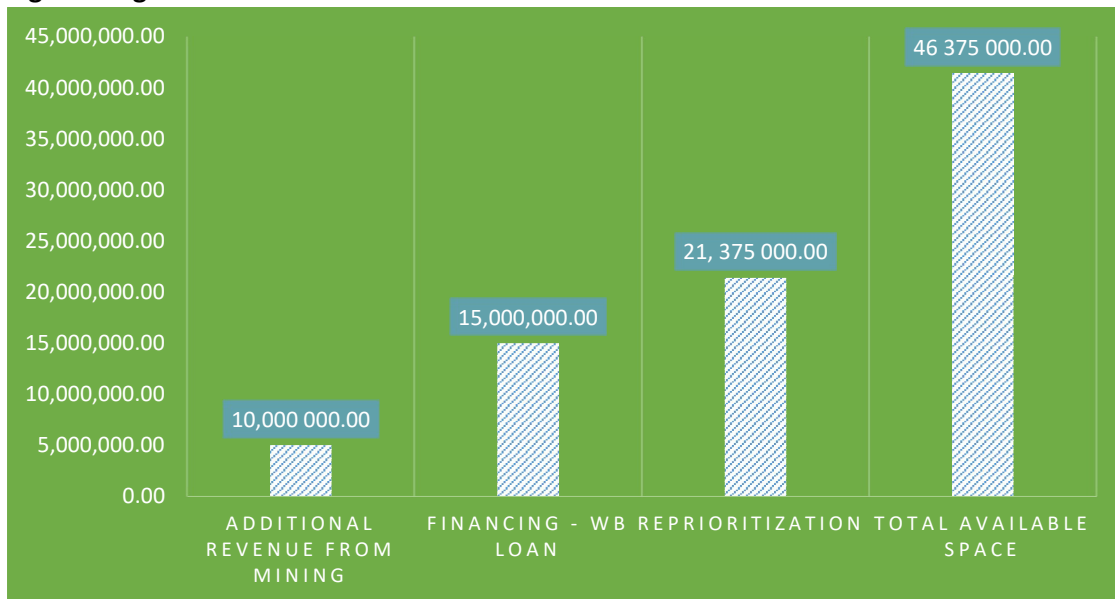


## The Liberian 2022 Budget and its amendment

By Manuel Filipe; Ligane Sene and Stanley kamara

- With the assumption that the global as well as the Liberian economies would be recovering from the effect of the Covid 19 pandemic in an environment of a growing GDP, single digit inflation and favorable export markets, the Liberian government submitted to the parliament, at the end Of 2021, a national budget proposal worth USD 786 587 000.00 to cover expenses for the period January-December 2022.
- However, supply constrains issues dictated by the covid recovery process; food and fuel shortages dictated by the war in Ukraine; global inflation pressures at the beginning of 2022, implied a squeeze of Liberia's already limited fiscal space. Being Liberia a net importer of its basic needs, the government found itself forced to add extra liquidity to the budget.
- The government mobilized USD 15 Million as loan from the World Bank; acquired USD 10 Million from the mining companies' exercises; and redirected USD 21.375 million from already existing programs to boost its fiscal space and address key urgent demands.
- The new budget proposal approved by the parliament increases the budget revenue by USD 25 Million and the government fiscal space by USD 46.375 Million. The total budget now amounts to USD 811 587 341, up 3.2% from the initial budget for 2022.

