



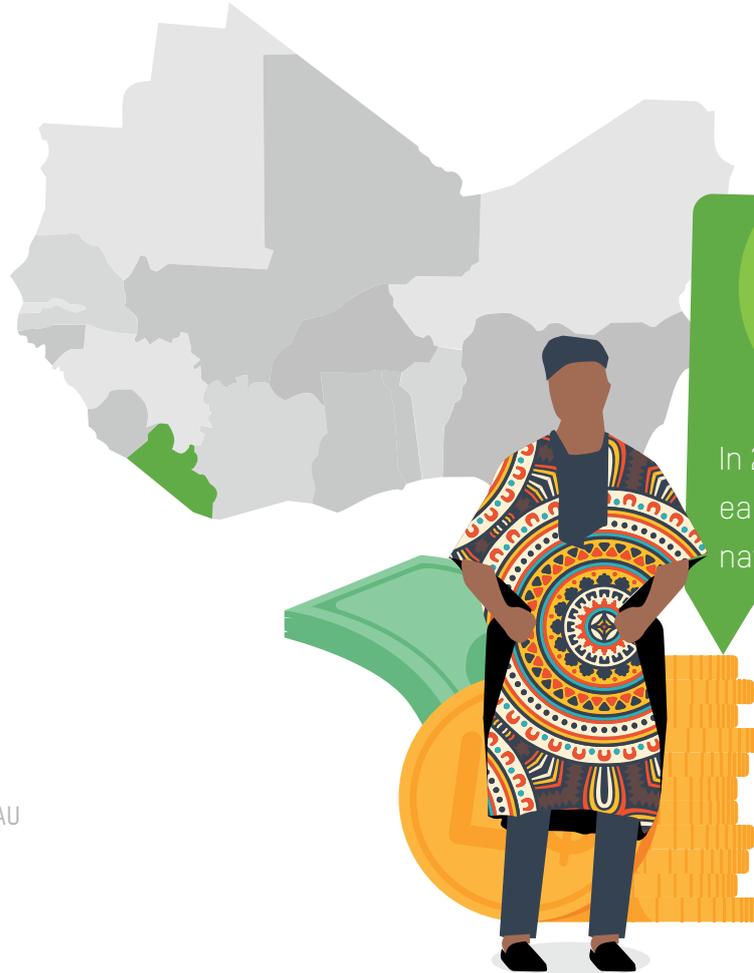
# 2021

## LIBERIA

COMMITMENT TO REDUCING  
INEQUALITY INDEX (CRII)



- 1  TOGO
- 2  CABO VERDE
- 3  GHANA
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42%

In 2019, the top 10% earned 42% of all national income.<sup>1</sup>



### FIGHTING INEQUALITY IN THE TIME OF COVID-19

The pandemic hit the poorest hard because of lack of basic health services coverage, social protection funding, food security. The World Bank projects that poverty could rise to 65% by the end of 2020.<sup>[1]</sup>



### PUBLIC SPENDING AND SERVICES

Education budget rose sharply in the last few years to around 18% – close to the Education for All benchmark of 20% – but teaching staff are lacking and only 1.5% of the poorest quintile of children are currently finishing secondary school.



## TAXATION

Ranks bottom in ECOWAS+<sup>[iii]</sup> with a tax system relying too much on taxing consumption and basic foodstuffs, increasing the burden on the poorest.



## LABOUR RIGHTS

Has introduced a very high minimum wage policy, but enforcement is weak while top wages are high, placing it second from the bottom in terms of wage inequality in ECOWAS+ region.



