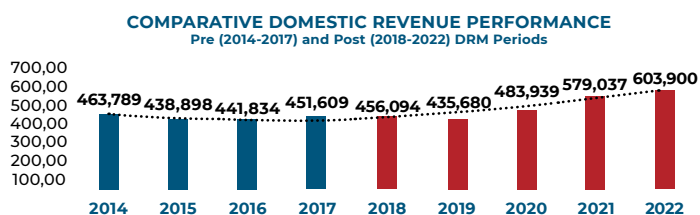


Fruitful cooperation in domestic revenue mobilisation between ATI members

Liberia's path to enhanced domestic revenue: the power of strategic DRM reform

Liberia's experiences with formulating and implementing its National Revenue Reform Strategy and Donor Engagement

In a context of growing complexities of development cooperation, Liberia's journey in implementing its Domestic Revenue Mobilisation (DRM) Strategy, under the auspices of the Liberia Revenue Authority (LRA), represents a remarkable case of boosting the revenue base while reforming the underlying tax system. The DRM Strategy, formulated as an integral part of the LRA's corporate plan (2016-2020), is not only a blueprint for enhancing revenue; it is an emblem of the transformative power of country ownership and donor coordination in steering a nation towards enhanced domestic revenue and thus higher capacity to finance sustainable development.



Domestic Resource Mobilisation (DRM) Pre and post LRA Strategy Implementation. (Source: LRA presentation at the 2023 ATI GA)

The graphic illustrates the comparative domestic revenue performance before and after the implementation of the LRA Strategy, spanning the periods of 2014-2017 and 2018-2022. It demonstrates an upward trend in domestic revenue collection, particularly highlighting a significant increase post-2018, showing the positive impact of the strategy on revenue mobilisation efforts.

Genesis of the DRM Strategy

The genesis of the DRM Strategy lies in a robust, inclusive formulation process, involving extensive stakeholder engagement. This included regional consultations, a national revenue symposium engaging international stakeholders, and the utilisation of external consultancy expertise. The development of the DRM Strategy featured a comprehensive, participatory process. Key national stakeholders involved included Ministries, Agencies, and Commissions (MACs) and relevant public and private entities. The process also incorporated regional consultations and a National Revenue Symposium, which engaged both national and international stakeholders. International participants included key development partners and organi-

sations such as the United Nations Development Programme (UNDP), USAID, the European Union (EU), the African Development Bank (AfDB), and the International Monetary Fund (IMF), among others. The LRA facilitated these engagements, ensuring a broad and inclusive process. Such a participatory approach underscores the essence of country ownership, demonstrating that DRM reforms are most effective when they are domestically driven and tailored to the unique socio-economic fabric of the country.

Central to the DRM Strategy are its strategic priorities: expanding the revenue base, minimising revenue loss, financial deepening, and exploiting the nexus between DRM and Official Development Assistance (ODA). These priorities echo the wide agreement among the development community, which places a premium on the mobilisation of domestic resources as a linchpin for sustainable development. This focus is crucial for countries like Liberia, where harnessing internal financial resources is pivotal for reducing dependency on external aid and for funding national priorities. The strategy's governance model and thematic interventions, ranging from tax policy reforms to administrative enhancements, demonstrate a comprehensive approach to revenue mobilisation. These reforms include the transition from Goods and Services Tax (GST) to Value Added Tax (VAT), excise reforms, and the implementation of modern ICT systems to streamline tax administration. Such multi-dimensional reforms capture the strategy's essence in addressing both policy and operational facets of revenue mobilisation.