**Fig1 – Budget amendment values Liberia 2022**

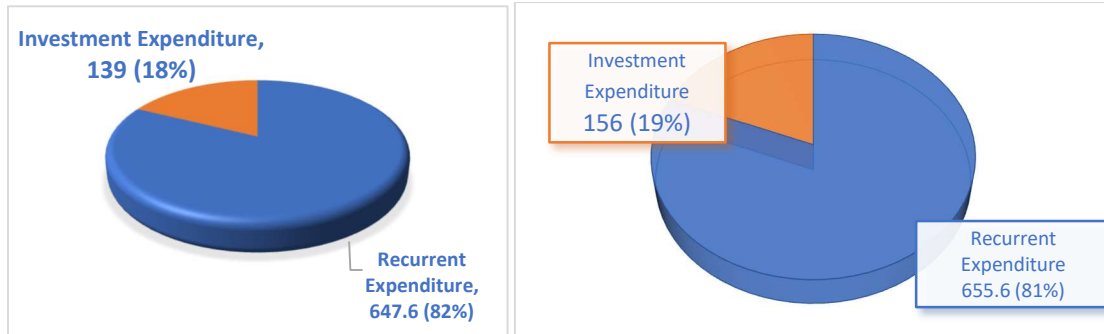


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## Changes in the budget structure

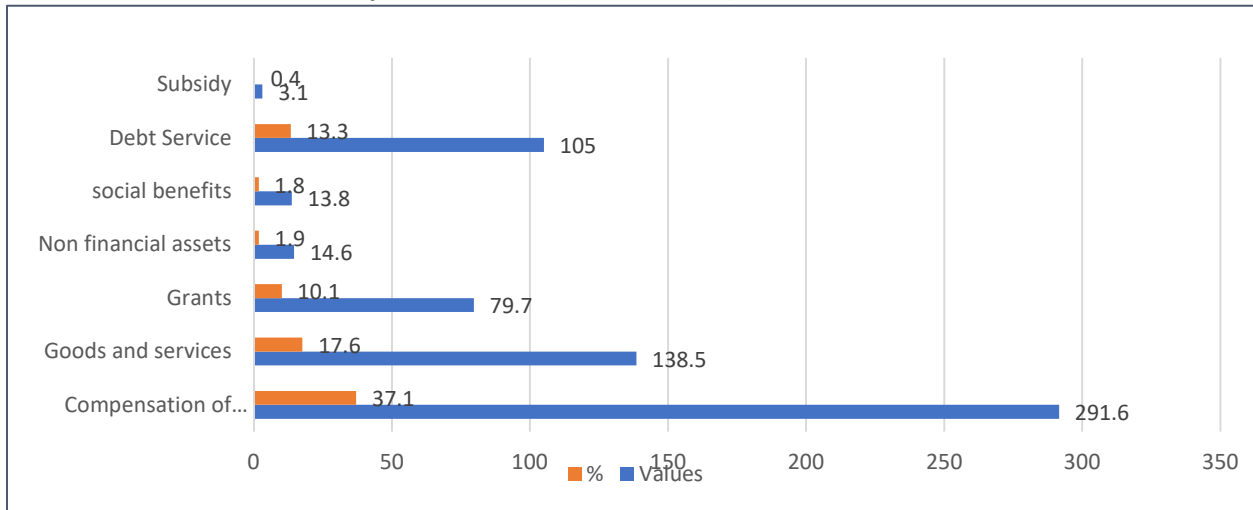
- The addition of the extra liquidity to the budget has affected the overall budget structure as follow:

