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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A PROPOSED GRANT

IN THE AMOUNT OF SDR 28.7 MILLION (US$40 MILLION EQUIVALENT)
WHICH INCLUDES US$8 MILLION FROM THE CRISIS RESPONSE WINDOW TO

THE REPUBLIC OF LIBERIA

FOR THE

THIRD POVERTY REDUCTION SUPPORT DEVELOPMENT POLICY OPERATION

OCTOBER 21, 2016

Macroeconomics and Fiscal Management Global Practice
Country Department AFCW1
Africa Region

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REPUBLIC OF LIBERIA-GOVERNMENT FISCAL YEAR
July 1 – June 30

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of September 30, 2016)

Currency Unit = Liberian Dollar
US$1.00 = 98.00 LR$
US$1.00 = SDR 0.71642989

ABBREVIATIONS AND ACRONYMS

AD	Asset Disclosure
AfDB	African Development Bank
AfT	Agenda for Transformation
AIDS	Acquired Immune Deficiency Syndrome
AML	Anti-Money Laundering
ANC	Antenatal Care
ASYCUDA	Automated System for Customs Data
BSWG	Budget Support Working Group
CAF	Common Assessment Framework
CAG	Controller and Accountant General
CAR	Capital Adequacy Ratio
CCR	Catastrophe Containment and Relief
CBL	Central Bank of Liberia
CFT	Countering the Financing of Terrorism
CIF	Costs Insurance and Freight
CLSG	Côte d'Ivoire – Liberia – Sierra Leone – Guinea Regional Electricity Transmission Line
CPS	Country Partnership Strategy
CRW	Crisis Response Window
CSA	Civil Service Agency
CSM	Civil Service Module
CTRs	Currency Transactions Reports
DSA	Debt Sustainability Analysis
DPO	Development Policy Operation
ECF	Extended Credit Facility
EPA	Environmental Protection Agency
ESRP	Economic Stabilization and Recovery Plan
EVD	Ebola Virus Disease
FDI	Foreign Direct Investment
FIU	Financial Intelligence Unit
FY	Fiscal Year
GAC	General Auditing Commission
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GoL	Government of Liberia
GRS	Grievance Redress Service

HFO	Heavy Fuel Oil
HIES	Household Income and Expenditure Survey
HIV	Human Immunodeficiency Virus
HRMIS	Human Resource Management Information System
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPFMRP	Integrated Public Financial Management Reform Project
IPSAS	International Public Sector Accounting Standards
LACC	Liberia Anti-Corruption Commission
LCPD	Least Cost Power Development Plan
LDA	Liberia Development Alliance
LDHS	Liberia Demographic and Health Survey
LDP	Letter of Development Policy
LEC	Liberia Electricity Corporation
LESEP	Liberia Electricity System Enhancement Project
LRTF	Liberia Reconstruction Trust Fund
M&E	Monitoring and Evaluation
MFDP	Ministry of Finance and Development Planning
MMR	Maternal Mortality Ratio
MoE	Ministry of Education
MoF	Ministry of Finance
MoH	Ministry of Health
MoHSW	Ministry of Health and Social Welfare
MTEF	Medium-Term Expenditure Framework
MW	Mega Watts
NDRC	National Disaster Relief Commission
OSRP	Oil Spill Response Plan
PV	Present Value
PAC	Public Accounts and Audit Committee
PAN	Personnel Action Notice
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Financial Management
PPCA	Public Procurement and Concession Act
PPCC	Public Procurement and Concessions Commission
PRSDPO	Reduction Support Development Policy Operation
PV	Present Value
RCF	Rapid Credit Facility
RREA	Rural and Renewable Energy Agency
SDR	Special Drawing Rights
SREP	Scaling Up Renewable Energy Program
STRs	Suspicious Transactions Reports
TAS	Technical and Support
UNMIL	United Nations Mission in Liberia
UNCTAD	United Nations Conference on Trade and Development
US	United States

WAPP	West African Power Pool
WB	World Bank
WEO	World Economic Outlook
WHO	World Health Organization

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REPUBLIC OF LIBERIA

THIRD POVERTY REDUCTION SUPPORT DEVELOPMENT POLICY OPERATION

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SUMMARY OF PROPOSED GRANT AND PROGRAM

