



REPUBLIC OF LIBERIA
 Ministry of Internal Affairs
 Governance Commission



Draft
 Revenue Sharing Bill



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Draft Revenue Sharing Bill
(Proposed)

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Preamble

WHEREAS, Article 7 of the Liberian Constitution mandates the Government of Liberia to manage the national economy in a manner that ensures maximum participation of the citizens and advances their general welfare and the economic development of Liberia;

WHEREAS, the Government of Liberia is committed to implement accountable and inclusive local governance and has, accordingly, enacted the Local Government Act of 2018, a comprehensive decentralization reform law, that devolves certain administrative, fiscal and political powers and functions from the central government to local governments in order to build peace, foster integrated socio-economic development and sustain a stable, democratic state;

WHEREAS, Chapter 4 of the Local Government Act of 2018 on financing local governments calls for revenue sharing between the central and local governments as well as between local governments and sub-local government units based on formulas to be recommended by the Local Government Fiscal Board and enacted into law by the Legislature; and

WHEREAS, the central government prior to the enactment of the Local Government law of 2018 had begun to transfer revenues to local governments through the Annual National Budget for development purposes but that, regrettably, such transfers lacked fiscal equity between local governments;

NOW, THEREFORE, it is enacted by the Senate and House of Representatives of the Republic of Liberia in Legislature assembled:

Chapter 1: General Provisions

1.1 **Title**

An Act to Repeal Section 7 of the Revenue Code of 2000 that established the Consolidated Fund from which revenues are allocated by the Legislature for the general purposes of the government and to establish in its stead, a General Fund with Formulas for the sharing of revenues between the Central Government and Local Governments, as well as between local governments and sub-local government units, to be known as the Revenue Sharing Law of Liberia of 2021.

1.2 **Short Title**

This Act may be referred to as the Revenue Sharing Law of Liberia of 2021.

1.3 **Objectives of the Act**

This Act seeks to:

- Build equity in revenues annually transferred by the central government to local governments for undertaking development activities as well as for implementing devolved and delegated functions in furtherance of decentralization;
- Provide equitable sharing of natural resource revenues between the Central Government and Local Governments, as well as between Local Governments and sub-local government units; and
- Create incentives that encourage Local Governments to be effective and efficient in tapping their own revenue mobilization potentials.

1.4 **Application of the Act**

This Act shall apply to the Central Government and all its institutional functionaries, particularly the Ministry of Finance and Development Planning, the Ministry of Internal Affairs, the Liberia Revenue Authority, the Local Government Fiscal Board, as well as Local Governments and sub-local government units.

1.5 Definitions

The following words, as used in this Act, unless otherwise defined herein, shall have the following meaning (s):

- **Central Government:** The national government of the Republic of Liberia comprising of three (3) branches: Legislative, Executive, and Judicial.
- **County:** Used interchangeably to mean a local government; a sub-national authority organized to share authority with the central government.
- **County Service Center:** A one-stop-shop where all deconcentrated services provided by central government's sector ministries and agencies are delivered in each county. Some of these services include issuance of marriage certificates, birth certificates, operating permits, vehicle licenses and registration of businesses, land deeds as well as provision of psychosocial support to victims of domestic violence including sexual and gender-based violence.
- **County Treasury:** A central government financial management framework for strengthening local governments through assisting in the management of revenues received from central government and donors; learn-by-doing institutional capacity building, providing treasury services, ensuring maintenance of financial standards for procurement, increasing transparency and accountability of budgetary spending, financial accounting, and implementing sound internal control and auditing systems.
- **Decentralization:** Transfer of specific political, administrative, and fiscal powers and responsibilities from central government to local governments.
- **Delegated Functions:** Functions of the central government or a central government agency, which by law, regulation, or contract between the central government or one its agencies and local governments that are assigned to local governments to perform.
- **Derivation-based Model:** The method of sharing revenue based on where they are collected; a portion of revenues collected is transferred back to its area of origin where the resource is derived.
- **Development Fund:** Fund established by each county, city or township funded by the central government for the purpose of capital investments and development support.
- **Devolved Functions:** Functions of the central government or a central government agency transferred by law to local governments.