**Figure 2-2022 Original Budget expenditure Million USD**    **Figure 3- 2022 Restated Budget Millions USD**

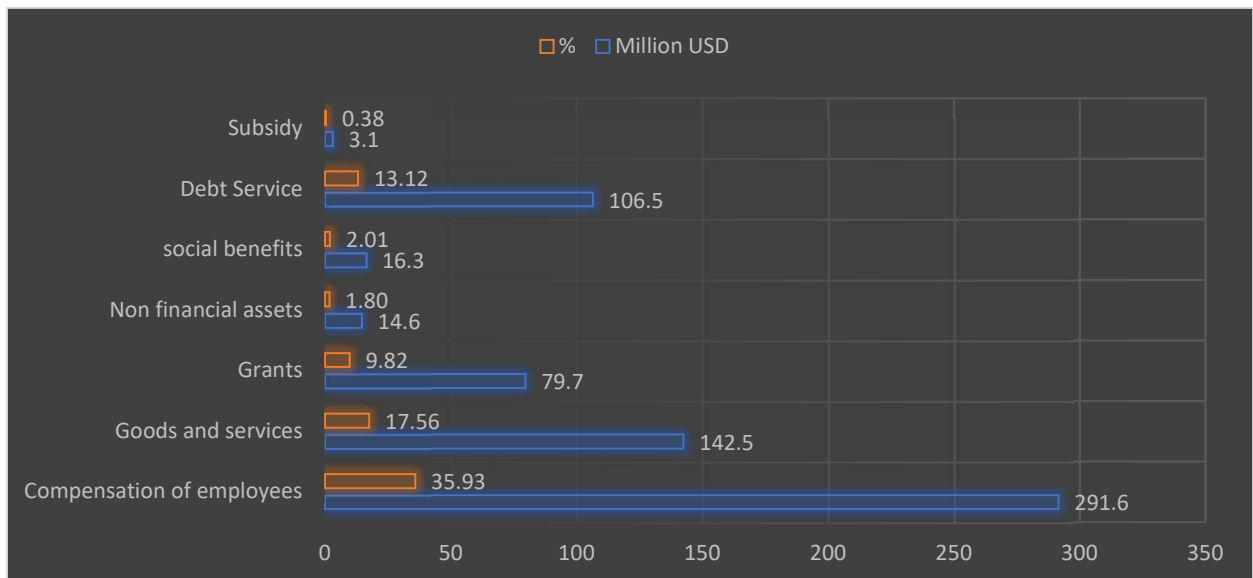


- In terms of budget structure, both the original and the amended budget are dominated by the recurrent expenditure. The original budget has 82% of recurrent expending to 18% of investment spending while the amended budget has 81% of recurrent to 19% of investment spending.
- The Investment expenditure increased 12% from the original 2022 budget investment spending and now represents 19% of the whole restated budget while the recurrent expenditure increased by 1.2% from the original recurrent spending and now represents 81% of the expenditure in the whole amended budget.
- One can notice a clear upward trend of the share of investments expenditure in the total budget from 2018 to 2022, apart from the 2019/2020 exercise which coincides with the COVID-19 pandemic. Investment's share in the total budget has increased to 18 % in 2022 and the new restatement in the same fiscal year will further increase it to 19% as the public investment envelope increased from 139 million USD to 156 million
- Comparing the ongoing budget restatement to the last recasting exercise undertaken in 2019/2020 for the COVID response, it is noted that the overall expenditure has increased while at the time of the pandemic the budget witnessed a modest increase of investment expenditures in the total expenditure portfolio.
- As presented in the following two figures the items that dominate the recurrent expenditure in both the original and amended budget continue being the compensation of employees (37.1% in the original versus 36.2% in the amended budget); followed by goods and services (17.6% versus 17.7%) and debt service payments (13.3% vs 13.2%). Apparently the USD 8 million added to the recurrent expenditure by the amendment did not significantly affect the structure of spending.