REPUBLIC OF LIBERIA

THIRD POVERTY REDUCTION SUPPORT DEVELOPMENT POLICY OPERATION

Borrower	THE REPUBLIC OF LIBERIA		
Implementation Agency	MINISTRY OF FINANCE AND DEVELOPMENT PLANNING		
Financing Data	IDA Grant Amount: US$40 million which includes US$8 million from the Crisis Response Window.		
Operation Type	Programmatic DPL. The proposed single tranche operation is the third in a series of four operations.		
Pillars of the Operation And Program Development Objective(s)	The three main pillars of this operation are: (i) Governance and civil service reforms; (ii) Economic transformation; and (iii) Human capital development. The objectives of the proposed operation are: (i) strengthening governance with particular emphasis on transparency and accountability as well as budget execution and oversight; (ii) addressing key constraints to growth, including electricity; and (iii) improving human capital development particularly through improved access to education and health.		
Result Indicators	**Key Indicators**	**Base-line (2012)**	**Target (2016/17)**
	Pillar 1: Governance and civil service reforms		
	Currency transaction reports and suspicious transaction reports issued by the FIU (Number)	None	>50 CTR >10 STR
	Senior Civil servants (directors and above providing complete asset statement to LACC (%)	56	75
	Civil servants in grades 1-10 paid according to new pay structure (%)	0	100
	Ports where ASYCUDA is operational (%)	41	80
	Share of total customs revenue captured by ports where ASYCUDA is operational (%)	90	100
	Civil servants paid through the IFMIS solution (%)	0	100
	Ministries and agencies in which IFMIS is installed and operational (number)	7 +(MoF and 6 other M&As)	20+(MoF and all M&As)
	Submission of annual financial statements to GAC after end of fiscal year (months)	> 12 months.	< 3 months
	Trained and certified procurement specialist appointed in the civil service (number)	None	100
	Publication of annual Compliance Monitoring Report (CMR) by the PPCC (yes/No)	No	Yes
	Pillar 2: Economic transformation		
	Cost of electricity to end users/KWH(US$)	0.55	<0.40
	Urban access to electricity (number)	12,742	50,000
	Share of energy produced from high cost diesel (%)	100	<20
	Land parcels with use and ownership rights recorded under new policy (number)	None	>100
	Share of commercial bank credit to the agriculture sector (%)	3.7	5.5
	Pillar 3: Human capital development		
	Primary, junior secondary and senior secondary net enrollment rate (%)	Primary	Primary
		Male 31.6	Male 45
		Female 33.3	Female 45
		Junior Secondary 7.1	Junior Secondary 20.0
		Senior Secondary 5.4	Senior Secondary 15.4
	Health budget execution rate-recurrent (%)	96 (2013)	>96
	Health budget execution rate-capital (%)	74.9 (2013)	>90
Overall risk rating	Substantial		
Climate and disaster risks	There are no short and long term climate and disaster risks to the operation.		
Operation ID	P151502		

IDA PROGRAM DOCUMENT FOR A PROPOSED GRANT TO THE REPUBLIC OF LIBERIA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This program document proposes a Third Poverty Reduction Support Development Policy Operation (PRSDPO-III) to the Republic of Liberia for SDR 28.7 million (US$40 million equivalent) in grants which includes US$8 million from the Crisis Response Window (CRW).** The increase in the amount of the operation from the initial US$20 million credit is intended to support the government's strong policy efforts to adjust to the twin shocks from the Ebola crisis and the slump in commodity prices in a way that builds resilience and contains the debt. The operation is the third in a programmatic series of four single-tranche operations to support the implementation of the government's Agenda for Transformation (AfT), which remains Liberia's extant medium-term strategy even in the aftermath of the Ebola crisis.

2. **Liberia's fledgling economy, already weakened by the adverse economic effects of the Ebola crisis, has been hard hit by severe exogenous shocks from the sustained slump in global commodity prices.** The sharp drop and sustained low prices for rubber, iron ore and palm oil and the ensuing crisis have exacerbated the already sharp economic downturn, with GDP growth seven percentage points lower than expected.[1] The commodity shock also resulted in severe adverse consequences for employment and fiscal revenues. Revenues from the mining sector collapsed from US$54.7 million in 2014 to US$28.9 million in 2015 and overall tax revenues fell from US$386 million in FY2014 to US$369 million in FY2015, well below the government's initial projection of US$400 million. Although the government is committed to maintaining spending in critical social sectors, including health and education, it is hard pressed to do so, in a context where the pre-shock budget was already inadequate to meet the needs of these sectors. There are indications of a reversal of some of the poverty gains made since the end of the civil conflict. For these reasons, Liberia meets the criteria to access CRW resources for economic shocks. The IMF is considering to provide a one-off augmentation of access under the Extended Credit Facility (ECF) as budget support to mitigate the fiscal impact of the commodity price shocks. (See Annex 5 for details on the shocks and the assessment of need for CRW resources).