- **Earmarked Transfers for delegated functions:** Transfers from the central government or a central government agency, to local governments for implementing delegated functions.
- **Earmarked Transfers for devolved functions:** Transfers from the central government to local governments for implementing functions devolved from the central government to local governments.
- **Equalization Fund:** Fund set aside by the central government to provide basic services and infrastructures to address unequal developments of select marginalized and deprived communities.
- **Fiscal Decentralization:** The transfer of certain revenue and expenditure management functions and authority from central to local governments.
- **General Fund:** Fund established by the Central Government for each county for the receipt of annual transfers for the purposes of general administration and operations as well as for redistribution to local government sub-units.
- **Indicator-based Model:** The method of sharing revenue calculated based on a set of indicators such as population, land area, and poverty level. This model ensures that revenues are transferred based on needs.
- **Legislature:** the lawmaking body of the Republic of Liberia, comprising of two (2) houses, the House of Senate, and the House of Representatives.
- **LISGIS:** Liberia Institute for Statistics and Geo Information Services
- **Local Government:** A sub-national authority organized to share authority with the central government; a county.
- **Local Government Fiscal Board:** A body whose membership is appointed by the President that determines the amount of grant allocations to sub-national government based on a process that considers objective, equitable and measurable factors.
- **Municipalities:** cities, townships, and the borough of New Kru Town.
- **Own-Source Revenues:** Revenues specified by law to be collected, retained, and utilized by local governments for their own administrative and development purposes.

- **Revenues:** Monies collected through extraction of natural resources, taxation, and other sources such as fees, duties, and fines imposed on individuals and corporations by central and local governments.
- **Revenue Sharing:** The distribution of revenues between central and local governments, as well as between local government and sub-local government units.
- **Revenue Sharing Formulas:** The formulas used in the determination and distribution of revenues between central and local governments, as well as between local governments and sub-local government units.
- **Transitory Account:** A temporary account for all Local Governments established at the Central Bank for deposits of all monies from natural resources revenues prior to their distribution among the fifteen (15) Local Governments.

Chapter 2: Principles of the Law

Revenue Sharing and their attendant formulas utilized in this Act shall adhere to internationally accepted revenue sharing principles and standards of fiscal decentralization as defined below:

- **Equity:** Fairness and justice in the allocation and transfer of funds from the central government to local governments. This may include either equal treatment of all local governments or treatment that is different for some local governments, but which is considered equal because of certain unique circumstances or development situations of those local governments.
- **Efficiency:** Funds allocated to local governments shall be transferred in a timely and reliable manner based on schedules and methods prescribed by the Ministry of Finance and Development Planning for the transfer of such funds.
- **Predictability:** Expectedness and certainty in allocation outcomes of the formula. Assurance that the amount of funds to be allocated to each local government is either known or capable of being known with certainty on account of the formula used or being used.
- **Transparency:** Openness and clearness in the processes and outcomes of revenue sharing between central and local governments. The formula and its applications, as well as its resultant outcomes shall be open and clear to all stakeholders concerned.
- **Accountability:** Answerability to higher authorities and stakeholders for decisions made, actions taken, results achieved, and resources expended in the discharge of legal responsibilities in governance.

Chapter 3: Sources of Revenue

Article 1: Consistent with Article 7 of the Constitution, the Revenue Code of Liberia, and the Local Government Act of 2018, the following shall constitute the sources of revenues which the central government shall collect and share with local governments:

Article 2: Local Government *Own-Source* Revenues which shall include but not be limited to the following:

- Real property tax and income on same;
- Business licenses and permits;
- Fees and charges for occupational and professional licenses;
- Fees and charges for provision of public services;
- Revenues from rental of assets;
- Fees and charges for provision of official documents and services delegated by respective ministries and agencies; and
- Fines imposed by local government authorities.

Article 3: Natural Resource Revenues accruing from payments to the central government by a natural resource concessionaire for exploitation of a natural resource, including but not limited to exploitation of:

- Iron Ore operations;
- Gold and Diamond operations;
- Oil and Gas operations;
- Forestry operations; and

Article 4: Revenues accruing to the central government from the following:

- Operation of Maritime;
- Operation of Seaports;
- Operation of Airports;
- Operation of land transport tolls;
- Revenues from Royalties;
- Revenues from Signature Bonus Payments for natural resource contracts;
- Donor contributions to government operations; and
- Revenues accruing from other sources as shall be determined by the national Legislature from time to time.