**Figure 5- Liberian Recurrent Expenditure 2022 (Millions USD)**



**Figure 6 - Restated Liberian Recurrent expenditure 2022 (Millions USD)**

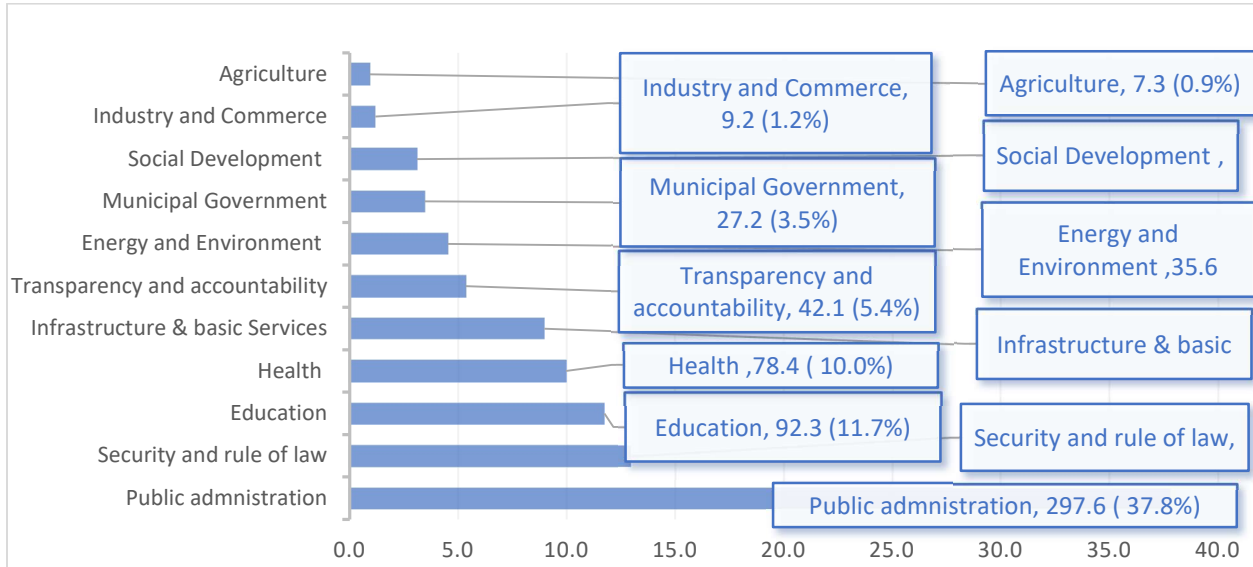


**Sector allocations**

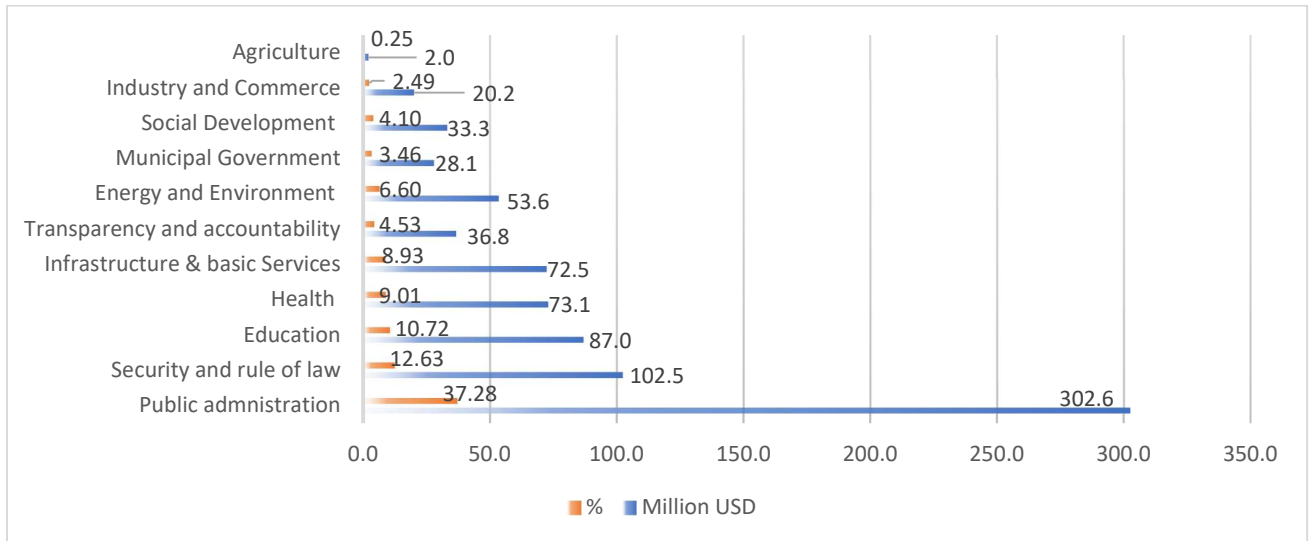
- At the time the current manuscript was being drafted, the government had not yet released the information about the sources of the values that were being reprioritized to the current most urgent spendings. Therefore, for the budget to balance, the authors assumed that the reprioritized income was deducted from the sectors that didn't benefit from reprioritization process. This means that the sectors of "transparency and accountability", "health", "education", and "agriculture" were each deducted USD 5 343 750 to make up for the value of USD 21, 375 000 that were redirected to the chosen spendings.