3. **Liberia's primary development challenges, which the AfT launched in 2012 aims to address, relate to sustaining the peace, achieving economic transformation, developing human capital and improving governance and public institutions**. Addressing a history of exclusion, inequality and corruption is critical to sustaining the peace in Liberia following nearly 15 years of conflict. This challenge is complicated by the exit of the United Nations Mission in Liberia (UNMIL) and the limited fiscal space for scaling up the government's security apparatus. Economic transformation, critical for achieving inclusive growth is constrained by weak infrastructure, including electricity, roads and telecommunication that limits connectivity to markets, and consequently increases fragility. Liberia's low level of human capital development also limits access to economic opportunities.

4. **To support the government in addressing the primary development challenges, the proposed operation focuses on three principal areas: (i) governance and civil service reforms; (ii) economic**

[1] The World Economic Outlook projected growth rates of 7.4 percent and 7.6 percent for 2014 and 2015, respectively before the commodity price shocks. The actual growth rates were 0.7 percent for 2014, mostly reflecting the Ebola crisis, and 0.0 percent for 2015.

transformation; and (iii) human capital development. Within these three areas, the operation is selective of reforms that directly or indirectly address the issues of fragility and conflict. Consequently, the operation focuses on reforms that are expected to contribute to: (i) improving transparency in key aspects of government operation; (ii) increasing accountability in the management of public assets and reducing opportunity for corruption; (iii) building capacity for equitable service delivery, and (iv) enhancing inclusive growth and employment opportunities.

5. **Since the return to democratic governance in 2006 and peaceful elections again in 2011, Liberia has made notable economic and social progress, despite challenges.** Between 2006 and 2011, gross domestic product (GDP) growth averaged 7 percent with a strong boost from iron ore mining since 2010. The government has maintained prudent fiscal and monetary policies, consequently inflation has been largely maintained in single digits. The relatively large current account deficits have been sustainably financed by foreign direct investment (FDI) and donor transfers. As a result, the exchange rate has been mostly stable. The incidence of poverty at the national level fell to 54 percent in 2014 from 64 percent in 2007 due mainly to the decline in rural poverty.[2] The overall drop in poverty reflects economic growth, lower inflation and government's income support to the poor and vulnerable. Inequality, as measured by the GINI coefficient was marginally lower in 2010 than in 2007 with the Gini falling from 0.36 in 2007 to 0.35 in 2010. Although exact estimates of poverty levels await the completion of the 2016 household survey, projections show that the impact of the Ebola crisis reversed the post-war trend of decreasing poverty. After increases in 2014 and 2015, normalization of employment, including most notably in the hotel sector, should lead to decreases and the poverty rate should reach the pre-crisis levels by 2017.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

6. **The twin shocks of the Ebola crisis and the subsequent sharp fall in commodity prices have had a severe negative impact on the Liberian economy.** Real GDP growth estimated at 8.7 percent in 2013 and initially projected at 6 percent in 2014 was 0.7 percent that year and zero in 2015. Before the crises, growth was driven by the expansion in iron ore mining as well as increased activity in the construction sector. Rubber production and exports were already slowing, reflecting protracted low international prices. Growth in manufacturing continued to be constrained by inadequate access to competitively priced electricity and the weak business environment. Production in the mining sector was more resilient to the Ebola crisis than initially expected. However, with the sustained reduction in iron ore prices in 2014 and 2015, the sector contracted by nearly 16 percent in 2015 (Table 1). Average inflation increased from 7.6 percent in 2013 to about 9.9 percent in 2014, due to higher food prices and the depreciation of the exchange rate, but moderated to around 7.7 percent in 2015, reflecting lower international price for oil.

Table 1: Estimated Impact of Ebola on GDP Growth

	Initial Projection (June 2014)	Revised Projection	Actual Out-turn	Estimate (2015)
Real GDP Growth	***5.9***	***2.5***	***0.7***	***0.0***
Agriculture	3.5	1.3	-3.7	0.7

[2] According to the 2014 Household Income and Expenditure Survey (HIES), implemented by the Liberia Institute of Statistics and Geo-Information Services, 54 percent of Liberians were living in poverty between January and August 2014 before the deepening of the Ebola crisis.

Forestry	2.0	2.0	2.2	2.0
Mining	4.4	-1.3	3.3	-15.9
Manufacturing	9.6	5.0	-0.7	-1.5
Services	8.1	4.0	2.3	4.3

Source: World Bank and IMF staff estimates, July 2016.

7. **Unemployment, which was already a major issue, particularly among youth, was exacerbated by the Ebola crisis and subsequently by the sustained low international commodity prices.** The substantial slowdown in economic activity across all sectors during the Ebola crisis led to lay-offs, some of which were reversed (particularly in the hotel sector) following abatement of the crisis. However, subsequent adverse developments in the mining and agricultural concession sectors related to the low international prices have led to significant lay-offs in the iron ore, rubber and oil palm sub-sectors. In addition, investment delays in these sub-sectors have exacerbated the employment issue.