Chapter 4: Authority, Levels and Types of Revenues Sharing

- Article 1:** Cognizant that Local Governments would not immediately have the capacity to collect their own revenues, sub-section 4.5(b) of the LGA-2018 authorizes the Central Government to continue to collect taxes for the next ten (10) years. Accordingly, for the next ten (10) years, all taxes shall continue to be collected by the Liberia Revenue Authority (LRA) of the Central Government.
- Article 2:** Notwithstanding the above, all taxes collected by the Liberia Revenue Authority for Central Government are co-owned by Local Governments and shall be shared with them in a fair, transparent, and accountable manner, considering roles and responsibilities at both levels of governance.
- Article 3:** Within the context of the above, revenues collected shall be shared at the following levels and among the following functionaries: between the Central Government and Local Governments; between all fifteen (15) Local Governments; and among sub-units (municipalities) of each Local Governments.
- Article 4:** There shall be two (2) types of revenues that shall be shared. The **first type** shall be all revenues that are generated and collected from non-natural resource sources such as real estate taxes, income taxes, licenses, permits, professional fees, leases of government assets.
- Article 5:** The **second type** shall be natural resource-based revenues collected from the operations of concessionaires and companies covering areas such as forestry, iron ore, gold and diamonds, and oil and gas.
- Article 6:** **County Treasury:** There shall be established a *County Treasury* in each county. Consistent with sub-section 4.5(b) of the LGA-2018 which authorizes the Central Government to continue collection of tax revenues and distribution to local governments for the next ten (10) years, county treasuries shall support and strengthen capacity of local governments in financial management processes including provision of treasury services, ensuring maintenance of financial standards for procurement, increasing transparency and accountability of budgetary spending, financial accounting, and implementing sound internal control and auditing systems for the next ten (10) years.

Chapter 5: Non-Natural Resources Revenues Sharing

Article 1: All non-natural resource revenues collected shall be shared between the Central Government and Local Governments, as well as between Local Governments and sub-local government units (municipalities) by the utilization of the Indicator-based model.

Article 2: Additionally, all Local Government Revenues accruing to it, including those emanating from natural resource revenues, to be either shared among all fifteen (15) Local Governments or with sub-local government units of each Local Government shall also be by the Indicator-based model.

Article 3: In the application of the Indicator-based Model, the following parameters shall be utilized and calculated as follows:

3.1 Population Index: Shall be calculated by dividing the population of the county by the total population of the country as shown in the formula below:

$$PI_i = \frac{\text{Population of County } i}{\text{Total Population}}$$

3.2 Poverty Level Index: Shall be calculated by dividing the poverty level of the county by the total national poverty level as shown in the formula below:

$$PLI_i = \frac{\text{Poverty level of county } i}{\text{Total Poverty}}$$

3.3 Land Area Index: Shall be calculated by dividing the land area of the county by the total land area of the country as shown in the formula below:

$$LI_i = \frac{\text{Land Area of county } i}{\text{Total Land Area}}$$

3.4 Development (Education and Health) indicator Index: Shall be calculated as the share of the county population with little or no education plus either the average time it takes for households in the county to access primary health care or the average cost, in Liberian Dollars, of a visit to a primary care facility as shown in the below formula:

$$DI_i = EDI_i + HA_i$$

3.5 Fiscal Efficiency Index: Shall be calculated as the revenue collected in a county during the year, plus the difference between the revenue collected in the current year and the previous year minus one as shown in the formula below formula:

$$FE_i = FR_{it} + (FR_{it} - FR_{it-1})$$

3.6 The following weights shall be applied to each of the above parameters:

| No. | Parameter | Weight (%) |
|-----|-----------------------|-------------|
| 1 | Population | 40 |
| 2 | Poverty Level | 30 |
| 3 | Land Area | 15 |
| 4 | Development Indicator | 10 |
| 5 | Fiscal Efficiency | 5 |
| | | 100% |

3.7 Based on the parameters defined above and the weights assigned to each of them, the revenue sharing formula prescribed herein shall be as presented below:

$$RS_i = 0.4 PI_i + 0.3 FE_i + 0.15 PL_i + 0.1 LA_i + 0.05 D_i$$

3.8 For implementation of functions delegated to local governments, the relevant agencies of the central government shall provide requisite funding to Local Governments.

Chapter 6: Natural Resource Revenues Sharing

Article 1: Natural resource revenues shall be shared between the Central and Local Governments and shall be by the *derivative-based model*. This means the distribution shall consider the source (county) from whence the natural resource revenues were generated.

Article 2: Under the derivative-based model, distribution shall be as follows:

- 10% to the county of origin of the natural resource revenues;
- 25% to all the fifteen (15) Local Governments, including the county of origin;
- 60% to the Central Government towards its general revenues; and
- 5% to communities and/or counties affected by the exploitation and transportation of the natural resource for shipment overseas or processing within Liberia.

Article 3: Payments of revenues by a concessionaire to the central government, as distributed above, shall not include the concessionaire's annual corporate social responsibility contributions to county governments and local communities.

Article 4: Natural resource revenues designated to be shared amongst the counties shall not be deposited in the central government's Consolidated Account at the Central Bank. They shall first be deposited into a Transitory Account to be established at the Central Bank for later distribution amongst Local Governments.

Article 5: Each Local Government shall have established at the Central Bank an account for the receipt of fund directed to it.

Article 6: Each Local Government shall, in turn, allocate 25% percentage of its natural resource revenues to its sub-local government units.

