PFM REFORM AND GDP GROWTH

Economic Freedom Indices and Liberia’s Experience
• In post-war Liberia, donors and the GOL invested heavily in PFM and institutional strengthening.
• First, was it worth it?
• Second, what did we learn about where to focus?
LIBERIA HISTORY/BACKGROUND

- Society dominated by 5% minority, Americo-Liberians settled in 19th century, “country people” lacked vote, education
- Sargent Doe's coup in 1980 claimed indigenous liberation
- A turbulent decade plus 14 years of civil war followed
Internationally brokered transition government held elections in 2005

Ellen Johnson Sirleaf won in second round

Took office January 2006
FRAGILE STATUS 2006

• 1/3 of national population lived in greater Monrovia
• Monrovia had no power or water since 1990
• Rights to resources (land, minerals & forestry) were in disarray
• Transportation was unreliable, 1 paved road outside Monrovia
  • Sunken ships blocked all but one channel into the only port
  • 95% of the food supply came through that port
• Skilled personnel had mostly fled, government orders were oral, few records remained
2006-2017, ELLEN JOHNSON SIRLEAF

• 2006-2017 Building a new Liberia, government with strong donor support
• GEMAP 2006-2010 focused on PFM to «Stop the bleeding»
• GEMAP installed international controllers in key MACS
• Twice weekly supervisory meetings, donors/government/TA
• Priorities were
  • (1) clarifying resource rights and
  • (2) PFM
• Goals: Debt relief and reconstruction
GEMAP WORKED—ENDED 2010

• Basic Computerization of PFM generated instantly clearer picture
  • Easy to pinpoint corruption opportunities
  • Reformers in government kept tighter reins

• Graduation from GEMAP in 2010 led to $4.6 b debt relief

• President Johnson Sirleaf awarded Nobel Peace Prize

• Both donors & government saw need for broader institutional strengthening in next phase
NEXT PHASE, 2011-16 GOVERNMENT AND DONORS REFOCUSED ON INSTITUTIONS

- USAID funded GEMS, IBI implemented
  - Performance Improvement methodology used in 16 core ministries
  - ICT policy and computerization of 16 key Ministries and Agencies
  - PFM (WB IFMIS; GEMS integrating MACs into IFMIS)
  - Civil Service Reform
  - Procurement
  - Concessions Management
- World Bank continued funding IFMIS, finally rolled out in 2014-2016
- Chinese and EU invested in infrastructure
- UNMIL reduced troops, roles
Graph 1. Liberia's GDP (USD millions)

GDP - Constant US dollars (2005)

Sources: World Development Indicators, World Bank; Annual Economic Review, Liberia MoF
<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenue</th>
<th>Tax Revenue</th>
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<tbody>
<tr>
<td>2006-07</td>
<td>148,499,000</td>
<td>140,955,000</td>
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<tr>
<td>2007-08</td>
<td>207,713,000</td>
<td>175,601,000</td>
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<td>2008-09</td>
<td>234,902,000</td>
<td>200,484,000</td>
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<td>2009-10</td>
<td>288,002,000</td>
<td>226,143,000</td>
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<td>2010-11</td>
<td>387,906,000</td>
<td>288,300,000</td>
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<tr>
<td>2011-12</td>
<td>477,279,000</td>
<td>365,015,000</td>
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<tr>
<td>2012-13</td>
<td>559,200,000</td>
<td>380,100,000</td>
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</tbody>
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WHAT PART OF GROWTH WAS DUE TO PFM?

• Institutional economics since 1990s concludes quality of institutions more important for growth than production functions

• Indices of economic freedom provide a methodology for estimating relative impact of 10 indicators (institutional focus)

• Other relevant indices
  • Doing Business (IFC, business focus)
  • Competitiveness Index (World Economic Forum, business focus)
  • Democracy Index (Economist Intelligence Unit, governance focus)
  • Corruption Perceptions Index (Transparency International, citizen focus)
### IEF 10 Indicators of Institutional Strength

<table>
<thead>
<tr>
<th>Rule of Law</th>
<th>Regulatory efficiency</th>
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</thead>
<tbody>
<tr>
<td>1. Property rights</td>
<td>5. Business freedom</td>
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<tr>
<td></td>
<td>7. Monetary freedom</td>
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<tr>
<td>Limited government</td>
<td>Open markets</td>
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<tr>
<td>3. Government spending</td>
<td>8. Trade freedom</td>
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<tr>
<td></td>
<td>10. Financial freedom</td>
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</tbody>
</table>
GLOBAL FINDINGS—EF INDICES CORRELATE WITH GROWTH