8. **Lower exports, in the face of relatively flat imports and transfers have led to a widening of the current account deficit.** Exports for 2014 amounted to US$436 million, a decline of 22 percent compared to the level for 2013. It is estimated to have fallen further to US$247 million in 2015, reflecting substantially lower rubber and iron ore exports. At the same time, there has been relatively little change in the level of imports from US$1,020 million in 2013 to US$1,067 million in 2015. As a result, the trade deficit widened from US$461 million in 2013 to an estimated US$825 million in 2015. There were greater outflows on the services account and some improvement on the income account over the period. Current official transfers, mostly related to the Ebola crisis increased in 2014 but fell off in 2015 as the crisis abated. Overall, the current account deficit increased from 28.2 percent of GDP in 2013 to an estimated 39.3 percent of GDP in 2015. On the capital and financial accounts, foreign direct investments fell from US$432 million in 2013 to an estimated US$277 million in 2015 (reflecting various decisions to delay investments) but increased net official and private financial inflows jumped from US$47 million in 2013 to an estimated US$392 million in 2015, reflecting the strong donor support to address the Ebola crisis. Overall, the gross reserves position improved from US$393 million in 2013 (2.4 months of imports) to US$446 million in 2015 (2.8 months of imports).

9. **Monetary policy remained broadly focused on containing inflation through exchange rate stability**. For the conduct of policy, the central bank has relied on foreign exchange interventions, auction of Central Bank of Liberia's (CBL) notes and treasury bills on behalf of the Government. However, the central bank's net foreign exchange position weakened from US$237 million in 2013 to US$164 million in 2015, reflected in the auction sales falling from US$72 million in 2013 to US$42 million in 2015. The Liberian dollar-denominated treasury bills introduced in early 2013 have been effective in helping to mop up excess liquidity of local Liberian dollars in the banking sector. However, the effectiveness of Liberia dollar instruments as monetary policy tools remains limited, given the high level of dollarization of the economy. Although the exchange rate with the US dollar is used as the de facto anchor for monetary policy, there is no explicit inflation targeting. Liberia operates an exchange rate regime that falls somewhere between a crawling peg and floating.[3] There are no capital controls. The real exchange rate appreciated by 15.6 percent in 2015.

10. **Liberia's financial sector suffered adverse effects from the shocks of the Ebola crisis.** The financial sector is dominated by banks, mostly privately owned. The second largest sub-sector is that of pensions, managed by a state agency for both the private and public sector. Growth in broad money (7.6 percent in 2013) slowed sharply to 2.1 percent in 2014 and further to 1.7 percent in 2016, reflecting the Ebola induced economic slowdown. Net domestic credit grew by almost 4 percent in 2015, spurred by expansion of credit to the private sector. Commercial bank credit grew by 24 percent, with the lion's

[3] IMF, Annual Report on Exchange Arrangements and Exchange Restrictions, 2014.

share (42.9 percent) going to the trade, hotel and restaurant sector, followed by the construction (16.6 percent) and telecommunication, transport and storage (8.6 percent) sectors. Notably, credit to the public sector contracted by nearly 37 percent. The economic slowdown from the twin shocks also put pressure on banks. The level of Non-performing loans (NPLs), which had fallen below 15 percent in 2013, rose to 19.3 percent in July 2015, but moderated to 16.5 percent by November. The capital adequacy ratio (CAR) for the banking system at 18.8 in September 2015, is well above the statuary requirement of 10 percent. However, bank's profitability suffered from high operating costs and increased levels of NPLs.