## AGRICULTURE

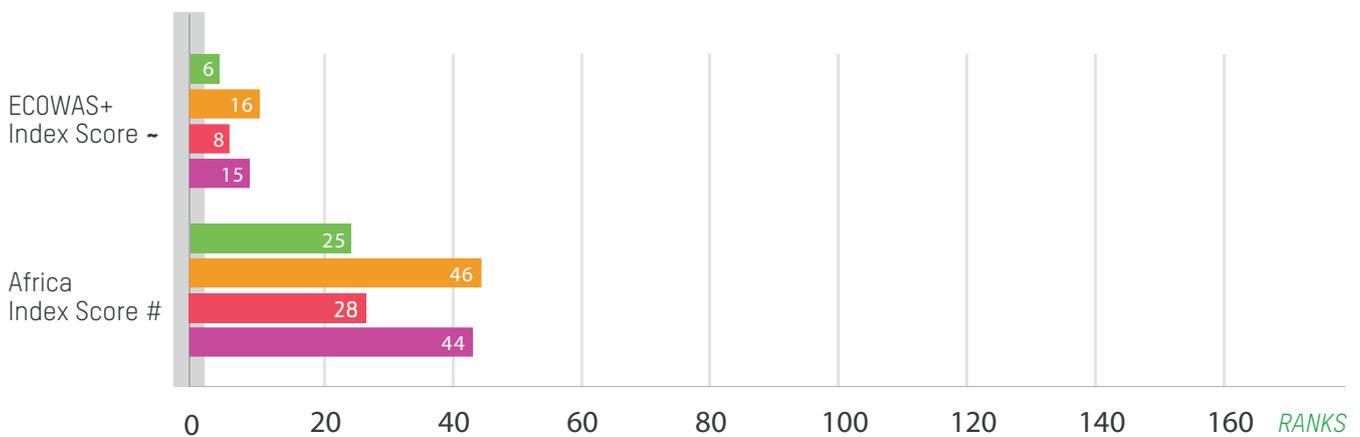
Commits 2% of the budget to agriculture, ranking 4th from the bottom in ECOWAS+ region.



## DEBT AND THE ROLE OF INTERNATIONAL FINANCIAL INSTITUTIONS

International financial institutions dramatically increased loans to help cover the costs of the COVID response, increasing Liberia's debt service from a low 7% of revenue in 2019 to around 20% of revenue in 2020.

### SCORE ON THE CRI INDEX: ECOWAS+ AND AFRICA WIDE RANKS



- OUT OF 15 ECOWAS COUNTRIES PLUS MAURITANIA

# OUT OF 46 COUNTRIES (NOT ALL COUNTRIES HAVE DATA AVAILABLE)

#### References

- <https://frontpageafricaonline.com/front-slider/526000-liberians-risk-falling-below-poverty-line-in-2020-world-bank-reports/#>
- ECOWAS+ includes the 15 ECOWAS member states plus Mauritania

# LIBERIA

## CRI INDEX COUNTRY PROFILE

Liberia has only the fifth lowest inequality in ECOWAS+<sup>1</sup>, but this is still affecting growth negatively, and has been rising recently. It is 154<sup>th</sup> of 158 countries in the CRII, 44<sup>th</sup> of 47 in Africa and second from bottom in ECOWAS+. It scores especially badly on tax policy, but not much better on public services or labour rights.

Liberia has increased education and health spending in recent years, but these and social protection spending levels remain far from ensuring universal secondary school completion, health care access or comprehensive social protection coverage. As a result, they are reducing inequality only marginally. Liberia's tax policies score very badly, reflecting an inequality-exacerbating tax system relying on regressive VAT, with corporate and top income tax rates too low, and an absence of inheritance, gift or wealth taxes. Tax collection is also undermined by exemptions for the rich and tax dodging. Labour policies are strong on union rights, but less on women's rights; the minimum wage is high but poorly enforced, and three quarters of workers are informally/vulnerably employed without rights. Government spending in agriculture is marginal, debt service is crowding out SDG spending, and COVID-19 response tackled inequality only through social protection.

To achieve its ambitious goals in the PADP and Vision 2030, Liberia will need to accelerate anti-inequality efforts by:

- i) spending even more especially on social protection and health to reach universal coverage;
- ii) making its tax system and collection reduce inequality by increasing corporate and top personal tax rates, making VAT less regressive, introducing inheritance and gift taxes, cutting income tax exemptions and fighting tax dodging;
- iii) enforcing its minimum wage and extending rights and social protection to informal and vulnerable workers; and
- iv) receiving broader debt relief to free funds for anti-inequality spending.

# 1

## SCALE OF INEQUALITY

Liberia has the fifth lowest level of inequality in West Africa (whether measured by Gini Coefficient – 0.353 – or Palma Ratio between top 10% and bottom 40% of incomes – 1.44). Nevertheless, its Gini coefficient remains well above the level – 0.27 – at which the IMF assesses that inequality affects growth negatively, so inequality needs to be reduced in order to accelerate growth.

Inequality has also been rising since 2014,<sup>2</sup> with the benefits of recent growth concentrating at the top of the income scale. In 2019, the top 10% earned 42% of all national income.<sup>3</sup> On the SDG 10.1 target on inequality – the income of the bottom 40% of the population is currently growing at a lower rate than the national average.<sup>4</sup> So action is needed to stop it rising further.

# 2

## KEY POLICIES TO FIGHT INEQUALITY – LESSONS FROM THE CRI

The third edition of the CRI Index ranks 158 governments on their commitment to reducing inequality. It measures their policies in three areas proven to reduce inequality significantly: 1) Public services (health, education and social protection); 2) Taxation; and 3) Workers' rights.

