achieving its objectives.

Those risks deemed significant for intervention will be transferred to an Enterprise Risk Register for analysis and treatment. The focus of risk management will be to assess significant risks and implement suitable risk responses, in order to achieve maximum sustainable value from all the activities of the organization. Risk management will enhance the understanding of the potential upside and downside of the factors that may affect the organization. It will increase the probability of success and reduce both the probability of failure and the level of uncertainty associated with achieving the objectives of the organization.

Risk management will be integrated into the culture of the LRA and this will include mandate, leadership and commitment from Senior Management and the Board. It will translate the risk strategy into tactical and operational objectives, and assign risk management responsibilities throughout the organization. It will support accountability, performance measurement and reward, thus promoting operational efficiency at all levels. Achieving a good risk awareness culture will be ensured by establishing an appropriate risk architecture, strategy and protocols. In addition, there will be continuous sensitization of all staff in Enterprise Risk Management (ERM. Promoting a risk awareness culture will be a responsibility for all leaders across all levels.

The risk management process will be presented as a list of coordinated activities. It will represent the 7rs and 4ts of (hazard) risk management:recognition or identification of risks; ranking or evaluation of risks; responding to significant risks (tolerate, treat, transfer, terminate); resourcing controls; reaction planning; reporting and monitoring risk performance; and, reviewing the risk management framework/

Recognition and ranking of risks together will form the risk assessment activity. ISO 31000 uses the phrase 'risk treatment' to include all of the 4ts included under the heading 'risk response'. The scope of risk responses available for hazard risks will include the options of tolerate, treat, transfer or terminate the risk or the activity that may give rise to the risk. The risk management process will be an integral part of management, embedded in

Summary of ERM Responsibilities

The Board's

- Encourages management to foster an open culture of risk awareness and the development and monitoring of processes that enhance the management of risk;
- Expects management to effectively integrate consideration and management of risk into existing decision frameworks and complementary processes and systems including audit, enterprise-wide and taxpayer compliance, business continuity management, disaster recovery and crisis management, insurable risk management and strategic planning;

  -The Board will review the Risk Management Policy Statement annually.

  -Determine strategic approach to risk and set risk appetite.
- Mandate the structure for risk management.
- Understand the most significant risks.
- Manage the organization in a crisis.

Commissioner General's

- Chief sponsor of Enterprise Risk Management.

Senior Management's (Enterprise Risk Management Steering Committee)

- Own Enterprise Risk Management

Heads of Department

- Embed ERM across the respective business functions.

Departmental Risk Managers/Team Leaders

- Build risk awareness culture within their business functions.
- Agree risk management performance targets
- Ensure implementation of risk improvement recommendations.
- Identify and report changed circumstances/risks.
- Monitor and review periodic risk registers.

Individual staff:

- Understand, accept and implement the Risk Management process.
- Report inefficient, unnecessary or unworkable controls.
- Report loss events and near miss incidents.
- Co-operate with management on incident investigations.
- Monitor and review periodic risk registers.

Strategic Risk Manager (AC-ERMCD):

- Develop the risk management policy and keep it up to date.
- Document the internal risk policies and structures.
- Co-ordinate the risk management [and internal control] activities.
- Compile risk information and prepare reports for the Board.

Specialist risk management functions:

- Work closely with the Strategic Risk Manager [SRM] in strengthening the risk awareness culture.
- Develop specialist contingency and recovery plans.
- Keep up to date with developments in the specialist area.
- Support investigations of incidents and near misses.

Internal Audit:

- Develop a risk-based internal audit program.
- Audit the risk management process across the organization.
- Receive and provide assurance on the management of risk.
- Report on the efficiency and effectiveness of internal controls.

the culture and practices, and tailored to the business processes of the LRA.

- The LRA risk management will be shaped by the Risk Management Policy:
- Risk management and internal control objectives [governance].
- Statement of the attitude of the organization to risk [risk strategy].
- Description of the risk awareness culture or control environment.
- Level and nature of risk that is acceptable [risk appetite].
- Risk management organization and arrangements [risk architecture].
- Details of procedures for risk recognition and ranking [risk assessment].
- List of documentation for analyzing and reporting risk [risk protocols].
- Risk mitigation requirements and control mechanisms [risk response].

The Annual LRA Risk Management Policy Statement Constitutes a practice statement for risk management. It focuses on issues, events and actions that compromise desirable taxation outcomes or public confidence in the fair and effective administration of taxation by the LRA. The Commissioner General and the Board will pronounce an Annual LRA Risk Management Policy Statement and every employee will work towards treating or manage risks in order to enable the LRA to reach a higher risk maturity.

The ERM will be pursued by adhering to the ERM Responsibilities below:

3.6.4.1 Strategies ERM Objectives and Policy Implementation

A critical element for implementing the DRM is a full implementation of a Risk compliant management framework as detailed by the DRMF. The drivers of implementation are an Annual Risk Policy Management Statement by the Board, the establishment of the Risk Management Committees, Enterprise Risk Management Division, ToRs of staff amended to take into account risk management responsibilities, risk dump (accessible electronically, via social media, mobile and telephony) and risk register (accessible to all Risk Managers and Risk Owners through LRA's intranet).

3.6.4.2 Strategies Tax Administration Policies

Overall, there is a dearth of tax administration policies guiding day-to-day administration. Generally, Board papers and guidelines do exist on many aspects of the LRA's operations however, documented policy papers accessible to Management and staff guiding practice need to be enhanced. In this regard, the following Policy Package for Tax Administration is proposed: Tax Administration Digitalization Policy; Policy framework for Tax Collection on Mobile Platforms; Compliance Risk Management Policy; Tax Refund Policy; Bad Debt and Management Policy; Business Information and Management Policy; Business Process Management Policy; Cash Collection Policy; Communication Policy; Prosecution Policy; Fleet Management Policy; Debt Collection Policy; Security Policy; Staff Policy; Staff Medical Cover Policy; Staff Technical Support Policy; Insurance Policy; Sports Policy; Information Technology Policy; Staff and Non-Staff Policy; Staff Bonus Policy; and, Staff Recognition and Reward Policy.

4.0 Part II: Mobilization of Private Resources

The financial sub-sector defined by banking and insurance services is already a tax premium sub-sector in Liberia, yielding in revenues a big bang for a dollar spent on tax administration (Table 3.8). Like the ICT sub-sector, technological change is behind the innovations in products and efficiencies registered in the performance of sub-sector. The short-term strategies are to have taxpayers in the sub-sector on LRA's e-Tax platform for greater effectiveness and efficiency of tax collection and enhance the capacity of its staff for strengthened enforcement particularly, auditing on IT systems. The middle to long term strategies address structural issues in the sector and call for the introduction of markets, institutions and instruments for more savings and taxes.

Liberia's gross domestic savings stood at -58.8% of GDP in 2016 (Figure 2.1). This level of dissaving highlights multiple challenges including low income levels, pervasive poverty, savings leakages, shallow financial markets and instruments, weak savings promotion policies and limited monetary management instruments. Therefore, apart the efficiency and effectiveness of taxation and turning tax discount into tax premium sectors intended to derive public savings, financial deepening for private savings mobilization also leaves significant room for further development[160].The result is limited access to lending which, according to Liberia's Doing Business index, is a key obstacle to the development of the private sector for the creation enterprises and jobs, essential for sustainable taxes. While over the years financial inclusion was aided by increasing access to deposit and credit institutions, the money market remains quite narrow and inactive, and a capital market is almost non-existent.

160 Liberia: Selected Issues,IMF, Anne Oeking, Atsushi Oshima, and Rodgers Chawani, 2016

4.1 Money Market

The banking and financial sector is mainly dominated by the Central Bank of Liberia (CBL), commercial banks, non-bank financial institutions, foreign exchange bureau, insurance companies, micro-finance institutions and mobile money transfer services. The nine (9) commercial banks are mainly an urban fixture catering to businesses in and around Monrovia mainly in the services sector. These are foreign-owned except three with local participation, of which, one is owned by GoL.

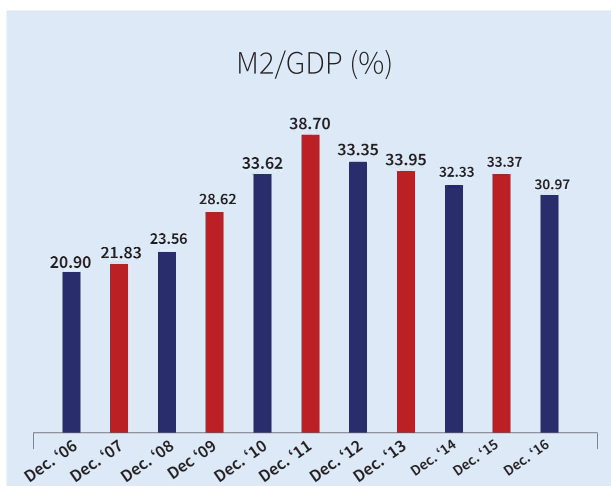
Recently, access to financial services is being improved by bank branches networks,including windows and annexes, across the country. There are ninety-three (93) branches covering eleven (11) of the fifteen (15) counties, while 57 or 61.3 percent are located in (Monrovia) Montserrado County. The CBL, in partnership with Afriland First Bank, supported the establishment of eleven (11)Rural Community Finance Institutions (RCFIs) operating in eight (8) counties. The RCFIs have a client base of 8,029 and involved in the payment of civil servants' salaries and limited salary-based overdrafts. These non-banks are providing expanding money remittance services within the communities. As at the end-2016, their total deposit liabilities amounted to L$96.7million with a loan portfolio of L$6.2million. Furthermore, the country has sixteen (16) micro-finance institutions (MFIs) that consist of credit unions, village savings and loans associations which provide short-term loans (2–3 months) for micro businesses or personal loans. They normally consist of 25–30 members, mostly women.

Financial deepening in Liberia has shown a steady growth in the last decade while decelerating in the second halve of the period to 2016. As measured by M2 as a proportion of GDP (Figure 4.1), it almost doubled between 2006 and 2011 to 38.7% of GDP, but dropped subsequently by almost 8 percentage points to 31% by 2016. Quasi money moved in tandem and as a proportion GDP more than doubled from 4.7% to 9.8% of GDP. On average, Liberia's performance is more than the ECOWAS average[161].

Liberia's economic growth during this period was mainly driven by higher output in the natural resource sector dominated by foreign concession companies which obtain their working capital requirements from external money markets at lower interest rates. The enterprises have relatively smaller local currency expenses that include payments of wages of local employees and contractors which are satisfied by the local financial system. Therefore, the GDP growth was not accompanied by increases in bank credit to the private sector which has remained below 1% of GDP until 2016 (Figure 4.2).

The cost of borrowing, that is, high interest rates, may have positive effects on the allocation of scarce savings to investments with commensurately high returns. In this regard, it skews funds in favor sectors such as retail trade away from more employment friendly sectors like agriculture. Commercial bank lending interest rates are kept high by the basic cost of funds which take into account the deposit rates, the level of required reserves that earn no interest, the provisions for bad and doubtful debts and mark-up by the bank. While deposit rates are low at 2%, reducing the interest rate spread requires bringing down all the other contributory factors. While banking sector competition can bring down the mark up, the others also require either a review of CBL monetary policy instruments or the behavior of borrowers in credit markets and supporting legal instruments for debt collection, among other considerations.

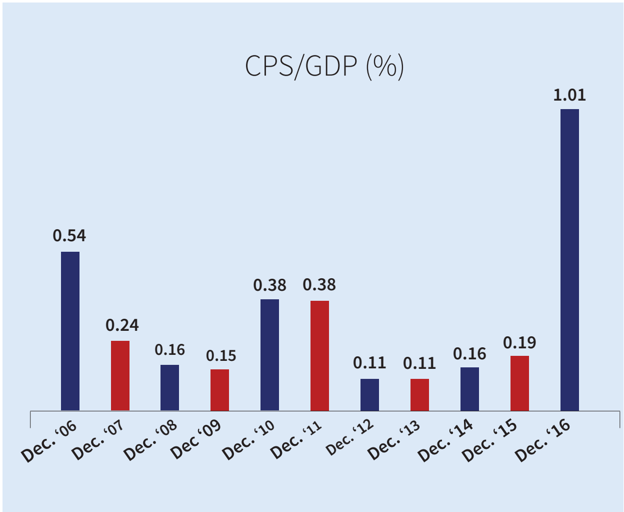
Figure 4.1: Broad Money Supply as a Proportion of GDP



Source: CBL, Author's calculations

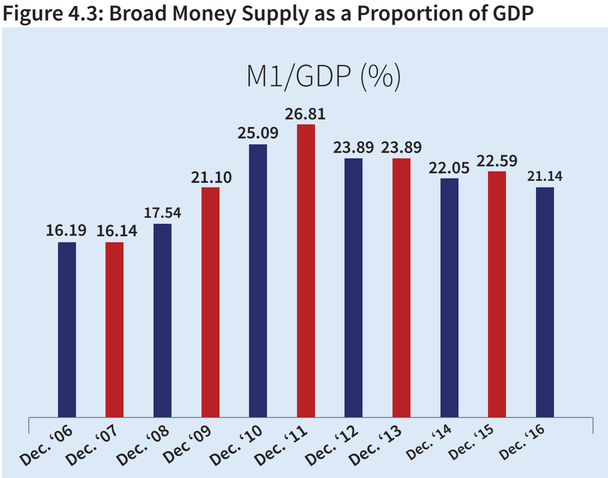
161 Liberia: Selected Issues, IMF, Anne Oeking, Atsushi Oshima, and Rodgers Chawani, 2016

Figure 4.2: Credit to the Private Sector as a Proportion of GDP



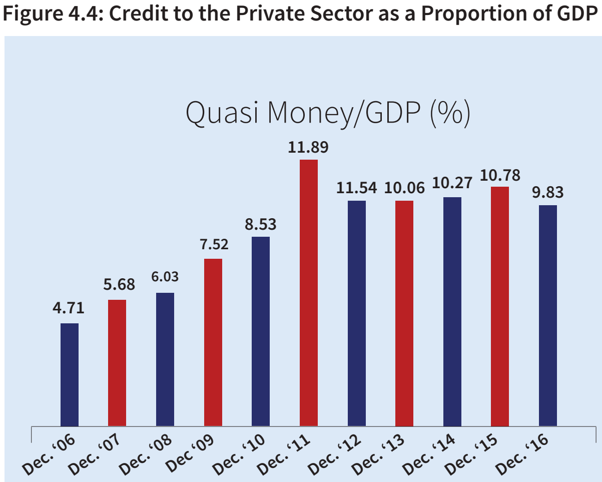
Source: CBL, Author's calculations

Figure 4.3: Broad Money Supply as a Proportion of GDP



Source: CBL, Author's calculations

Figure 4.4: Credit to the Private Sector as a Proportion of GDP



Source: CBL, Author's calculations

In 2015, the CBL published a nation-wide survey regarding financial access and in the following year elaborated the Financial Sector Development Implementation Plan (FSDIP) with technical assistance of the World Bank Group under the Financial Institutions Reform and Strengthening (FIRST) Trust Fund Initiative. It is aimed at upgrading banking, insurance, digital finance, financial inclusion, access to finance, social security, credit information and payment systems and anti-money-laundering.

Strategies to enhance private savings integrally connected to lack of credit in Liberia are the high interest-rate spread between deposit and lending rates. In Liberia interest rate spread averages 13.4 percentage points. The high spread in most countries including Liberia indicates that loans are relatively expensive, particularly for long-term private investment. Such high spreads imply that commercial banks can make hefty profit rates on the loans they disburse but their volumes are still too low to make large profits. But in Liberia since the amounts the banks lend are far less than the available financial resources, they don't make much profit from lending. Instead they make profits from imposing multiple charges on their customers.

4.1.1.1 Strategies Access and financial inclusion

- Expand the institutions and instruments in the Liberian money market by enacting enabling banking legislation for establishment of Off-Shore banks and Sharia banks to promote financial inclusion of the minority Muslim Community that are adept to recourse to non-financial savings such as cattle and real estate;
- Establish inter-bank markets for overnight liquidity, foreign exchange, T-bills and T-bonds;
- Establish a credit reference bureau to protect lenders;
- Introduce a deposit guarantee scheme to make savings deposits more attractive;
- Establish a new collateral registry;
- Strengthen the judicial process and establish a Commercial Court; and,
- Increase public financial literacy
- Implementation of this strategy will require cooperation between the GoL, CBL and commercial banks.

4.1.1 Remittances

Remittances provide development financing by contributing to poverty reduction at the family level and harnessed for national purposes, such as investment in infrastructure, education and health. Remittances refer to transfers, without a quid pro quo, sent by a migrant worker back home[162]. Since remittances are sourced from savings of residents who have family ties to Liberia, extending DRM to rope in these flows is within reach.

The evidence suggests that remittances from unskilled workers tend to reduce poverty in recipient countries with positive effects on inequality, while remittances from skilled workers tend to exacerbate income divides (Portes, 2009; Wilson, 2012).In terms of the former, these financial inflows are now a vital part of the social safety net, cushioning millions of families across the globe and keeping them from falling into a financial abyss, lifting them from falling into extreme poverty. By 2009, remittances to developing countries at over $300 billion dwarfed official development assistance ($120 billion) and portfolio investment ($85 billion) and competing with foreign direct investment ($359 billion)[163]. The estimated amount sent around the world declined by 2% to USD 582 billion in 2015 from $592 billion in 2014[164]. This is the second drop following the USD 28 billion drop during the global financial crisis in 2009. However, the 2015 level is still double what it was a year earlier.

The number of migrants has increased significantly in the whole world fueling the growth in remittances. The number of migrants rose to an estimated 244 million in 2015 from 232 million in 2013, that is, a 5%increase or by 12 million, characterized by the latest surges to Europe (total immigrants is 76 million), US (75 million), and Asia (75 million) (UNDESA 2015). In Sub-Saharan Africa, the growth rate of remittance flows to the region is projected to rise by 3.3 and 3.7 % in 2016 and 2017 respectively (World Bank, 2015). Remittances to Liberia actually rose by 78.3 % between 2011 and 2016 to USD 642 million and by 15.7% on average annually during the same period (Figure 4.5).

Liberia has close historical, kinship, diplomatic and economic ties with the USA and it showed in annual ODA including military support services during the EVD Crises. US disbursed aid to Liberia in 2017 was USD 1.22 million, a substantial decrease from the USD 177 million in 2016 driven by the US Army presence involved in the fight against the EVD. That year's level of aid is even higher than the average USD 685,200 granted to all Sub-Saharan Africa countries and the World average of USD 549,738. The Liberians living in the United States is estimated at 80,000[165]. However, remittances to Liberia have grown exponentially reaching USD 505.7 million or 25% of GDP in 2014 (Figure 4.5). Per capita remittances in the same year was USD 112 but stood below, at 57-% of per capita ODA. Flows into Liberia were substantially more than current transfers into other WAMZ countries (Annex Table 2).

Challenges

The remittances figures are estimates because more precise figures are hard to come by as many countries do not track funds sent or received. Secondly, the migrant population includes so-called 'illegals' who also have jobs and make remittances but their status makes them shy away from official surveys. Thus, there are statistical issues which must be contended within the available data. For example, there is a break in Liberian data series which shows an increase from USD 1.0 million in 2011 to USD 471.1 million in 2012. This is due to a significant improvement in the data collection methodology but it presents statistical constraints to time series analysis[166].

The price of sending remittances is still quite high, even though service providers for sending and receiving money have increased. The reasons for high prices include underdeveloped financial infrastructure in some countries; limited competition; regulatory obstacles; lack of access to the banking sector by remittance senders and/or receivers; and difficulties for migrants to obtain the necessary identification documentation to enter the financial mainstream. The dominant single factor causing high prices is a lack of transparency in the market[167].The G8 in 2009, followed by the G20 in 2011, pledged to reduce the global average costs of transferring remittances from 10% to 5% by 2014.The World Bank estimated that this cut in prices would enable about USD 16 billion per year more remittances to reach recipients in developing countries. In this regard, the OECD also recorded that its members spent more than USD 400 million on this effort to bring down prices between 2006 and 2011 through building statistical capacity and awareness campaigns[168].

Liberia experiences a phenomenon of outflows in

162 World Bank: World Wide Remittances, http://remittanceprices.worldbank.org/en/about-remittance-prices-worldwide

163 World Bank data

164 World Bank data

165 Source: The Senate of the United States: RESOLUTION Reaffirming the United States-Liberia partnership, and calling for free, fair, and peaceful elections in Liberia in October 2017.

166 Also, one may find that the total incoming or outgoing remittances for some countries may not be the same as actual remittances due estimation variances.

167 World Bank: Remittances Worldwide – Making Markets more Transparent

168 OECD: Fragile States 2014, Revenue Mobilization in Fragile States

remittances that surpasses all African countries including her neighbors (Figure 4.6). Outflows from Ghana and Nigeria have always been negligible while it is modest in The Gambia but significant in Guinea and Sierra Leone just it is much larger in Liberia. These outflows are neither on account of the EVD nor UNMIL related in Liberia, albeit the Manor River Union countries (Liberia, Guinea and Sierra Leone) were hardest hit by the EVD pandemic. However, the first case appeared in Guinea in March 2014 while remittance outflows peaked a year earlier in all countries. The bulk of UNMIL's payments to non-resident personnel are via bank accounts held abroad and what they retain in Liberia is mostly towards local expenses (rent, consumption, etc.). Furthermore, the size of the UNMIL intervention in Liberia does not exist in Guinea and Sierra Leone where the experiences with outward flows are similar.

A more likely factor that the three countries share, which empirics support, is artisanal miners in gold and diamond who are able to sell to brokers who in turn sell to licensed buyers, dealers, 'wholesalers', operating locally permitting the residents and non-residents involved in this chain to remit their proceeds. It is argued that the wholesalers are funded by inflows from abroad and so it should be a wash. On the remittances account, the inward and outward have indeed, not canceled each other out. Thus, it is probably that the inflows come via company accounts, unofficially, or raised locally.

A second explanation for the large scale remittances which is uniquely Liberian, relates to nationals working in the country remitting part of their income to family, mostly in the USA. It is usual for nationals of a developing country to support family members attending university in a developed country but to have the practice of relocating one's entire family to an advanced economy at the scale found here exists nowhere else in Africa. The predominant view argues that it a result of two episodes of civil war which lasted for 11 years and preferential treatment granted to Liberians by the US Government immigration services[169]. The level of remittance outflows reached a peak in 2012 at USD 471.1 million and averaged annually USD 378.8 million since then to 2015. Net remittance flows registered a negative USD 50.1 million in 2013, this has happened nowhere else. This state of affairs runs counter to the expectations of remittances serving as a bone fide source of development financing which has overtaken ODA in many developing countries but not in Liberia.

169 First civil war 1989 to 1996 and second from 1999 to 2003.

Figure 4.5: Remittances (USD Million)

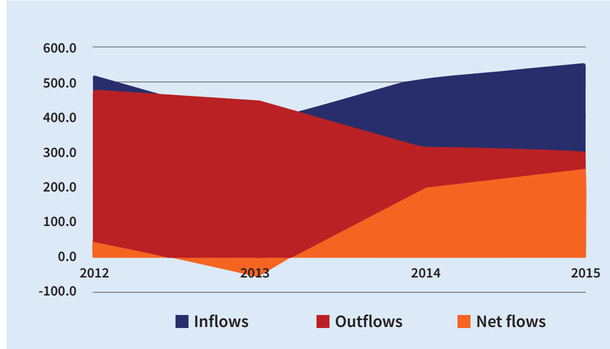
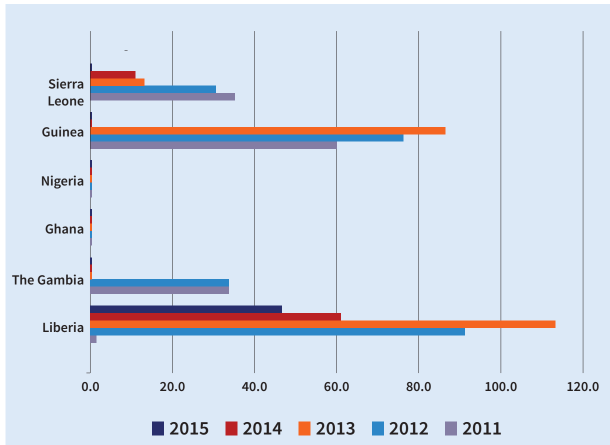


Figure 4.6:Mobile Cellular Subscriptions (per 100 people)



Data Source:World Bank Data

4.1.1.1 Strategies Taxing and Capping Remittance Outflows

If not mitigated against, remittance outflows can deny Liberia the net inflows that impact positively on poverty reduction and development plan financing. The aim is to i) tax each outward transaction on transfers by GST; ii) cap outflows to slow down the rate in order to effect net positive inflows to increase national savings; iii) pitching a cap at a level to allow reasonable movements for those with family members schooling abroad; and, iv) establish a Precious Metal Marketing Corporation (PMMC) to buy gold and diamond from miners, negotiate and auction same with international buyers.

Since Liberia is a signatory to Article 8 of the International Monetary Fund's (IMF's) Articles of Agreement on relaxing restrictions to the movement of capital, these flows cannot be stopped by fiat.

I. Taxing remittance outflows with GST at 10 % for residents and 15 % for non-residents is already in place. Although, it is reported that these tax proceeds withheld by the banks from clients is not being enforced or collected. This lapse must be corrected as it constitutes an unwarranted revenue loss. A specific audit should be conducted on service taxes withheld by banks. Also, it must be reiterated that remittance inflows should not be taxed to encourage senders and receivers to use formal avenues of transferring and to reduce the transaction costs that detract from the amounts received by particularly, the vulnerable households in rural areas.

II. Countries in Asia with strong capital controls in the past and have since liberalized, do have caps on remittance outflows. India imposed a limit of USD 75,000 per individual per financial year and Thailand at USD 50,000. For Liberia, the proposal is a cap of USD 50,000 per individual per financial year for remittance outflows. This measure will essentially slow down the traffic but not quite stop it. It requires a centralized data base at the Central Bank of Liberia (CBL) reported to by all financial institutions that do remittances. The concept is quite similar to a Credit Bureau which also requires a central data base. The recording is much simplified and done in real time with a wider area computerized network between CBL and reporting agencies. Of course, this automated connection is also useful for all other purposes with CBL.

III. A cap at this level accommodates those with reasonable family needs to cater for and hinders somewhat those in it for capital flight.

4.1.2 Remittances and financial inclusion

Remittance flows provide an opportunity for financial inclusion of recipients in the rural areas and women headed household left out of the traditional financial system who can be included with cheaper access that does not require a banking presence. Having an account at a financial institution is dominated by men over women at 23 and 14.7 % respectively. It also remains a preserve for the rich with 26 of the top 60% being account holders while only 7.8 of the poorest 40% do have accounts (Table 4.1).

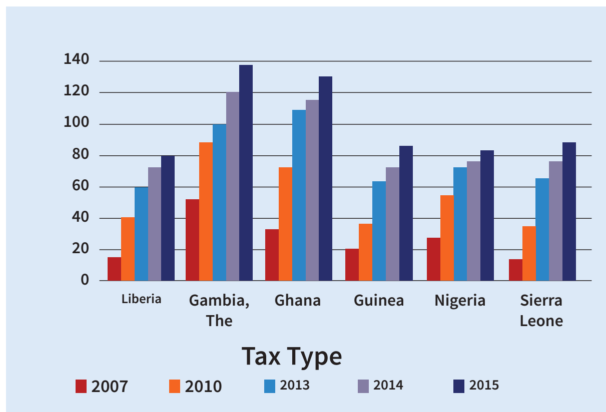
With 74% and 92% of these two income brackets being unbanked, joining the masses of an estimated 2 billion around the world who are have no bank accounts, cost effective innovative solutions are required to give them access to financial services. Otherwise, they resort to expensive and riskier informal markets that elude the pool of national savings which can be leveraged for development financing. To facilitate remittances as a veritable avenue for poverty reduction the strategy must target women and the poor making it so that they benefit from cheaper access. Towards this end, the tools and avenues proposed are local mobile money transfer services and a country-wide postal system that does money transfers.

