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## ABSTRACT

This paper critically examines the Liberia Revenue Code (LRC) for its efficiency in revenue collection and its capacity to address illicit financial flows (IFFs) and the informal sector. It explores how weaknesses in policy design, enforcement mechanisms, and institutional capacity have limited the Code's effectiveness in reversing revenue losses and expanding the formal tax base. Drawing on relevant fiscal, legal, and economic literature as well as practical developments within the Liberian context, the analysis demonstrates that while the LRC provides a foundational tax framework, it lacks the structural provisions to effectively combat the twin challenges of IFFs and informality. The proliferation of unregulated financial activities and informal enterprises continues to erode Liberia's tax base, undermining efforts to achieve economic stability, equity, and development. The paper calls for the development and implementation of a national strategy anchored on empirical research, institutional strengthening, legal reforms, and digital innovations to ensure greater fiscal sustainability, improved compliance, and a formalized economic environment conducive to national development. It argues that without strategic intervention, the fiscal cost of these phenomena will continue to widen, and the state will remain handicapped in delivering on its developmental mandate.

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## I. INTRODUCTION

Liberia, like many developing countries, grapples with systemic barriers to effective domestic revenue mobilization. Despite the establishment of a comprehensive tax framework in the Liberia Revenue Code (LRC) of 2000 and its subsequent amendments in 2011 and 2020, the country's fiscal space remains constrained. These amendments have sought to rationalize tax rates, encourage investment, and simplify compliance procedures. However, Liberia continues to experience high levels of illicit financial flows (IFFs) and a dominant informal sector. There are two major factors that undermine the LRC's operational efficiency and the broader objective of fiscal sustainability.

Illicit financial flows: typically involving tax evasion, trade mis-invoicing, corruption, and unregulated capital flight, are estimated to cost Liberia hundreds of millions of dollars annually. Simultaneously, the informal sector, which encompasses a wide range of unregistered and untaxed businesses, remains largely outside the LRC's reach. Together, these phenomena account for significant revenue leakages, weakening the government's capacity to invest in public services and social infrastructure.

The current LRC, while comprehensive in some respects, lacks targeted provisions to directly confront these structural deficiencies. Weak enforcement mechanisms, outdated compliance systems, and limited institutional capacity further exacerbate the situation. This paper argues that addressing these gaps requires more than periodic legislative amendments. It calls for the formulation and implementation of a holistic national strategy that incorporates in-depth

research, robust enforcement frameworks, legal reforms, and technological innovation. Such a strategy should be supported by legislative action, cross-sectoral partnerships, and international collaboration to ensure that the revenue potential of the Liberian economy is fully realized. The paper aims to contribute to the discourse on fiscal reform in Liberia by highlighting the urgent need for systemic change and sustainable solutions to the challenges of IFFs and informality.

## II. THE LIBERIA REVENUE CODE: STRENGTHS AND STRUCTURAL LIMITATIONS

### 2.1 Strengths of the LRC

- The Liberia Revenue Code, particularly following the 2020 amendment, demonstrates commendable features including:
- Comprehensive coverage of income, corporate, excise, and customs taxation. - Anti-avoidance provisions under Sections 203 and 1103 to combat base erosion and profit shifting.
- Incentive structures for investment, including special investment incentives under Chapter 21.
- Integration of international tax standards, including transfer pricing rules. - Inflation adjustments and investor protection mechanisms for stability.

These features provide a stable legal framework. However, their implementation is impeded by practical weaknesses within tax administration and enforcement.

### 2.2 Structural Limitations

Despite its strengths, the LRC exhibits critical gaps:

- Complex compliance procedures discourage voluntary compliance among micro, small, and medium enterprises (MSMEs).
- Overdependence on resource-based taxation, particularly from rubber, iron ore, and timber sectors, exposes the revenue base to external shocks.

- Inadequate integration with anti-money laundering laws, leading to loopholes for IFFs.
- Limited alignment with financial transparency norms, such as beneficial ownership disclosure and automatic exchange of information.

These gaps limit the capacity of the LRC to serve as a robust instrument against revenue leakage, especially from informal and illicit activities.