- Looking at the budget in percentage terms the relative allocation across sectors maintains its initial structure. The “public administration” sector still leads the spending both in the initial and the amended budget with respectively 37.8% and 37.3%; this is followed by the “security and rule of law” sector with 13% and 12.6%; and finally, the “education” sector with 11.7% and 10.7% respectively in both initial and amended budgets. The less funded sector continues being the “agriculture” sector with 0.9% and 0.25% respectively in the initial and amended budgets.

**Figure 7- Sector Budget Allocations Liberia 2022 (USD Million)**

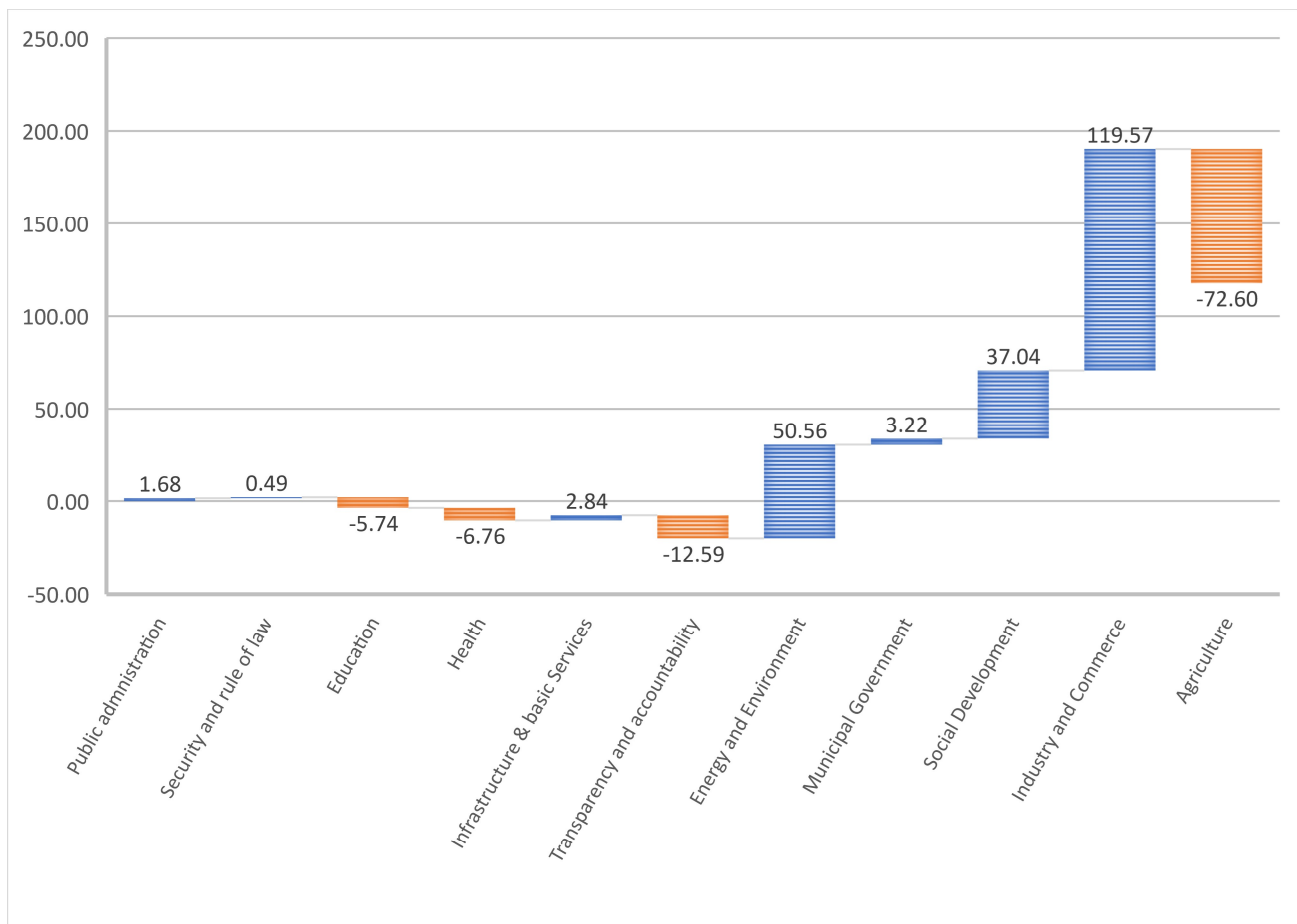


**Figure 8- Post amendment Sector Budget reallocations Liberia 2022 (USD Million)**



- The question now is, which sectors benefitted the most from the budget amendment. Apparently, the “industry and commerce” sector; the “energy and environment” sector; and the “social development” sector are the three sectors that got the best out the present budget restatement process. The Government’s focus on mitigating the impact of the ongoing global energy, food and finance crisis led to the concentration of budget allocations of USD 11 Million on rice subsidy, that elevated the “industry and commerce” sector previous budget of USD 9.2 million by 119%; the allocation of USD 18 million on energy sector which elevated its previous budget of USD 35.6 million by 50.56%; and the allocation of USD 8.5 million to a set consisting of youth at risk program(USD 1 Million), pensions (USD 2.5 million) internal affair’s social development fund (USD 5 million ) that improved the “social development sector’s” budget by 37% from the initial USD 24.3Million. It’s assumed that the biggest loser is the agriculture sector that witnessed a reduction of it’s initial USD 7.3 million budget by 72.6%.

**Fig 9 -Percentage change in sector budget due to the amendment**



- Three of the 4 sectors that are assumed to have had its budget reduced by the amendment process tend to be relatively more sensitive for most of the population. These are the “health”,