Table 4.1: Account at a financial institution (% age 15+) *(as of 2011)*

Total	***18.8***
Female	14.7
Male	23.0
Income, poorest 40%	7.8
Income, richest 60%	26.0

Source:World Bank Data

Figure 4.7: Mobile Subscriptions (per 100 people)



Source:World Bank Data

4.1.2.1 Strategies Taxing Mobile Money Transfer Services

Electronic payment services like Mobile Money help reduce these risks by providing a safe and simple way of storing, sending and receiving money. A digital record of every transaction is kept, making it easier to track the movement of money, resulting in less corruption and theft as well as providing a platform quite amenable to taxation. It is an electronic wallet service, available in many countries, that lets users store, send and receive money using their mobile phone. It is uncomplicated and as simple as sending a text message which is the main reason behind its gaining popularity. It only requires a cell phone for the user and a mobile money transfer service provider.

The World Bank emphasized that electronic payments such as international and domestic remittances are vital to economic growth in developing countries[170]. Its impact is now felt in commerce, agriculture, education and health care[171]. Mobile Money users can receive international money transfers from family and friends by using global services such as World Remit which has its variant in national markets.

The leader in Africa in mobile financial services is Kenya where USD 23 billion was moved via 733 million transactions and the largest mobile operator Safaricom, has 20 million mobile money users. In that country, every sector has been touched by the service notably, Agriculture, where the bulk of population and poorest on subsistence and female headed households reside. The extent of its reach is essentially where mobile money can have the greatest impact on financial inclusion and development while reducing overall transactions costs on moving money for those who have been left out of the traditional financial system. Mobile money is growing and well under its full potential in moving money in countries. The country should build requisite infrastructure, the regulatory framework and encourage private enterprise to compete. Monopolies, a market with one or two players, which would deny competitive pricing should be avoided.

While cell phone subscriptions per 100 people in Liberia increased by almost 60% between 2007 and 2010, it has remained half that growth on an average annual basis since then to 2015. By comparison, Ghana and The Gambia have reached more than 100 subscriptions per 100 people in 2013, while Liberia was still at 80 subscriptions two years later (Figure 4.7). Nationally, 49% belong to vulnerable households and 60.3% of whom are rural dwellers. Of the latter, 15.7 per cent receive transfers, that is, about 200,000 of the poorest Liberians, who constitute the current rural market of mobile money transfer services. The growth of this market is in turn dependent on income and subscriptions to mobile phones.

The development dividends are behind much of the arguments against taxing mobile money. While taxing the entire telecommunications sector is discussed below, here the focus is on mobile money. In January 2014 Zimbabwe announced a tax of USD 0.05 on each mobile money transaction, while Uganda imposed a 10% tax on cash transfers by mobile phones and other money transfer operators. Researchers suggest that the global transfer market can rise to 400 million mobile phone owners using it to transfer money by 2018 but the contention is also that the taxes introduced in sub-Saharan Africa can dampen such a growth on the continent.

For now, in Liberia, any tax on mobile money transfers per transaction would proportionately impact on the rural vulnerable households that need the transfers most. Indeed, mobile money operators would pass on any excise tax to the consumer in the form of higher tariffs. Therefore, a corporate income tax (CIT) of 25% is proposed on the mobile money transfer operators and no tax per transaction but rather a turnover tax of 2%. This would be reviewed as the services turn to cater to higher income clients in commerce. Since CIT is on the basis of the enterprise's profit and loss account, it can act a basis for competition among the operators as they react to it differently while the reaction to transaction tax would invariably prompt a tariff applied by all. Secondly, given the reach and efficiency for moving money by mobile phones, the platforms provide an opportunity to be used as a vehicle for paying taxes.

Also, the foregoing focus on mobile money does not preclude improving financial inclusion by increasing access to traditional financial services such as banks, saving banks, credit unions and microfinance institutions throughout the country with regard to savings and credit, particularly the rural areas. It should be noted that the lower overheads which makes mobile money cheaper is also attractive to banks and ECOBANK is already closing branches and embracing the e-platforms for satisfying clients at lower cost[172]. This is a central theme taken up in Part II of this DRM on financial deepening and increasing the saving ratio.

4.1.3.1 Strategy Matching Remittance on Project Financing

Individuals and groups in the Diaspora have taken it upon themselves to initiate and fund community projects in a number of African countries. The aim is to encourage these flows and investments in communities by the Government of Liberia matching the funds put in by the Diaspora. This should be approached from a public-private partnership (PPP) paradigm adapting existing standard to accommodate such projects. The PPP Unit at the MFED would act as the focal point for such inflows. Appropriate guidelines would be set in terms of eligibility, location, shareholding and other standards such as preferred community projects (OECD 2009).

4.1.4.1 Strategy Post Office System for Cheaper Transfers

170 Remittances World Wide, World Bank

171 Ibid

172 Announcement by current CEO of ECOBANK, Mr. Nigeria, 2017.

The Post Office has for a long time provided saving services and a conduit for sending and receiving letters. A county-wide network places it in a strategic position to join the money transfer business. Since the traditional Post Office takes a social service model, turning a profit is not the primary consideration. However, there has been a change in the paradigm and budget hawk policy makers expect post offices to at least break even in operations, and this has led to cost recovery considerations. Notwithstanding, the Post Office system can enable greater penetration into rural areas for money transfer services and be a conduit for payment of taxes.

4.2 Capital Markets

A capital market is the missing element in the financial infrastructure for savings mobilization in Liberia. Immediately, there is need to build on the available T/Bills market by introducing a secondary market for, among others, use by the CBL in monetary management through repurchase obligations instead of new issues that drive up the outstanding domestic debt stock and attendant costs on the fiscal budget. Particular care must be taken to ensure that the domestic debt does not grow to mass whereby the rollovers become the main driver of increases in the stock.

It is critical for national savings mobilization for Liberia to develop a capital market with three roles consistent with this DRM: to mobilize private savings for investment in private enterprise by providing equity and long term bond financing which are not being obtained from the money market which has a concentration of short term funds; provide an opportunity for foreign direct and portfolio investment in Liberian companies, although the World Bank cautions that foreign participation should follow a bit of maturity; and, a platform for opening up the equity of all companies in Liberia's natural resource sector by requiring them to be quoted on the exchange and offloading up to 25% of their share capital as market liquidity allows; and, an exit for venture capital company and funds as well as Diaspora bond holdings.

The CBL has taken head start with support from the World Bank technical assistance in the form of a capital markets development project for Liberia to develop a strategy and an appropriate legal and regulatory framework. The assessment the World bank did involve, the current opportunities for financing various enterprises through the use of capital markets in Liberia; the current stage of development of capital markets infrastructure in Liberia; the type of capital markets infrastructure and services that will enhance the opportunities for financing various enterprises in Liberia in the short, medium, and long term; and, the necessary steps to take in order enhance those market infrastructure and financing opportunities in Liberia.

The recommendation for a fully functioning capital market for Liberia to be a medium-term objective, built on three important pillars: (i) A substantial base of issuers, including the GoL who can gain the trust of investors, (ii) investor base sophisticated to be able to assess value and thus gain reasonable returns and (iii) a strong regulatory framework backed by robust laws to ensure investor confidence in the capital markets. The GoL, according to the study, believes that establishing a successful bond market to issue short and medium-term T-bills is a key element in a future capital market. In addition, the sale of SOEs would also assist in the development of the issuer base once accounting and other international standards are introduced. Other initiatives to encourage expansion of the issuer base include engaging Venture capital funds, improve access to finance, and reduce onerous business regulations.

The GoL's objective to ensure an investor based would be based on three main planks: (i) educating ordinary investors; (ii) encouraging a cadre of professional investors; and (iii) facilitating the development of institutional investors. However, investor education would be long-term, so there are insufficient protections, and should be undertaken in school and higher educational institutions. For the medium term, institutional investors must be relied upon such as the national pension fund NASSCORP.

The GoL is also planning to pass the securities markets law, which will provide the CBL authority to regulate capital markets, in line with international best standards. It is also necessary to enact the insolvency legislation and Trust Act, and also review the Associations Act to ensure it is in line with the Securities Market Act. Other laws such as the Freedom of Information Act are to be reviewed accordingly.

Overall, the recommendation is for the GoL to "defer creation of a domestic stock exchange, with a clearing and settlement system, to avoid the unnecessary cost of such infrastructure until the market develops to the point where formal stock market is necessary".

The Authors recommended Liberian Authorities to negotiate an arrangement with an ECOWAS exchange, similar to other regional exchanges such as EAC and BVRM. The authors also provided a roadmap to establishing capital markets in Liberia: (i) For the immediate term to keep retail and foreign investors out of the securities and bond market, and only allow access to institutional investors in a Liberian focus regional exchange. (ii) Government to begin in earnest to issue medium-term maturity bonds, with sufficient development trading of these bonds, these investors would be encouraged to further engage in the securities market through regional exchanges (Nigeria/ Ghana Exchanges), adhering to regulations of these markets and this could be done vice-versa, restricting to only foreign institutional investors, under the supervision of the CBL, under the Securities Act. (iii) Introduction of retail investors, but only to purchase collective investment schemes, albeit these would be potentially available to foreign retail investors, as the domestic market maybe insufficient. Selling SOEs would be a good initial impetus for retail buyers, but there would still be substantial risks associated with these firms (perhaps initial caution to restrict to institutional buyers). (iv) Final Stage I – establish "domestic exchanges and clearing systems and domestic collective investment schemes would be licensed if they met the CBL's requirements. Any company could issue securities to the public if it met the disclosure and prospectus requirements and all intermediaries could offer services to retail investors" (P. 38).

This DRM proposes interventions under (ii) and (iii) above, with the introduction of Diaspora Bonds targeting Liberians abroad and Treasury Certificates for subscription by small savers using mobile phones.

4.2.1 Diaspora bonds

Diaspora bonds are targeted at skilled migrants in the diaspora to pool the flows for financing specific highly visible projects in the national development plan. "A Diaspora bond is a debt instrument issued by a country – or potentially, a sub-sovereign entity or a private corporation – to raise financing from its overseas Diaspora"[173]. These are debt instruments that target savings of country men and women in the Diaspora and have been in existence for a long time issued by China and Japan in the 1930's, Israel and India in 1950's that raised $32 billion and $11.3 billion respectively, while Ethiopia, Kenya and Nigeria are in the pipeline.

Countries have varying rationale for floating Diaspora bonds, from seeking to keep the Diaspora engaged in national affairs by Israel, to balance of payments support by India[174] and to financing infrastructure by the latest African countries on the verge of entering the market. It is proposed for Liberia to fund physical infrastructure, roads, power generation plants, building of schools and hospitals in the rural areas. The strategy involves selecting physical infrastructural projects that stand out and can be easily showcased to the Diaspora as their contribution to national development.

4.2.1.1 Strategy Diaspora Bonds

GoL issue Diaspora bonds targeting Liberians in the United States. EU and elsewhere with the following characteristics:

- Provides access to capital other than ODA, foreign direct investment and loans.
- It contributes to mitigating development finance risks through a more diversified portfolio.
- A successful issue, along with the access to steady new funding, may help improve ratings on a country's sovereign debt.
- Buyers may continue to purchase bonds, even when markets are skeptical about a nation's economic outlook. (Israel has borne this out, as sales of Israeli Diaspora bonds rose during the Six-Day War).
- Sold at a premium to the Diaspora members, thus fetching a "patriotic" discount in borrowing costs. Country folks are willing to buy it at lower rates than what is available in the open market.
- Besides love of country and patriotism or to do good for the motherland, investors may have local currency liabilities which these bonds, though in hard currency, can be so designed to have the flexibility to be useful in this regard.

There are longer term benefits for issuing Diaspora bonds. While world flows in public savings is counted in billions of dollars per month, flows of private savings is measured in trillions of dollars per day. Thus, literally, the money is in private hands. The introduction of Diaspora bonds sets the country on a learning curve to tap the huge private savings in international markets. Initially, the focus should be well targeted bond issues that are committed to a market niche that may have other considerations other than profit motive alone. In the case of the Diaspora bonds, it is nationalism or love of country. There are

173 "Development Finance via Diaspora Bonds: Track Record and Potential", Suhas L. Ketkarand Dilip Ratha, 2007

174 "Ibid

others such bonds for matching Diaspora investments in local community projects, but for starters Diaspora bonds which have been tried and tested in a number of countries in Africa is appropriate.

4.2.1.2 Strategy George Weah Treasury Certificates

President George Weah won the elections on the back of Congress for Democratic Change (CDC) eight-point agenda on Agribusiness, Education, Environmental, Infrastructure, Good Governance and Rule of Law, Law Enforcement, National Security and Trade and Monetary Policy. Invariably, the priorities of this political platform will inform the thrust of the next national development plan and macroeconomic management. The swell of support that propelled him to power may be tapped to realize the aspirations of the CDC. Are they ready to make his Government by making individual contributions through subscriptions in George Weah Treasury Certificates (GWTC)?

While the Diaspora bonds target 'big' savers resident abroad, the GWTC seeks to attract 'small' savers at home. It will be appropriately denominated at "patriotic" interest rates and sold a par. It will be initiated and designed by the MFDP and managed by the CBL. It would have a maturity of 3 months, 6 months, 9 months and 1 year, issued once or twice monthly and marketed on a mobile platform.

5.0 Summary

The order in which the strategies are presented above follows the logical sequencing of a typical tax reform process. In the short term, policy makers should concentrate on ways to deepen the tax base in the most efficient and fairest way – removing tax preferences, dealing with transfer pricing abuses by multinational enterprises and taxing extractive industries fairly and transparently. In the medium run, structural concerns require strategies that target the informal sector, enhance fiscal legitimacy, tap the potential of some sectors such as urban property, boost administrative capacity and harness international cooperation to improving resource mobilization.

In the long-term, however, fine tuning the current tax systems under the current economic structures will not yield substantial increases in revenue. Structural economic transformation will be necessary in order to broaden the tax base. Strategies to achieve this goal include: scaling up infrastructure investment to reduce production and trade costs (thus encouraging investment and trade); promoting private sector development including small and medium enterprises; consolidating governance reforms to improve the efficiency of the tax systems as well and the investment climate (thus encouraging private sector activity and increasing the tax base); and regional integration to increase market size and encourage trade (and thus raise revenue from trade taxes). In addition to efforts by African governments, this strategy still requires financial support from development partners to fill the massive financing gaps as well as providing technical assistance consistent with the Addis Initiative.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6.0 Flagship Programs/ Projects/ Interventions

The strategies are taken a few steps forward for implementation to indicate the timeframe, the agency primarily responsible for the process of implementation, the estimated cost of the activities associated with a given objective and suggested donor or technical assistance provider based on past interventions or remit. Eclectic business models are used that conform to the cross sector, multiple players with many financiers, each having a remit consistent with specific component of the DRM. Implementation is in timeframes front loading capacity building in LRA, institutional building and policy development, research and studies on job creation along the value chains in Agriculture, Fisheries and Tourism, Diaspora bonds and peace keeping, development of internal and external partnerships as well as resource mobilization, results of which feed into the DRM. In the short term policy changes, studies, procedural issues and technical assistance can be implemented while structural changes including institution building and bond issues will be middle to long term.

6.1 E& M-Tax Project

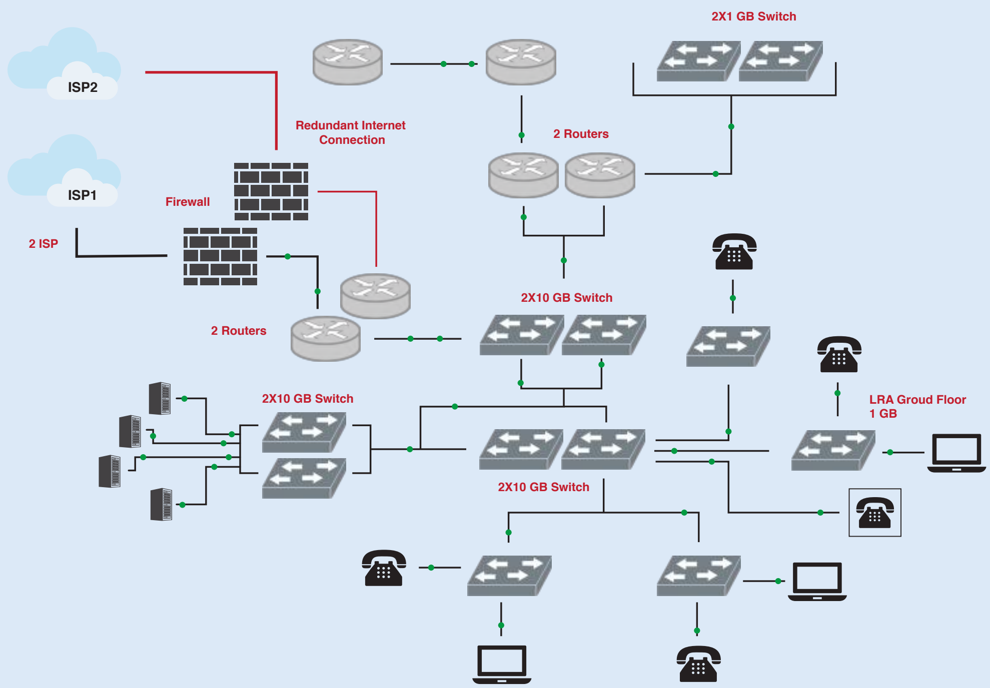
Expected Benefits of E-Tax and M-Tax

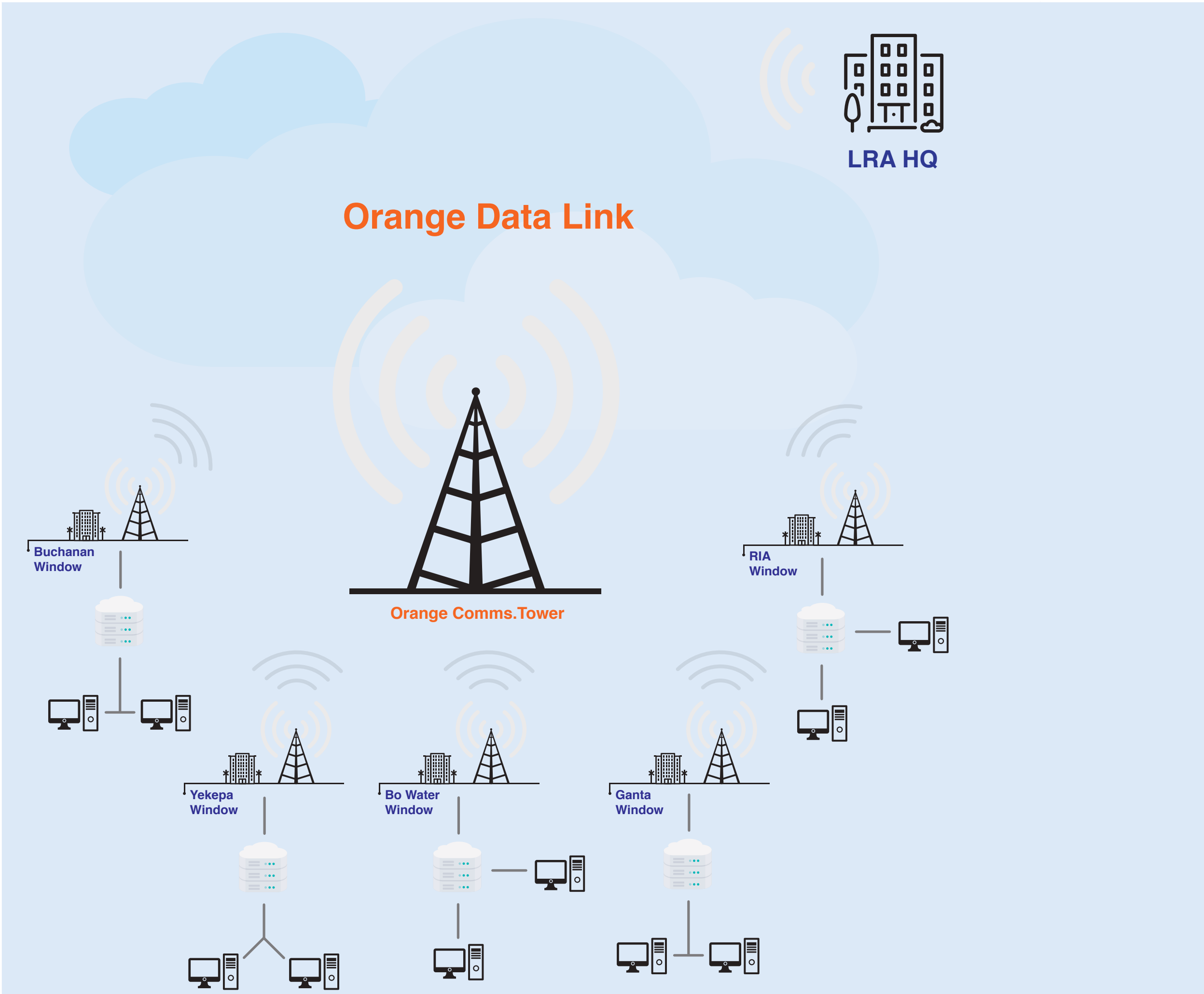
- Increased revenue collection, tax registration, accurate tax reporting and tax payment; higher productivity in tax administration; and lower leakages in collection.
- Cost reduction of financial transactions: The benefits to individuals, intermediaries and the government of digitizing revenue collection will outweigh the cost of digitization over time. The costs of digitized revenue collection will be lower than the

current paper-based system.

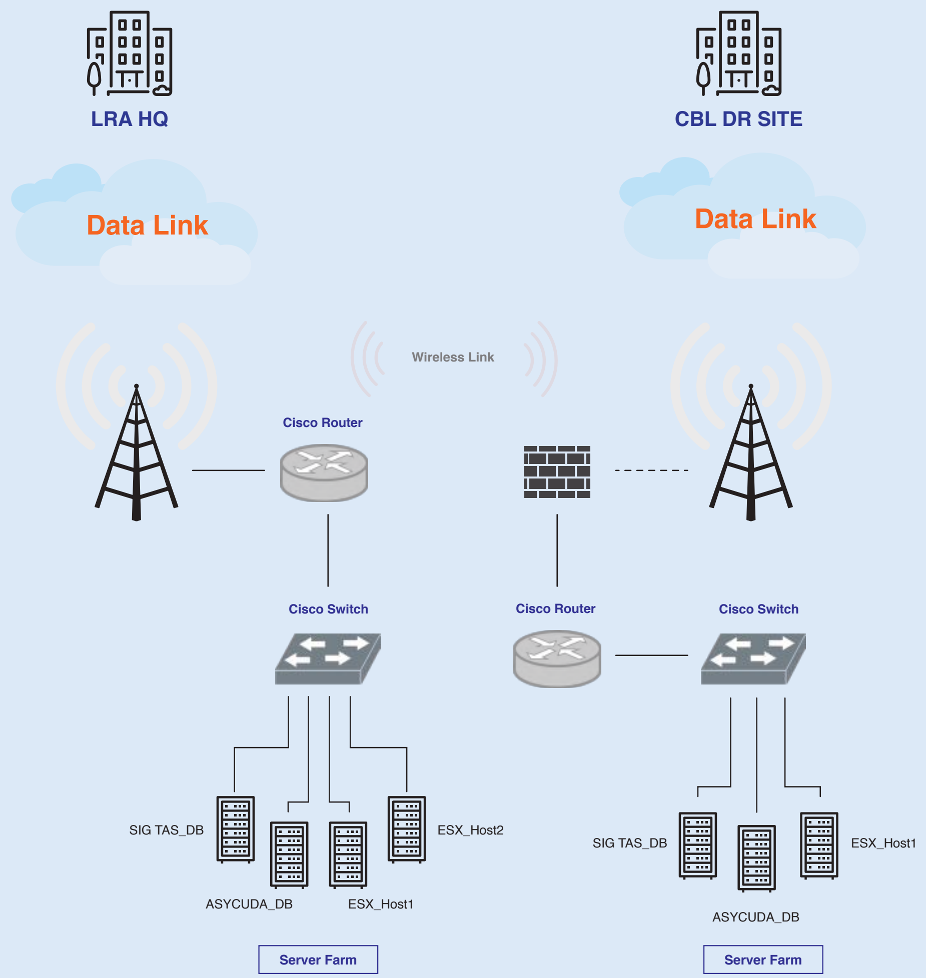
- Increased efficiency in Tax collection: GoL can increase tax collection and other revenue streams;
- Efficiency of transactions: from citizens by offering faster, secure and convenient, less expensive and more transparent revenue collection via the internet and mobile money; and,
- Enhanced financial inclusion of rural areas and the unbanked.