Table 2: Liberia-Selected Economic and Financial Indicators, 2012 -2018

Indicator	**2012** Prel.	**2013** Est.	**2014** Initial Proj.	**2014** Est.	**2015** Est.	**2016** Initial Proj.	**2016** Revised Proj.	**2017** Proj.	**2018** Proj
Real GDP (% growth)	8.3	8.7	5.9	0.7	0.0	7.2	2.5	4.7	5.4
Consumer prices (annual average % growth)	6.8	7.6	8.3	9.9	7.7	7.2	8.2	8.0	7.5
Consumer prices (end of period %)	7.7	8.5	7.7	7.7	8.0	6.9	8.3	7.7	7.2
Exchange rate (end of period L$/US$)	73.5	77.4	90.5	90.5	89.0				
Exports, f.o.b (US$ Millions)	479	559	560	436	247	737	232	242	258
Imports, f.o.b (US$ Millions)	1,067	1,020	1,175	1,072	1,067	1,297	1,067	1,047	1,058
Current account balance incl. grants (% of GDP)	-28.0	-28.2	-46.5	-31.6	-39.3	-21.5	-39.8	-39.4	-37.8
Gross official reserves (US$ Millions)	381.3	393.1	414.0	411.0	446.0	455.0	458.0	500.0	573.0
Gross official reserves (months of imports)	2.8	2.4	2.8	2.6	2.8	3.0	2.8	3.0	3.3
Public Finance									
Revenues and Grants (% of GDP)	28.0	29.9	27.1	27.4	32.5	25.6	32.1	29.9	26.1
Expenditures (% of GDP)	31.4	31.5	30.9	29.3	40.8	30.9	40.4	38.0	32.2
Overall surplus / deficit (incl. grants)	-3.4	-1.6	-3.8	-1.9	-8.4	-5.4	-8.3	-8.1	-6.1
Financing									
External financing (net)	0.9	0.4	4.5	2.2	5.7	5.8	7.0	5.5	5.9
Loans	1.2	0.7	4.7	2.4	6.0	6.5	7.2	5.7	6.1
of which: Ebola related	**0.0**	**0.0**	**0.0**	**0.0**	**2.4**	**1.2**	**1.6**	**0.0**	**0.0**
Amortization	0.0	-0.3	-0.2	-0.3	-0.2	-0.7	-0.2	-0.2	-0.2
Domestic financing (net)	2.5	1.2	-0.7	-0.2	2.6	-0.5	1.3	-0.2	0.3
Central Bank of Liberia	2.7	0.3	-1.9	-1.5	2.0	0.0	2.0	-0.3	-0.1
Use of deposits	1.4	1.0	-1.5	-1.1	-2.7	0.0	2.0	0.3	0.0
Gross borrowing	1.2	1.1	0.0	0.2	4.9	0.0	0.0	0.0	0.0
Amortization	0.0	-1.9	-0.4	-0.6	-0.3	0.0	0.0	-0.6	-0.1
Deposit money banks	0.0	0.7	1.0	0.9	-0.7	-0.4	-0.6	0.1	0.5
Treasury bill purchases(net)	0.0	0.3	0.5	1.1	0.0	0.0	0.0	0.4	0.4
Other lending to government (net)	0.0	0.5	0.5	0.6	-0.3	-0.4	-0.6	0.1	0.5
Other (including repayment of arrears)	-0.2	0.1	0.1	0.4	0.0	0.0	0.0	0.0	-0.1
Public sector domestic debt (% of GDP)	17.7	16.7	15.1	15.1	14.6	12.0	13.1	12.2	10.4
Public sector external debt (incl. arrears US$ Mn)	192.1	195.1	340.4	264.0	458.0	638.0	615.0	738.0	875.0
Public sector external debt (% of GDP)	12.2	10.5	20.4	13.2	23.0	25.6	29.7	33.6	37.0
Nominal GDP (US$ Millions)	1,646	1,854	2,034	2,005	1,991	2,494	2,070	2,198	2,367

Source: IMF and Bank Staff Estimates, July 2016.

11. **The fiscal impact of the Ebola crisis remains acute.** Although revenues have performed well relative to the revised forecast, they are still far below the original pre-crisis forecast, and inadequate to meet the expanded expenditure needs. Total revenues, including grants, are estimated at US$646 million for FY15, up from US$549 million the previous year. Tax revenues have been estimated to fall from US$386 million for FY14 to US$369 million for FY15, a decline of 4.4 percent as a result of the reduction in economic activity and lower tax compliance. Expenditures, largely driven by the health related demands of the crisis, expanded from US$588 million (30.9 percent of GDP) in FY14 to US$813

million (40.8 percent of GDP) in FY15. The lower revenues and expansion in expenditure have resulted in a substantial widening of the fiscal deficit from only 1.6 percent of GDP in FY13—the year before the crisis—to 8.4 percent of GDP in FY15. The government has requested urgent budgetary support from donors to help finance this abnormally large financing gap that has persisted into FY16. Such support will be crucial to help maintain the delivery of key social services.

