October 2018 Revenue Performance

Briefing Note:

1. State of the Liberian Economy
2. Status of the alleged missing L$16 billion
3. Infusion of US$25m into the Liberian economy

This briefing note provides updates on the revenue performance as ff:

- FY 2018/19 Revenue Forecast
- FY 2018/19 Revenue Performance
- Challenges to Achieving the FY 2018/19 Revenue Target
- Efforts to Improve Revenue Performance

FY 2018/19 REVENUE FORECAST

On June 25, 2018, the House approved the FY 2018/19 budget at US$570.1m. The approval gave the LRA the mandate to collect all levies in order to meet, and possibly exceed, the budget target in keeping with the Revenue Code of Liberia.

The total resource envelope is comprised of US$506.2m in domestic revenues and US$51.3m in external resources, with a financing gap of US$12.6m. The budget also contains a core component of US$561.6m and a contingent component of US$8.5m. The contingency is based on the anticipated expansion of Arcelor Mittal's operations at Gandra Mines (US$6.5m) and the impact of tariff reduction for which US$2m from the Customs core budget was expunged and placed in contingent.

For the first half of the fiscal year, the LRA – using the various seasonal indices of the different tax types, projected a total of US$203.6m of the domestic revenues envelope. To this amount, the Aid Management Unit (AMU) at MFDP projected a further US$23.7m in external resources resulting in a total of US$227.2m projected for the first semester.

Table 1: Revenue Projections

	Approved Budget	Semester 1 Projection	Bal/Sem. 2
Total Revenue	570,148	227,221	342,927
Domestic Revenue	506,195	203,559	302,636
External Resources	51,325	23,663	27,663
Financing Gap	12,628	-	12,628

FY 2018/19 REVENUE PERFORMANCE (Year To Date at October 31)

Performance Against Budget

Total revenue collected in the first four months of the fiscal year is US$161.9m; comprising 154.9m or 95.7% in domestic revenues, and US$7.0m or 4.3% in external resources. The amount collected exceeds the year-to-date projection of US$144.2m by US$17.7m or 12.2%. Collection to date shows that 28% of the total resource envelope and 31% of the domestic revenues have been achieved. Table 2 presents a summary of the revenue performance.

Table 2: Year – to – Date Revenue Outlook as at October 31

	Approved Budget	YTD Budget	YTD Actual	Var (+/-)	Achvmt (%)	Balance
Total Revenue	**570,148**	**144,159**	**161,909**	**17,750**	**28%**	**408,239**
Domestic Revenue	506,195	137,156	154,906	17,750	31%	351,289
Domestic Tax	310,543	77,794	87,726	9,932	28%	222,817
Customs	195,652	59,362	62,341	2,979	32%	133,311
Revenue in Transit			4,839	4,839		
External Resources	51,325	7,003	7,003	-	14%	44,322
Financing Gap	12,628			-	0%	12,628

Comparative Revenue Performance

When compared to the same period of last fiscal year, total revenue has grown by 7.8%, from US$150.2m at October 31 2017, to US$161.9m at October 31, 2018. The growth was spurred by a 15.5% increase in domestic revenues from 134.1m to US$154.9m over the period. External resources declined* over the period by 9.1m or 56.6%.

Table 3: Comparative Revenue Performance

	FY 2017/18	FY 2018/19	Growth (US$)	Growth (%)
Total Revenue	**150,222**	**161,909**	**11,687**	**7.8%**
Domestic Revenue	134,072	154,906	20,835	15.5%
External Resources	16,151	7,003	(9,148)	-56.6%

There has also been a significant shift in the currency split with greater collection in U.S. dollars. During the first four months of this fiscal year, a total of US$107.9m and L$6.5b was collected from domestic revenues, reflecting a currency split of 72% in US$ and 28% in L$. For the same period last fiscal year, we collected US$63.9m and L$8.0b from domestic sources, showing a currency split of 48% in USD and 52% in LD.

The improvement in the currency split has been due largely to the slowdown in currency depreciation since the President's Economic Address to the nation on July 16, 2018. This slowdown and relative stability in the exchange rate has reduced the gap between the official rate and market rate, thus minimizing the need for arbitrage.

A significant share of the domestic revenue budget has been achieved so far this year than in the previous two fiscal years. As at October 31, thirty-one percent of the domestic revenue budget had been achieved. The last time we had such an achievement by October 31 was in FY 2015/16. Table 4 along with the accompanying graph shows the share of domestic revenue budget collected at October 31 over the last four fiscal years.