The e-Tax Project has the following infrastructure/Equipment/Materials/:

infrastructure/Equipment/Materials/:	US$
Upgrade Data Center Infrastructure	1,313,168.36
Migrate from Tier 2 to Tier 5 Data Center	601,063.64
Tier 5 Data Center Diagram: Source: LRA, MIS 	
Establish LRA Disaster Recovery and Business Continuity site for ASYCUDAWORLD and domestic taxes databases as well as administrative and financial records	376,104.72
Internet Subscriptions (10mbps 4yrs) LIBTELCO	168,000.00
Establish another backup together with LIBTELCO	168,000.00
Access by Taxpayers to ASYCUDAWORLD and Domestic Taxes e-Tax system for e-registration, e-filing, e-declarations and e-payment as well as issuance of tax certificates	8,000,000.00
Migrate from ASYCUDA to ASYCUDAWORLD Licenses and Support	1,500,000.00
Replace SIGTAS with e-Tax Data System by TATA	5,000,000.00
SIGTAS Maintenance and Support	1,500,000.00
TBOs and CBOs Network Infrastructure Connectivity with Headquarters (Wireless)	951,801.00



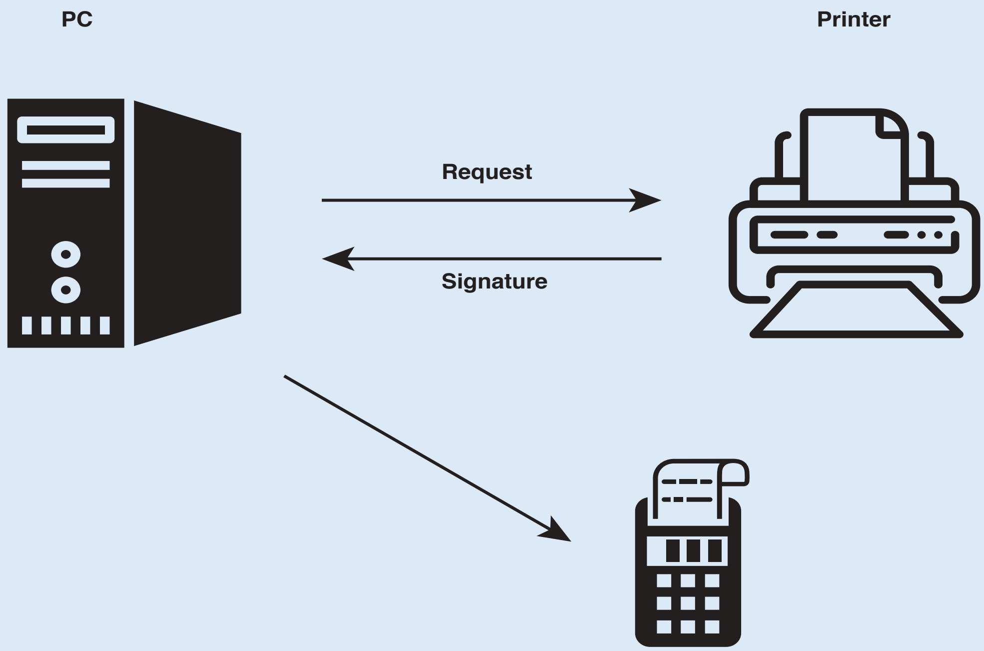
Wider area network between 19 Tax Business Offices (TBOs) and e-Tax Data System at the headquarters	
Purchase 3 computers for each of the 19 TBOs = 57 computers	
Wider area network between 11 Customs Border Offices (CBOs) and ASYCUDAWORLD at the headquarters for centralized declarations	
Purchase 3 computers for each of the 11 CBOs = 33 computers	
Revenue Collection Ministries, Departments and Agencies and Network Infrastructure Connectivity with Headquarters (Fiber Optic)	951,801.00



Wider area network between LRA, Treasury and CBL, for revenue recoding and payment of withholding taxes by the Treasury into the Consolidated revenue with CBL	
Wider area network between servers in 27 MDAs collecting revenue Domestic Tax e-Tax Tax Recording System at the headquarters	
Connectivity between LRA Server and Electronic Tax Registers (Pilot 10 Large taxpayers with ESDs, 10 Medium and 10 Small Taxpayers with for ETRs)	200,000.00

Sample Types of devices

Computer Systems and ESD



e-Tax Learning Center	182,961.42
Digital Video Conferencing	66,933.52
Mobile Money: Medium and small taxpayers	282,000.00
Intranet for Internal Communication and Administration	150.000.00
Intranet for Enterprise Risk Management and Internet Connectivity for Public Access to “Risk Dump”	100,000.00
Grand Total Cost (E-Tax Project)	11,246,864.3

The total cost the Component 1: Revenue Mobilization is USD 34.3 million. It centers on technological transformation of tax administration underpinned by and e &m-Tax Project that includes digitalization and mobile money to generate efficiencies in tax registration, reporting, declaration and payment as well as combating corruption and informality. It captures capacity building and technical for human and institution building covering the LRA and revenue generating MDAs. Infrastructural development is critical to give greater access to LRA services and establishing a revenue authority with physical space to accommodate a digital system. Indeed, process changes are a sine qua non for modernization of tax administration and facilitated by appropriate operational policies and studies.

Component I. A (Revenue Mobilization)

Sub-Components	US$
E-Tax System	11,246,864.00
Capacity Building & Technical Assistance	5,470,000.00
Infrastructure Development	15,240,000.00
Policies, Studies & Process Changes	2,344,000.00
Sub-Total	**34,300,864.00**

6.2 Sector Interventions (detailed below)

The sector interventions are largely targeted at tax discount sectors which can be turned into premium sectors through game changers that would assist higher income and more employment by way of private enterprise engaged in value addition. The evidence shows that withholding is good for tax collection and thus, institution or enterprise building is proposed towards this end. For example, the PMMC is ideal in the mining sector where hardly any tax is collected from dealers and artisanal miners. It is also recognized that training in TVETs is a necessary stop gap measure to ensure youth employment in virtually all sectors. Informality is on the whole mitigated through formalizing the large artisanal sub-sectors through cost effective approaches, as organizing them into associations and cooperatives. Thereafter, the LRA will solicit the collaboration of the executives to educate and tax their membership.

Component I. B: Turning Tax Discount into Premium Sectors

SN	Sector	Number of Interventions	Cost (USD Million)
1	Agriculture	3	20.0
2	Forestry	1	NA
3	Fisheries	8	4.5
4	Telecommunications	4	0.45
5	Mining	3	5.37
6	Tourism	6	0.80
7	Real Estate	9	0.726
8	Wholesale and Retail Trade	1	0.15
9	High Wealth Individuals	5	0.27
10	Treating Corruption	3	0.136
11	Treating Informality	4	0.5
12	Treating Capital Flight/Illicit Flows	7	0.3
13	Treating Low human & Institutional capacity	3	1.02
15	**Total**	**57**	**36.382**

6.3 Financial Deepening in Money and Capital Markets

Component 2: Savings Mobilization extends DRM strategy to the financial deepening initiatives that provide domestic debt financing of the national plan and private sector growth. As noted above, the coverage of DRM strategy is usually restricted to taxation and public savings but private savings is indeed part of domestic resources. However, a private sector-led growth strategy must take first charge in the utilization of private saving and its crowding out in local credit market must be avoided. The private sector and private enterprise going it alone or in partnership with the public sector has a central role in the implementation of the pro poor agenda.

The national savings rate is low and needs to be increased to support a private sector lead in a market-determined production paradigm. The strategies proposed are aimed at expanding the legal space to encourage private enterprise in the money and capital markets. The CBL has taken determinate steps to kick start a capital market; the strategies here will boost this effort.

Component 2: Mobilization of Private Resources

SN	Sector	Number of Interventions	Cost (USD Million)
1	Financial Deepening in Money and Capital Markets	17	4.16

6.4 DRM Secretariat

The DRM Secretariat is the administrative arm of the DRM Governance Structure. It supports and answerable to the DRM Steering Committee and responsible for leading and coordination of the implementation of the DRM strategy. It is also responsible for articulating the terms of reference of the organs and personnel in the Governance Structure.

DRM Secretariat

SN	Cost Items	USD Million
1	Personnel	2.1
2	Operational costs	1.3
3	Stakeholder Engagements	0.5
4	**Total**	**4.9**

6.5 DRM Strategy Timeframe, MDA Responsibility, Estimated Costs and Proposed Donor Interventions

In summary, the total cost of implementation of the DRM strategy is estimated at USD 79.9 million. The Timeframe of the DRM is five (years), FY 2018 to FY 2022, in line with the new GoL mandate and consonance with the timeline of Pro Poor Agenda that it seeks to fund. For every outcome and attendant activities, more than one institution may have responsibility for implementation however, a lead MDA is identified and stated in the log frame below. Estimated costs are indicative and expected to be expressed more precisely in projects for financing. Proposed Donors are based on the remit of the donor agencies and their recent interventions in Liberia or other countries in West Africa. Of course, donors have a final say as to what meets with their current portfolio.

A breakdown of the total cost of the DRM at USD 79.9 million by Component is presented as:

Cost Summary

Component	*USD (million)*
Component 1: Revenue Mobilization	34.30
Component 2: Turning discount into premium sectors	36.38
Component 3: Mobilization of private resources	4.16
Secretariat	4.99
Total	**79.83**

Table 6.6: Log frame on Recommendations/Strategies/Activities, Timeframe, Responsible Agency, Estimated cost and Donor or GoL

Section	Recommendations/Strategies	Timeframe	Responsible Agency	Estimated Cost (US$)	Proposed Donor or GoL
Linking the DRM with National Development Plan and the MDGs					
2.1 DRM to finance the National Development Plan	To mobilize domestic resources to finance a greater part of the national development than foreign resources	60 Months	GoL	Total cost to implement DRM = US$ …… Million	All Donors listed in DRM
2.2 DRM to achieve the MDGs	(a) To mainstream the DRM in the AfT II, MTEF and Annual Budget	Short-term (2 months)	MFDP		
	(b) To mainstream SDG 17.1 as measure of DRM (narrowly defined as total revenue) in the AfT II				
Governance Structure and Secretariat (Indicative Cost = USD 2.99)					
2.2.1 DRM Governance Structure	(a) Establish DRM High Level Cabinet Committee to lead policy implementation of DRM Strategy	60 months	GoL		
	(b) Establish DRM Steering Committee (DRM-SC)	60 months	GoL		
	(c)DRM Donor Coordination Forum	60 months	Donors		
	(d) Stakeholder Regional and National Fora	60 months	DRM-SC		
	(e) Hire DRM Coordinator	60 months	DRM-SC		
	(f) Hire Secretariat Support Staff	60 months	DRM-SC		
	(g) To technically support implementation of the DRM strategy, hire Technical Assistance, a Senior level DRM technical policy, program management and capacity building advisor	24 months	DRM-SC		
	(h) Purchase three (3) vehicles, computers and equipment	60 months	DRM-SC		
	(h) Other Administrative costs	60 months	DRM-SC		
	DRM Strategy Implementation Fund	Short -Term	GoL	TBD	GoL
2.0 Objective: To Expand the Tax Base and Minimize Revenue Loss – Component 1 - E $ M Tax Project = USD 34.3 Million – Component 1					
3.2.1 Tax Gap Analysis	Conduct a Tax Gap Analysis to assist and set a framework for in-year monitoring of revenue performance and overall compliance with the Liberia Revenue Code.	Short term (2 months)	LRA		
3.2.1.1 – Collection by Tax Type	(a) Elaborate a white paper to tax final consumption by migrating from goods and services tax (GST) to value added tax (VAT), and conform to Liberia's commitment under the ECOWAS Common External Tariff (CET).	Medium Term	LRA/MFDP		
	(b) Elaborate a framework to simulate revenue implications and monitor progress in migrating from GST to VAT while detailing a road map with timelines, the human capacity building and material resources requirements, in support of (a) above.	Short Term (6 months)	LRA		
	(c) To deepen the use of Excise taxes in Liberia's tax system, engage the services of Technical Assistant to review and make recommendation on the buoyancy of Excise Taxes and propose rates for selected consumption goods and services including telecommunications	Short –Term (1 month)	LRA		

Section	Recommendations/Strategies	Timeframe	Responsible Agency	Estimated Cost (US$)	Proposed Donor or GoL
3.2.1.1 – Collection by Tax Size of turnover (Large, Medium, Small and Micro Taxpayers)	(a) To combat tax avoidance and evasion by Multinationals in the natural resources sector and High Wealth Individuals (HWIs) in other sectors, establish and fast track training locally and abroad, a Ten member Specialist Surveillance Unit (SSU) in Large Tax Division.	Medium Tern (over 24 months)	LRA		
	(b) To upscale operations and build capacity of staff of LTD through customized training programs, direct interventions (on the job training) and mentoring by long term technical assistance	Medium Term (over 48 months)	LRA		
	(c) To provide Technical Assistance to support the SSU, engage over the medium term a Resident Technical Advisor on Taxing the Natural Resource Sector and supported by short-term stints of a Technical Assistant with experience in taxing HWIs.	Medium Term (over 48 months)	LRA		
	(d) To upscale competences through local and external training including professional programs for 10 Enforcement and Audit staff of LTD to work in premium sectors, financial and telecommunications and natural resources	Medium Term (over 48 months)	LRA		
	(e) To train staff of LTD in auditing multinationals	Medium Term (Stints of 1 week x 6 times in 12 months over 48 months)	LRA		
	(f) To facilitate a two-way electronic exchange between taxpayers and LRA while eliminating taxpayer and LRA staff contacts as well as increase the efficiency of tax collection from Large and Medium Taxpayers, through e-Registration, e-Filing and e-Payment, Including hardware and software.	Medium-Term	LRA		
	(g) To secure cashless and contactless revenue operations, computerize and establish interface between LRA and 27 MDAs collecting non-tax revenues	Medium Term	LRA		
	(h) To establish connectivity between LRA SIGTAS server and Tax Business Offices in 15 counties/3 computers per office/ancillary equipment	Medium Term	LRA		
	(i) To operationalize e-Tax by elaborating an e-Tax Operational and Standard Operating Procedures for Administrators	Short-Term	LRA		
	(j) To operationalize e-Tax by elaborating an e-Tax Operational and Standard Operating Procedures for Taxpayers	Short-Term	LRA		
	(k) To operationalize e-Tax by elaborating an e-Tax Operational and Standard Operating Procedures for Brokers and Tax Advisors	Short-Term	LRA		
	e-TAX Customs				
	(a) To enable e-declarations by importers and exporters on ASYCUDAWORLD; establishment of a centralized and isolated processing long room – annex housing, 12 computers, ancillary equipment	Medium Tern	LRA		
	(b) To establish connectivity between LRA ASYCUDAWORLD server and 11 Customs Border posts/3 computers per post/ancillary equipment	Medium Term	LRA		
	(c) To centralize processing and isolate staff, establish a long room as an annex to HQ, equipped with wider area network with the ASYCUDA, install 1O computers and other office equipment	Short-Term	LRA		

Section	Recommendations/Strategies	Timeframe	Responsible Agency	Estimated Cost (US$)	Proposed Donor or GoL
	(d) To facilitate 48 hours customs clearance, install 2 scanning machines	Medium-Term	LRA		
	(e) To Build customized housing for 2 scanning machines	Medium-Term	LRA		
	(f) Establish risk-based goods clearance at the ports: Classifications – Green, Yellow and Red	Short-Term	LRA		
	(g) To establish primary responsibility of Customs for goods clearance at border posts and ports, sign National Entry Points MOU with all Ministries and agencies with presence (Liberia Immigration Service, Drug Enforcement Agency, Ministry of Commerce and Industry, Police, National Security Agency, etc).	Short-Term	LRA/Relevant MDAs		
	(h) As an addendum to the National Entry Points MOU, elaborate a shared Operations Manual and Standard Operating Procedures for clearing goods at the border posts and ports	Short-Term	LRA/Relevant MDAs		
	(i) To work towards the establishment of TradeMark West Africa to promote trade integration and competitiveness in ECOWAS	Medium term	LRA/ECOWAS		
	Capacity Building for e-tax				
	(a) To Train the trainers - Staff of MIS, administrators and operators of the system and other relevant staff to maintain the e-Tax systems and provide training for other users.	Short term	LRA		
	(b) To train a critical mass of LRA staff to use the e-Tax system	Short-Term	LRA		
	(c) Facilitate access to, and use of, e-Tax by providing basic training to Taxpayers, Tax Advisers and Brokers	Medium Term	LRA		
	(d) Provide hardware to selected tax brokers and advisers in strategic locations around the country to jump start and facilitate universal use of e-Tax.	Medium Term	LRA		
	(e) To elaborate an education outreach program targeting Small and Micro taxpayers on who, how, when, where and why to pay taxes	Short term (1 month)	LRA		
	(f) To facilitate payments by small and micro taxpayers, introduce a mobile money platform for tax payment.	Medium Term	LRA		
	(g) To upscale operations and build capacity of staff of MTD through customized training programs, direct interventions (on the job training), training programs and mentoring by hiring long term technical assistance	Medium Term (48 months)	LRA		
	(h) To establish a comprehensive information and database of the tax system and taxpayers, establish interlink between ASYCUDA and SIGTAS	Short-Term	LRA		
	(i) To facilitate taxpayer registration and sourcing third party data, establish a wider area network between LRA and LBR	Short-Term	LRA		
	(j) To bring the employed in the informal sector into the tax net, conduct a study Mapping MSM Businesses in the informal sector	Medium-Term (12 months)	LRA/LISGIS		

Section	Recommendations/Strategies	Timeframe	Responsible Agency	Estimated Cost (US$)	Proposed Donor or GoL
3.2.1.1 Tax Expenditures	(a) Refer to 3.2.1 (a) & (b)	Medium-Term	Executive/ Legislature		
	(b) Effectiveness of 3.2.1	Long-Term	Executive/ Legislature		
	(c) To record and monitor tax expenditures, elaborate a Framework for Measuring and tracking Tax expenditures in Liberia covering LRC, Concession agreements, tax exemptions and Executive Orders as well as intermittent tax credit applications to the LRA	Short term	LRA		
	(d) To enhance the accountability and transparency of tax expenditures, include Annual Tax Expenditures Estimates as an addendum to the fiscal budget	Short term	MFDP/LRA		
	(e) To use tax expenditures, it should part of the budget process in the context of expenditures deemed to be contingent upon the availability of additional revenue.	Short term	Legislature/MFDP/ LRA		
3.2.1.3 Executive Orders on tax administration	To maintain predictability in tax administration and inculcate adherence to the rule of law in taxpayers, use the annual budget mechanism to make changes in tax policy	Short term	Executive/Cabinet		
3.2.5.1 Strategy -Non-Tax Revenue	(a) To catalogue and analyze non-taxes with a view to streamlining and getting rid of any nuisance levies to manage the effective tax and non-tax rates, a study will be conducted. It will also provide a framework for recording, monitoring and forecasting revenues from non-taxes for inclusion in the fiscal budget.	Short term	MFDP		
	(b) To enhance the recording and improve the management of non-tax revenues as well as mitigate against pilfering risks, transactions will be cashless and automated with a computer interface between the 27 MDAs and the LRA.	Short – Medium Term	LRA		
3.2.8 Strategies on Efficiency of Tax Collection	(a) To enhance efficiency by more automation and digitalization of taxpayer compliance to register, file, declare and pay taxes; automation and inter connectivity of tax collection - between LRA and other revenue collectors - MDAs	Medium-Term	LRA		
	(b) To reduce under, over invoicing, Large Taxpayers including importers and exporters to use electronic invoicing to replace paper invoices using mandated or otherwise certified electronic devices that are generated by suppliers' and purchasers' accounting systems.	Medium-Term	LRA		
	(c) To sign the relevant conventions for international exchange of information	Short=Term	LRA		
	(d) Establish interconnectivity of databases between LRA and Treasury and CBL for direct automated payment of Government withholding taxes	Medium-Term	LRA/MFDP/CBL		
	(e) Establish interconnectivity between CBL and commercial banks used for payment of taxes to facilitate direct debiting of Commercial banks accounts with the CBL for taxes received as well as have the LRA in the loop for record keeping purposes	Medium-Term	LRA/CBL/ Commercial Banks		
	(f) Technology-based compliance control to support customer segmentation by channeling taxpayer contacts to the most appropriate services in real time. This is especially suitable for e-filing, call centers, and other.	Medium-Term	LRA		

Section	Recommendations/Strategies	Timeframe	Responsible Agency	Estimated Cost (US$)	Proposed Donor or GoL
3.3 Tax Discount and Tax Premium Analysis	Major DRM objective to turn tax discount sectors into tax premium sectors	Medium - Long-Run	GoL		
3.4.1 Legal Infrastructure for DRM	(a) To minimize the policy tax gap, tax expenditures and revenue loss by elaborating a cabinet white paper to switch from Concession Agreements to a purely licensing regime	Medium-Term	MFDP/Cabinet/ Legislature/LRA		
	(b) To elaborate terms of reference of High Level National Consultative Review Body for Concession Agreements and Incentives in furtherance of (a) above,	Medium-Term	Cabinet, Legislature. MLM/ MFDP		
	(c) To hire Technical assistance to elaborate enabling instruments to facilitate a switchover from Concession Agreement to licensing regime, conduct legal appraisal of existing Concession Agreements, provide options for a licensing regime, elaborate a draft a model law, and propose amendments to the relevant statutes including the National investment Code and Section 16 of the LRC.	Medium-Term (6 months)	MFDP/Cabinet/ Legislature		
	(d) To Engage technical assistance to support GoL in negotiations for natural resource licenses with applicants	Short term (Stints of 1 monthly visits when required) Over 48 months	MFDP/MLM		
	(e) To adhere to the allotment laws as stated in the LRA Act 2013, Section 27	Short-term	MFDP/CBL		
	(2) "The Minister shall issue quarterly Orders to the Central Bank of Liberia to debit the Consolidated Fund and pay to the Authority within the first fifteen days of each quarter the amount of the quarterly installment appropriated to the Authority".				
	(e) To upscale the competences of members of the Board of Tax Appeals, design and deliver training on tax policy and the LRC	Short term	LRA		
	(f) To costs and time spent of resolving tax disputes, set up an alternative dispute resolution mechanism as a step before court in tax cases	Medium term	MoJ/LRA		
	(g) To promote formality for a paper trail in daily transactions for tax collection, draft model law to legislate the issuance if receipts for every exchange involving an exchange of value	Short-Term (1 month)	MoJ/MoC/LRA		
	(h) To promote formality for a paper trail in daily transactions for tax collection, pilot use of electronic tax register (ETRs), 10 large taxpayers and 20 medium taxpayers	Short-Term	LRA		
	(i) To review and incorporate digitalization of tax administration in the Liberia Revenue Code, 2011, and Liberia Revenue Authority Act, 2013	Short Term (1 month)	MFDP/LRA		
Policies in Support of DRM					
3.4.3.1 Strategy -Poverty, Human Development and Taxes	To use taxation to support of the government's quest for a middle income status and poverty alleviation objectives, keep the floor threshold at $2 per day, adjustable annually by the exchange rate to Liberian dollar.	Medium-Term	MFDP/LRA		

Section	Recommendations/Strategies	Timeframe	Responsible Agency	Estimated Cost (US$)	Proposed Donor or GoL
3.4.4 Government policies in support of DRM	To implement the GoL policies enunciated throughout the DRM strategy document	Short – Medium – Long Term	GoL		
3.4.4.1 Macroeconomic stability	(a)A medium-term macroeconomic stability program agreed with the IMF	Short to Medium term	MFDP		
	(b) To restructure expenditures away from wages and salaries to outlays in health, education and infrastructure and to keep a sustainable deficit and debt. Also, set in the PFM Act fiscal rules on a debt ceiling and floors on budget outlays to health and education to be monitored by the Legislature and CSOs.	Short to Long term	MFDP		
	(c) To promote macroeconomic stability, inform interested parties such as investors and raise the public discussions on the state of the economy, reflect in the PFM and institute a publicly aired quarterly questions and answers session before the Legislature's Finance Committee by the Minister of Finance and Governor of CBL on recent economic developments with particular reference to performance under on-going programs with IMF	Medium Term	MFDP/CBL/ Legislature		
	(d) To support and include CSOs in the national economic management discourse to advocate for transparency and accountability with particular reference to fiscal rules: monitor debt ceiling, outlays to education and health, tax expenditures, natural resources contracts	Short – Medium – Long Term	CSOs, IREDD et al		
3.4.5.1 Strategies – Proposals from the Regional Dialogues and National Revenue Symposium - Public Opinion	(a) To take public opinion and behavior into account for setting tax policy and compliance	Short – Medium – Long Term	MFDP/LRA		
	(b) To extend the services of the LRA country-wide, build an office and staff quarters in the other 14 counties	Medium-Term	LRA		
	(a) To engage members of the Legislature, Executive and Judiciary as well as community leaders, to share the responsibility of sensitization programs for educating taxpayers	Short – Medium – Long Term	LRA		
	(c) To institutionalize recognition and celebrate compliant taxpayers	Short – Medium – Long Term	LRA		
	(d) To institutional country-wide regional dialogues once every five years	Medium Term	LRA		
	(e) To institutionalize an annual National Revenue Symposium	Short – Medium – Long Term (4 x 4yrs)	LRA		
	(F) To conduct a biannual Taxpayer Perception Survey	Short – Medium – Long Term (8 x 4yrs)	LRA		
Mobilizing Revenue from Sectors – Component 2 (Indicative Cost					
Taxing the Agriculture sector (Indicative Cost – USD20 million)					
3.5.3 Strategy – Taxing Agriculture	To increase rice and cash crops production (for human and animal consumption) and milling for import substitution by commercialization using a core periphery concept, experienced commercial farmers (from Zimbabwe and South Africa under Agro Pole) at the core and smaller farmers in the periphery - Agro Pole in Ghana and Cote D'Ivoire as the model	Medium – Long Term	MoA		

Section	Recommendations/Strategies	Timeframe	Responsible Agency	Estimated Cost (US$)	Proposed Donor or GoL
	To target the youth as "Agripreneurs", empowering them through skills training at Songhai Project in Niger and given access to start-up capital (grants/ loan) for agricultural enterprise development in high value products and value chains; Pilot of 200 Liberian Youth would be trained as farmers under the Songhai Project in Niger. Some of them would serve as skilled workers in Agro Pole Liberia	Medium – Long Term	MoA		
	To increase poultry production by setting up a feed mill, the costliest cost item in the industry, through a PPP. Agro Pole Liberia would supply crop inputs for animal feed mill	Medium – Long Term	MoA		
3.5.4.1 Strategy Taxing the Forestry subsector	To preserve the forests in Liberia under REDD for future is a policy choice that would support conservation and slow down the rate of deforestation. In support, it is proposed that taxing the forestry sector should be supportive of this policy; higher taxes are suggested: 30% on timber exports differentiated by species and another, an area tax to be covered by significant hikes in rents (10%) and royalties (10%).	Short-Term	MOA/FDA		
3.5.5.1 Strategy Taxing Fisheries Sub-Sector	(a) To develop Liberian Fishing companies by renegotiating the next Liberia – EU Sustainable Fisheries Partnership Agreement, as joint ventures between EU fishing companies and Liberian companies.	Medium Term	BoF		
	(b) To tax the French and Spanish companies currently fishing under the Agreement	Short-term	LRA		
	(c) Elaborate Framework and Establish Liberia Fisheries Skills Training and Marketing Centre	Medium Term	BoF		
	(d) To train and provide insurance cover for Liberian youth to be employed on EU fishing boats	Medium Term	BoF		
	(e) To target middle men and women with the appropriate turnover for filing returns as Medium or Small taxpayers.	Short Term	LRA		
	(f) To target artisanal fishermen to pay presumptive taxes of 4% and issuing them an emblem when they do.	Short Term	LRA		
	(g) To organize artisanal fishermen into a Fisheries Cooperative Society	Short Term	BoF		
	(h) Elaborate framework and Establish (5) Fish Landing Sites along the Atlantic coast equipped with cold rooms for fish storage	Medium Term	BoF		
Taxing Mining Sector (Indicative Cost – USD 370,000)					
3.5.6.1 Strategy – Taxing Mining sector (gold and diamond)	(a) To conduct an impact assessment on recipients of Tax Expenditures (companies and employment)	Medium Term	MLM		
	(b) To minimize revenue loss by making a paradigm shift from Concessions Agreements to a purely licensing regime	Medium Term	MLM		
	(c) To conduct a study for the establishment of value adding, sector developing, marketing and tax withholding institution: the Liberia Precious Metal Marketing Company (PMMC)	Medium Term	MLM		
	(d) To organize artisanal miners into cooperatives	Medium Term	MLM		
	(e) Study Visits to Debswana in Botswana and PMMC in Ghana	Short term	Minister and team		

Section	Recommendations/Strategies	Timeframe	Responsible Agency	Estimated Cost (US$)	Proposed Donor or GoL
Taxing Telecommunications Sub-Sector (Indicative cost USD 45,000)					
3.5.7.1 Strategy – Taxing Tele-communications Sub-Sector	(a) To enhance the efficiency of tax collection from this sector through automation and an e-Tax services accessible Service Providers by e-filing and e-payment	Medium Term	LRA		
	(b) To introduce Excise tax of 0.05% on turnover of voice and data combined	Short Term	MFDP/LRA		
	(c) To collect 10% GST on air tickets sold on line from subsidiaries of the airline that sold it	Short Term	LRA		
	(d) To study the scope of Liberia's participation in the global Peer-to-Peer (P2P) economy with a view to introduce appropriate taxes and mechanisms	Short Term	LRA		
Taxing Tourism Sub-Sector (Indicative Cost – USD…)					
3.5.8.1 Strategies – Taxing the Tourism Sub-sector	(a) To diversify the productive base and increase tourism value addition, elaborate a Tourism Master plan, central to which are the legal infrastructure and institutional framework which ought to see the current tourism office upgraded to a Public-Private Tourism Bureau	Medium Term	MIT		
	(b) To train the cadre to run the tourism industry by elaborating the framework for establishing a Liberia Travel and Tourism Institute	Medium Term	MIT		
	(c) To elaborate a framework for designating a Tourism Development Area intended for private sector businesses by zoning the land that forms the beachfront of the country as such for construction of hotels, restaurants, entertainment center, etc., while investing in access roads, electricity and water connections,	Long Term	MIT		
	(d) To attract an International hotel chain to set up as pacemaker in Liberia	Medium Term	MIT		
	(e) To attract an International tourism company to commit to brining tourists as pacemaker in Liberia	Medium Term	MIT		
	(f) Establish Liberia Artifacts and Memorabilia Shills Training and Marketing Centre	Medium	MIT		
Taxing the Real Estate Sub-Sector (Indicative Cost – USD… million)					