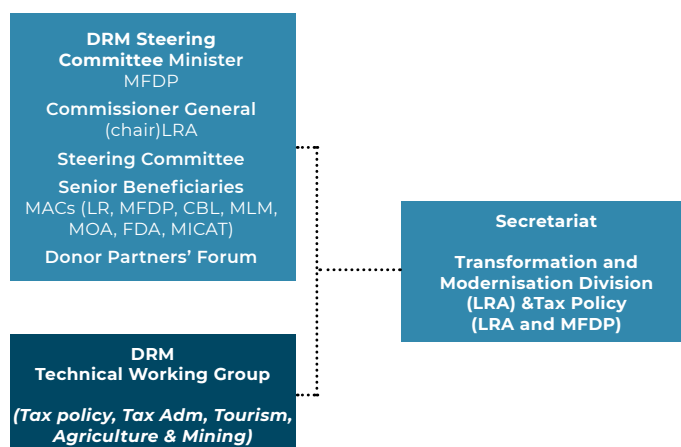
Tax Types	CY2018	CY2019	CY2020	CY2021	CY2022	Trend
Total Revenue	494,111	494,111	664,398	694,336	741,418	
Domestic Revenue	456,094	435,680	483,940	578,485	603,900	
Tax Revenue	396,237	355,166	393,964	484,922	486,633	
Taxes on Income & Profit	160,662	137,829	174,746	210,742	211,790	
Taxes on Property	5,522	4,984	4,742	5,337	4,498	
Taxes on Goods & Services	45,197	46,680	45,459	55,594	58,956	
Taxes on International Trade	183,156	159,211	165,456	209,837	203,056	
Other Taxes	1,700	6,462	3,560	3,410	8,333	
Non-Tax Revenue	59,856	80,514	89,976	93,564	117,267	
Carry forward	-	-	2,035	46,960	-	

Revenue outturn in real terms (Source: LRA presentation at the 2023 ATI GA)

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The graphic illustrates a year-by-year comparison of Liberia's revenue components from CY2018 to CY2022, showing a clear upward trend in total revenue, domestic revenue, and specific tax categories such as taxes on income and profit, and international trade.

Governance¹



¹Governance of the DRM Strategy (Source: LRA presentation at the 2023 ATI GA)

Importantly, the LRA's strategic approach to donor engagement has been another cornerstone of the DRM Strategy's success. Liberia's approach to aligning donor support with its DRM Strategy was structured through a collaborative framework led by the LRA. Key to this was a donor steering committee, providing a platform for coordination and alignment of donor programmes with the strategy's priorities. The LRA developed a clear agenda, presented the strategy to donors, and engaged in regular communication, allowing for targeted support that addressed specific needs, such as tax base expansion and infrastructure upgrades. Regular progress updates ensured transparency, fostering a coordinated donor environment that maximised impact and avoided duplication in advancing Liberia's revenue mobilisation goals. This synergy between country-driven initiatives and donor support is exemplary, showcasing how external assistance can be effectively harnessed to support national objectives. However, the journey has not been without its challenges. Delays in implementation,

funding constraints, and the realities of donor fatigue are stark reminders of the hurdles faced in such ambitious reforms. These challenges underscore the need for continuous adaptation and resilience in the field of DRM, and more broadly in public finance management.

In essence Liberia's DRM Strategy provides a practical and effective model for tax administration and tax policy reform. It demonstrates how country ownership, combined with focused donor collaboration, can lead to tangible improvements in revenue collection. Country ownership in Liberia's DRM Strategy was demonstrated by the Liberia Revenue Authority's leadership in conducting extensive consultations with national and international stakeholders, ensuring that the strategy was aligned with Liberia's unique socio-economic context. Through maintaining the management of the agenda and prioritising local needs, Liberia shaped the strategy to reflect domestic priorities, fostering national commitment to its implementation.