Chapter 7: County Service Centers

Article 7.1 Revenues generated from the operations of County Service Centers are non-natural resource revenues. Accordingly, they shall be deposited into the Central Government's Consolidated Account.

Article 7.2 Notwithstanding the above, for the purposes of sustaining the operations of County Service Centers, 40% of revenues generated from the operations of the County Service Center within each Local Government area shall remain with the Local Government.

Chapter 8: Equalization Fund

Article 8.1 The Government shall establish an Equalization Fund at the Central Bank for all Local Governments. The Fund shall address unequal developments of marginalized and deprived towns across Liberia to lift them out of abject poverty. The objective shall be to provide, within specific fiscal periods, one or more of the following basic services and infrastructure: water and sanitation; primary health services; primary education services; and roads and bridges; such as are available and enjoyed by other towns across the nation.

Article 8.2 The Fund shall be monetized with revenues from the central government's Consolidated Fund.

Article 8.3 Consistent with the Local Government Act of 2018, the Local Government Fiscal Board shall apply a two-step process of distributing the equalization fund:

8.3.1 The Board shall first identify, within every 5-year period, five (5) most deprived and marginalized towns in each county with population of less than a hundred thousand (<100,000) and the most ten (10) deprived and marginalized towns in each county with population of more than one hundred thousand (>100,000).

8.3.2 The Fiscal Board shall then distribute the funds amongst the total number of towns selected based on the revenue sharing parameters in the Indicator-based model as follows:

8.3.3 The Board shall then distribute the funds amongst the total number of towns selected based on the following revenue sharing parameters:

8.3.4 **Population Index:** Shall be calculated by dividing the population of the town by the total population of all towns selected:

$$PI_i = \frac{\text{Population of town}}{\text{Total Population of all towns selected}}$$

8.3.5 **Poverty Level Index:** Shall be calculated by dividing the poverty level of the town by total poverty level of all towns selected:

$$PLI_i = \frac{\text{Poverty level of town}}{\text{Total Poverty of all towns selected}}$$

8.3.6 Development (Education and Health) indicator Index: Shall be calculated as the share of the town’s population with little or no education plus either the average time it takes for households in the town to access primary healthcare, or the average cost, in Liberian Dollars, of a visit to a primary health care facility as shown in the below formula:

$$DI_i = EDI_i + HA_i$$

8.4 The following weights shall be applied to each of the above parameters:

| No. | Parameter | Weight (%) |
|------------|-----------------------|-------------------|
| 1 | Population | 40 |
| 2 | Poverty Level | 30 |
| 3 | Development Indicator | 30 |
| | | 100% |

8.5 Based on the parameters defined above and the weights assigned to each of them, the revenue sharing formula prescribed herein shall be as presented below:

$$RS_i = 0.4 PI_i + 0.3 PLi_i + 0.1D_i$$

8.6 The implementing authority of this equalization fund shall be determined by each Local Government. However, this implementing authority shall be answerable to the Oversight Authority.

8.7 The Board shall remove from the list of towns qualified for equalization fund, any community which remains at the same level of need for equalization fund after five years, to discourage dependency.

Chapter 9: Oversight Authority

- Article 9.1** Consistent with the Local Government Act of 2018, the Oversight Authority for this Act shall be the Local Government Fiscal Board. The functions and composition of the Board shall be as set out in the above-mentioned Act.
- Article 9.2** Consistent with the Local Government Act of 2018, the Board shall have a Secretariat staffed by personnel from and housed in the ministry responsible for local governments, currently the Ministry of Internal Affairs.
- Article 9.3** The revenue sharing formulas contained in this Act shall be reviewed and revised, every five years, by the Board, and recommendation made to the Legislature for their enactment into law.
- Article 9.4** Consistent with the Local Government Act of 2018, the Board shall be independent of the Central Government and Local Governments or any of their functionaries in its considerations and formulation of revenue sharing formulas and their implementation, from time to time.

Chapter 10: Miscellaneous Provisions

Article 10.1 The Ministry of Finance and Development Planning shall issue regulations on the schedules and methods of transfers to local governments and sub-local government units.

Article 10.2 Revenues allocated and transferred to Local Governments shall be subjected to the public finance management law and attendant regulations, including, budgeting, accounting, pre-and post-audits as managed by the Ministry of Finance and Development Planning.

Article 10.3 The ministry responsible for local government (currently the Ministry of Internal Affairs) and relevant central government agencies shall ensure that all local governments adhere to the provisions of transparency and accountability in the utilization of funds transferred to them resulting from the application of this Act.

Chapter 11: Effective Date

This Act shall take effect immediately upon publication into handbills.

ANY LAW TO THE CONTRARY NOTWITHSTANDING