Section	Recommendations/Strategies	Timeframe	Responsible Agency	Estimated Cost (US$)	Proposed Donor or GoL
3.5.9.1 Strategies – Taxing the Real Estate Sub-Sector	(a) To incentivize Taxpayer compliance, rates should be kept affordable and earmarked property tax receipts for upkeep of the environment of local government by spending on collecting garbage, cleaning the streets and developing and maintaining community markets and public spaces; as resources permit to provide social services	Medium Term	MFDP		
	(b) To maximize community's and economic benefits in land use, modernize the land tenure system	Medium Term	MoL		
	c) To register land ownership and maintain accurate records by introducing a new mortgage law benchmarking current international best practice	Medium Term	MoL		
	(d) To have a better appreciation of the housing stock, conduct a comprehensive cadastre mapping	Medium – Long Term	MoL/LISGIS		
	e) To conduct massive public awareness and community engagement throughout the country to inculcate a culture of paying taxes starting with real estate taxes	Short – Medium = Long Term	LRA		
	(f) To devolve real estate taxes to local government as part of a political decentralization strategy	Long Term	MFDP/MoLG		
	(g) To conduct a study to establish a framework for current valuation of real estate	Medium Term	MoL		
	(h) To raise revenues, conduct comprehensive real estate tax compliance risk management study	Medium Term	LRA		
Taxing the Wholesale and Retail Trade (Indicative Cost – USD … million)					
3.5.10.1 Strategies – Taxing the Wholesale and Retail Trade Sector Sub-sector	To provide sales data, facilitate filling tax returns and provide paper trail at point of sale, introduce three types of automated POS machines for wholesale and retail traders: an electronic cash register (ECR) and electronic tax register (ETR) and Electronic Signature Device (ESD) for Micro, Medium and Large Taxpayers respectively. Going forward under a VAT regime, all claimants of offsets would be required to ESD: To run a pilot of 10 POS for each segment	Medium Term	LRA		
Taxing the Construction Sub-Sector (Indicative Cost – USD …… million)					
3.5.10.2 Taxing the Construction Sub-sector	To promote private enterprise at the community by using local construction companies to partner with Community Youth Construction Corps to build roads and maintain them using less expensive cobble stones	Short term	MoW		
Taxing High Wealth Individuals (Indicative Cost – USD..)					
3.5.11.1 Strategies – Taxing High Wealth Individuals (HWIs)	(a) To get tax compliance from HWIs establish a dedicated unit consisting of enforcers and auditors in LTD to target them across sector	Short – Medium – Long Term	Executive/ Legislature/CSOs/ Community opinion leaders		
	(b) To conduct a mapping of HWIs across sectors to have a better appreciation of the modus operandi of this group, its size, definitional issues, etc.	Medium Term	LRA		
	(c) To seek out withholding by businesses and institutions that employ professionals	Medium Term	LRA		
	(d) To sign MOUs with professional fraternities to require tax clearance for renewal of licenses or membership	Short Term	LRA		
	(e) To engage professional fraternities to educate their membership about their tax obligations	Short term	LRA		
Combating Corruption (Indicative Cost – USD136,000)					

Section	Recommendations/Strategies	Timeframe	Responsible Agency	Estimated Cost (US$)	Proposed Donor or GoL
3.6.3.1 Strategies Combating Corruption	To engender a change in the culture of corruption to reset the moral of seeing it as an evil in the society at every level: home, schools, churches, mosques and work places	Short – Medium – Long Term	Executive/ Legislature/CSOs/ Community opinion leaders		
	To establish an independent Anti-corruption Court	Medium Term	MoJ		
	To review and enhance punishments of those convicted of corruption including a freeze on assets anywhere when a case is instituted and confiscation of assets	Medium Term	MoJ/Executive/ Legislature		
Combating Informality in Tax Collection (Indicative Cost – USD…)					
3.6.4.1 Strategy -Informal Sector	(a) To educate, sensitize, organize and register informal sector operators in all sectors	Short – Medium – Long	MLM, MoA, BoF, FDA, MoC, LRA		
	(b) To conduct a mapping exercise of employment in the informal sector for tax purposes	Medium-Term	LRA		
	(c) To establish institutions, promote growth of businesses and create jobs to bring in the informal into formality	Medium – Long Term	MLM, MoA, BoF, FDA, MoC, LRA		
	(d) To support GoL policy of engendering food security, never to tax subsistence agriculture	Short – Medium – long Term	MFDP		
Combating Capital flight/Illicit in Tax Collection (Indicative Cost – USD … Million)					
3.6.5.1 Strategy Combating Capital flight/ Illicit Flows	(a) To combat illegal transfer pricing by training, locally and abroad, the capacity of SSU (enforcement and audit staff) to detect and deter it	Short – Medium – Long Term	LRA		
	(b) To expose Unmasking Ultimate Beneficiary Owners (UUBO) of businesses by building the capacity of SSU (enforcement and audit staff) to detect it	Short – Medium – Long Term	LRA		
	(c) To hire Resident Advisor to build capacity of SSU and LTD on detecting and deterring illegal transfer pricing and UUBO	Short Medium – Long Term	LRA		
	(d) To engage the services of OECD's Tax Inspectors Without Borders on building capacity of SSU and LTD on detecting and deterring transfer pricing and UUBO	Short Medium – Long Term	LRA		
	(e) To stay ahead of the perpetrators of illicit outflows, constantly review to close loopholes in tax treaties and tax laws	Short Medium – Long Term	LRA		
	(f) To strengthen the laws by criminalizing money laundering which can be result of illicit financial flows	Medium Term	MoJ		
	(g) To continuously engage in international efforts and f platforms to keep abreast with initiatives on Base Erosion Profit Shifting (BEPS) at the global (G20, OECD) regional (Mbeki) and sub-regional levels (ECOWAS)	Short – Medium - Long Term	LRA		

Section	Recommendations/Strategies	Timeframe	Responsible Agency	Estimated Cost (US$)	Proposed Donor or GoL
Tax Administration Policies and Enterprise Risk Management Framework (Indicative Cost – 0)					
3.7.3.1 Strategies ERMF Objectives and Policy Implementation	(a) To manage the administration of the Liberia Revenue Authority through an Enterprise Risk Management Framework (ERMF) and Taxpayer Compliance Risk Management	Short Term	LRA		
	(b) In furtherance of the ERMF, the Board to make an Annual Risk Policy Management Statement	Short Term			
	(c) In furtherance of the ERMF, establish the Risk Management Committees designation of officers as Risk Managers and Risk Owners	Short Term	LRA		
	(d) In furtherance of the ERMF, review the ToRs of entire LRA staff to be risk compliant and satisfy requisite competences job specifications, identify training needs and propose individual training programs	Short Term	LRA		
	(e) In furtherance of the ERMF, establish an electronic risk dumb that universally accessible	Short Term	LRA		
	(f) In furtherance of the ERMF, establish an electronic register accessible to Risk Managers and Risk Owners through an intranet	Short Term	LRA		
	(g) To elaborate a Package of Tax Administration Policies essential to LRA operations a detailed in this sub-section above	Short Term	LRA		
Human Capacity Building (Indicative Cost – USD... million)					
3.7.4.1 Strategy Human Capacity Building	(a) Automation and attendant human capacity needs assessment in Sector Ministries for revenue collection	Medium Term	MFDP	750.000.00	UASAID
	(b) To elaborate a comprehensive and individual based human capacity assessment to ascertain the training needs of every individual officer, section, division, department and the LRA.	Medium Term (18 Months)	LRA		
	(c) To have zero tolerance policy for corruption, LRA staff code should deal promptly and comprehensively with collusion between staff and taxpayers or vendors, culprits and accomplices	Short Term	LRA		
Access to LRA Offices and Services Country-wide (indicative Cost – USD15,240,000.00)					
3.7.5.1Strategies - LRA Tax Business Offices Accessible and Equipped throughout the country	(a) To have LRA 14 Offices accessible throughout the country, electronically connected to HQ and equipped to deliver on the mandate of collecting lawful taxes	Medium-Long Term	LRA		
	(b) To construct staff quarters in each county to house LRA staff starting with two houses Of two bedrooms (one staff to a bedroom) 28 houses	Medium-Long Term	LRA		
3.7.5.2 Strategies - LRA Customs Border Offices upgraded and equipped	To upgrade 11 LRA Customs Border Offices and electronically connected to a centralized customs declarations system at HQ to facilitate trade at lower transactions costs for taxpayers	Medium – Long Term	LRA		
	(b) To construct staff quarters in each county to house LRA staff starting with two houses Of two bedrooms (one staff to a bedroom) 22 houses	Medium – Long Term	LRA		

Section	Recommendations/Strategies	Timeframe	Responsible Agency	Estimated Cost (US$)	Proposed Donor or GoL
Financial Deepening in Money and Capital Markets (USD … Million) – Component 3					
4.1.1.1 Strategies -Access and financial inclusion	(a) Replace the Dual Currency Regime with Liberian Dollar as the only national currency	Medium Term	CBL		
	(b) Expand the institutions and instruments in the Liberian money market by enacting enabling banking legislation for establishment of Off-Shore banks and Sharia banks to attract foreign savings and promote financial inclusion of the minority Muslim Community	Medium Term	CBL		
	(c) Establish inter-bank markets for overnight liquidity, foreign exchange, T-bills and T-bonds	Medium Term	CBL		
	(d) Establish a credit reference bureau to protect lenders	Medium Term	CBL		
	(e) Introduce a deposit guarantee scheme to make savings deposits more attractive	Medium Term	MFDPCBL		
	(f) Establish a new collateral registry	Medium Term	CBL		
	(g) Increase public financial literacy	Short Term	CBL		
	(h) Strengthen the judicial process and establish a Commercial Court	Medium Term	MoJ		
4.1.1.1 Strategies Taxing and Capping Remittance Outflows	(a) To stem remittance outflows by taxing each outward transaction by GST 10%	Medium Term	LRA/MFDP		
	(b) To stem outflows by capping outflows at US$ 50,000.00 (exemptions for health and education) per person per year	Medium Term	LRA/MFDP		
4.1.2.1Strategy-Taxing Mobile Money Transfer Services	To tax mobile money companies at CIT of 25%	Short Term	LRA/MFDP		
	To promote financial inclusion of the rural poor, no tax per transaction of mobile money transfers	Short Term	LRA/MFDP		
4.1.3.1 Strategy - Matching Remittance on Community Project Financing	To encourage individuals and groups in the diaspora who initiate and fund community projects by GoL matching the funds put in.	Medium – Long Term	MFDP		
4.1.4.1 Strategy - Post Office System for Cheaper Transfers	To invest in the Post Office system to have greater penetration into rural areas for money transfer services and a conduit for payment of taxes.	Medium – Long Term	MFDP		
4.2.1.2 Strategy - Diaspora Bonds	To increase national savings for development financing, GoL issue Diaspora bonds targeting Liberians in the United States.	Long Term	MFDP/CBL		
4.1.1.2 Strategy - George Weah Treasury Certificates (GWTC)	To increase national savings for development financing, GoL issue George Weah Treasury Certificates targeting low income Liberians	Short Term	MFDP/CBL		
4.1.1.3 – Mobilizing Equity Capital	(a) Establish the Liberia Stock Exchange to facilitate foreign direct investment	Long Term	MFDP/CBL		
	(b) Enabling legislation for establishment of Venture Capital Companies	Medium-Term	MFDP/CBL/MoJ		
	(c) Enabling legislation for establishment of Investment Trusts	Medium Term	MFDP?CBL/MoJ		
Nexus Between DRM and ODA					

Section	Recommendations/Strategies	Timeframe	Responsible Agency	Estimated Cost (US$)	Proposed Donor or GoL
8.1.1.1 DRM first Charge in national Emergencies	To establish a National Emergency Response Fund (NERF) to finance a front-line defense to national emergences	Short-term	MFDP		
8.1.1.2 DRM for refocusing ODA	The aim is to devote domestic resources to cater for Government current consumption (recurrent expenditure) and reserve ODA for the PIP as prioritized in the PIP				
8.1.1.3 Raise Inflows through International Peace Keeping Duties	Global peace keeping by Liberian Security forces	Short-Medium-Long term	Army and Police		
8.1.1.3 – Exploiting opportunities under WTO/ UNCTAD Aid-for-Trade	Expand access in Aid-for-Trade facilities	Short-Medium-Long term	MC		
8.1.1.4 DRM/ODA Nexus	ODA support for DRM	Short – Medium Term	MFDP		

6.6 Governance Structure, Accountability Framework and Inception Arrangements

Introduction

The GoL is committing to delivering key revenue outcomes of the DRM Strategy predicated on good governance supported by ensuring that there are strong and clear accountability mechanisms, clarity in institutional arrangements, roles and responsibilities, a robust Monitoring and Evaluation framework and enhanced Government-citizens' engagement. An accurate assessment of the cost of implementing the plan is also vital to enable the identification of appropriate resource mobilization strategies to ensure financing of the DRM Strategy.

The last section covered the DRM costs while this section outlines the accountability framework covering the following aspects:

- Implementation Strategy including the institutional arrangements and roles and responsibilities;
- Implementation Strategy, Monitoring and Evaluation framework and processes; and,
- Mechanisms for strengthening government-citizens' engagement;

6.6.1 *Implementation Arrangements*

Institutional Arrangements

Implementation of the DRM Strategy requires a robust institutional and coordination framework. This is made necessary given the pro-poor reform agenda of the new Government, and the current fragmentation in policymaking process, weak coordination and institutions. Furthermore, the new context demands that citizens are not left behind in GoL decision making on why and how they are engaged to produce and taxed and probably more important, the benefits they would derive. Understandably, in its coverage, this DRM Strategy is bullish on revenue generation and bearish on fiscal expenditures which spell out the benefits as it squarely falls under the remit of the Cabinet.

The proposed institutional arrangements for DRM implementation cover two aspects:

The institutional framework and the related roles and responsibilities. The institutional framework proposed for the plan has two interlinked components: Policy oversight and coordination functions; and, Technical and implementation functions are presented in Schema 1 below.

The key institutions involved in oversight and policy coordination are: the Cabinet

Economic Management Team, a Multi-Stakeholder DRM Steering Committee,

Regional Dialogues Forum (RDF) and Development Partners forum (DPF).

For technical and implementation oversight, the following mechanisms are proposed: A

Technical Committee, Sector Technical Clusters, DRM M&E platform and Regional Technical Advisory Committee and cascading down to Ward levels.

Roles and Responsibilities

Clarity in roles and responsibilities is critical for successful DRM implementation. The matrix above details responsibilities on specific strategic interventions while Table 6.7 below spells out the main responsibilities of key actors and aligned to the DRM implementation framework presented above.

Specifically, for operational policy oversight and coordination the following arrangements will be put in place:

a) The Hon Minister of MFDP and President's Economic Advisor will co-chair the Cabinet Inter-Ministerial (Policy) Committee (CIC) to ensure sector coherence in implementation. The DRM Steering Committee (DRM-SC) will bring together at the technical main sectors with prominent roles under the DRM.

b) The DPF, who shall be joined by heads of the DRM-SC, will on a quarterly basis, receive and review reports from the DRM-SC.

c) The RDF will be constituted by Regional Supervisors (15), Heads of relevant CSOs (2), representatives from Liberia Chamber of Commerce (1) and Liberia Business Association (1), banking community (1), religious fraternities (3) and Academia (2). The Hon. Minister of Finance will Co-Chair the DPF with the World Bank and Co-Chair the RDF with a Head of the Regional Supervisors nominated by them.

d) The DRM Secretariat will be constituted entirely by technicians with appropriate terms of reference.

At the technical implementation level, the following arrangements will be put in place:

a) A DRM (Technical) Steering Committee (NTSC) comprised of Directors in the relevant sectors and Chaired by the Commissioner General, LRA. It will review and approve work plans, progress and monitoring reports for onward submission to the CIC, RDF and DPF and Cabinet SMNSC. The Secretariat will be hired and located within the LRA under the supervision of the Chair, DRM-DC.

b) MDA Beneficiaries will form DRM Steering Sub-Committees in the LRA for Component 1, MFDP would chair Component 2 constituted by the sector ministries and CBL Component 3. The DRM-SScs will report to the DRM-SC.

   Their functions would be to develop the annual work plans, undertake joint monitoring and prepare progress reports. They shall ensure cooperation and alignment of individual Ministry, Department and Agency (MDA)work plans related to the strategic priorities. Donor technical input can be included in DRM-SSC work plans and consequently, Donors are free to select the Component they wish to add technical value based on their areas of expertise.

c) A Comprehensive M&E platform will be established to ensure adequate monitoring and evaluation of the DRM. The Secretariat will coordinate the work of the technical clusters and the M&E platform. It shall bring together state and non-state actors.

d) At Regional level, the Secretariat will ensure that Ward and local development programs and projects are aligned with the DRM, and shall undertake M&E and other related activities.

e) The Secretariat will, inter alia, be tasked with elaborating detailed Terms of Reference, including membership criteria for the mechanisms proposed above. Table 6.7 below provides an overview of the main functions of the structures and organs outlined.

Table 6.7: Generic Roles and Responsibilities in DRM Implementation by various Structures and Mechanisms

Program Assurance is the responsibility of each Steering Committee member; however, daily monitoring function in this regard is delegated to the Program Coordinator. This role ensures that appropriate project management milestones are managed and completed. A Lead Donor has a seat in the Steering Committee with a prominent quality assurance role.

Governance Structure

- **High Level Economic Management Committee**

At the apex of the governance structure of the DRM is the High Level Economic Management Committee as currently constituted and chaired by His Excellency, the President of the Republic of Liberia, George Manneh Weah.

Office of the Minister of Finance and Development Planning

The Minister of MFDP who has overall responsibility for resources generation (revenue and savings) and to whom the LRA and CBL reports, shall take overall responsibility for the DRM. In this respect, the DRM-SC shall report to the Minster and he shall in turn report the High Level Economic Management Committee.

- **DRM Steering Committee**

The DRM Steering Committees sits heads the Program Management Team constituted by representatives of the relevant officers the Senior Beneficiary (see Schema 1) supported by a Secretariat housing a Program Coordinator, DRM Senior Technical advisor, Program Officers and other staff.

- **Secretariat**

Secretariat will be constituted by hired technicians that meet the requisite jobs terms of references. It will be a lean administrative set-up consisting of a Program Coordinator, DRM Senior Technical Advisor; two Program managers for Components 1 & 2 each, two finance officers, one Communications and Information Products Officer, one secretary, two clerks and two drivers.

- **Program Coordinator**

A Program Coordinator will have the authority to run the project on a day-to-day basis on behalf of the Steering Committee as directed by the Chair. Have responsibility for decision making on Program activities, financial and Secretariat management. In particular, ensure that the program produces the results specified in the program document, adheres to the required standard of quality and within the specified constraints of time and cost.

- **DRM Senior Technical Advisor**

Given the capacity gaps in the Senior Beneficiary Institutions, a DRM Senior Technical advisor to support program implementation will be hired and linked to the Management Team advising the Chair of the Steering Committee to kick-start DRM Implementation. He will be tasked to develop the enabling technical instruments and administration and financial frameworks essential to DRM Implementation.

Institutions/ Structures	*Policy Oversight & Coordination Implementation,*	*Monitoring & Evaluation*
National Assembly	Vote/Approve DRM	
	Contribute to defining and ensure DRM Strategy addresses national priorities	
	Review mid-term evaluation and final reports	
	Give feedback on policy adjustments	
	Constituted by constitutionally elect Members of Liberian Legislature	
Cabinet	Approve DRM Strategy	
	Launch by HE the President of the Republic	
	Give feedback on policy adjustments	
	Members of HE President’s Cabinet	
Cabinet Economic Management Team	Provide broad orientation of DRM Strategy implementation	
	Review and approve annual progress reports	
	Review Progress and M&E Reports	
	Update Cabinet on progress	
	Ensure sector coherence and coordination and inter-sector linkages	
	Constituted by members of HE President’s Cabinet	

Donors Partners (Consultative) Forum	Provide forum for interaction and dialogue between donor partners and DRM-SC on DRM work plans and implementation	
	Review and provide comments on annual work plans preparation and implementation	
	Review and provide comments on annual progress reports including external financial audits, mid-term evaluation and final reports	
	Co-Chaired by Hon Minister of MFDP and Lead Donor	
	Constituted by donors contributing to the DRM (funding) basket	
Regional Dialogues Forum	To be led regional and local government heads as well as religious heads	
	Provide guidance for work plan preparation and implementation	
	Review M&E Reports	
	Advice on national priorities and adjustments on DRM	
	Platform for dialogue on priority challenges facing communities	
	Ensure alignment with regional and local government plan	
	Provide leadership at regional and local government levels on DRM activities	
	Serve as platform for stakeholder discussions on M&E	
	Sensitize and disseminate information on DRM issues	
	Co-ordinate DRM related activities at city, town and village levels	
	Advocate for addressing local needs in DRM work plans consultation with the community	
	Mobilizing community participation in DRM activities	

DRM (Technical) Steering Committee	Provide oversight of implementation of DRM	
	Ensure financial accountability of budgets and due diligence execution of work plans and budgets	
	Oversee annual work plans	
	Ensure development and alignment of sector work plans and budgets with DRM Strategy	
	Oversee and consolidate M&E from Components 1, 2, & 3	
	Oversee and consolidate progress reports from Components 1, 2, & 3	
	Act as Secretariat to DPF and RDF and provide logistics support	
	Report to DRM Cabinet Committee on bi-annual work plans, progress reports and budgets and annual financial audit reports	
	Act as Secretariat to DPF and provide quarterly work plans, bi-annual progress reports, annual financial audit reports and budget execution as well as logistics support	
	Consolidate annual work plans, progress reports and budgets from Components 1, 2 & 3	
	Prepare information products on DRM implementation for pubic dissemination including website and social media pages	
	Constituted by Directors of Senior Beneficiary Ministries, Departments and Agencies (MDAs) namely, MFDP, MoA, MME, MIT, MoC, MoW, CBL, FB, FDA and LRA; chaired by CG-LRA and Program Coordinator as Secretary with a Lead Donor as Quality Assurance member	
National M&E Platform	Constituted by representatives from RDF, Components 1, 2 & 3, IREDD (CSO), LBA, LCC, Women's groups, youth organizations, academia	
	Platform for sharing information and coordinating activities of key stakeholders within the components	
	Sharing knowledge and best practice	
	Components' reports on M&E highlighting challenges in implementation	
	Chaired by Hon. Deputy Minister. Fiscal, MFDP	
	Provide input into annual progress reports	
	Sensitize and disseminate information on DRM issues	

- **Component 1**

Component 1 pertains to Revenue Mobilization and Administration. It comes under the purview of the LRA with particular reference to national revenue mobilization under the DRM and implementation of the e & m-Tax Project. A Component 1 Committee (C1C) will be constituted by including all departments that have a role in the e & m-Tax Project.

Component 1 also pertains to Turning Tax Discount into Tax Premium Sectors proposing transformational projects including new institutions, enterprises, jobs creation in the sectors. These are game changers in income generation that would enable taxation from operators (enterprises and employees) in these sectors. C2C will be constituted by representatives from all sectors targeted in the DRM and chaired by MFDP.

- **Component 2**

Component 2 pertains to Mobilization of Savings in the money and capital markets and the development of institutions, markets and instruments. It falls squarely under the remit of the Central bank of Liberia (CBL). The C3C will be constituted by all departments within the CBL and since much of the work pertain the legal infrastructure, the Ministry of Justice would be represented and in as much as government debt instruments are envisaged, the MFDP would also be represented. The CBL will chair the C3C.

- **Component 3**

The DRM Secretariat is the administrative arm of the DRM Governance Structure. It supports and answerable to the DRM Steering Committee and responsible for leading and coordination of the implementation of the DRM strategy. It is also responsible for articulating the terms of reference of the organs and personnel in the Governance Structure.

Reporting Arrangements

Each Component under a Chairperson from LRA for Component 1, MFDP for Component 2 and CBL for Component 3 will draft quarterly and annual progress and budget reports with lesson learnt highlighting challenges and successes in the implementation of annual work plans and budgets. These reports will be collated by the Program Coordinator tabled for comments by the DPF and RDF before submission to the DRM-SC. The DRM-SC will approve the annual reports on progress and budgets for official transmission to the DRM participating donors and the High Level Cabinet Committee. The DRM-SC will arrange for an external mid-term and final evaluation.

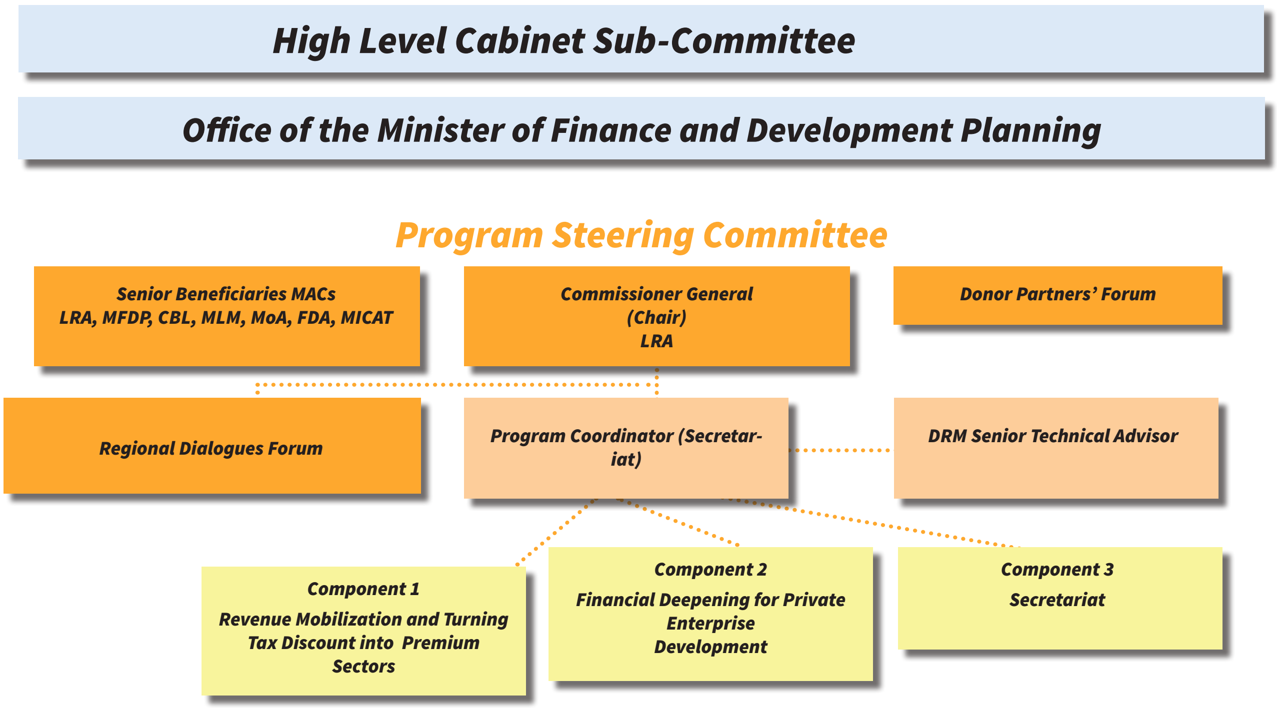
Financial Reporting and Procurement

The DRM-SC shall have final responsibility for financial soundness and accountability of DRM finances. Regular financial statements will be prepared by the LRA as dictated by, and submitted to, the DRM-SC. Procurement procedures shall be subject to LRA procurement rules under the aegis of the Public Procurement and Concession Commission (PPCC).