Table 4: Share of Domestic Collection by October 31

Fiscal Year	Approved Domestic Resources	Collection as at Oct 31	Share of budget collected
FY 15-16	473,727	147,061	31%
FY 16-17	525,739	126,961	24%
FY 17-18	501,776	134,072	27%
FY 18-19	506,195	154,906	31%

*Note:
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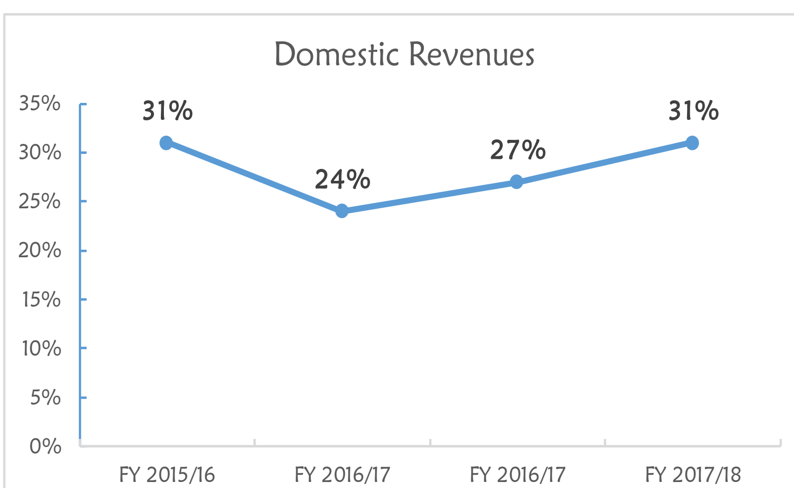

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So far this fiscal year, the strong performance in domestic revenue have been driven by the following factors:

- Strong performance in personal income tax since we started withholding on contractors of donor funded projects. The PFMU started in May this year. Before that time, taxes were not deducted from donor funded projects.
    - GOL withholding on salaries averaged around 1.8m per month in the past. In recent months, GOL has been remitting around US$2.2m per month on average.
- Rigorous enforcement that has led to collection of arrears from large taxpayers.
- Improvements in collection of the Road fees, both recurrent amounts and arrear payments.

CHALLENGES TO ACHIEVING FY18/19 TARGET

Key challenges that may stifle FY18/19 performance are:

1. Delay or failure to pass the revenue legislations that underpin FY18/19 budget. Examples include the proposed amendments to the Excise Law. Approximately US$11 million in the FY18/19 Budget is tied to the passage and successful implementation of the proposed excise law. Similarly, the passage of the Custom Law, which does not directly impact this current budget – will allow us to transition from PSI to DI, which is key to enhancing customs compliance and enforcement.
2. Timely and adequate funding to enable the LRA carry out the necessary administrative and tax reforms (including real estate tax reform) and effectively enforce the Code.
3. The depreciation of the Liberian dollar against the US dollar and the overall slow recovery of the economy. The continued depreciation of the Liberian dollar means an increase in the revenue loss due to exchange rate translation. The exchange rate forecast for the current budget is L$140/USD with a projected currency split of 34.4% in Liberian dollars and 65.6% in US dollars. Effective

exchange rate attained so far (July to Oct) is L$153.75/USD with an actual currency split of 28% in Liberian dollar and 72% in US dollars. The exchange rate loss on actual revenue to date is US$4.1 million, and US$4.3m when all the revenues in transit are included. In other words, if the rate remained at 140 as projected, actual collection to date would have been US$166.0m, instead of US$161.9m.

4. Increase in tax expenditure due to Government policy on tax incentives and waivers.
5. Underperformance of sector ministry revenue (administrative fees) and SOEs budget support (dividend from SOEs).
6. Delay in the procurement of the national trade single window.
7. Delay in the procurement of contract for sector specific audits such as the audit of Maritime and GSM sectors.
8. Timely and fair adjudication tax cases.

EFFORTS TO IMPROVE REVENUE PERFORMANCE IN FY18/19

The following efforts are being made to improve revenue performance:

1. Implementation of key modernization measures such as, the launch of the e-filing platform, mobile money payment system, interface with commercial banks, a centralized customs assessment system and electronic means of payments such as visas/debit cards, POS and ATM.

2. Resumption of the collection of the road fund fee

3. Reengineering and streamlining of customs processes.

4. Design of a simplified custom declaration form within ASYCUDA to support the roll out to the rural areas and address the informal trade operations. Will address imports below a certain threshold

5. Introduction of risk management concept in customs clearing processes

6. Acceleration of the “complaint trader program”.

7. Acceleration of the real estate expansion project.