### SCORE ON THE CRI INDEX: GLOBAL, ECOWAS+, AND AFRICA WIDE RANKS

|                        | PUBLIC SERVICES PILLAR | TAX PILLAR | LABOUR RIGHTS PILLAR | AVERAGE RANK |
|------------------------|------------------------|------------|----------------------|--------------|
| ECOWAS + INDEX SCORE ~ | #6                     | #16        | #8                   | #15          |
| AFRICA INDEX SCORE #   | #25                    | #46        | #28                  | #44          |
| OVERALL INDEX SCORE *  | #128                   | #150       | #132                 | #154         |

\*OUT OF 158, ~ OUT OF 15 ECOWAS MEMBER STATES + MAURITANIA #OUT OF 46 COUNTRIES (NOT ALL COUNTRIES HAVE DATA AVAILABLE)

Liberia scores very poorly on the CRII and comes almost bottom of the rankings globally, in Africa and in ECOWAS+. It does particularly badly on the tax policy pillar, coming last in ECOWAS+, second from bottom in Africa and close to the bottom worldwide.

## 2a PUBLIC SERVICES PILLAR

On public services, Liberia does fairly well in terms of its spending (as measured by the % of budget) but is pulled down by the low access/coverage this achieves because levels of spending per capita and compared to GDP are very low:

### ● EDUCATION

Liberia used to spend very low levels of its budget on education, but this has risen sharply in the last few years to around 18% - close to the Education for All benchmark of 20%. But much more is required to invest in education systems which lack teaching staff - especially as only 1.5% of the poorest quintile of children are currently finishing secondary school.

### ● HEALTH

Health spending has increased slightly in recent years to reach 8% of the budget, but this is still only half the Abuja commitment of 15%. Given that only 39% of Liberians are covered by essential services (4th lowest in ECOWAS+) and catastrophic out-of-pocket expenses for patients are the second highest in ECOWAS+ - much more needs to be spent.

### ● SOCIAL PROTECTION

Social protection spending is the lowest (1.6% of budget) in ECOWAS+. Coverage is also the lowest in ECOWAS+ - with less than 1% of the elderly receiving a pension.

### ● IMPACT ON INEQUALITY

Overall, public services spending is estimated to have been reducing inequality (the Gini coefficient) by only about 6%, lower than most of its neighbours.

On tax, Liberia ranks bottom in ECOWAS+ and second from bottom (46<sup>th</sup>) in Africa.

- **PROGRESSIVE TAX SYSTEM**

Liberia comes bottom compared to its ECOWAS+ peers for its tax policies “on paper”, and third from bottom Africa-wide. It has a low CIT rate of only 25%; a regressive VAT system which fails to exempt basic foodstuffs to reduce its burden on the poorest, and an only moderately progressive PIT system with a top rate of only 25%.

- **TAX COLLECTION**

On tax productivity, Liberia performs badly, collecting only 17% of the possible taxes which could be raised. This reflects widespread exemptions and deductions provided to corporations and wealthy individuals, as well as tax dodging. These and low income tax rates lead to a very low tax-GDP ratio – just 12% in 2019, which leaves the government starved of vital resources to invest in public services.

- **IMPACT ON INEQUALITY**

Overall, tax is estimated to be marginally regressive – ie worsening inequality – because tax collection depends so much on VAT and excise duties. This leaves Liberia’s tax system in the bottom third of African countries, and 15<sup>th</sup> in ECOWAS+, in terms of its success in reducing inequality.

Liberia comes only 8<sup>th</sup> in ECOWAS+ and 28<sup>th</sup> in Africa, mainly due to gaps in women’s rights, low worker coverage, and high wage inequality.

- **LABOUR RIGHTS**

On the labour rights – freedom of association and collective bargaining rights – Liberia scores relatively well, coming 4<sup>th</sup> in ECOWAS+ and 7<sup>th</sup> in Africa.

- **WOMEN’S LABOUR RIGHTS**

Liberia has equal pay laws and laws to prevent gender-based discrimination in the workplace; however, its laws on rape and sexual harassment require strengthening. In addition, few women are covered by these laws due to a very high concentration of women in informal work.

- **MINIMUM WAGE**

Liberia does very well in terms of minimum wage legislation (ranking number 7<sup>th</sup> globally), after recently introduced a very high minimum wage as part of its new Decent Work Act, and investing more funds in minimum wage enforcement.