Audit arrangements

Financial transactions and financial statements shall be subject to the internal and external auditing procedures laid down in the Financial Regulations, Rules and directives of the LRA. The accountability provisions of Donor's funding arrangements must be complied with by the LRA, as the Authority has already with the UNDP.

Schema 1: Governance Structure and Process Management



6.6.2 Implementation Strategy

Several interconnected strategies shall drive implementation of the DRM Strategy including:

A. Prioritization and sequencing of actions; and,

B. detail and strengthen sector strategies and action plans.

A. Prioritization and Sequencing of Actions

The country is facing many needs and there are huge expectations from the population because of the advent of a new Government. However, lower international aid inflows are contracting the fiscal space to meet all the development imperatives. To make significant progress in generating domestic resources would require a hefty political will as down payment to make the necessary paradigm shifts, moving away from business as usual, against formidable vested interests and headline risks entrenched in the status quo of economic relations and doing business.

First and foremost, HE President George Weah ought to champion this change exemplified initially by a Cabinet approval and launching of the DRM Strategy by himself. This was achieved on October 26, 2018. The President would then bring the society along supporting an onslaught on attitudes, practices and work ethic needing much improvement, that keep the Mother Liberia's human and natural resources from being maximized for the wellbeing of all Liberians. In this agenda for a new dawn, the Cabinet members would show and be set against expected standards of good governance and dedication to duty in the interest of Liberians. From that level, a new culture of Liberia First, not 'me, myself and I' first, would be embraced to cascade down the entire public service.

Secondly, the President's resolve to make the requisite paradigm shifts would be underpinned and actualized by changes in the legal infrastructure supporting a new dawn of economic management and doing business starting with legislative changes proposed in the DRM Strategy.

Thirdly, the priorities dictated by a Pro-Poor Agenda focuses on selection of those interventions which would provide momentum and have immediate impact on the wellbeing of citizens. Government will therefore give priority to the following spelt out in the DRM during the first two years of implementation:

- Overall, priority actions will focus on the significant urban and rural disparities in poverty levels, income generating initiatives through kick starting private enterprise and access to Government services which aim to pull up the latter while increasing the tax base where previously none was realized;
- An agriculture-led rural transformation agenda that will address rural poverty by getting the Youth interested in farming and value chains, focused on modern commercialization of the sector targeting the country's main staple, rice and high value horticultural products, that act as catalyst to raising output in the entire sector supported by appropriate technology (light mechanization, skills development, improved

seeds and fertilizer) and greater access to farming extension services including marketing information;

- To derive greater benefits including revenues, for the Liberian people from the nation's significant but finite natural resources;
- To put Liberian Youth to work by establishing skills centers in virtually all the main sectors of the economy to acquire the requisite competences to become employees or employers;
- To increase the effectiveness and efficiency of the tax system;
- Restructuring fiscal budget expenditure priorities in favor of education, health, electricity, water, sanitation and roads, underpinned by macroeconomic reforms for stability to spur growth, employment, and economic revitalization.

B. Detail and strengthen sector strategies and action plans

The first order of business following the launch of the DRM Strategy by the President and establishment of the DRM Secretariat is for each component to draft an annual work plan which entails detailing for each sector outcome in the results matrix spelt out in this DRM Strategy document. The Secretariat will coordinate this task and do consistency checks across components and ensure adherence to overall funds availability.

6.6.3 DRM Inception

Once the plan is officially adopted, Government intends to undertake several critical preparatory activities to ensure a smooth transition from plan preparation to implementation. This will make certain that all the necessary preconditions are in place and on time.

The main inception activities envisaged in the last quarter of 2016/2017 include the following:

- Consultations with key development partners leading to holding of a Local Donor's Conference on DRM Strategy funding;
- Establish and designate members of DRM Steering Committee
- Establish DRM secretariat;
- Establish and designate members of DRM Steering Sub-Committees for Components 1, 2 & 3;
- Establish and designate members of DRM Steering Sub-Committees
- Establish and designate members of Donor Partners' Forum and Regional Dialogues Forum
- Development of Terms of References for the various entities of the institutional framework for implementation
- Development of first year annual work plans, budgets, and the necessary budget appropriations.

6.6.4 Monitoring and Evaluation Processes

The DRM Strategy was developed in close consultation with stakeholders through Regional Dialogues and with active participation of technical officers of main beneficiary institutions resulting in a 'home grown' national document that is results oriented and focused on key strategic priorities and critical enablers to attain the new GoL's vision for the people.

The Monitoring and Evaluation of the plan will be done at two levels: (i) at the Executive level (High Level Cabinet Sub-Committee and DRM-SC; and, (ii) at Component (sector) level.

Executive Level Monitoring and Evaluation Processes

The advent President George Weah new dispensation on a pro-poor development agenda, there are justifiable high expectations of the Liberians, the process of monitoring of the implementation of the DRM Strategy will also involve a paradigm shift. It is important that the GoL at the highest level is seen to effectively deliver on its key priorities and there is close monitoring of performance. To accomplish this, the following measures will be put in place:

A. Cabinet Sub-Committee Monitoring and Evaluation System

A Dashboard is proposed that will allow for the monitoring and tracking of selected key results/outcomes of the DRM Strategy Implementation at the highest-level of the Executive. The main aim is to provide tools to the Executive to keep a close watch on progress in achieving the main results on expanding the revenue base and transformation of sectors for higher incomes and more taxes that is projected in the DRM. Further reflection and analysis will be undertaken to deepen and operationalize this concept during the inception phase.

Box : Cabinet Sub-Committee M&E Dashboard

- Revenue growth by expansion of tax base and reducing revenue loss via DRM Strategy
- Number of Youth acquiring new entrepreneurial Skills
- Number of enterprises established under the DRM
- Number of jobs created under DRM Strategies
- Number of amendments in the legal infrastructure in support DRM Strategy
- Macroeconomic stabilization, through reduced domestic borrowing to … of GDP (TBD from IMF Program)
- Close the gap in services between urban and rural Gambia
- Boost in productive sectors – especially agriculture (rice), fisheries, tourism, construction,

B. Minister of MFDP

The Hon. Minister of MFDP shall be conduit to the Cabinet Sub-Committee and reported to by the DRM-SC to ensure:

- A sustained focus on these Executive level results/ outcomes;
- Clear accountability for delivery with appropriate incentives and sanctions;
- Set targets (quarterly, bi-annually and annually) and develop detailed action plans;
- That the necessary resources are allocated in a timely manner;
- That the enabling and regulatory environment needed is in place;
- Monitoring and drive progress; and
- Effective communication to the general public on DRM from Cabinet level.

Component (Sector) level Monitoring and Evaluation processes

As an integral part of implementing the NDP, an M&E plan including a results matrix is to developed where each strategic priority and critical enabler has accompanying goal(s), a set of outcomes, indicators(disaggregated to an appropriate level) with baselines and targets to facilitate the tracking and reporting progress of implementation. This will demonstrate GoL's commitment to the people through the implementation of programs and policies. A Metadata for each indicator is to be developed to provide definitions and to serve as reference.

The setting of the results at the outcome level in the DRM Strategy shifts the focus to monitoring and evaluating the transformative change revenue generation and in the lives of the people rather than on the activities and inputs. However, this new approach will require the components and sectors to develop their strategic action plans with outputs and indicators corresponding and contributing to the outcomes in the DRM. There is a strong need to have a robust M&E system to be able to coordinate, monitor and report on the multiple component and sector plans.

As a provisional measure, the DRM-SC supported by the DRM Senior Technical Advisor will take responsibility to ensure that the components/sectors adopt this approach and have a mechanism to monitor progress towards the implementation of the DRM.

In line with the coordination of the National Development Plan, the M&E process will have a strong component on for the dissemination of information and feedback to stakeholders in order for timely corrective measures when necessary. The M&E information derived from the components/sectors at annual reviews will be reviewed by the RDF and DPF.

- Annual review of progress: This will be conducted with the DRM-SSCs on an annual basis preferably before the end of year, to inform the annual budget preparation and enhance transparency and accountability in the management of national resources. It will involve active participation of the relevant sectors monitoring and reporting on the set of agreed indicators in the DRM. There are 166 indicators for the strategic priorities, 4 headline risks, 9critical enablers and strategic priorities.
- Tools: A formatted template for reporting should be drafted and adopted as a key tool for reporting on the progress towards achievement of the results for the DRM. This will ensure that all the information needed is captured, that there is uniformity; and it is can easily be input in a web-enabled database for easy access and public consumption.
- Evaluations: A mid and end-term evaluation will be held to determine lessons learned and the relevance, efficiency, effectiveness, impact and sustainability of programs and policies outlined in the DRM. The mid-term evaluation will be held in late 2019 and the end term will be held in 2021.
- Capacity Building: A quick capacity needs assessment needs to be undertaken by DRM-SC (supported by DRM Senior Technical Advisor) to evaluate the current capacity of Planning and M&E staff at the MDAs in Results Based Management (RBM). Subsequently, based on the results of the evaluation, a training package should be provided that includes: (i) M&E applications, methods, tools, and frameworks; (ii) Results Based management; and (iii) DRM M&E process, including the forms and reporting formats for the DRM.

For the M&E system to work, efforts are needed to (i) harmonize and align component/sector strategic and action plans, (ii) improve IT infrastructure, and (iii) build capacity. There is a need for staff to upgrade their skills and knowledge on emerging concepts in M&E. GoL must continuously develop the capacity of personnel tasked to implement

M&E plans. The DRM-SC will compile a complete M&E guidelines which will have existing M&E-related guidelines, some simple RBM tutorials, and samples of M&E forms and checklists and these should be made available to all the MDAs.

The LRA's Internal Audit and National Audit Office (NAO) will be co-opted to be key participants in the M&E processes for the DRM. The latter has a lead role in monitoring and auditing of Government's public expenditure management, performance appraisals and sharing findings with the National Assembly and Donors as well as the institutions tasked with coordinating the implementation of the DRM. The NAO will be instrumental in pushing forward reforms towards improving budgeting and the degree of compliance with GoL's rules regarding program/project management.

The LISGIS is the mandated Government body responsible for data collection, analysis, compilation and dissemination of all major surveys, studies and systematic compilation of statistics and indicators from all major sources of data. The Institute will therefore join the DRM-SSC M&E process will play a crucial role in ensuring that quality data is produced and made available in time to meet the demand for monitoring and reporting of the NDP. It is imperative for the Bureau to develop and implement a National Strategy which includes a strictly adhered to calendar of major surveys and censuses as part of the M&E system.

A web-based database will be housed and managed by the DRM-SC. The database will provide a common and centrally located database for the storage and easy retrieval of data on key performance indicators for the country. The database when established should be able to provide disaggregated information at a click of a button, which willhelp in the planning, designing, monitoring and evaluation of performance and the budget allocation process for GoL and development partners and civil society organizations.

The challenges for the M&E process will be how to meet the demand for information at the right time. The culture and attitude of most Government MDAs when it comes to M&E is that it is always an addendum and not given the necessary support that is required. M&E should be cost and budgeted for as it has significant cost implications. There needs to be an intensive capacity building on Results Based Management. An M&E champion would be identified among the top Government executives to lead the advocacy and emphasizing the importance of M&E as a management tool for good governance, effective development planning, evidence-based policy making and greater public accountability.

Strengthening Government - Citizens' Engagement

The new dispensation campaigned and pronounced a pro-poor party agenda which is evolving as the hallmark of the CDC's rule. Therefore, engaging with the masses of Liberia is central to its policy platform which is an open and transparent one that communicates and engages its citizens to build confidence and strengthen legitimacy. A government that has a good relationship with the public will formulate better policies, deliver better services, and achieve more sustainable development outcomes for society. Government will therefore continuously monitor and seek to understand public perceptions when developing policy and improving service delivery resulting in better policies and service delivery.

In this respect, GoL will pursue the following strategies during DRM implementation to strengthen accountability and build mutual trust and transparency with citizens:

- All public institutions will be required to develop and publish Service Charters, which will outline the standards of service delivery citizens can expect, within the first year of DRM implementation. They will be tasked with conducting regular surveys – through citizens' score cards to gauge citizens' perceptions to improve and enhance service delivery;
- GoL to better articulate its messages will undertake public campaigns on key policy issues and messages to mobilize public action. This will be done through simple messages using posters, banners, pamphlets, public education talks, radio and TV;
- GoL will maintain Regional Dialogues citizens' engagements and create opportunities for citizens to interact with public officials on DRM. This will be done through town hall dialogue forums;
- DRM digital platforms will to strengthen engagement. A growing number of Liberians have access to the Internet and social media/digital platforms (e.g. Face Book, Twitter, Instagram, YouTube); and,
- GoL will endeavor to create a new mind-set among public officials such that they have citizen-centric mind-set and are ready and willing to respond positively to public concerns.

6.6.5 How to measure progress in the DRM Strategy Implementation

Measuring progress is a critical element in the quest to ensure accountability for delivery. Implementation of the DRM Strategy has the following building blocks:

A robust results framework;

- Monitoring and Evaluation mechanisms; and
- Strengthening GoL to Stakeholders engagement.

The Results Framework

For each strategic priority and critical enabler of the DRM Strategy, key outcomes and results to be achieved have to be identified to enable measurement of progress. These are presented below at the end of this section.

Monitoring and Evaluation Mechanisms

The monitoring and evaluation of the DRM Strategy will be done at three levels:

- Executive level;
- Component (Sector) level; and,
- Stakeholders' level.

Executive level Monitoring and Evaluation

- High Level Cabinet Sub-Committee Monitoring and Evaluation System: A Dashboard that will allow the Executive to monitor and track selected key results and outcomes of the DRM at the highest level of GoL.

Component (Sector) level Monitoring and Evaluation processes

Key features of the plan's Monitoring and Evaluation system are the following:

- A results matrix where each strategic priority and critical enabler has an accompanying goal(s), a set of outcomes, indicators (disaggregated to an appropriate level) with baselines and targets to facilitate the tracking and reporting progress of implementation;
- A Metadata for each indicator to be developed to provide definitions and to serve as reference;
- A system decentralized to the components level to create and/or strengthen
- Linkages and synergies between the DRM-SC level and the components' three DRM-SSCs;
- To meet the demand for information and accurately report on the progress of results on a timely basis, there will be an annual review of progress, tools, evaluations, capacity building; and, a web-based database will be housed and managed the Secretariat - this will provide a common and centrally located database for the storage and easy retrieval of data on results.
- Strengthen GoL to Citizens' engagement through the Regional Dialogues Forum held in all 15 counties annually to review draft Annual Progress Reports and receive community feedback; and,
- Digitally, the DRM-SC will establish a presence on social media platforms to strengthen engagement on Facebook, Twitter, Instagram and YouTube as information outreach and feedback channels.

6.7 DRM Risk Analysis and Results Matrix

Upon the implementation of the e & m-Tax project, DRM transformation projects, tax policies, a paradigm shift in tax expenditures and tax base expansion proposals would yield an estimated additional revenue under the following scenarios:

I. Optimistic scenario, this assumes a full implementation of all the strategies proposed and as soon as year 1. This would result in additional above actual trends of USD 1,536 million over five years, with an average annual intake of USD 307 million. That is, 82% of annual average revenue in the past six years and 18% of GDP (2017).

II. Conservative scenario takes into account the following: a. The fact that full tax premium status cannot be realized in Agriculture because of the dominance of subsistence farming which is non-taxable and representative of pervasive informality in most sectors of the economy; b. Decisions on paradigm shifts and gestation period of transformation may take a minimum of two years to take effect; and, realistically, some tax expenditures including those permitted under international conventions cannot be done away with. This would result in additional revenue of USD 1,015 million over five years and USD 207 million on average annually, i.e. about 50% above past trends at USD 461 million.

III. Pessimistic scenario I assumes that for a myriad of reasons including fears of negative fallout from investors (which the evidence does not support) and satisfying influential vested interests, the requisite political decision for a paradigm shift in tax expenditures may not be forthcoming, leaving estimated revenue from discontinuing unrealized. This would result in USD 622 million over five years and USD 124 million on average annually, i.e. 27% above past trends.

IV. Pessimistic scenario II assumes that if donor support and private sector investments are not realized, or if sectors do not have the absorptive capacity to implement projects, the DRM revenue projections would not forthcoming. This would result in total additional revenue of USD 753 million over five years and USD 151 million on average annually, or 33% above past trends.

The discourse throughout the DRM rests on the Conservative scenario.

Expected Revenue Flows

REVENUE PROJECTION Optimistic Scenario							
	FY2018	FY2019	FY 2020	FY 2021	FY2022	Aggregate	An. Av
DRM			176.1	177.6	178.6	532.3	106.46
Tax Expenditure (11			158.5	181.4	184.4	524.3	104.86
Expanded Tax Base	70.3	81.9	93.5	112.8	121.8	480.3	96.06
Total Revenue	70.3	81.9	428.1	471.8	484.8	1536.9	307.38
Additional Annual Average Revenue							307.38
Annual Avergae FY 2012 - 2017 (actual)							460.5
Annual Average Revenue							767.88
Conservative Scenario							
DRM			83.5	88.8	89.3	261.6	52.32
Tax Expenditure			118.9	136.1	138.3	393.3	78.66
Expanded Tax Base	52.7	61.4	70.1	84.6	91.4	360.2	72.04
Total Revenue	52.7	61.4	272.5	309.5	319	1015.1	203.02
Additional							203.02
Annual Avergae FY 2012 - 2017 (actual)							460.5
Annual Average Revenue							663.52
Pessimistic Scenario 1 (Paradigm shift in tax expenditures unrealized)							
DRM			83.5	88.8	89.3	261.6	52.32
Tax Expenditure							
Expanded Tax Base	52.7	61.4	70.1	84.6	91.4	360.2	72.04
Total Revenue	52.7	61.4	153.6	173.4	180.7	621.8	124.36
Additional							124.36
Annual Avergae FY 2012 - 2017 (actual)							460.5
Annual Average Revenue							584.86
Pessimistic Scenario 2 (Investments in Sectors Unrealized)							
DRM							
Tax Expenditure			118.9	136.1	138.3	393.3	78.66
Expanded Tax Base	52.7	61.4	70.1	84.6	91.4	360.2	72.04
Total Revenue	52.7	61.4	189	220.7	229.7	753.5	150.7
Additional							150.7
Annual Avergae FY 2012 - 2017 (actual)							460.5
Annual Average Revenue							611.2
Source: Author's Projections, NGDP Projections from IMF Article IV 2018							

Three main Strategic Priorities for Domestic Resource Mobilization

Strategic Priority 1: Expanding the revenue base and Minimizing Revenue Loss	
OUTCOMES	***KEY RESULTS***
- Raise the tax effort increase through DRM Strategy implemented and mainstreamed in the next National Development Plan, Medium Term Expenditure and Annual Budget as well as governance organs including Secretariat established	- Revenue to GDP increase by an additional 4% of GDP or USD 1,015 billion over 5 years through implementing the DRM Strategy including raising the efficiency and effectiveness of the taxation, minimizing revenue loss from tax collection and tax expenditures, and turning tax discount into tax premium sectors
- Coverage of Excise taxes expanded	- Excise tax collection increase from 0.75% of GDP to 1.5% or USD 24.15 million
- LRA VAT policy enunciated and collection framework instituted - Coverage of Goods and Services tax expanded under VAT	- Goods and services tax increase under VAT (domestic) from 1% of GDP in 2016 to 3% or USD 63 million
- GST tax of 10% imposed on outward remittances to stem flows	- Revenue from GST on outward remittances USD … million
- Existing CIT rate of 25% imposed on Mobile Money Companies	- Revenue raised from Mobile Money Companies amount to USD … million
- Study mapping MSM Businesses in the informal sector conducted to bring the gainfully employed in the informal sector into the tax net	- Number of Medium, Small & Micro taxpayer registered more than Doubled from 26,914 in 2017 to over 51,000 by 2021
- Concession Agreements eliminated to reduce revenue loss	- Recovered revenue loss from discontinued tax expenditures over four years amounts to USD 621.5 million
- Non-Taxes streamlined and revenues raised - Collection and transfer of Non-Taxes (Royalties, fees, fines, penalties, forfeits etc) to the consolidated revenue made cashless and determined by the MFDP-Fiscal - Use on Non-Taxes catalogued and streamlined to get rid of nuisance taxes	- Non-Tax Revenues growth increased from 26% in 2016 over 0ver 2015 to an annual average of 36% over the four years of DRM implementation - Growth in the Number of non-taxes types introduced stabilized to zero - Existence of framework for recording and forecasting non-tax revenue
- Collection of taxes automated through computerized interface between 27 MDAs and LRA - Institutional capacity of sector ministries assessed and gaps filled for more efficiency in tax collection including automation and digitalization of tax collection recording and transfers of proceeds to the consolidated revenue	- Existence of real time revenue collection data by sector ministries - Institutional capacity for revenue collection upgraded in sector ministries through doubling budgetary allocation towards this task - Capacity of at least 4 staff in each of 27 sector ministries upgraded to operate digital platforms for revenue collection

Higher taxes are suggested for Forestry: 30% on timber exports differentiated by species and another, an area tax to be covered by significant hikes in rents (10%) and royalties (10%)	- Increase in revenue collection by …% over USD … million collected in 2017 - Slower rate deforestation through logging
- A mapping of ***High Wealth Individuals (HWIs)*** conducted across sectors to have a better appreciation of the modus operandi of this group, its size, definitional issues, etc. - Incentivize enterprises to make declarations of professionals, doctors lawyers and accountants whose services they use - LRA sign MOUs with professional fraternities to require tax clearance for renewal of licenses or membership - LRA engage professional fraternities to educate their membership about their tax obligations	- Revenue collected from High Wealth Individuals increase from USD … million to USD … million - Reduction in outward remittances from HWIs
Strategic Priority 2: Financial deepening for savings generation and Plugging savings leakages	
- US Dollar and Liberian Dollar dual currency regime replaced by Liberian Dollar as only legal tender	- Existence of independent monetary policy regime - Lost sieniorage recovered amount to USD ….. million
Expand the institutions and instruments in the Liberian money market by enacting enabling banking legislation for establishment of Off-Shore banks and Sharia banks to attract foreign savings and promote financial inclusion of the minority Muslim Community	- Existence of Offshore Banking Act - Existence of Sharia Banking Act - Existence of Venture Capital Companies Act
- Inter-bank markets for overnight liquidity and foreign exchange to support short term commercial bank liquidity constraints and buy foreign exchange among each other	- Existence of framework for banks to borrow from each other - CBL serve role as lender of last resort - Minimize Central Bank interventions in foreign exchange market - Existence of Inter-bank money rate - Existence of foreign exchange market for banks to offload excess holdings above minimum balance
- Liberians in the Diaspora holding GoL issued Diaspora Bonds contributing to the development financing of the Motherland	- Existence of 3 and 5-year Diaspora Bonds for subscription by non-residents managed by an international bank - Increase national development plan financing by USD … million
- Increase GoL's short term liquidity management by the issue of George Weah Treasury Certificates targeting Liberians at home	- Floatation of George Weah Certificates (GWCs) in denominations of USD 100, USDD 300, USD 500 with maturities of 3, 6, 9 and 12 months at competitive returns available on mobile platforms - Increase in GoL liquidity by USD … million for better short term cash management

Venture Capital Companies to support private enterprise start-ups and Equity Trusts for small savers wishing to invest in the capital market	- Existence of Venture Capital Companies Act - Existence of Equity Trusts Act
- Capital Market for equity and bonds to support a market-driven private sector-led growth strategy and avenue for Liberians to buy into companies operating in the natural resource sector	- Existence of Securities and Exchange Commission - Existence of brokers, dealers and financial advisors - Existence financial standards boards - Existence of Liberia Stock Exchange
Strategic Priority 3: Exploiting nexus between DRM and ODA	
- DRM to fully fund GoL's consumption and devote external grants and loans to investments and loan repayment	- Primary balance in the fiscal budget - Investments generate stream of returns to facilitate loan repayments
- Liberian army and police on international peace keeping duties	- Army and police earning income for Liberia
- GoL to exploit Aid-for-Trade facilities to support investments in Agriculture value chains for export	- More jobs created - Increase in exports
- National Emergency Response Fund (NERF) to finance a front-line defense to national emergences	- Existence of a National Emergency Response Fund (NERF)
Outcomes and Results of 8 Critical Enablers *Critical Enabler 1: Conducive Legal Infrastructure for taxation engendered*	
Outcomes	**Results**
- Instruments to facilitate a switchover from Concession Agreement to licensing regime and provide options for a licensing regime proposed and amendments to the relevant statutes including the National investment Code and Section 16 of the LRC elaborated	- Upgraded Prospecting, Exploratory Licenses and Mining Classes A, B and C issued lieu of Concession Agreements - Section 16 amended to reduce tax expenditures
- Nomenclature of taxes on goods and services changed from GST to VAT in the Revenue Code	- Liberia conforms with ECOWAS agreement on VAT - Existence of framework VAT administration
- Legislation enacted making it mandatory to issue and receive receipts in goods and services transactions	- Compliance and coverage with goods and services tax significantly expanded and strengthened for increase in intake of this tax
- LRA Act Part V, Section 27, 1 stipulates allotment from MFDP adhered to in a timely manner	- Budget allotments on automatic debit between Treasury and Central bank of Liberia (CBL) and automatic credit from CBL to LRA's Account
- LRA enforcement strengthened	- Garnishment to be extended from 3 days to 7 days - LRA given access to third party data including bank accounts