## III. THE SHADOW ECONOMY AND ILLICIT FINANCIAL FLOWS IN LIBERIA

### 3.1 Situation and Extent

The shadow economy in Liberia is estimated to constitute approximately 61% of GDP (IMF, 2020), indicating a substantial proportion of economic activities outside the formal tax net. Illicit financial flows, largely facilitated through trade misinvoicing, unrecorded capital flight, and tax evasion, account for over USD 200 million in annual losses (Global Financial Integrity, 2021).

### 3.2 Linkages to the LRC

The LRC currently lacks explicit provisions to address IFFs comprehensively. While Chapter 18 on Customs and Chapter 9 on Income Tax offer sanctions for non-compliance, they fall short of tackling systemic issues such as offshore tax evasion and shell companies. Furthermore, the Code does not mandate cross-border financial data reporting, which is crucial in identifying and reversing IFFs.

### 3.3 Impact on Revenue

Illicit financial flows (IFFs) and informal economic activities collectively represent one of the most significant drains on Liberia's domestic revenue potential. According to estimates by the Global Financial Integrity (GFI) and regional studies on sub-Saharan Africa, developing countries lose approximately 3–6% of their GDP annually to IFFs. Applying this conservative benchmark to Liberia, whose GDP was approximately USD 3.9 billion in 2023, suggests that the country may be losing between USD 117 million and USD 234 million each year through illicit channels alone.

The informal sector, which constitutes over 80% of Liberia's labor force, further exacerbates revenue losses. The Liberia Institute of Statistics and Geo-Information Services (LISGIS) reports that most micro, small, and medium-sized enterprises (MSMEs) operate outside the purview of formal tax regulation. This severely limits the tax base. With unregistered businesses, underreported income, and widespread non-compliance, tax revenue leakage from the informal economy is conservatively estimated at an additional USD 50–75 million annually.

Cumulatively, these losses account for 30–35% of Liberia's potential tax revenue each fiscal year. Given that the country's domestic revenue is estimated at USD 500 million, this implies an annual loss of USD 150–175 million, a staggering figure that equates to nearly half of Liberia's education and health sector budgets combined.

Curbing these losses through the development of a national strategy targeting IFFs and informal sector integration could result in a 20–25% increase in Liberia's fiscal capacity. That would equate to an additional USD 100–125 million annually, funds that could be reinvested in critical infrastructure, healthcare, education, and social protection programs. Moreover, enhanced transparency and formalization would improve Liberia's creditworthiness, reduce donor dependency, and promote private sector confidence.

It is important to underscore that these estimates may underestimate the problem, given the challenges in data collection and reporting in fragile contexts like Liberia. Nonetheless, they present a compelling case for urgent reforms. Quantifying and addressing these losses is not merely a matter of fiscal accounting, it is a prerequisite for sustainable national development. Without systemic interventions to stem IFFs and formalize the shadow economy, Liberia will continue to forgo substantial financial resources needed to meet its development goals and lift millions of its citizens out of poverty.

## IV. BENEFITS OF CURBING IFFS AND FORMALIZING THE INFORMAL SECTOR

### 4.1 Revenue Expansion

Tackling IFFs and formalizing the informal sector could lead to substantial revenue gains:

- Enhanced compliance and base broadening (+15–20% revenue increase).
- Improved customs enforcement (+5–10%)
- Reduced tax evasion via beneficial ownership and digital reporting requirements.

### 4.2 Economic Formalization

- Formalization creates opportunities for:
- Access to credit and financial services
- Legal protections for MSMEs
- Enhanced productivity through digitalization and skills upgrading

### 4.3 Institutional Strengthening

Capacity building within the Liberia Revenue Authority (LRA) and collaboration with the Financial Intelligence Unit (FIU) will enhance monitoring and enforcement, especially in high-risk sectors such as mining, telecommunications, and cross-border trade.