- **COVERAGE OF WORKERS' RIGHTS**

Only 23% of Liberian workers have formal contracts and are protected by rights: most, especially women, eke out a living in informal or vulnerable employment or are unemployed.

- **INEQUALITY OF WAGES**

Liberia has extreme wage inequality, ranking second from bottom above only Niger, due to weak minimum wage enforcement and high top wages.

## 3

### OTHER POLICIES IMPACTING INEQUALITY IN LIBERIA

#### FIGHTING INEQUALITY THROUGH INVESTMENT IN SMALLHOLDER FARMERS

Agriculture has halved as a share of Liberia's GDP since 2002, falling to only 39%.<sup>5</sup> However, it still represents 34% of the labour force,<sup>6</sup> and rural poverty and food insecurity remains high. In 2014 West African countries recommitted to the Comprehensive Africa Agricultural Development Programme (CAAPD), which called for governments to increase their budgetary allocations to the sector to at least 10%. How has Liberia done in fulfilling their commitments to boost agriculture? Liberia commits only 2% of the budget to agriculture (4<sup>th</sup> from the bottom in ECOWAS+ region).

#### FIGHTING INEQUALITY IN THE TIME OF COVID-19

Like many other countries, Liberia was not well prepared for COVID at the end of 2019. In spite of rising health spending in recent years, this had done too little to ensure Liberian citizens were covered by basic health services as COVID hit. It implemented strict lockdown

policies in the early months of COVID but has gradually eased them. Partly as a result, in terms of the health consequences of COVID, Liberia has performed relatively well, with only 5802 cases and 286 deaths, though both have been rising faster in 2021.<sup>7</sup> However, its vaccine programme is moving very slowly, due largely to delays in the provision of vaccines by the international community, with only 333,000 doses given (enough to vaccinate 3.6% of the population).<sup>8</sup>

On the other hand, the economic impact of COVID has been severe, with real GDP falling by 3%.<sup>9</sup> Only a fifth of Liberians were protected by workers' rights because of the very low proportion of formal sector jobs. There was also virtually no social safety net in terms of social protection funding or food security. As a result, the pandemic has hit the poorest hard; with poverty and food insecurity spiralling. The authorities initial plan was to respond with calendar year 2020 spending of around 2.8% of GDP, of which around half was to go to an emergency food aid program supporting 2.5 million families, and the rest to health and cash social protection grants.<sup>10</sup> There were initial problems with implementing both programmes, but overall anti-COVID spending has been 1% of GDP on budget plus 1.7% off-budget through donor programmes. To fund this spending, government received additional budget support from the IMF, World Bank and AfDB, so it has not had to cut other budget spending. Nevertheless, the World Bank projects that poverty could rise to 65% by the end of 2020, up from only 44% in 2016.<sup>11</sup>

## DEBT AND THE ROLE OF IFIS

In 2019 before COVID debt stock was 41% of GDP (31% external debt and 10% domestic debt).<sup>12</sup> Borrowing to fill budget gaps and for anti-COVID spending, as well as a fall in GDP and recognition of debt to the Central Bank, will increase this to 65% (46% external) at the end of 2022. Because Liberia has borrowed cautiously and from concessional cheaper sources, its debt service remained relatively low at only around 7% of revenue in 2019. This represented only one third of its spending on education or health, though three times agriculture spending and four times social protection. However, it is forecast to rise to 19% of revenue in 2024, which would have exceeded education or health spending and been around ten times as high as the other sectors.

As Liberia has not been borrowing on international markets, it had nothing to lose in terms of creditworthiness by receiving debt relief. As a result, it has joined the G20 Debt Service Suspension Initiative (DSSI), even though the benefits have been minimal at only \$6.2 million, partly because it only joined in 2021. It has also received IMF debt service cancellation of US\$22 million in FY 2020-21, and is currently negotiating much larger debt relief with China.<sup>13</sup>

What has been the role of the international financial institutions, charged by the G20 with leading the global financial response to the pandemic? They have dramatically increased loans to help cover the increased costs, with an additional US\$50 million from the IMF (as well as its debt service cancellation), and around the same amount from the World Bank in budget support and project loans for health and social protection.<sup>14</sup> About half of this additional financial support has assisted with COVID-related spending on health and social protection.