Critical Enabler 2: Effectiveness and Efficiency gains in the tax system	
- Efficiency gains through implementation of e-Tax & m-Tax project	- Cost of tax administration reduced from 4% in 2017 to 2% by 2021 Total Tax Rate as percentage of commercial profit reduced from 45.9% in 2016 to 35.7%; Profit tax total tax rate reduced from 35.4% to 25.5%; Labor total Tax rate reduced from 9.4% to 8%. - Time to comply (Number of hours): Total tax time reduced 140 to 100; Corporate income tax time 59 to 50; and Labor tax time 30 to 25; Consumption tax time 51 to 41.
- Trading Across Liberia's Borders facilitated by e-Tax at border posts -- National Entry Points Agreement among operating MDAs	- Total Trading Across Borders increased from 27.77 to 50.00; Trading Across Borders Rank 177 t0 160; Time to export Border compliance (hours) 193 to 100; Cost to export Border compliance (USD) 111.3 to 100; Time to export Documentary compliance (hours) 144 to 100; Cost to export Documentary compliance (USD) 155 to 110; Time to import Border compliance (hours) 217 to 120; Cost to import Border compliance (USD) 1,013 to 500; Time to port Documentary compliance (hours) 144 to 100; Cost to import Documentary compliance (USD) 230 to 130
- Policy support for effective tax administration strengthened	- The following policies sanctioned by the LRA Board of Directors to guide practice: Tax Administration Digitalization (e-Tax) Policy; Tax Administration Mobile Platforms (m-Tax) Policy; Risk Management Policy; Taxpayer Education Policy; Communication Policy; Business Process Management Policy; Business Information Management Policy; Institution Projects Management Policy; Information Technology Policy; Cash Collection Policy; Bad Debt Management Policy; Tax Refund Policy; Prosecution Policy; Technical Assistance Policy; Security Policy; Staff Recruitment, Pay and Severance Policy; Staff Development Policy; Staff Medical Coverage Policy; Staff Bonus Policy; Staff Reward and Recognition Policy; and, Sports Policy
- Special Surveillance Unit (SSU) established in Large Tax Division to conduct AAA, enforcement and audit multinationals, High Wealth Individuals and Natural resources sector companies supported by intensive staff training supported by three specialist technical assistants on large, and medium, small and micro (MSM) tax policy and administration and taxing natural resources	- 20 AAA, Enforcement and Audit staff redeployed to the SSU - SSU staff trained abroad and locally for specialization and higher expertise - Three specialist technical assistants hired to support Large Tax Division, Medium Tax Division and Natural Resources with all supporting the SSU as well - Existence of a framework for taxing multinationals, HWIs and Natural resources
- Enterprise risk management established at LRA	Enterprise and compliance risk management governance and administrative structures functional at the LRA
Critical Enabler 3: Macroeconomic Stability	
- Macroeconomic stability and Accountable and transparent public expenditures management to meet pro-poor socio-economic services	- A medium term facility for economic growth and macroeconomic stability concluded with the International Monetary Fund - Target annual GDP growth of 8% - Inflation in single digit - Real interest rates for savings mobilization - Budget deficit at or below 3% - Existence of fiscal rules: Wages and salaries not more than 35% of total expenditure; 40% on Social Services (health, education, water and sanitation)

- Public Financial Management Act amended to give the National Assembly direct oversight over the budget deficit contained in budget approved by at the beginning of the fiscal year	- Cabinet Financial Oversight Committees put attainment or missing the budget deficit and fiscal rules as main indicators of success or failure in budget management
- CSO's participating in monitoring the fiscal rules on budget deficit, share of wages and salaries and social services in expenditure; CSOs given opportunity to testify before Legislator's Financial Committees on fiscal budget and GoL's finances	- GoL transparency and accountability in public financial management enhanced by being called out on adherence to fiscal rules
Critical Enabler 4: Public Confidence in Tax System	
- A nationally representative DRM Regional Dialogues Forum instituted as an organ of the DRM structure - A National DRM Symposium held annually - Discussions and debates on DRM in the Legislature, on television, radio and social media - Face book, Twitter, Histogram, etc.	- Rating in the biannual Public Taxpayer Perception Survey (TPS) on the 'Overall Tax System' at or above 'Very Good' on a scale of Poor, Fair, Good, Very Good and Excellent - Rating on 'LRA Services' at 'Very Good' - Rating on corruption in tax Administration at 'Very Good'
Critical Enabler 5: Risk management policy and management framework instituted by the LRA	
- Board's annual Risk Management Statement issued - Enterprise Risk Management structure instituted by LRA including designation of 'Risk Owners' and 'Risk Managers' - 'Risk Dump' instituted giving access to the staff and public for reporting all manner of risks to the objectives of the LRA - Taxpayer risk-based auditing instituted	- Entire management LRA run on risk management - Staff corruption cases reduced from … to … - Arbitration in courts reduced from … to … - Number of auditing conducted reduced from …. to … per annum - Costs of audits reduced from USD … to USD … per annum
Critical Enabler 6: Income growth and Turning tax discount into tax premium sectors	

- Modernization and market-led Agriculture for food security with particular reference to rice production and other cash crops as well as high value horticultural products for human and animal consumption, spearheaded by Agro-Pole International as the 'core' producer - Liberian Youth trained under the Songhai Project provide skilled workers for Agro-Pole - Liberian Youth trained under the Songhai Project become Agriprenuers engaged in start-ups along the agricultural and livestock value chains - Subsistence farmers with potential for expanded production assisted to act as 'periphery' producers to Agro-Pole and successful Agripreneurs - Rice milling catering to the required specifications of the domestic market operational to enable import substitution - A poultry, sheep and cattle feed mill operational through a public private partnership while Agro Pole Liberia supply the crop inputs of the mill - - Hon Minister and team visit Agro-pole in Zambia and Cote D'Ivoire	- Turnaround in taxes collected from Agriculture, Forestry and Fisheries by 84% from actual USD 16.3 million in 2017 to potential USD 29.8 million on 2017 figures - !000 Liberian Youth trainee as Agripreneurs - An agricultural policy and sub-sectors with costed strategic plans elaborated • An animal health Act; • A phytosanitary Act • Reduce % of post-harvest losses in major crops (cereal) • From … to 20% - Increase production of basic agricultural commodities for enhanced food and nutrition security as follows: • Increase rice production … (000' Mt) to … (000' Mt) • Increase maize production from … (000' Mt) to … (000' Mt) • Increase cocoa production from … (000' Mt) to … (000' Mt) • Increase onion production from … (000' Mt) to …. (000' Mt) • Increase tomato production from … (000' Mt) to … (000' Mt) • - Increase livestock production for food self-sufficiency in animal and animal products- Volume of total production by commodity (000' Mt) • Increase Cattle production from … (000' Mt) to … (000' Mt) • Increase sheep production from … (000' Mt) to … (000' Mt) • Increase goat production from … (000' Mt) … (000' Mt) • Increase pig's production from … (000' Mt) to … (000' Mt) • Increase poultry (Local from … to …; Broiler from … to …) - Increase off-take rate by animal species as follows: • Cattle from … to … • Sheep from … to ... • Goat from ... to ... • Pigs from … to ... • Poultry (Local from … to …; Broiler from … to …) - Increase average cattle milk production per/annum from … to … (liters) - Increase quantity of eggs produced per/annum from … to … (000'Mt) - For agro-processed products by type (000' Mt): • Increase Fruits production from … Mt) to … (000' Mt) • Increase Vegetable production from … (000' Mt) to … (000' Mt) • Increase Dairy production from ... (000' Mt) to … (000' Mt) • Increase Honey production from … (000' Mt) to … (000' Mt)

- Liberia's forestry preserved through slower rate of deforestation under REDD program - Tax credits/incentives to support commercial loggers ceased	- Slower rate of deforestation
- Fisheries: Private Liberian Fishing companies nurtured to enter into partnerships with EU fishing companies under a renegotiated Sustainable Fisheries Partnership Agreement - Enter into partnership agreements with Senegalese and any other fishing companies fishing in Liberian waters - French and Spanish companies currently fishing under the EU Concession Agreement to pay CIT and royalties - Liberia Fisheries Skills Training and Marketing Centre established - Fund established to provide insurance cover for Liberian Youth to be employed on (EU) fishing boats - Middle men and women in fisheries sub-sector with the appropriate turnover filing returns as Medium others will lesser turnover as Small taxpayers - Artisanal fishermen to pay presumptive taxes of 4% and issued an emblem for compliance - Artisanal fishermen organized into Fisheries Cooperatives Society - (5) Fish Landing Sites built along the Atlantic coast equipped with cold rooms for fish storage	- Increase revenue collected by … % from USD … million in 2017 to USD … million - A revised fisheries policy, act and regulations in favor of the proposed expansions in the sub-sector from DRM - Existence of Liberia Fisheries Skills Training and Marketing Centre - Existence of 5 Liberian enterprises as partners in partnership with companies from EU, Senegal and other countries fishing in Liberian waters - !000 Liberian Youth trained in the requisite skills of the industry - Increase fisheries as a percentage of GDP from ... % to … % - Increase total production of fish resources from … to … Mt - Increase budget allocation to aqua culture development from … % of total budget to … % - Increase the percentage of fish resources exported from … % to …%
***- Mining*: **Liberia Precious Metal Marketing Company (PMMC) established to add value, develop sector, facilitate marketing and withhold taxes - Artisanal miners organized into cooperatives and provided with extension services by the PMMC - Hon Minister visit Debswana in Botswana and PMMC in Ghana	- Revenue from mining increased by a potential 61.1% from USD 21.401 to USD 34.5 Million - Concession Agreements discontinued - Tax incentives reviewed and scaled down - Existence of one (I) new PPP enterprise, the Liberia PMMC - Outward remittances reduced by 50% from USD 300 Million in 2015 to USD 150 Million

- ***Tourism*** Master plan approved by Cabinet providing the legal infrastructure and institutional framework as well as a Public Private Partnership Tourism Bureau established - Tourism Development Area established intended for private sector businesses by zoning the land that forms the beachfront of the country for construction of hotels, restaurants, entertainment centers, spas, boating and leisure fishing companies, etc., while investing in access roads, electricity and water installations - Liberia Travel and Tourism Institute established to proffer the requisite skills for the industry - A high profile International Hotel Chain attracted to set-up in Liberia as an industry pacemaker - A high profile International Travel agency attracted to set-up in Liberia as an industry pacemaker - Liberia Artifacts and Memorabilia Shills Training and Marketing Centre established - Cultural Assets Integrated into the Tourism Industry and Promoted - Forestry Assets integrated into the Tourism Industry and promoted as Eco-Tourism	- Revenue increase from USD … million to USD … million - Increase the number of Tourist arrivals by source markets from … to … - 300 Liberians trained annually to man all positions in the tourism industry, managers, chefs, waiters and waitresses, travel agents and guides, entertainers, etc - 100 Liberians trained annually at the Liberia Artifacts and Memorabilia Shills Training and Marketing Centre - Increase job creation for Liberians from … to … - Increase foreign exchange earnings from USD ... million to USD … million - Existence of ready export market for Liberian agricultural products - Increase the amount of funds allocated to the promotion of culture from USD… million to USD … million - Existence of upgraded cultural heritage sites - Existence of Forest rest houses, drive ways, walk ways and overpasses - Existence of a multi-purpose national cultural theater - Existence of specialized markets around hotels for sale of Liberian artifacts and memorabilia

Real Estate: - Reform and modernize land tenure system to be development and market friendly - To incentivize Taxpayer compliance, rates are kept affordable - Property tax receipts earmarked for upkeep of the environment of local government by spending on collecting garbage, cleaning the streets and developing and maintaining community markets and public spaces; and as resources permit to provide social services - A reliable register of land ownership and maintain accurate records - Real estate revaluated throughout the country - Real estate tax collection devolved to local government as part of a comprehensive GoL's decentralization strategy	- Revenue from Real Estate increase by 50% annually over four years - Existence of New Land Tenure Act - Local government funding derived from real estate receipts - Existence of Mortgage Act - Existence of a comprehensive cadastre mapping - A reliable record of the housing stock - Up-to-date valuation of real estate - Local government financing secured
Wholesale and Retail Trade: Three types of automated POS machines for wholesale and retail traders: an electronic cash register (ECR) and electronic tax register (ETR) and Electronic Signature Device (ESD) for Micro, Medium and Large Taxpayers respectively, to provide sales data, facilitate filling tax returns and provide paper trail at point of sale	- Revenue from trade sub-sector increase from USD … million to TSD … million - Existence of POS machines and receipts issued for every goods and services transaction by Large, Middle and Small taxpayers - Facilitate VAT regime by all claimants of offsets having Electronic Signature Device (ESD)
- Construction: Construct roads using cobble stones collected and molded by Community Youth Construction Corps (Ltd) - Establish and train a Community Youth Construction Corps in every county - Community low cost housing using cobble stones built by Youth Construction Corps in partnership with private sector to be mortgaged to buyers - Road maintenance to be subcontracted to the Community Youth Construction Corps	- Revenue from construction increase a potential 80% from USD 2,254 million in 2016 to USD 4.1 million - Low cost road construction from USD 1 million per Kilometer to USD 200,000 per kilometer - Existence of a minimum of 200 Youths as members of the Community Youth Construction Corps in all 15 counties - Existence of low income housing units for sale in all counties - Community ownership of roads and responsible for maintaining road quality

Critical Enabler 7: Legislation and regulations supporting growth of financial institutions, markets and instruments	
- Serial defaulters by borrowing and defaulting at more than one bank eliminated	- Existence of credit reference bureau administered by the Central Bank
- A deposit guarantee scheme to make savings deposits more attractive	- Existence of a Deposit Guarantee Scheme
- Double dipping with the same collateral discouraged	- Existence of a new collateral registry
- More Liberians using the financial systems for monetary transactions by increase public financial literacy	- Existence of public education programs to increase the financial quotient of Liberians - Increase in financial savings and borrowing as well as profitability of banks - Currency in circulation reduced
- The judicial adjudication process for loan defaults strengthened	- Existence of Commercial Court
- Rate of remittance outflows slowed by a cap of individual transactions	- Existence of a Remittance Registry to facilitate a cap of USD 50,000.00 per person per year
- Financial inclusion of the unbanked particularly the poor in rural areas	- No taxes imposed on mobile money users per transaction
- Incentivize groups and individuals in Diaspora to fund community projects - More financing available for community projects	- Existence of matching funds scheme for Diaspora community projects financing by GoL - Increase in community projects co-financed by Diaspora from … to ,,,
- Increased financial inclusion by Post Office system that takes in savings and used for payment of taxes	- Existence of a re-engineered Post Office system operational in all towns in all counties - Existence of an MOU between LRA and Post Office for tax payments collection
Critical Enabler 8: Donor partnership in the implementation of DRM Strategy	
- Donors contribute to the funding of the DRM	- Existence of the Donors' Partnership Forum (DPF) in the governance structure - Lead Donor to have a seat in the DRM Steering Committee for Quality Assurance
Mitigating against DRM Headline Risks (Cross-cutting)	
Corruption: - To engender a change in the culture of corruption to reset the moral of seeing it as an evil in the society at every level: home, schools, churches, mosques and work places - Deter corruption by convicting and imprisoning perpetrators - Freeze assets of accused everywhere in the world	- Existence of National Values Reorientation Program - Existence of an independent Anti-corruption Court - Anti-corruption law strengthened

Informality: - To educate, sensitize, organize and register informal sector operators in all sectors - Move informal operators into formality	- Existence of cooperatives, associations and trade unions across all sectors - Establish institutions, promote growth of businesses and create jobs
Capital flight: - Anti Illegal transfer pricing capacity built in the SSU of LRA - Unmasking Ultimate Beneficiary Owners (UUBO) of businesses exposed - Resident Advisor and OECD build capacity of SSU and LTD on detecting and deterring illegal transfer pricing and UUBO - Constantly review to close loopholes in tax treaties and tax laws - To strengthen the laws by criminalizing money laundering which can be result of illicit financial flows - Engage in international efforts and fora to keep abreast with initiatives on Base Erosion Profit Shifting (BEPS) at the global (G20, OECD) regional (Mbeki) and sub-regional levels (ECOWAS)	- Illegal transfer pricing reduced from USD 890 million to USD 450 million - Stay ahead of the perpetrators of illicit outflows
Low Human and Institutional capacity: **-** Digitalization and automation of revenue collection and recording in sector ministries - A modern LRA driven by taxpayer centered services, risk management, and digitalization	- Elaborate human and institutional capacity assessment and training needs for sector ministries - Elaborate comprehensive institutional and individual based human capacity assessment to ascertain the training needs of every individual officer, section, division, department of the LRA.

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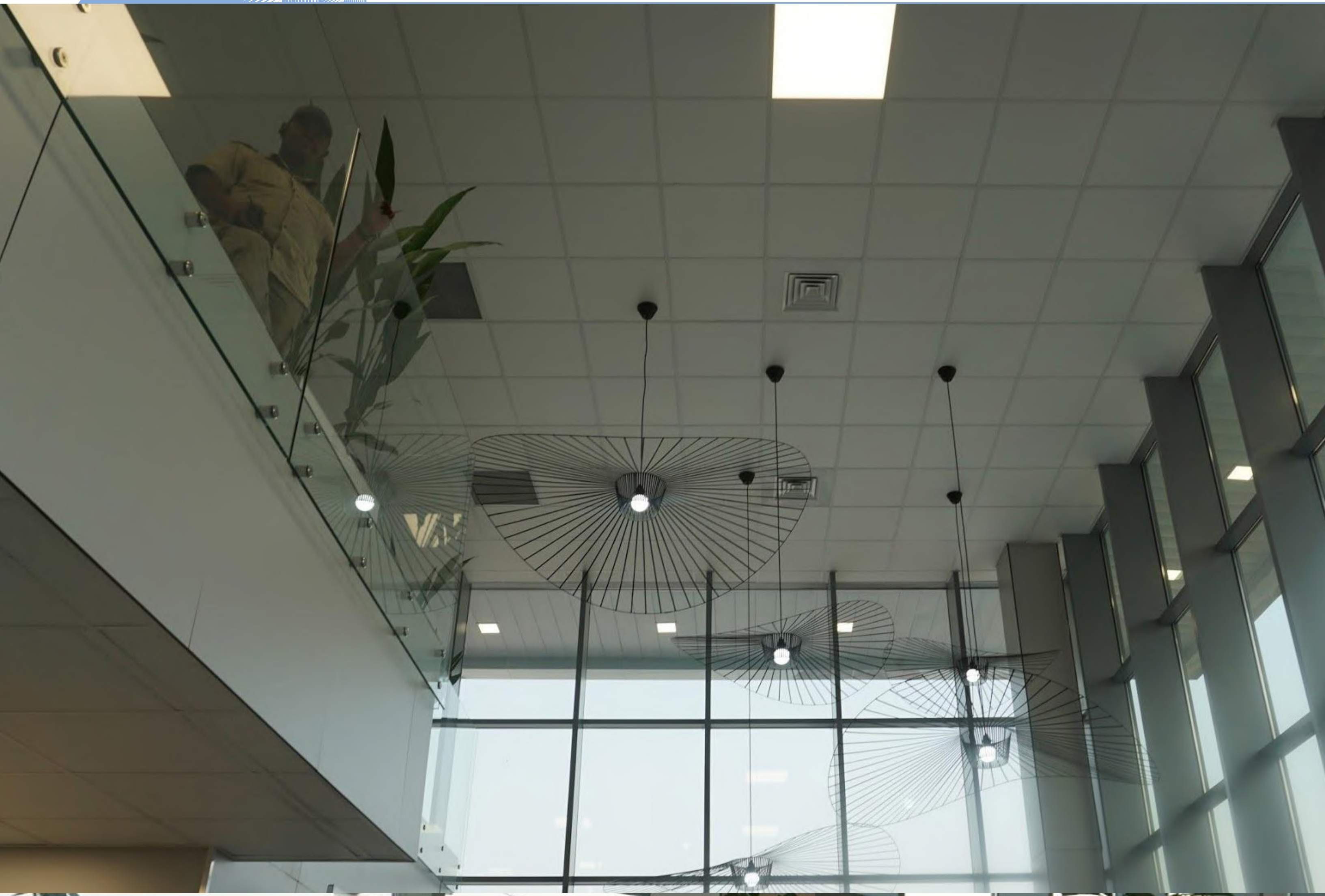

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8.0 Annexes

8.1 Part III – The Nexus between Domestic Resource Mobilization and Foreign Resource Mobilization

This part is not found in many DRMs however, it is here in recognition of the current international environment whereby (DRM) can be used to increase foreign resource mobilization (FRM) and optimize its impact on growth and development. Discussing DRM with FRM is the approach taken by OECD 2014 on Fragile States and the non-traditional sources of finance mentioned in UNDP Ethiopia 1/2012. Indeed, the Addis Compact 22 professes to direct international community support to articulate and implement DRM strategies in Africa. Thus, this DRM seeks to create more space for the uses of ODA, which has succeeded in stopping emergencies like the Ebola, but not much impact on human development or to get the country out of chronic aid dependency.

One may argue and of course rightly so, that keeping people alive is sine qua non for building the human capital stock. However, the aim is to propose strategies that seek to tap Liberian wage earners abroad that constitute remittances or compensation of employees. The proposal include floating Liberian Government debt instruments in the Diaspora, forming partnerships with Liberians abroad to finance projects in local communities or using the country's environmental conditions to earn credits in financing from global climate change initiatives. In each of these strategies there are Liberian endowments involved in attracting foreign earnings and international program resources.

FRM flows into the country in the forms of official development assistance (soft loans and grants), remittances, compensation of wages/primary income, foreign direct and portfolio investments and bank loans, as well as short term trade credits. How DRM can influence or be influenced by the significant flows of FRM is discussed next.

8.1.1 Official Development Assistance

Foreign saving has been significant in financing the post-war peace-making, restoring the role of Government and basic socio-economic services, water, electricity, hospitals and schools, etc. as well as addressingthe health emergency in Liberia. ODA is provided by bilateral donor governments and multilaterals as grants at largely IDA concessional terms with a grant element of at least 25 per cent at an average rate of discount of 10 per cent[175].

Table A1: World Aid Dependency Ranking

World Ranking on Aid Dependecy					
Country	Rank 2015	Rank 2011	Rank 2007	ODA/GNI 2015 (%)	ODA/Gross Capital Formation 2015 (%)
Tuvalu	1	1	4	89.2	-
Liberia	2	4	1	61.7	266.9
Central African Republic	3			30.6	220.8
Marshall Islands	4			22.9	-
Sierra Leone	5	10	10	22.6	145.4
Afghanistan	6	3	3	21.7	110.9
South Sudan	7			21.1	165.4

After having performed very well to arrest the Ebola pandemic, the lackluster response to Liberia's post-Ebola economic recovery effort is symptomatic of aid fatigue and in line with a discernible sector shift in ODA from economic management to climate change and peace, security and governance. There are apprehensions already expressed that this shift may also play down assistance to social sectors, education, health and livelihoods, which are critical for building human capital in LICs for economic development[176]. In 2015, the world's top seven aid recipients are characterized as fragile states that fall under these two categories. The top and fourth ranking, Tuvalu and Marshall Islands, are very small Pacific island states being adversely affected by climate change and global warming causing the Pacific Ocean to rise and drowning the land mass of those countries[177]. International donor aid is currently trained on alleviating the plight of these island states.

The other five led by Liberia, ranked second in the World on aid dependency, are African countries in a civil war or recently out of one (Table A1). Liberia and Sierra Leone fall under the latter group but the fragile states categorization and an aid dependency syndrome was aggravated by the Ebola health emergency in 2014 and 2015. The former received USD 1.1 Billion in net ODA inflows or the equivalent of 61.7 % of the country's GDP and about three times the tax revenues collected in 2015.

Challenges

The less than enthusiastic response to financing the ERSP, which came in the immediate aftermath of unprecedented ODA flows that successfully arrested the spread of the Ebola virus, among other factors, point to a mismatch in priorities set by the donors in their aid portfolios and those of the country. This asymmetry in purposes of Aid is a dogged issue of national ownership still without a workable solution. It is a source of unpredictability and uncertainty associated with foreign inflows which adds to its volatility from the perspective of the receiver.

Yet, the age-old adage expressed by Robert Barro[178] cannot be overemphasized: 'a gift is for the gratification of the giver'. The unpredictability of bilateral aid and the vagaries in the timing of multilateral flows, driven to some extent by the prevailing political economy philosophy about aid in the dominant Western capitals, combine to complicate prioritizing needs and managing development financing in countries such as Liberia (IMF 2010, OECD 2016). This factor which serves as a justification for national ownership is much discussed in the aid effectiveness literature and various international fora[179]. Unrealized aid expectations by recipients is a cause for concern and DRM is one strategy for managing and reducing those expectations which can potentially lead to unrealized expectations, underfunded

175 OECD 2014

176 OECD: Fragile States in 2014 – Domestic Revenue Mobilization in Fragile States

177 Tuvalu: population 10,640 (2012 census) and total land area of the islands of Tuvalu is 26 square kilometers (10 sq. miles). Marshall Islands: population of 53,158 people (at the 2011 Census) is spread out over 29 coral atolls, comprising 1,156 individual islands and islets. Marshall Islands: https://www.climate.gov/teaching/resources/tuvalu-islands and https://www.nytimes.com/.../The-Marshall-Islands-Are-Disappearing.html

178 Paul M. Warburg Professor of Economics at Harvard University. The Research Papers in Economics project ranked him as the fifth most influential economist in the world, as of March 2016, based on his academic contributions, New Classical Economics.

179 Global Agenda on Aid Effectiveness: 2016 Second High-Level Meeting of the Global Partnership for Effective Development Cooperation; 2014 First High-Level Meeting of the Global Partnership for Effective Development Cooperation; 2012 Global Partnership for Effectiveness Development Cooperation; 2011 Busan High Level Forum on Aid Effectiveness; 2008 Accra Agenda for Action; 2005 Paris Declaration; and, 2003 Rome Declaration

and unimplemented plans.

However, there is a cautionary view that the resource gap is so wide in LICs, especially in fragile states like Liberia, where foreign savings in the form of ODA have been so important, that it would remain a critical component of development finance for the foreseeable future[180] (Box A1). A more fundamental issue is the effectiveness of this aid for economic growth, as proclaimed by MFDP, has attracted many questions and a couple of the desired outcomes (poverty and growth) are discussed briefly.

Liberia and Sierra Leone received aid in per capita terms that took a quantum leap from USD 9 and USD 3 in 1990 to USD 166 and USD144 in 2014 respectively (Box A1). In 2011, Liberia received $765 million in ODA or more than two-thirds of the GDP in 2011 and over USD 500 million annually under United Nations Mission in Liberia (UNMIL) for over a decade largely for payment of foreign security services. Aid, on an annual average basis, over the past decade averaged more than 50% of all capital flows into Liberia and Sierra Leone. This level is far higher than their neighbors, The Gambia, Ghana, Guinea and Nigeria, where aid per capita levels have remained below USD 50 over the same period.

However, a long term view of aid shows that globally it has been declining, but flows to the fragile states have been bucking this trend. According to Gale Smith (2016), Administrator, United States Agency for International Development (USAID), the world's largest bilateral donor and Liberia's most significant partner, the share of aid flowing to developing countries by donor governments has declined over the 50 years life of the Agency from 75 to 10%[181]. Notwithstanding, USAID leads in Liberia as the premier donor. Still, a Brookings Institute study Number 5, December 2016 on 'Aid Effectiveness in Fragile States: and How Bad Is It?' argued that the delivery of this aid by certain bilateral donors has been ineffective, which translates into less optimal value for money for the giver, donor taxpayers, and the citizens of the recipient country.

While aid to Liberia grew in leaps and bounds between 2000 and 2015, Liberians actually got poorer on account of an average annual 2.5% decline in household final consumption. The civil wars and Ebola left the country emerging from a deep human welfare trough. On human development during this period of high aid inflows that coincided with Millennium Development Goals (MDGs), Liberia and Sierra Leone performed less than Ghana, The Gambia, Nigeria and Guinea according to the Human Development Index (Box A2). In Liberia particularly, 54.1% of the population live below the poverty line at less than USD 1.25 per day, illiteracy is about a third of the population and life expectancy is 57 years[182]. The neighboring countries with less aid are performing better with respect to the Human Development Indicators (HDI – Box A2).

On the question: Does ODA have significant impact on growth and development in developing countries? The jury is still out for a definitive answer.

The optimistic view espoused by Jeffrey Sachs (2009) and Stiglitz (2002), see it as reinforcing the hopeful growth trends in developing countries. On the other side of the spectrum of views is William Easterly (2001, 2003, 2006), who argues that aid has historically failed in 'buying growth'. A fatalistic view from Moyo, 2009, proclaimed "Dead Aid: Why Aid is not Working and How There is Another Way for Africa", calls for a complete cessation of aid flows to Africa and seeks to turn the African into 'a chooser is not a beggar'[183].