“education”, and “agriculture” sectors. The “transparency and accountability” sector is also assumed to have suffered a cut on its budget. The analysis show that the “health” sector had a 10% spending allocation in the original budget and has 9% in the amended budget; the “education” sector had 11.7% in the original budget, and it is 11% in amended budget; the “agriculture” sector had a 0.9% allocation in the original budget and has 0.25% in the amended budget; the “transparency and accountability” sector represented 5.4% in the initial budget and now represents 4.5% in the amended budget.

### **The budget amendment and the international pending benchmarks**

- For its sensitivity to the Liberian people the areas of Agriculture, health and education have been chosen for the present benchmark analyses due to the fact that they are assumed to be relatively more relevant and impactful for the Liberia people. The main question here is how the spending in these three sectors compares to what’s internationally benchmarked. While the benchmarks are not a mandatory and enforceable rules, they are a recommendation that guide towards what most would consider a good practice and a show of commitment by the government to the sectors.
  - **Minimum Social Spending Benchmarks<sup>1</sup>**
    - **Education International benchmark:** To allocate between 4 and 6 per cent of GDP and/or at least 15 to 20 per cent of total public expenditure on education (Incheon Declaration and Framework for Action, 2015<sup>2</sup>). With reference to the Addis Ababa Action Agenda (2015).<sup>3</sup>
    - **Health Regional benchmark:** 15 per cent of the annual budget should go to the health sector (Abuja Declaration, 2001 for African Union countries; World Health Organization, 2011<sup>4</sup>).
    - **Minimum Agricultural spending benchmark:** According to CAASP biannual review report 2015-2018 Liberian is recommended to spend the 1.2% of the public expenditure in agriculture