Table 3: Liberia-Key Fiscal Indicators (% of GDP), 2012 -2018

	2012	2013 Prel.	2014 Initial Proj.	2014 Est.	2015 Est.	2016 Initial Proj	2016 Revised Proj	2017 Proj	2018 Proj
Total revenue and grants	28.0	29.9	27.1	27.4	32.5	25.6	32.1	29.9	26.1
Tax Revenue	21.8	19.9	18.6	19.2	18.6	18.6	18.0	19.1	19.9
Non-Tax Revenue	4.5	7.5	4.6	4.3	3.9	4.1	2.3	3.0	2.8
Iron ore related revenues	2.7	2.1	1.5	1.5	1.1	0.8	0.4	0.4	1.0
Grants	1.7	2.5	4.0	3.9	10.0	2.8	11.8	7.7	3.3
Expenditures	**31.4**	**31.5**	**30.9**	**29.3**	**40.8**	**30.9**	**40.4**	**38.0**	**32.2**
Current expenditure	26.7	26.6	21.0	24.3	32.1	19.9	28.9	28.5	24.2
Wages and salaries	11.1	11.4	9.8	10.0	12.3	9.6	12.8	11.7	11.5
Goods and services	7.0	8.7	6.3	8.1	12.6	5.7	11.0	11.9	8.1
Interest	0.3	0.3	0.4	0.3	1.7	0.6	0.5	0.6	0.5
Capital Expenditure	4.7	4.9	9.9	5.0	8.7	11.0	11.5	9.5	8.0
Overall surplus / deficit (incl. grants)	**-3.4**	**-1.6**	**-3.8**	**-1.9**	**-8.4**	**-5.4**	**-8.3**	**-8.1**	**-6.1**
Primary surplus/deficit (incl. grants)	**-6.1**	**-1.2**	**-1.7**	**-7.7**	**-7.9**	**-8.0**	**-6.5**	**-6.2**	**-5.9**
Identified Financing	**3.4**	**1.6**	**3.8**	**1.9**	**8.4**	**5.4**	**8.3**	**8.1**	**6.1**
External	0.9	0.4	4.5	2.2	5.7	5.8	7.0	5.5	5.9
Domestic including Central Bank	2.5	1.2	-0.7	-0.2	2.6	-0.5	1.3	-0.2	0.3
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Source: IMF, July 2016. Note: Liberia's 2015 fiscal year is from July 2014 to June 2015

12. **Liberia's civil service wages bill, estimated at 12.8 percent of GDP in FY16, is relatively high by regional standards.** The government embarked on a strategy to contain the wage bill, including through the clean-up of the payroll using biometric registration of civil servants. The initial phase of the payroll clean-up completed in 2014, removed some 4,000 ghost workers, resulting in savings of about 1 percent of GDP in 2014 relative to the 2012 payroll. However, for 2016, the decision to increase the number of health workers will result in an increase in the wage bill from the initially envisaged 9.6 percent of GDP to about 12.8 percent of GDP. However, the government has taken steps to control the payroll with the implementation of the Civil Service Module within the Integrated Financial Management Information System (IFMIS).

Table 4: Balance of Payments Financing Requirements and Sources, 2012 -2018 (US$ millions)

	2012 Prel.	2013 Prel.	2014 Initial Proj.	2014 Est.	2015 Proj	2016 Initial Proj.	2016 Revised Proj	2017 Proj.	2018 Proj.
Trade balance	-588	-461	-900	-739	-825	-560	-835	-806	-801
Services (net)	-748	-743	-707	-1,003	-835	-505	-792	-538	-566
Income (net)	-261	-372	-345	-344	-281	-343	-247	-264	-307
Current transfers	1,108	1,022	965	1,451	1,139	844	1,035	717	738
Current account balance	**-489**	**-554**	**-987**	**-635**	**-801**	**-564**	**-839**	**-890**	**-936**
Capital and financial account (net)	**451**	**543**	**977**	**598**	**719**	**586**	**851**	**932**	**1,012**
Financial account (net)	**451**	**479**	**977**	**481**	**668**	**586**	**804**	**882**	**960**
Foreign direct investment (net)	333	432	330	225	277	329	238	293	346
Official financing (net)	-3	27	106	91	114	140	140	132	135
Private financing (net)	121	20	541	164	278	118	425	457	479

Financing	38	11	10	38	82	-22	-12	-42	-75
Change in gross reserves (increase -)	20	-12	-21	-18	-35	-25	-12	-42	-73
Net use of IMF credit and loans	18	23	31	56	80	3	0	0	-2
Exceptional Financing	0	0	0	0	37	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0

Source: IMF, July 2016.

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

13. **Liberia's near and medium-term economic prospects were already severely affected by the Ebola crisis through its adverse impact on all sectors, but have now been worsened by the sustained decline in commodity prices.** Planned foreign direct investments in the natural resources sectors including rubber, oil palm and iron ore mining were delayed. Domestic investments, particularly in the construction sector, were also delayed. Medium-term growth and employment will be directly and indirectly affected by the delayed investments. Furthermore, there are potential downside risks from the weak global economy, which could be further weakened by slower growth in China and higher interest rates in the United States. Commodity prices, including for rubber, oil palm, and iron ore could remain depressed over the medium term.