180 Malcolm Macpherson, Fiscal Space in Liberia (2017)-Unpublished UNDP Report

181 In FY 2017, USAID's budget is $22.7 billion, of which $11.0 billion is in core USAID-managed accounts: Development Assistance, Global Health Programs-USAID, International Disaster Assistance, Food for Peace Title II, Transition Initiatives, Complex Crises Fund and USAID Administrative Expense accounts. Https://www.usaid.gov/results-and-data/budget-spending

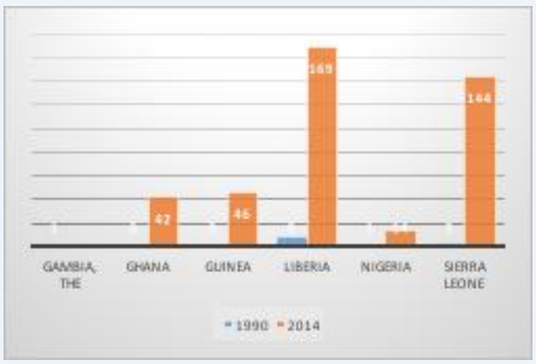
182 Household Income and Expenditure Survey 2014: Agenda for Transformation Baseline Indicators 2016

183 World Economic Forum 2017; "Aid and Growth: Have We Come Full Circle?" dated September 2009. It can be downloaded from http://www.wider.unu.edu/publications/working-papers/discussion-papers/2009/en_GB/dp2009-05.

Box 1: Liberia and Official Development Assitance

This recent development brought into bold relief the country's desire to build some resilience to shocks and provide a frontline cushion. During the regional dialogues on taxation held throughout country, citizens have bemoaned the slowing down of foreign aid and its misuse by the Government and clamored for recourse to domestic resources. Liberia's net overseas development assistance (ODA) per capita rose from USD 9 in 1990 to USD 169 in 2014. This is higher than neighboring Sierra Leone which it shares a fragile state status. It is also substantially above the other member countries of the West African Monetary Zone (WAMZ) (See Chart 1).

Table 1: Net ODA Inflows Per Capita into WAMZ Countries, 1990 & 2014 (USD)



Source: World Bank Databank

A study of fragility and building resilience in fragile sates by IMF Staff argued for a description that goes beyond civil war and violence but "can be retraced to the weakness (and lack of legitimacy) of government institutions, a poor and unstable economic environment, and a divisive and non-inclusive political context. There are thus, multiple factors that reinforce one another and trap fragile states in a vicious circle of underdevelopment" and substantial need for ODA. Liberia is one the leading recipients of ODA on the African continent.

Furthermore, ODA is not translating into economic growth partly due to the emphasis on the public sector and less direct interference in the time consuming, unsexy grind of human and fixed capital formation, technology and skills transfers in the private sector where the jobs are created. It is noteworthy that Africa's flagship aviation company, the Ethiopian Airlines, was started by ODA, a joint venture between the Ethiopian Government and Trans World

Sources: UNDP Human Development Reports, 2015

Table A2: Liberia Indicators

LIBERIA	INDICATORS
Human Development Index (2016)	0.427 177 out of 188 countries
Gross National Income Per Capita, PPP (2015)	720USD
Poverty Headcount Rate Population (2017)	54.1 % 4,722,350 Total 2,373,817 Male 2,348,547 female
Informal Employment Rate (2014)	67.9% nationally 69.4%for urban areas. 63.2% for rural areas
Vulnerable Employment Rate (2014)	74.1% nationally 65.0% for urban areas 85.0% for rural areas
Literacy (2014)	66.7% nationally 76.0% for rural residents 50.1% for urban residents 54.8% for women 80.6% for men

Sources: Human Development Report 2016; World Bank Indicators 2015; World Population 2017; LISGIS, MDGs Indicators 2014

Box 3. Enter China's ODA in Africa

In the last two decades, China has emerged as a major trading and aid partner of Africa but with a huge appetite for raw materials with less inclination to crowd out the policy space of decision makers. "Trade between the two regions has risen more than 40-fold during that period. China's share of African exports jumped from 1.6 % in 1995 to 16.5 % in 2015, and its share of African imports increased from 2.5 % to 23.2 %"[1].

Africa became foremost Chinese aid recipient by 2009 benefiting from 45.7 % of the RMB 256.29 billion cumulative foreign aid of China. "According to Chinese scholars, since 1956, China has provided almost 900 aid projects to African countries, including assistance supporting textile factories, hydropower stations, stadiums, hospitals, and schools. In addition, Chinese enterprises and banks have increased FDI and lending to Africa in the form of long-term loans. Chinese investment in Africa grew from USD 210 million in 2000 to 3.17 billion in 2011 and grew to USD 10 billion by 2012 in the form of "concessional loans." This commitment was doubled by Chinese President Xi Jinping's to USD 20 billion during his first overseas trip to Africa in March 2013. "The head sovereign risk analyst of Export-Import Bank of China announced in November 2013 that by 2025, China will have provided Africa with USD 1 trillion in financing, including direct investment, soft loans and commercial loans"[2]. Significantly, China is involved in private sector activities while ODA from the traditional partners is mostly public sector.

Liberia's destination of exports in the first three quarters of 2015 was to Asia lead by China, North America and Europe at USD 32.4 million, USD 30.4 million and USD 20.3 million respectively. China Union has invested close to half a billion dollars in iron ore mining and proposals are afoot to build a steel plant which would be major game-changer in iron ore value addition in this country.

1 IMF October 2017 Annual Report

2 "China's Aid to Africa: Monster or Messiah", Brookings Institute, Yun Sun, 2014

Airlines supported by USAID[184].

African policy makers have a love and hate relationship with ODA. When received, leaders welcome and trumpet it in the media as success stories of their regimes, and actively seek out the aid. However, they also bemoan encroachments in their policy space and reluctantly answer to issues such as accountability and transparency which may not be priority for them if they had their own way. The EU and USAID were the only contributors to the USD 12 million aid received by Liberia for this agenda. China, on the hand, does not engage in accountability and transparency (good governance) and fast becoming a large source of South-South ODA in Africa and Liberia (Box 3).

China, like traditional donors under the Highly Indebted Poor Income Countries (HIPC) Initiative, forgave Liberian debt to the tune of USD 16 million and ODA average about USD 20 million a year since Liberia embraced the one China policy in 2005. Chinese enterprises are present in the construction, restaurant and mining sectors in Liberia, with over USD 400,000 million invested by China Union in iron ore mining alone.

Consequently, this DRM shares the views of Sachs and Stiglitz that ODA can be used to reinforce growth trends, in this case through a deliberate strategic linkage between the two sources in financing the national budget and public investment program (PIP). The task is to draw maximum synergies facilitated by fiscal rules that optimize value for money in aid and domestic resources for the Liberian nation that would result in, among others, inclusive growth and poverty alleviation. The aim is to register development and poverty reduction success stories for Aid agencies to keep alive the continued interest in ODA by taxpayers in the donor countries[185]. The results should also serve as demonstrations of the usefulness of aid in making a difference in the lives of those it is targeted, to mitigate against the cuts initiated by President Donald Trump from going viral across donor countries.

The global community sought to enhance aid effectiveness through agreements on ownership, accountability and better coordination between donors and recipients in Busan, Paris (Declaration on Aid Effectiveness) and then in Accra (Agenda for Action (AAA) in 2008. In Ghana, "The developing countries committed to taking control of their own future, donors pledged to co-ordinate better amongst themselves, and all agreed to be more accountable to each other – and to their citizens". The DRM serves a platform for realizing the principles espoused by the international agreements on aid effectiveness.

In summary, the Liberian population has pressing needs for a 'shared prosperity', for which, they have to contribute

184 https://www.ethiopianairlines.com/corporate/company/about-us/history; Started in 1945, Ethiopian airlines is growing at 25 % and has forward and backward linkages pulling other sectors along. "Ethiopia: Fostering the Aviation Industry to Sustain Tourism, Trade, and National Economic Growth". It is gainsaying that foreign aid and DRM are not mutually exclusive and this DRM does not preempt the country, in order to have higher public investment consistent with its debt sustainability analysis (DSA), from seeking maximum access from facilities such as the USD 57 Billion International Development Association (IDA) replenishment targeting growth in Sub-Saharan Africa announced by the World Bank President in 2017.

185 Development Co-operation Report 2016: The Sustainable Development Goals as Business Opportunities

a larger down payment. Thus, given the unpredictable and declining trends of aid, countries prospering with less of it, inconclusive verdict on its efficacy to generate growth, crowding out elected decision makers in the national policy space, a recalibration in favor of DRM is an appropriate response to have sustainable financing for inclusive growth and poverty reduction in this country.

8.1.1.1 Strategy DRM for first Charge in Emergencies

The Ebola crises also brought into bold relief yet another imperative for a DRM in this country and that is, to build front-line national resilience to shocks and emergencies, in addition to financing social services in education and health and investment for inclusive growth for poverty reduction. The aim is to establish a National Emergency Response Fund (NERF) to finance a front-line defense to national emergences. It is intended to free ODA resources to meet the much desired goals of human development and economic growth. It is a first responder strategy in the form of a contingency fund that is fed by generating public savings over time.

The NERF will be fed by the sources proposed in this DRM: peace keeping duties by Liberian security services abroad and climate change proceeds, recuperating revenue loss occasioned by discontinuing exemptions and concessions to investors in the natural resource and other sectors. It will be opened to contributions from private philanthropic foundations and organizations abroad.

The Fund will have four roles: financing Disease control initiatives: (i) emergency response appropriately defined by the Executive and the Legislature; (ii) a drug revolving fund sub-component for the health sector; (ii) food 'stock' management with seed-bank component to provide incentives for more rice production and alleviate food insecurity in hardest hit communities; and, (iii) maintain the schools, health facilities and other social help provided by concessionaires once the incentives are removed. There are two options for the administration of this Fund, either through a department in the MFDP or a High Level Steering Committee that brings together major stakeholders such as the security services, ministries of finance, mining and agriculture, among others, under the Executive.

Taking first charge of emergencies will also begin to change the basket case perception that is left on the minds of viewers of graphic portrayals of the plight of Africans on television screens world-wide and the internet. These pictures show a destitute people and therefore, not so welcoming places to invest, whereas the continent has the fastest growing middle class that is eager for higher consumption[186]. Strategy for meeting emergencies is overdue as even the pharaohs as far back as biblical times had a strategy for meeting 'seven years of drought' when they had 'seven years of plenty' and solved their famine problems by having contingency stocks. Liberia in the 21st Century must have a method for assisting its citizens in times of dire needs.

8.1.1.2 Strategy DRM for Refocusing ODA[187]

The aim is to devote domestic resources to cater to Government current consumption (recurrent expenditure) and reserve bilateral ODA to the PIP as prioritized in the national development plan[188]. Since the interest payments

Box A4. UN Climate Change Process

The United Nations Framework Convention on Climate Change (UNFCCC) is one of three Rio Conventions adapted at the Rio Earth Summit in 1992, now ratified by 197 countries; it came into force on 21 March 1994. The other Rio Conventions are the UN Convention on Biological Diversity and the Convention to Combat Desertification, The objective of the UNFCCC "… is to stabilize greenhouse gas concentrations at a level that would prevent dangerous anthropogenic (human induced) interference with the climate system". The Kyoto Protocol entered into force in 2005, commits its Parties by setting internationally binding emission reduction targets and has three mechanisms, the Clean Development Mechanism (CDM), Joint Implementation and Emissions Trading. In Marrakesh, Morocco, the detail rules of Kyoto were adapted in 2001, and the first commitment period started in 2008 and ended in 2012.
In 2012, the "Doha Amendment to the Kyoto Protocol" was adopted with the first commitment period, 37 industrialized countries and the European Community committed to reduce GHG emissions to an average of five % against 1990 levels. During the second commitment period, Parties committed to reduce GHG emissions by at least 18 % below 1990 levels in the eight-year period from 2013 to 2020; however, the composition of Parties in the second commitment period is different from the

186 The rise of the middle class, as a percentage of the population, has been steady - in 1980, 111 million or 26% of the continent's population fell in this category rising to 151.4 million or 27% of the population in 1990 with a further surge to 196 million in 2000 and a dramatic increase to 313 million in 2010 equating to 34.3% of the population (African Development Bank, Market Brief, April 20, 2011 "The Middle of the Pyramid: Dynamics of the Middle Class in Africa" African Development Bank, 2011).

187 This is going back to development basics and involving the private sector. It may be recalled that USAID started the Ethiopian Airlines in 1945, today one of the most successful enterprises in Africa. It was "a joint venture with American airline, TWA (Trans World Airlines). Five US Government surplus C-47 aircraft were purchased for venture" - https://www.ethiopianairlines.com/corporate/company/about-us/history

188 An EU study by Directorate - General for External Policies of The Union, Directorate B – Policy Department on Tax Revenue Mobilization in Developing Countries: Issues and Challenges, cited The following actors necessitating DRM: "The Potential Benefits of taxation for state-building; long term

on the Government debt is discharged through the recurrent expenditure, a pro-poor budget stance dictates that it must be kept at levels consistent with the DSA to ensure outlays to essential services including education and health are not squeezed. In particular, foreign loans to be contracted should be on concessional IDA terms. At medium debt distress, Liberia is eligible to contract loans with 50 % of financing in grants and the rest on 38 years maturity with 6 years grace period and at 3.125 % service charge over the rest of the period, under the World Bank IDA window[189]. This would be a yardstick on loan terms for inclusion into the public investment program (PIP). Only grants from multilateral organizations may be used for technical assistance.

8.1.2 Climate Change

Climate change financing is a veritable source of non-traditional development finance, particularly under the Paris Agreement (Box A4).

This opens the door for African countries to include strategies that increase growth in agricultural sector, among others. The livelihoods of the entire Liberian population are susceptible to being adversely affected by climate change, degradation in the environment, deforestation, poor sanitation and inadequate clean water supply. The vulnerable poor in the rural areas who have limited recourse to adapt bear the brunt of climatic shocks and should be primary targets for any strategy aimed at enhancing resilience. Overall, the nationally designed projects to be financed under the Paris Agreement are intended to strengthen adaptation capacity to climate change at all levels, community, regional, and national[190]

The Paris Agreement by 195 countries resolved to cut greenhouse gas emissions and enhance adaptation to keep global temperature increase to "well below 2° degrees Celsius (C)" and, more optimistically, to attempt to limit it to 1.5 C. For Africa, the allocation of resources for adaptation of countries to climate change was welcomed. The Paris Agreement is considered a win because "it presents a unique opportunity to create and implement strategies that use new approaches and technologies to realize the dream of an environmentally sustainable and economically flourishing continent[191]". The African Union Commission (AUC) and UNEP have already established the Ecosystem-Based Adaptation for Food Security Assembly (EBAFOSA) as a policy and an implementation platform. This platform is expected to promote and support agro-value chains through an EBA-driven agriculture approach. To achieve sustainable and inclusive growth, countries will be urged to integrate these techniques in their agricultural policies and implementation. For the funding of projects USD 100 billion is envisaged for developing countries by 2020.

The Paris Agreement Article 4 paragraph 6 states: "The least developed countries and small island developing States may prepare and communicate strategies, plans and actions for low greenhouse gas emissions development reflecting their special circumstances". The LDC work program includesSupport for the preparation of National Adaptation Programs of Action (NAPAs); Strengthening existing and establishing national climate change secretariats; provide training; Promotion of public awareness programs; Development and transfer of technologies; and Strengthening the capacity of meteorological and hydrological services. An estimated US$2 billion is needed for capacity support to draft the NAPAs prepared by the LDCs and strengthening institutional capacity for climate change management. However, Liberia prepared a budget for capacity building and to draft a NAPA which was submitted and financed to the tune of USD 12.19 million.

Over the years, Liberia implemented programs and projects funded by the Global Environment Facility (GEF) and multilateral funding for management and National Action Plan of organic pollutants under the Stockholm Convention and protection of the ozone layer, Biodiversity Strategy and Action Plan under the Convention on Biological Diversity and capacity building under the National Capacity Self-Assessment program.

Under the Paris Agreement, the priority projects reflected in the Liberia's NAPA (2008) are i) enhancing resilience to increasing rainfall variability through the diversification of crop cultivation and small ruminants rearing (agriculture) - duration of the project is 24 months at a cost of US$ 5 million; ii) enhance adaptive capacity through the rebuilding of the national hydro-meteorological monitoring system and improved networking for the measurement of climatic parameters - duration of 24 months and cost of US$ 3 million; and, iii) highest priority project is reducing the vulnerability of coastal urban areas (Monrovia, Buchanan) to erosion, floods, siltation and

independence from foreign assistance and the shifting aid paradigm; the fiscal effects of trade liberalization; the increased prominence of fiscal issues in the "West "due to the financial and debt crisis; and the continuing acute financial needs of developing countries. Most LICs have both low levels of tax collection and tax effort. Experts agree that there is considerable potential to increasing domestic revenue in developing countries".

189 World Bank IDA Terms: worldbank.org

190 Liberia National Adaption Program of Action, 2008

191 http://www.un.org/africarenewal/magazine/april-2016/paris-climate-deal-and-africa

degraded landscapes - duration of 36 months and cost of US$ 60 million. Thus, Liberia is looking forward to USD 68 million over 3 years through the LDC Adaptation window under Paris Agreement.

While Liberia prioritizes agriculture under (i) which can impact the vulnerable in rural areas, refocusing on value chains and high value horticultural products must be emphasized to raise productivity in agriculture. Modernization is required to reverse the perception that farming is for the elderly and uneducated. Part of the solution is extension and support services based on best practices, seed varieties and other inputs, marketing information on products which can be collected on centralized databases accessible on mobile phone platforms, as in Kenya. Activities such as transportation, wholesaling and storage facilities, retailing, rice milling, soybean oil, etc. are all part of the value chain that must be supported in any agriculture strategy. This approach is supported by AU-EBA platform and can permit expansion (i) to a USD 50 million project.

8.1.3 Global Peace Keeping by Liberian Security Forces

Global peace keeping, for which Liberia has been a recipient, involves the provision of resources for such as troops, police and funding. Post-conflict countries, in particular, are growing contributors to UN peacekeeping and examples include Burundi, Chad, Côte d'Ivoire, DRC, Timor-Leste and Sierra Leone.

There are now (March 2017) 113.394 peace keeping troops in 124 countriesaround the world attracting financing of USD 7.87 billion (Box A5). One can reasonably expect that Syria and Yemen would be added to the list with the advent of a peace breakthrough. This is excluding West African troops in The Gambia, Guinea Bissau and Mali. The remuneration is USD 1.3 million per 100 personnel plus allowances for individuals and additions for military hardware. Thus, the demand for peacekeeping personnel is growing are fragile states like Liberia are not being left behind.

It is recognized that Liberia is emerging from civil wars that had more than 200,000 fatalities and over one million people displaced. That the peacekeeping architecture including the UN Mission in Liberia (UNMIL), with a force of 15,000, had its mandate extended to March, 2018[192]; and that the country just conquered the Ebola pandemic by January 2016 point to a fragile environment. Notwithstanding, peace has prevailed. The next test to internal peace and security resilience is the upcoming presidential and parliamentary elections in October 2017.

Box A5 UN Peacekeeping

Uniformed personnel: 96,477 (as of 31 March 2017): Troops: 82,712, Police: 11,944, Military observers: 1,821.
Civilian personnel: 14,258 (as of 30 November 2016): International: 4,784, Local: 9,474UN Volunteers: 1,577 (as of March 2017)
Total number of personnel serving in 16 peacekeeping operations: 113,394: Countries contributing uniformed personnel: 124; Total fatalities in current operations: 1,772; Total fatalities in all peace operations since 1948: 3,553.
Financing: Approved resources for the period from 1 July 2016 to 30 June 2017: about $7.87 billion
Source: UN Peacekeeping, un.org

Against this backdrop, a strategy for international and regional peace keeping duties is proposed for Liberian troops and police. It is recognized that the troops are being downsized to 1,000 and this strategy runs counter to that decision. On the obverse, the unemployment rate stands at 4.0 % in 2016 with youth (ages 15-24) unemployment level put slightly lower at 3.9 %[193]. They include graduates who are unemployed or underemployed, this strategy is avenue for employment opportunities. It is envisaged that the current military and police forces would have new recruits of 500 each over three years to arrive at a peace keeping of 1000 personnel made equally of army and police. The level would fetch over USD 13 million a year to feed the NERF, while the accruals to any hardware would revert to the army for replacement and individuals would keep their allowances.

8.1.4 Aid for Trade

The base for increasing customs revenue is through an expanded trade account and the international community is assisting developing countries to do so. Aid for Trade (AfT) is ODA fashioned to build human and institutional capacity and trade infrastructure in least-developed countries (LDCs) like Liberia to maximize benefits from World Trade Organization (WTO) agreements through expanded trade. This is an already existing strategy that Liberia ought to pursue with added vigor to increase trade by generating value added through the value chains in Agriculture and other sectors. The most sustainable sources of tax collection are through increasing imports and exports for international trade taxes and value adding sectors such industry and manufacturing for personal and corporate taxes and goods and services tax or value added tax. Trade expansion is discussed further under Part II.

192 International Peace Institute –Global Observatory. https://theglobalobservatory.org/2017/01/sustaining-peace-liberia-unmil/

193 World Bank data

8.1.5 ODA support for the DRM

The Addis Compact 22 states the commitment of the international donor to support DRM in countries with technical support. This DRM suggests that there would be critical junctures that would require external financial support, although the expertise is available within the sub-region and not in Liberia. These needs will be spelt out at the appropriate places in this document for multilateral and bilateral interventions. For example, leveraging remittances to float 'Diaspora bonds' and engender reverse flows of capital flight, matching funds for community projects financed by remittances and training an Intelligence and Surveillance Unit in the LRA to combat transfer pricing and over-invoicing.

A Donor's Forum would be an integral part of the governance structure of the DRM strategy with a lead donor identified to spearhead donor coordination. Donor participation in the governance structure is imperative to facilitate technical input and obtain details of spending requirements as well as satisfy their own due diligence provisions for transparency, accountability and probity in the use of resources. Donors would receive quarterly, mid-term and terminal reports in addition to annual external management and financial audits.

8.1.6 Foreign Direct Investment

Foreign direct investment (FDI) is a more than 10 % holding by a non-resident in a resident enterprise while resident is defined as having a 'center of interest in a country'[194]. FDI is a non-debt flow that involves a gestation period before a company turns out profits to be taxed which makes it less volatile than ODA, portfolio and bank loans. Indeed, it is a demonstration of the maturity in the investment climate of a country. For this reason, the infant company argument is made for tax holidays and other investment incentives. The challenge however, is that once these incentives or concession agreement or tax exemptions are granted by Government, the company never gets weaned off it even after 70 years. A fuller discourse of these legal provisions is discussed under the Part II under legal infrastructure of the tax system.

The FDI flows into Liberia stood at USD 721 million in 2015 or USD 162 per capita compared with ODA. On the other hand, portfolio investment is a less than 10 % stake in an enterprise or a minority shareholding which accords little or no voice in its management. It is no wonder that the capital inflows on portfolio is just USD 35.1 million, since a capital market which does exist in Liberia, constitutes the structured market of equity participation. The establishment of a stock exchange is taken up under Part III.

8.1.7 Summary and Conclusion

To summarize, much foreign resources flows can be mobilized to complement the DRM by targeting earnings or financing that requires the contribution of nationals and the Diaspora or natural resources including the environment. In terms of inflows, ODA is the equivalent of USD 169 per capita, FDI at USD 162 and Remittances at USD 112. Remittance outflows are the greatest challenge to mitigate against. There are three (3) strategies proposed on ODA, five (5) on Remittances and one (1) on peace keeping proposed to exploit the opportunities presented by the synergies between DRM and FRM nexus.

Providing technical assistance and technology are options always open to Africa's ODA including building capacity in support of DRM. There is an urgent need to stem the capital flight from Africa sharing information and assisting countries to recover looted treasuries and put in place mechanism to at the very censure their own conglomerates to strike decent deals with African nations. However, to conclude, the assessment of the OECD study of Fragile States 2014 is quite apt and states that "all the sources of development finance to which fragile states have access have drawbacks.

Aid is on the decline, foreign direct investment is not easily accessible and has been volatile, remittances remain a largely untapped resource, and the provision of peacekeeping troops offers a relatively small income. There may be other opportunities to access additional financial inflows and turn them into sources of development. But will these suffice to fill the gap in development finance? The most promising and sustainable source is domestic revenue".

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8.2 Stakeholders Met

Table A3: Domestic Resource Mobilization (DRM) Strategy Paper Stakeholders' Meeting

DOMESTIC RESOURCE MOBILIZATION (DRM) STRATEGY PAPER STAKEHOLDERS' MEETING			
No.	***Person meet***	***Position***	***Name of Institution***
1	Mr. David K. Sembeh	President	Liberia Business Association
2	Mr. Tony Hage	(1st Deputy Vice-Chair)	Chamber of Commerce
3	Mr. Fomba Trawally	president	Concerned Liberian International Business Organization (COLIMBO)
4	Mr. Alvin Tumbey	President	National Customs Brokers Association of Liberia
5	Mr. Daniel Dean	Asst. Minister for Commerce & Trade	Ministry of Commerce and Industry
6	Mr. Ojuku Nyenpan	Asst. Minister for Tax Policy	Ministry of Finance and Development Planning (MFDP)
7.	Hon. Alvin E. Attah Sr.	Deputy Minister – Economic Management	Ministry of Finance and Development Planning (MFDP)
8	Mr. Bob Johnson	Deputy Director	Institute for Research & Democratic Development (IREDD)
9	Hon. Patrick M'bayo	Deputy minister for Operation	Ministry of Labor
10	Mr. Dax Sua	Director	African Peer Review Mechanism
11	Chief Zanzan Karwor	Chairman	National Traditional Council of Chiefs and Elders of Liberia
12	Mrs. Juanita M. Yiah	Director of Tourism	Bureau of Tourism – Ministry of Information
14	Dr. William E. Allen	VPAA	University of Liberia
15	Mr. David Farhat	Director for MBA program, UL graduate school	University of Liberia Graduate School
16	Mr. Konah Karmo	Executive Director	Liberia Extractive Industry Transparency Initiative
17	Hon. Sam Russ	Deputy Minister for Operation	Min. Land Mines & Energy
18	Hon. Abu Kamara	Chief Register	Liberia Business Registry
19	Mr. Louis Robert	Deputy Chief Executive Officer/ DCEO	Lonestar Communication Corporation
20	Mr. Mamadou Coulibaly	Chief Executive Officer	Orange Communication
21	Dr. Yarsuo Weh-Dorliae	Commissioner/PLR/ Decentralization	Governance Commission
22	Mr. Stanley Kamara	Economic Specialist/National Economist/Asst. Res. Rep	United National Development Program

23	Hon. William Y. Boehm and Team	Director	Bureau of National Fisheries
24	Mr. George Bright	Chief Financial Officer	National Social Security and Welfare Corporation (NASSCOR)
25	Hon. George G. Wisner	Executive Director	National investment commission (NIC)
26	Dr. Joseph T. Isaac	President - AME University	AME University
27	Dr. Johnson N. Waikoloa	President – UMU University	UMU University
28	Hon. Edward B. Tolbert	Deputy minister for Administration	Ministry of Health and Social Welfare
29	Ms. Larisa Leshchenko	Country Director	World Bank
30	Mrs. Victoria Cooper – Enchia	Chief of Party	Digital Liberia & eGovernment project (USAID)
31	Mr. Geoffrey Oestreicher	Resident Rep. in Liberia	IMF
32	Hon. Stanley Toe	Executive Director	Liberia Land Authority
33	Mr. Richard H. Walker	Director for Banking and Payment Systems Department	Central Bank of Liberia
34	Mr. Amaso Bawn	Director for Financial Markets Department	Central Bank of Liberia
35	Hon. Kendrick F. Johnson,	Deputy Managing Director for Administration	Forestry Development Authority
36	Hon. Borwen L. Sayon	Deputy Managing Director for Operations	Forestry Development Authority

8.3 Optimal Taxation

The optimal design of a tax system is a topic that has long fascinated economic theorists and flummoxed economic policymakers. The paper on "Optimal Taxation in Theory and Practice" [195] examined the interplay between tax theory and tax policy. It identifies key lessons policymakers might take from the academic literature on how taxes ought to be designed, and it discusses the extent to which these lessons are reflected in actual tax policy. They drew from the works of Ramsey (1927) and Mirrlees (1971) and suggested eight general lessons from optimal tax theory:

1. Optimal marginal tax rate schedules depend on the distribution of ability;
2. The optimal marginal tax schedule coulddeclineat high incomes;
3. A flattax, with a universal lump-sum transfer, could be close to optimal;
4. The optimal extent of redistribution rises with wage inequality;
5. Taxes should depend on personal characteristics as well as income;
6. Only final goods ought to be taxed, and typically they ought to be taxed uniformly;
7. Capital income ought to be untaxed, at least in expectation; and,
8. In stochastic, dynamic economies, optimal tax policy requires increased sophistication.