However, the broader IMF RCF and ECF programmes during 2020, and the World Bank country diagnosis and recent loans have barely noted the issue of inequality. Indeed, according to the latest forecasts from the IMF, the COVID response is already being unwound, and Liberia will be cutting its spending (including off-budget support to national programmes from donors) by 3.8% of GDP between 2022 and 2026,<sup>15</sup> which will be disastrous for achieving its national development goals. This austerity needs to be avoided, and much more attention needs to be paid to measures to fight inequality as Liberia recovers from COVID. If this is not done, Liberia will fall well short of its ambitious development objectives (including reducing poverty and inequality substantially) set out in the Pro-Poor Agenda for Prosperity and Development (PAPD) 2018-23.<sup>16</sup>

## 4

## CONCLUSIONS AND POLICY RECOMMENDATIONS

In areas where the CRI Index shows a need for strong anti-inequality action, Liberia should:

### PUBLIC SERVICES

- Increase education spending to the 20% Education for All benchmark and ensure that it is targeted to keeping the poorest students in school;
- continue to raise health spending to meet the 15% Abuja commitment, to expand universal health coverage and eliminates high catastrophic out of pocket health spending rapidly.
- increase social protection spending to reach universal coverage by 2030, of all vulnerable groups (pensions, children, the disabled, the unemployed and other vulnerable groups).

## TAX

- Make the tax system progressive by increasing corporate income tax to 30%, exempting basic foods from VAT, increasing top personal income tax rates, introducing an inheritance and gifts tax, increasing property taxes for high-value properties, and exploring a wealth tax.
- Increasing tax collection to rapidly exceed the current 12% of GDP, especially by reviewing and reducing tax exemptions and deductions provided to corporations and wealthy individuals, and increasing its efforts to fight tax dodging.

## LABOUR

- Strengthening its laws against rape and sexual harassment, investing even more in enforcing the minimum wage, and continuing with strong increases to the minimum wage.
- Extending worker's rights and social protection to informally/vulnerably employed workers.

## DEBT AND THE IFIS

- Take further advantage of COVID-related offers of debt relief, notably with China, and push for broader debt cancellation including multilateral institutions to free funds for anti-inequality spending.
- Ensure policies to reduce inequality are central to its IMF and World Bank programmes.

All of the measures will be essential if the Government is to meet the ambitious objectives of Liberia Vision 2030 and especially get back on track with the Pro-Poor Agenda for Prosperity and Development (PAPD) 2018-23,<sup>11</sup> and reduce inequality and poverty substantially.

## References

- 1 ECOWAS+ includes the 15 ECOWAS member states plus Mauritania
- 2 For instance the Gini coefficient has risen from 2014 - <https://wid.world/country/liberia/>
- 3 Pre-tax top 10% share, see <https://wid.world/country/liberia/>
- 4 <https://wid.world/country/liberia/>
- 5 <https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?locations=LR>
- 6 ILOSTAT data for 2017. <https://ilostat.ilo.org/data/country-profiles/>
- 7 Data from [www.coronavirus.jhu.edu](http://www.coronavirus.jhu.edu) as at 13 October 2021.
- 8 Data from <https://www.bloomberg.com/graphics/covid-vaccine-tracker-global-distribution/> as at 13 October 2021.
- 9 Data from <https://www.imf.org/en/Publications/CR/Issues/2021/01/07/Liberia-First-and-Second-Reviews-Under-the-Extended-Credit-Facility-Arrangement-Request-for-49995>
- 10 The IMF notes that more than half of this amount was spent by donors off-budget but nevertheless in coordination with the government. <https://www.imf.org/en/Publications/CR/Issues/2020/06/12/Liberia-Request-for-Disbursement-under-the-Rapid-Credit-Facility-Press-Release-Staff-Report-49508>
- 11 <https://frontpageafricaonline.com/front-slider/526000-liberians-risk-falling-below-poverty-line-in-2020-world-bank-reports/#>. 2016 data from <http://iresearch.worldbank.org/PovcalNet/povOnDemand.aspx>
- 12 <https://www.imf.org/en/News/Articles/2020/12/21/pr20386-liberia-imf-executive-board-first-second-review-ecf-approves-us-million-disbursement>
- 13 See <https://www.reuters.com/article/uk-liberia-finance-idUSKBN2ACONM>
- 14 <https://www.imf.org/en/Publications/CR/Issues/2020/06/12/Liberia-Request-for-Disbursement-under-the-Rapid-Credit-Facility-Press-Release-Staff-Report-49508>
- 15 Data from IMF World Economic Outlook database April 2021.
- 16 For its detailed and ambitious objectives on achieving major strides towards universal education, health care and social protection by 2023, see Chapter 2 of the PAPD at <https://www.imf.org/en/Publications/CR/Issues/2021/01/07/Liberia-Poverty-Reduction-and-Growth-Strategy-49996>