## V. DEVELOPING A NATIONAL STRATEGY TO ADDRESS IFFS AND THE SHADOW ECONOMY

### 5.1 Rationale

A national strategy is essential to coordinate regulatory reforms, institutional strengthening, and digital transformation. This strategy should align with international best practices (e.g., OECD's BEPS framework, FATF recommendations, and the African Union High-Level Panel on IFFs).

### 5.2 Core Pillars of the Strategy

1. Research and Data Systems Development: Establishing a centralized IFF monitoring system and baseline studies.
2. Legal and Regulatory Reforms: Integrating transparency standards and mandatory disclosure laws.

3. Digital Financial Infrastructure: Expanding e-taxation and trade data digitalization.
4. Institutional Capacity Building: Enhancing LRA, Ministry of Finance, and FIU capabilities.
5. Public Engagement and Formalization Incentives: Encouraging voluntary compliance and registration.
6. Implementation Pathway and Projected Gains

#### 6.1 Short-term (1–2 years)

- Baseline research and mapping of IFF-prone sectors.
- Amendments to the LRC and relevant AML laws
- Training programs for tax inspectors, FIU staff, and border officials.

#### 6.2 Medium-term (3–5 years)

- National implementation of a digitized taxpayer database
- Establishment of automatic exchange of information systems
- Collaboration with ECOWAS and OECD tax transparency initiatives

#### 6.3 Projected Gains

- Recovery of USD 50–100 million annually within five years
- Reduction of shadow economy to under 40% of GDP
- Establishment of Liberia as a compliant, transparent tax jurisdiction

## VI. POLICY RECOMMENDATIONS

#### 6.1 Legislative Reform

- Amend the LRC to include clear provisions on beneficial ownership (Chapter 2 or 9)
- Enforce automatic exchange of information and data sharing with regional and global partners

#### 6.2 Institutional Action

- Create an inter-agency task force on IFFs led by the Ministry of Finance, LRA, FIU, and the Central Bank
- Introduce a whistleblower policy and protection framework to uncover hidden assets

#### 6.3 International Cooperation

- Join the OECD Global Forum on Transparency and Exchange of Information
- Enhance partnerships with UNCTAD, IMF, and AU institutions focused on curbing IFFs

## VII. CONCLUSION

The Liberia Revenue Code (LRC) is foundational to the country's fiscal framework but remains structurally inadequate in curbing illicit financial flows (IFFs) and formalizing the shadow economy. While the LRC has undergone amendments, notably in 2020, to address some systemic gaps, these revisions have yet to sufficiently tackle the persistent and complex challenges posed by informality, tax evasion, and cross-border financial leakages.

The absence of specific provisions targeting the identification, measurement, and curtailment of IFFs, as well as a comprehensive approach to bringing informal enterprises into the tax net, severely undermines Liberia's capacity to mobilize domestic revenue effectively. Furthermore, enforcement weaknesses, data fragmentation, and low digitalization of tax processes further exacerbate vulnerabilities in the system.

To address these challenges, a well-coordinated national strategy is essential. This strategy must be anchored in three key pillars: legal reform, institutional capacity building, and technological transformation. Legal reform should include explicit clauses in the LRC to criminalize and penalize IFFs, expand the tax base through targeted formalization measures, and harmonize the Code with international tax and transparency standards. Capacity building must prioritize equipping revenue authorities, customs officials, and financial intelligence units with the tools and training necessary to detect, investigate, and prevent financial crimes. Investment in digital infrastructure, such as integrated taxpayer databases, e-filing systems, and real-time transaction monitoring, will be critical in minimizing leakages and boosting compliance.

In addition, legislative support is indispensable for approving necessary amendments and securing budget allocations for implementation. International cooperation, especially with regional and global bodies combating IFFs, will bolster cross-border enforcement, while civil society engagement will ensure transparency and foster public trust in the tax system.

With committed implementation and oversight, Liberia could realistically recapture up to 25% of its currently lost revenue due to IFFs and informality. Such gains would not only close fiscal gaps but could also finance critical development priorities in health, education, and infrastructure. Ultimately, transforming Liberia's fiscal trajectory depends on bold reforms and an unwavering commitment to revenue integrity and national accountability.

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