Key insights and strategic takeaways

The approach taken by Liberia in developing its DRM Strategy provides several key lessons for other developing countries aiming to strengthen revenue mobilisation. First, fostering country ownership through active leadership by national institutions ensures that reforms are aligned with local priorities and socio-economic realities, increasing their relevance and sustainability. Second, inclusive stakeholder engagement, involving government bodies, private sector actors, and civil society, helps build broad support and legitimacy for reforms. Third, establishing a coordinated donor environment through structured mechanisms, like a donor steering committee, allows for targeted assistance aligned with national priorities, avoiding duplication and enhancing impact. Finally, continuous monitoring and transparent reporting on reform progress not only sustains donor trust but also reinforces accountability and adaptability within the reform process. Together, these elements create a robust foundation for effective and sustainable domestic resource mobilisation reforms. The DRM Strategy's success in Liberia is particularly relevant for countries facing

¹MFDP: Ministry of Finance and Development Planning

CBL: Central Bank of Liberia

MLM: Ministry of Lands, Mines, and Energy (sometimes referred to as Ministry of Mines and Energy)

MOA: Ministry of Agriculture

FDA: Forestry Development Authority

MICAT: Ministry of Information, Cultural Affairs, and Tourism

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similar challenges in generating internal resources for development. It highlights the importance of designing DRM related changes and reforms that are tailored to a nation's specific socio-economic context. Liberia's experience shows that solutions crafted to reflect local realities are more likely to be successful and sustainable. The DRM Strategy in Liberia was crafted to reflect local realities by prioritising areas relevant to Liberia's unique economic conditions, such as tax base expansion and sector-specific reforms in mining and fisheries. The LRA incorporated findings from stakeholder engagements, leveraging local expertise to ensure that the reforms were responsive to Liberia's socio-economic context and specific governance challenges. Furthermore, the strategic collaboration with donors under the DRM Strategy is an excellent example of how external support, when aligned with national priorities, can enhance the effectiveness of DRM. Concrete examples of aligning external support with Liberia's national priorities include the collaboration with USAID on the Revenue Generation for Governance and Growth (RG3) project, which provided both technical and capacity-building support to strengthen tax administration systems — a priority identified in Liberia's DRM Strategy. Additionally, the European Union provided long-term technical support to Liberia's customs operations, aligning with the national goal of enhancing trade efficiency and compliance through improved customs infrastructure. The African Development Bank (AfDB) also supported Liberia's public financial management reforms, focusing on institutional strengthening to increase revenue mobilisation. Further, the International Monetary Fund (IMF), through AF-RITAC West II, provided targeted assistance in domestic tax administration, supporting the DRM Strategy's aim to expand the tax base and improve tax compliance. Each of these partnerships reflects a tailored alignment with Liberia's identified needs in tax and customs administration, capacity building, and institutional reform, enhancing the effectiveness of DRM initiatives.

The inclusive approach in the formulation of Liberia's DRM Strategy, engaging stakeholders from various sectors, is a key factor in its success. This method ensures a diversity of perspectives and expertise, fostering a sense of collective responsibility towards the strategy's goals. Such inclusiveness is crucial for gaining broad support and ensuring the successful implementation of the strategy. The DRM Strategy's comprehensive scope, encompassing policy reforms, administrative improvements, and technological advancements, illustrates the need for a multifaceted approach to DRM. The resilience of the DRM Strategy, particularly its effective performance during challenging periods like the COVID-19 pandemic, speaks for its robustness. It highlights the necessity of developing adaptable and flexible public financial management systems that can withstand external shocks, ensuring continuity and progress even in uncertain times.

Liberia's case demonstrates that increased DRM can directly support Sustainable Development Goals (SDGs) by fostering self-reliance, economic resilience, and inclusive growth. By prioritising local ownership through leadership by the Liberia Revenue Authority, the strategy ensures that revenue reforms are aligned with national needs.

Ultimately, Liberia's DRM Strategy provides more than just a blueprint for enhanced revenue collection; it serves as a practical example for countries seeking to implement DRM reform strategies. It demonstrates that with a well-designed approach—grounded in local ownership, inclusive planning, and cooperative donor engagement—enhanced domestic revenues are achievable. As such, the DRM Strategy stands as a valuable illustration for countries pursuing similar goals. Their opinions on public spending and promotes positive attitudes toward local government leaders while strengthening oversight.