14. **Under modest assumptions of increased domestic consumption demand from the abatement of the Ebola crisis and improvement in the energy situation, GDP growth could pick up to 2.5 percent in 2016 and accelerate to 5.4 percent by 2018.** The recovery is likely to be driven largely by the services and manufacturing sectors as the electricity situation improves with the commissioning of new generating plants fueled by cheaper fuels. In the medium-longer term, access to the West Africa Power Pool (WAPP) through the CLSG[4] regional transmission line—financed by the World Bank and other donors—will allow Liberia to import cheaper electricity, especially during the dry season, thereby reducing the use of thermal-based generating plants. Already some vibrancy has returned to the hotel sector with occupancy rates above 90 percent in some hotels during the first half of 2016. As the governance issues in the forestry sector are addressed over the medium term, the sector is also expected to make an increasing contribution to GDP growth. Additionally, domestic agriculture, supported by increased government investments is expected to make an increased contribution to growth and employment over the medium term. However, there are considerable downside risks to projected growth for 2016 and 2017 in particular, as iron ore and rubber prices are expected to remain depressed over the medium term.

15. **Liberia's external position is expected to improve over the medium term despite depressed international commodity prices.** Exports of gold from the large new mine started in 2015 as well as the resumption in the exports of logs, in the face of a moderation in imports, reflecting the UNMIL drawdown, are expected to help narrow the trade deficit from an estimated US$825 million in 2015 to US$801 million by 2018. The narrowing of the trade deficit combined with reduced net outflows from the services and income accounts is expected to lead to a narrowing of the current account deficit, despite the reduction in current transfer from an estimated US$1,139 million in 2015 to US$738 million in 2018. The current accounts deficit is expected to narrow from 39.3 percent of GDP in 2015 to about 37.8 percent of GDP by 2018. Positive developments on the capital and financial accounts, including a gradual increase in foreign direct investment are expected to lead to a rebuilding of gross reserves from an estimated US$446 million (2.8 months of imports) in 2015 to US$573 million (3.3 months of imports) by 2018.

[4] Côte d'Ivoire – Liberia – Sierra Leone – Guinea.

16. **Over the medium term, monetary policies will remain focused on containing inflation, but the fiscal policy agenda is expected to shift from addressing the legacy of Ebola to creating fiscal space for investments in line with the Agenda for Transformation.** The foreign exchange auction remains the primary instrument for intervening in the foreign exchange market. Given the weakening of the central bank's foreign exchange position, over the medium term, the central bank plans to limit its interventions in the foreign exchange market to that of preventing volatility in the exchange rate and also limit exceptional support to the banking sector.

17. **The twin shocks of the Ebola crisis and the sharp decline and sustained low commodity prices are expected to have a substantial adverse fiscal impact over the medium term.** Grant inflows are also expected to decline gradually from about 10 percent of GDP in FY15 to 3.3 percent of GDP by 2018, following the declaration of the "Ebola Free" status by the World Health Organization (WHO) in January 2016. The Government's medium term fiscal strategy is to support the recovery path from the Ebola crisis and the commodity crisis, through an initially accommodative fiscal policy that will then be tightened over the medium term. Consequently, overall expenditure is expected to remain initially elevated, at nearly 40 percent of GDP, including substantially increased spending on health, education, infrastructure and agriculture in line with the Economic Stabilization and Recovery Plan. Both recurrent and capital expenditures are projected to remain high, in large part due to higher spending on goods and services to help stimulate demand in the economy. By FY17, with the expected economic recovery and the uptick in growth to 4.7 percent, the Government will begin to tighten its fiscal stance towards fiscal consolidation. Consequently, overall spending is expected to moderate to 38 percent of GDP and further to 32.2 percent of GDP in FY18. Recurrent spending is also projected to decline to 24.2 percent of GDP by 2018. Capital spending will also be trimmed to about 8 percent of GDP in 2018. Reflecting this overall medium term fiscal strategy, the overall fiscal deficit, estimated at 8.4 percent of GDP in FY2015, is expected fall to 8.3 percent of GDP in 2016, and moderate to 6.1 percent of GDP in 2018.

18. **The FY16 budget approved by the Legislature on August 6, 2015 and signed into law by the President on August 25, 2015, appropriated US$622.7 million of expenditure.** On the revenue side the budget included core revenues of US$588.5 million, US$10 million of contingent grant and US$24.2 million carried forward from the previous year. Total recurrent expenditure of US$514.9 included US$255 million for wages. Total expenditure on the public sector investment program was projected at US$107.8 million. However, the government is taking steps to reduce the budget in light of lower domestic revenues due to the sharp fall in economic activity, especially in the rubber and mining sectors. The slowdown of activities in the concessions sectors precipitated by sustained low commodity prices triggered a 12 percent reduction in revenues, from US$473.8 million to US$416.9 million.