• 1 unit higher in EF score = 1.24% average annual boost in per capita GDP
• Boost also 2.16% in investment as a share of GDP
• Peace is more closely correlated with EF indices than with Democracy Index scores
• Caveat: Statistics showed a five to ten year lag to see impact
LIBERIA OUT OF THE ASHES

• Liberia was unranked until 2009
  • post-war insecurity and low level of economic activity
• Liberia’s first composite score in 2009 was 48.1 / 100
• By 2016 it rose 4.1 units to a score of 52.2
• Liberia saw strong post-war growth
  • In GDP
  • In PC GDP
  • In government revenues
GDP AND PC GDP GROWTH 2005-2013

• You have seen the growth curves, with GDP increasing at averaged 7.6% per year until the Ebola epidemic in 2014

• Per capita GDP growth averaged 4.65% for 2005-2013
  • From $7234 in 2005 to $10,641 in 2013

• If Liberia got the average 1.24% annual boost from improved PFM/Institutions that the 99 countries studied attained, virtually all of the growth would be credited to PFM

• We know that that is unrealistic
OTHER FACTORS BEHIND GROWTH

1. Elected government—reached across ethnic divisions
2. Peace—UNMIL and US Dept. of State supported
3. Global commodity boom
   • Iron ore and other minerals
   • Forest products
   • Rubber and palm oil
WHICH EF INDICATORS CHANGED IN LIBERIA?
WHAT REFORMS WERE LINKED TO IMPROVEMENTS?

• Property rights & Freedom of investment
  • GEMAP
  • Cleared fraudulent industrial mining and forestry concessions
  • Auctioned proven deposits to reputable, capable producers
    • US$ 11.2b investments pledged in 5 iron-ore mining projects
    • Note GDP <US$ 1b
LEGAL ARTISANAL MINING AND FORESTRY
SPREAD THE WEALTH

• Regulated artisanal diamond, gold, forestry production
  • Generating the highest available rural incomes
• Land rights still face serious issues
FREEDOM FROM CORRUPTION

• PFM
  • Budget and accounting systematized & computerized in 17 MACs
  • Open budget initiative—budget, expenditures published in realtime

• Corruption perceptions
  • Police and Customs—reorganized and trained from zero
  • Concessions management—contracts auctioned and published, cadastres automate management—when used
  • Government procurement—decentralized, then systematized
  • Government asset management—inventoried after decentralization
  • Judiciary still a major problem—reform focused on human rights instead of bigger picture
POOR RANKINGS

• Financial freedom ranked lowest
  • Access to credit
  • Access to banking services negligible in 2006
  • Est. <1 percent of population
  • Nearly all transactions were cash
  • Checking fraud rampant
  • Robbery widespread
GEMAP AND GEMS UPPED ACCESS TO FINANCIAL SERVICES, BUT NOT ENOUGH

• GEMAP and GEMS
  • Introduced direct deposit of government salaries and
  • Mobile money legislation and pilots for GOL salary payments
  • Access to financial services increased to est.5% of population
  • Banking regulation and new banks enlarged and secured sector

• Not enough to push Financial freedom above score of 20/100
ON LIMITED GOVERNMENT, IEF MARKED LIBERIA DOWN, JUSTIFIED?

![Graph showing budget and revenue trends from 2006/07 to 2012/13.](image-url)
IS THE PROBLEM IEF RIGIDITY?

• IEF’s Limited Government indicator assumes less government spending is always better
• After 2010 debt relief, GOL began spending more
• Donors generally considered that necessary and appropriate for recovery
• For developing countries, especially fragile, post-conflict ones, we need research on this indicator, possibly others
CONCLUSIONS FOR LIBERIA

• Big government/donor reform effort generated extraordinary post-conflict growth
  • Reform was well focused on indicators with impact on growth & peace
• Largest impacts from
  • Open budget, computerized financial management: debt relief
  • Concessions management
  • Procurement reform
  • Asset management
FUTURE RISKS AND UNFINISHED REFORMS

• Unfinished drags on growth
  • Civil service reform incomplete
  • Land rights
  • Financial sector—mobile money not yet in general use

• Future risks
  • Backsliding when TA leave
    • Reforms eliminate opportunities for corruption
    • Seen from the other side, eliminate income opportunities
  • 2017 elections require change of administration
    • Patronage system means new appointees will fill many (most?) positions
CONCLUSIONS FOR DONOR/GOVERNMENT PLANNING

• *Economic Freedom indices* offer an excellent checklist
• Donor planning tends to be siloed in Governance and Economic Growth
• IEF is broader than other indices, strong for peace as well as growth
  • includes impact on businesses, national economies, and people
• Further research needed on several indices to fix desirable ranges
• Hypothesis: “less” is not always better for fragile, post-conflict countries
THANK YOU

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