Overall, tax policy has moved in the directions suggested

195 Mankiw, N. Gregory, Matthew Charles Weinzierl, and Danny Ferris Yagan. 2009. Optimal taxation in theory and practice. Journal of Economic Perspectives 23(4): 147-174

(Digital Access to Scholarship at Harvard) by theory along a few dimensions, even though the recommendations of theory along these dimensions are not always definitive. In particular, among OECDcountries, top marginal rates have declined, marginal income tax schedules have flattened, and commodity taxes are more uniform and are typically assessed on final goods. However, trends in capital taxation are mixed, and rates still are well above the zero level recommended by theory. Moreover, some of theory's more subtle prescriptions, such as taxes that involve personal characteristics, asset-testing, and history-dependence, remain rare. Where large gaps between theory and policy remain, the harder question is whether policymakers need to learn more from theorists, or the other way around. Both possibilities have historical precedents.

However, from the standpoint of the optimal taxation literature, in which the goal to derive the best tax system, it is obviously problematic to rule out some conceivable tax systems by assumption. Why not allow the social planner to consider all possible tax schemes, including nonlinear and interdependent taxes on goods, income from various sources, and even non-economic personal characteristics? But if the social planner is allowed to be unconstrained in choosing a tax system, then the problem of optimal taxation becomes too easy: the optimal tax is simply a lump-sum tax. After all, if the economy is described by a representative consumer, that consumer is going to pay the entire tax bill of the government in one form or another. Absent any market imperfection such as a preexisting externality, it is best not to distort the choices of that consumer at all. A lump-sum tax accomplishes exactly what the social planner wants.

In the world, there are good reasons why lump-sum taxes are rarely used. Most important, this tax falls equally on the rich and poor, placing a greater relative burden on the latter. When Margaret Thatcher, during her time as the Prime Minister of the United Kingdom, successfully pushed through a lump-sum tax levied at the local level (a "community charge") beginning in 1989, the tax was deeply unpopular. As the New York Timesreported in 1990, "[W] widespread anger over the tax threatens Mrs. Thatcher's political life, if not her physicalsafety. And it may prove to be the last hurrah for her philosophy of public finance, in which the goals of efficiency and accountability take precedence over the values of the welfare state" (Passell, 1990). The tax was quickly revoked, and not coincidentally, Thatcher's term of office ended not long after.

As this episode suggests, the social planner has to come to grips with heterogeneity in taxpayers' ability to pay. If the planner could observe differences among taxpayers in inherent ability, the planner could again rely on lump-sum taxes, but now those lump-sum taxes would be contingent on ability. These taxes would not depend on any choice an individual makes, so it would not distort incentives, and the planner could achieve equality with no efficiency costs.

In this case, the optimal policy may yield surprising results. For example, with additively separable utility, once the tax system is in place, the high-ability individuals typically have lower utility than low-ability individuals. Because of diminishing marginal utility, the social planner equalizes consumption of high- and low-ability taxpayers. But it is optimal for the high-ability taxpayers to work more and enjoy less leisure. The planner uses the targeted lump-sum tax to redistribute the product of their additional effort".

The conclusions on optimal reached by this Harvard Professor is realistic and eclectic: "flatter tax rates might be seen as a reflection of lessons from theoretical work. Recall that the motivation of the original Mirrlees (1971) model was to provide a framework in which to derive an optimal structure of tax rates, which (surprisingly) often turned out to be nearly flat over a broad range. The robustness of this conclusion remains open to debate, as it depends on details of the ability distribution and individual utility function that are hard to pin down. But it is at least arguable that the movement toward flatter taxes is consistent with prescriptions from theory.

On the other hand, some results from optimal tax theory cannot be easily identified in actual policy and seem unlikely to be found there anytime soon. The theory predicts that policymakers should use exogenous "tags" that are correlated with income-producing ability, such as gender, height, and race. Recent work recommends capital taxation that is regressive in labor income changes, according to which capital income is taxed for those who earn surprisingly little and subsidized for those who earn surprisingly much. Few economists advising political candidates or elected government officials would have the temerity to advance these ideas in any practical discussion of tax policy.

Why not? One possibility is that the theory isright and that policymakers and the public are slow to appreciate certain valuable, but counterintuitive insights. Another possibility, at least as plausible, is that broader tradition in public finance which includes otherideas that are often ignored in modern optimal tax theory, such as the benefits principle that a person'stax liability should be related to the benefitsthat individual receives from the government, and the horizontal equity principle that similar people should face similar tax burdens. Whether, and how to, incorporate such ideas into the theory of optimal taxation, remain open questions.

8.4 Liberia's Tax Regime

Table A4: Taxes on Income, Profits and Capital Gains - Rates

Tax Type/Charges	Resident Companies	Non-Residents
Capital Gains	Treated as income (%)	Sales of shares in a resident company taxable as income (%)
Rental Income	10	15
Dividends	15	15
Interest	15	15
Royalties	15	15
Natural Resource Payments	15	15
Management & Consultancy Fees	10	15
Contract of Services	10	15
Corporate Income Tax	25	25
natural resources (Mining, petroleum and agriculture)		
Interest	5	5
Dividends	5	5
Services	6	6
Acquisition Price	10	15
Personal income tax		
Taxable Income (L$)	**Rate**	
0 Up To But Not Over – 70 000	0	
70 001 Up To But Not Over – 200 000	5	
200 001 Up To But Not Over – 800 000	15	
Above 800 000	25	

Taxes on Goods and Services (GST)	
GST is imposed on	A taxable supply of goods by a manufacturer where the manufacture of the goods takes place in Liberia and the supply is made in connection with the carrying on of a business;
	A taxable import including a supply of service incidental to an import of goods; such as services giving rise to commission for packaging, transportation, insurance, and warranty costs payable on or by reason of the imports; and
	On taxable services supplied in Liberia such as on electricity, telecommunications, water for a fee, board, lodging and incidental services and gambling.
The rate of GST applicable to a taxable supply is 7% (10%) of the amount of the taxable supply.	
A Person is Required To Register for GST If:	At the end of any 12 month period, taxable supplies/taxable services equivalent to or exceeding L$5 (3) million; and
	At the beginning of any 12 month period, there are reasonable grounds to expect that the taxable amount of taxable supplies/ taxable services during the period will exceed L$5 million.
An application in the prescribed form shall be made to the minister of finance within 21 days of the date on which the person is required to register. The minister will within 21 days confirm a person's registration with the issue of a gst registration certificate and a tax identification number.	
The Time of Supply of Goods Is the Earlier of The Date on Which:	The tax invoice for the supply of the goods is issued; or
	The tax invoice for the supply of the goods is required to be issued.
A Taxable Supply Occurs 0n The Earlier of The Date on Which:	The services tax invoice is issued; or
	The tax invoice for the supply of services is required to be issued.
A supply of goods occurs at the place where the goods are delivered or made available by the supplier or, if the delivery involves transportation, the place where the goods are when transportation occurs. In addition, a supply of services occurs at the place of business from which the service is rendered.	

8.5 Tax Revenues – Post Ebola

Table A6

REVENUE BY TAX PAYER SIZE SEGMENTS		
	2014/15	2015/16
REVENUE CONTRIBUTION ('000)		
1.0 Total Domestic Revenue	***437,179***	***452,816***
1.1 Total Tax Revemie	***382,218***	***401,882***
1.1.1 Domestic tax Dept.	259,350	258,587
1.1.1.1 Large	191,334	172,239
1.1.1.2 Medium, Small and Marco	61,542	53,719
1.1.1.1.2.1 Medium	59,073	51,555
1.1.1.2.2. Small	2,462	2,164
1.1.1.2.3 Marco		
1.1.2 Other Taxes	122,868	143,304
1.2 Customs Dept.	177,825	194,238
1.3 Non-Tax	54,196	50,934
Momerandum Items		
Total Revenues (Including Grants and Borrowing)	634,467	570,947
Grants and Borrowing	206,288	96,131
Grants and Borrowing	60,140	68,234
Borrowing	146, 148	27,897
Revenues carried Forward from previous year		22,000

Number of Taxpayers		
	2014/15	2015/16
Total	194,082	256,988
1.0 Domistic Tax	194,082	256,988
1.1 Large	14,084	17,276
1,2 Medium, Small and Macro	179,898	239,712
1.2.1 Medium 1.2.2 Small 1.2.3 Micro	44,858 135,040	64,240 175,472
2.0 Customs		

Source: LRA

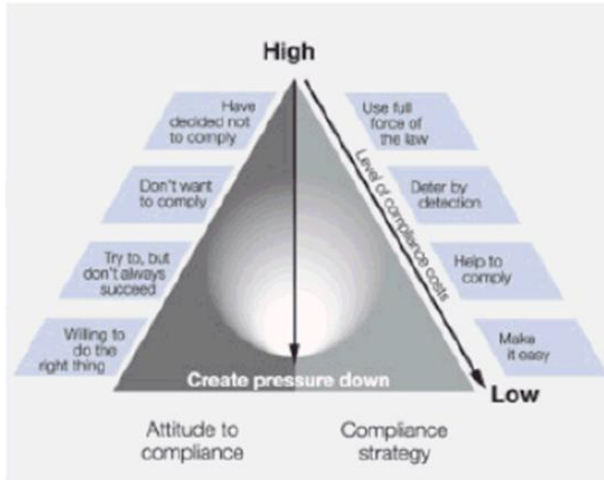
8.6 Revenue by Sector

Table A7

REVENUE BY SECTOR 2014 - 2017 (US$ '000)			
	FY2014	FY2015	FY2016
ACCOMMODATION AND FOOD SERVICE ACTIVITIES	2,885.46	3,485.32	3,226.50
ACTIVITIES OF EXTRATERRITORIAL ORGANIZATIONS AND BODIES	104,180.57	41,194.93	23,193.96
ACTIVITIES OF HOUSEHOLDS AS EMPLOYERS, PRODUCING GOODS OR SERVICES	66.94	70.01	59.71
ADMINISTRATIVE, SECURITY AND SUPPORT SERVICE ACTIVITIES	56,721.56	77,041.91	28,195.27
AGRICULTURE, FORESTRY AND FISHING	14,585.27	13,551.28	16,241.10
ARTS, ENTERTAINMENT AND RECREATION	309.34	613.45	390.59
CONSTRUCTION	5,851.45	7,471.81	4,261.18
EDUCATION	2,457.38	3,347.64	2,254.68
ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY	343.16	165.30	170.22
FINANCIAL AND INSURANCE ACTIVITIES	20,016.99	43,614.23	59,365.28
HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	5,670.36	8,247.72	7,315.08
INFORMATION AND COMMUNICATION	27,950.61	24,225.87	28,345.01
MANUFACTURING	16,551.39	18,139.00	20,329.41
MINING AND QUARRYING	47,646.39	20,085.59	21,401.38
MISCELLANEOUS (NOT ABLE TO USE ONE OF THE ABOVE SECTORS)	122.25	112.19	79.46
OTHER SERVICE ACTIVITIES	30,774.57	1,986.13	2,053.27
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	2,636.18	2,960.40	3,541.52
PUBLIC ADMINISTRATION AND DEFENSE; COMPULSORY SOCIAL SECURITY	35,818.34	26,800.28	51,927.49
REAL ESTATE ACTIVITIES	3,269.95	4,311.74	3,546.80
TRANSPORTATION AND STORAGE	7,402.46	8,226.71	7,868.50
WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVI	68.63	103.22	71.99
WHOLESALE AND RETAIL TRADE	15,395.86	19,678.02	17,655.52
Grand Total	400,725.12	325,432.73	301,493.93
Grand Total includes Direct Taxes and Non-Tax Revenues and excludes International Taxes			

2017: January to July
Source: LRA

8.7 Tax Compliance Behavior Model



Since the target for voluntary compliance is the taxpayer who is human being who manifests certain behavioral tendencies towards complying with the law, it is therefore imperative to take this into account when seeking to treat a prioritized risk. The following diagram illustrates responses from the RA commensurate to the ascribed behavior as 'why they are doing it'. This allows for arriving at underlying reasons, motivations and attitudes of non-compliant behavior focusing on the priority risks leading to their treatment.

To treat non-compliance, it is important to know about the factors motivating the taxpayer, the so-called BISEP on the left side – Business, Industry, Sociological, Economic or Psychological. For example, a taxpayer may be non-compliant because she sees that most in the sector do not pay taxes. A sector treatment would bring greater dividends, maybe designing the RA intervention in such a way as to provide a better example for others. On the right hand side, 'those willing to do the right thing'- the majority - are met by 'making it easy' for them to do so. At every level of the compliance pyramid, the LRA's response is commensurate to the behavior of the taxpayer, reserving the 'full force of the law' for those who 'have decided not to comply' – the minority – at the top of the top.

Table A10: Sector Share of GDP

8.8 Non-Tax Revenues from Sector Ministries, Departments and Agencies, FY2015 & FY2016

Table A8

SECTOR MINISTRIES, DEPARTMENTS AND AGENCIES, ('000)			
	ADMINISTRATIVE FEES	FY2015	FY2016
S/N		19,711	22,661
1	SECTOR MINISTRIES & AGENCY FEES	19,711	22,661
2	MINISTRY OF FOREIGN AFFAIRS (MFA)	2,246	6,235
3	MINISTRY OF JUSTICE (MOJ)	56	86
4	NATIONAL FIRE SERVICE (NFS)	58	357
6	LIBERIA NATIONAL POLICE (LNP)	37	0
7	BUREAU OF IMMIGRATION & NATURALIZATION(BIN)	3,791	2
8	LIBERIAN BUSINESS REGISTRY	2,257	84
9	MINISTRY OF COMMERCE AND INDUSTRY (MCI)	32	0
10	MINISTRY OF HEALTH AND SOCIAL WELFARE (MOH)	179	28
11	MINISTRY OF LANDS, MINES AND ENERGY (LME)	140	4
12	MINISTRY OF AGRICULTURE (MOA)	229	139
13	MINISTRY OF LABOR (MOL)	3,897	604
14	MINISTRY OF TRANSPORT (MOT)	5598	9
15	MINISTRY OF INTERNAL AFFAIRS (MIA)	68	146
16	MINISTRY OF EDUCATION (MOE)	12	43
17	MINISTRY OF YOUTH AND SPORTS (MYS)	0	10
18	MINISTRY OF POST AND TELECOMMUNICATIONS (MPT)	81	192
19	MINISTRY OF INFORMATION (MOI)	45	56
20	MINISTRY OF PUBLIC WORKS (MPW)	585	653
21	CENTER FOR NATIONAL DOCUMENTS AND RECORDS (CND)	319	321
22	LIBERIA COPYRIGHT OFFICE (LCO)	1	1
23	INDUSTRIAL PROPERTY OFFICE (IPO)	27	24
24	TEMPLE OF JUSTICE (TOJ)	28	22
25	OTHER MINISTRIES AND AGENCIES (OMA)	7	20
26	MINSTRY OF GENDER, CHILDREN & SOCIAL PROTECTION		52
27	FORESTRY DEVELOPMENT AUTHORITY (FDA)	19	117

8.9 Experiences with Removing Tax Incentives

China removed in 2008 a five-year break for foreign investors (two years at zero %, then three at half the standard rate of 33 %), in favor of a single rate of 25 %. Reduced CITrates (of 15 % and 24 %) were also eliminated in favor of the single 25 % rate.

Egypt passed a new income tax law in mid-2005 that reduced the top marginal tax rates on income and profits from 32 to 20 % for individuals and from 40 to 20 %for corporations and partnerships (rates for petroleum, the Suez Canal authority, and the central bank were left at 40 %). This reform also increased the personal exemption threshold, liberalized normal depreciation (equipment and machinery are now eligible for a 30 % deduction in the first year of use with normal depreciation rates applying therefore to the remaining balance), and provided for the phasing out of tax holidays while grandfathering current beneficiaries.

Importantly, these reforms have been accompanied by extensive and continuing reforms of tax administration, including the successful introduction of self-assessment and a reform of the tax treatment of small- and medium-size enterprises. Between 2005 and 2006, FDI into Egypt doubled.

Mauritius removed most existing tax incentives (tax holidays, exemptions and investment tax credits) for companies with the exception of those already granted. The only notable remaining investment incentive is a four-year tax holiday for income derived by a small enterprise or handicraft enterprise under the Small Enterprises and Handicraft Development Authority Act of 2005, designed to encourage regularization of informal businesses. In addition, the standard corporate tax rate was reduced from 25 to 15 % from July 2007, thereby harmonizing it with the prevailing rate on tax-incentive companies. (The PIT rate structure was also changed toa flat rate of 15 %). Foreign direct investment was strong following these changes, with net inflows as a % of GDP doubling in 2006 over 2005, to about 1 2/3%, and almost tripling in 2007, to 4½ % of GDP. The share of net inflows was similar for 2008 and 2010, although there was a slight dip in 2009. Most of the increase in FDI was in the tourism, realestate (including purchase of property by nonresidents), and, especially, the financial services and insurance sectors (where there were a number of regulatory changes). During this period,CIT revenue also increased significantly, from about 2½% of GDP in 2006/07 and 2007/08to 3.8% in 2008/09, and 3.6 % of GDP for the six-month period July–December 2009.

8.10 Liberia: Finance

Table A9: Liberia Finance - Revenue, Debt, and Aid ($US m.) 2015 to 2017

	Table 2: Liberia: Finance -- Revenue, Debt, and Aid ($US m.) 2015 to 2017									
	Fiscal Years									
Key Indicators	***FY2012***	***FY2013***	***FY2014***	***FY2015***	***FY2016***	***FY2017***	***FY2018***	***Average***		
									GDP	Rev.& Grts.
Total Revenue and Grants	459	555	549	646	652	675	642	597	29.7%	124.8%
Revenue	431	509	471	447	453	498	538	478	23.8%	100.0%
Grants	28	46	78	199	199	177	104	119	5.9%	24.8%
Public External Debt	192	216	264	458	580	734	869	473	23.5%	99.0%
Cen Gov. Domestic Debt	291	309	303	291	268	366	374	315	15.6%	65.8%
Donor Transfers	959	966	906	1099	988	589	586	870	43.3%	182.0%
Donor Transfers (net, %GDP)	54.8	49.4	62.6	55.2	47.7	27	25.2	46.0		
Memorandum										
Nominal GDP	1646	1853	2005	1991	2073	2183	2326	2011		
Population	4	4.1	4.3	4.4	4.5	4.5	4.6	4.3		
Current Acct Bal. (% GDP)*	-82.7	-84.1	-89.5	-87.4	-77.6	-54.6	-49.6	-75.1		
Growth in Real GDP	8.3	8.7	0.7	0	-0.5	3.2	5.2	3.7		
Consumer Prices (% pa)	6.8	7.6	9.9	7.7	8.7	9.7	8.1	8.4		
Sources										

8.11 Sector Share of GDP

Table A9: Liberia Finance - Revenue, Debt, and Aid ($US m.) 2015 to 2017

Sector Origin & Shares of Gross Domestic Product														
YEAR	***2005***	***2006***	***2007***	***2008***	***2009***	***2010***	***2011***	***2012***	***2013***	***2014***	***2015***	***2016***	***2017***	***AV 2006-2017***
Agricultures and Factories	0.38	0.37	0.36	0.33	0.31	0,30	0.29	0.28	0.25	0.24	0.24	0.23	0.22	0.29
Fisheries	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Rubber	0.09	0.06	0.07	0.05	0.04	0.04	0.04	0.04	0.03	0.03	0.03	0.03	0.02	0.04
Coco	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Coffee	0,00	0,00	0,00	0,00	0,00	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0,00
Rice	0.07	0.08	0.08	0.08	0.08	0.08	0.07	0.07	0.07	0.06	0.06	0.06	0.06	0.07
Cassava	0.09	0,10	0,10	0,10	0.09	0.09	0.08	0.07	0.07	0.07	0.06	0.06	0.06	0.08
Palm Oil	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Other	0.13	0.13	0.11	0,10	0,10	0.09	0.09	0.08	0.08	0.08	0.07	0.07	0.07	0.09
Forestry	0.12	0.12	0,10	0.13	0.12	0.12	0.12	0.11	0,10	0,11	0,12	0,13	0,15	0.11
Logs & Timber	0,00	0,00	0,00	0,00	0,00	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Charcoal	0.12	0.12	0,10	0.13	0.12	0.12	0.11	0,10	0.09	0.09	0,10	0.09	0.09	0,10
Mining & Panning	0,00	0,00	0.01	0.01	0.01	0.02	0.05	0,10	0.13	0.14	0.14	0.17	0.18	0.08
Iron Ore	0,00	0,00	0,00	0,00	0,00	0,00	0.04	0.08	0.12	0.12	0.11	0.11	0.12	0.06
Diamonds	0,00	0,00	0,00	0.01	0,00	0,00	0.01	0,00	0.01	1.01	2.01	3.01	5.01	0.01
Other	0,00	0,00	0,00	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.03	0.05	0.04	0.02
Manufacturing	0.11	0.11	0.11	0.09	0.08	0.08	0.08	0.07	0.07	0.07	0.07	0.07	0.07	0.08
Cement	0.03	0.03	0.02	0.02	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.02	0.02
Beverage & Beer	0.07	0.08	0.09	0.07	0.06	0.06	0.06	0.05	0.05	0.05	0.05	0.05	0.05	0.06
Other	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0,00	0,00	0,00	0.01	0.01
Services	0.39	0.4	0.41	0.44	0.47	0.48	0.46	0.44	0.44	0.45	0.44	0.43	0.43	0.44
Electricity & Water	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0,00	0,00	0,00	0.01	0.01
Construction	0.02	0.03	0.03	0.04	0.04	0.05	0.05	0.04	0.04	0.05	0.05	0.05	0.05	0.04
Construction Related to Iron Ore	0,00	0,00	0,00	0,00	0,00	0,00	0,009	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Imputed rent (Occupied dwelling)	0.08	0.08	0.07	0.07	0.07	0.07	0.06	0.06	0.06	0.06	0.06	0.05	0.05	0.06
Trade, Hotels, etc	0.11	0.12	0.13	0.14	0.15	0.15	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14
Transportation & Communication	0.06	0.06	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Transport Related to Iron Ore	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Financial Institutions	0.02	0.03	0.03	0.03	0.04	0.05	0.04	0.04	0.03	0.03	0.03	0.03	0.03	0.03
Government Services	0.05	0.03	0.04	0.05	0.06	0.06	0.06	0.06	0.07	0.07	0.07	0.07	0.06	0.06
Other Services	0.04	0.05	0.05	0.05	0.05	0.05	0.05	0.04	0.04	0.04	0.04	0.04	0.04	0.05

8.12 Liberia Financial Sector: Markets, Institutions and Instruments

Table A11:Liberia Financial Sector: Markets, Institutions and Instruments

Source: Central Bank of Liberia, Monrovia, Liberia

Table A12: Presence of Banks Around the Country

Source: Central Bank of Liberia, Monrovia, Liberia

Table A13: Number of Insurance Companies & Brokers and Non-Bank Financial Institutions

Source: Central Bank of Liberia, Monrovia, Liberia

Table A14: Number of Microfinance Institutions

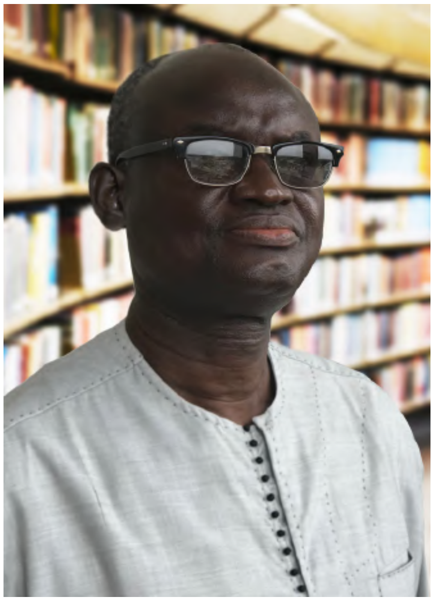
Source: Central Bank of Liberia, Monrovia, Liberia

Table A15: Distribution of Rural Community Finance Institutions (RCFIs) by County, Date of Establishment, Shares, Deposits and Loans

Source: Central Bank of Liberia, Monrovia, Liberia

Besides the loan portfolio of the commercial banks, in 2013 the Central Bank of Liberia (CBL) introduced Treasury bill of the Government of Liberia (GoL). The CBL auctions the GoL T-bill to the commercial banks (see above Table4: Government of Liberia Treasury Bills Auction 2013 – 2017).

Table A16: Government of Liberia Treasury Bills Auction 2013 - 2017



About the Author

Hon. Momodou S. Foon is an experienced macroeconomist with strengths in macro-financials and interest in macro-fiscal engineering for economic development. He served in the oval office of three institutions as Minister of Finance in The Gambia, Director General, Ad Interim, at the West African Institute for Financial and Economic Management in Nigeria, and Special Assistant to Governor of the Central Bank of The Gambia. He previously worked in the same organizations as Senior Policy Advisor to the Minister, Senior Director in the Macroeconomic Management Department and Principal Economist in the Economic Research Department respectively.

He is currently an International Consultant and elaborated published and unpublished studies on selected topics of macro-financials for the ECOWAS on diagnostics of balance of payments and international investment position statistics in the 15 countries and resource mobilization for funding the medium term statistics program; Government of Nigeria on a training manual for pro-poor fiscal management in the states; Government of The Gambia on a review of the national development plan, programme for accelerated growth and development, and youth economic empowerment project – stemming the tide backway to Europe; Government of Sierra Leone on monitoring private capital flows and investment perceptions; Government of Liberia on currency options: national, dual and dollarization and the domestic resource mobilization strategy. He contributed two chapters in a book on domestic debt and listed on the UNDP's Expert Roster on South-South Cooperation.

He obtained MPhil in Monetary Economics at the University of Glasgow in Scotland, BA in Economics and Political Science at Haverford College in USA, and certificates on selected topics of macro-financials from Harvard University, International Monetary Fund Institute, Reserve Bank of New York, Bank of England's Center for Central Banking Studies and Swiss National Bank.

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