### **Conclusions**

- The current budget amendment did not change the structure of the budget. It only made a relatively small contribution to specific spending lines.
- The sectors of industry and commerce, Energy and Environment and social development are ones that were targeted for a relatively noticeable budget increases
- The allocation of the draft restatement of the national budget are not fully based on a clear sector classification.
- Liberia needs robust and tailored analytical tools to forecast and monitor the macroeconomic, financial, and fiscal framework, revenue and expenditure and assess internal and external risks to

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<sup>1</sup> While these costings and benchmarks have been published by regional and international bodies, they may not be accurately representing the adequate spending requirements in any given country.

<sup>2</sup> UNESCO (2015). UNESCO Education 2030: Incheon Declaration. Available at: [http://www.unesco.org/new/fileadmin/MULTIMEDIA/HQ/ED/ED/pdf/FFA\\_Complet\\_Web-ENG.pdf](http://www.unesco.org/new/fileadmin/MULTIMEDIA/HQ/ED/ED/pdf/FFA_Complet_Web-ENG.pdf)

<sup>3</sup> Addis Ababa Action Agenda (2015). Financing for Development. Available at: [http://www.un.org/esa/ffd/wpcontent/uploads/2015/08/AAAA\\_Outcome.pdf](http://www.un.org/esa/ffd/wpcontent/uploads/2015/08/AAAA_Outcome.pdf)

<sup>4</sup> The WHO (2011). The Abuja Declaration 10 Years On. World Health Organisation. Available at: [https://www.who.int/healthsystems/publications/abuja\\_report\\_aug\\_2011.pdf?ua=1](https://www.who.int/healthsystems/publications/abuja_report_aug_2011.pdf?ua=1)

improve the budget predictability. Some discrepancies emerge between the projection for the fiscal year  $t$  (and  $t+1$ ) done in the previous year  $t-1$  and the actual budget for year  $t$  and  $t+1$ , approved in year  $t$  (and  $t+1$ ). The success of the new Medium Term Expenditure Framework (MTEF)<sup>5</sup> that will be reintroduced in 2022 will depend on the accuracy and linkage between the multiple  $x$ -year rolling targets.

- The impacts of the new policies as well as the required incremental budget could also be estimated empirically before their incorporation in the proposed restatement. This information could be annexed to the submission to the National Legislature.
- Increase capital spending to promote economic growth as Liberia still suffers from the negative effect of the COVID-19 pandemic and the ongoing global crisis has further threatened the achieved economic performance. If no action is taken the global energy and food crisis might seriously jeopardize the recovery and weaken the growth prospects (4.9% in 2022-23)<sup>6</sup>.
- UNCT should continue complementing Government actions in priority areas (reliable electricity supply and energy transition, food security and social protection initiatives, rural development, youth, continuity in the access to energy-dependent social services, elections etc.).
- The United Nations should continue fostering programs that promote national cohesion and social safety net as continued rise in prices, particularly for essentials like food and fuel could present risks to social and political stability in the country, ahead of planned elections.
- The United Nations should continue its advocacy to ensure that SDGs issues are prioritized ahead of budget reorientation and macroeconomic stabilization policies that could impact the most vulnerable.

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#### Disclaimer

The content of the present manuscript represents the opinion of the author. The UN and its office in Liberia are not liable of any potential misrepresentation, misunderstanding or errors existing of the content.

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<sup>5</sup> The MTEF was introduced in 2012 in Liberia and will be reintroduced and piloted gradually.

<sup>6</sup> (WB/projection, 2021)