Indicators	**Thresholds**	**Scenario**	**Scenario Ratios**					
			2015	**2016**	**2017**	**2018**	**2019**	**2025**
PV of debt-to-GDP ratio	**30**	Baseline	14.2	17.9	20.0	21.9	22.8	20.1
		Historical	14.2	13.6	14.0	15.2	16.3	20.8
		Shock [1]	14.2	24.9	27.7	30.4	31.7	28.2
PV of debt-to-export ratio	**100**	Baseline	39.3	58.8	74.4	89.1	96.7	73.8
		Historical	39.3	44.8	52.0	62.0	69.3	76.6
		Shock[2]	39.3	64.1	86.0	108.6	123.0	112.9
PV of debt-to-revenue ratio	**200**	Baseline	63.7	79.6	86.5	90.6	90.6	82.6
		Historical	63.7	60.6	60.4	63.0	64.9	85.7
		Shock[2]	63.7	86.6	100.0	110.4	115.2	126.3
Debt service-to-export ratio	**15**	Baseline	0.6	1.0	1.3	2.2	3.6	5.1
		Historical	0.6	0.9	0.9	1.5	2.6	3.5
		Shock[3]	0.6	1.0	1.3	2.2	3.6	5.1
Debt service-to-revenue ratio	**18**	Baseline	1.1	1.3	1.6	2.3	3.3	5.7
		Historical	1.1	1.2	1.1	1.6	2.4	3.9

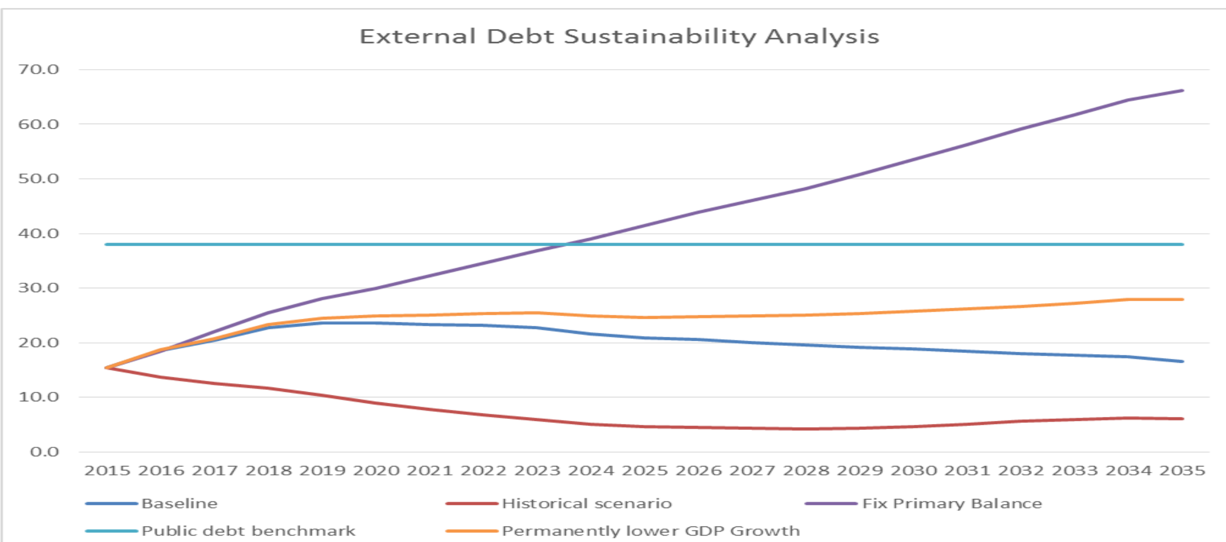
	Shock[1]	1.1	1.9	2.2	3.2	4.7	8.1

Table 5: Policy-based Debt Burden Indicators

Source: 2015 Debt Sustainability Analysis, World Bank and IMF. The shocks are as follows: 1/ One-time 30 percent depreciation relative to baseline; 2/ Interest rates 2 percent higher than baseline; 3/ Real GDP growth at historical average minus one standard deviation in 2016 – 2017.

19. **The December 2015 Debt Sustainability Analysis (DSA) prepared by the IMF and the World Bank indicated that Liberia's risk of debt distress increased from low to moderate.** The deterioration in the debt dynamics reflected the slump in GDP growth, the faster accumulation of debt related to the combined shocks of the Ebola crisis and the sharp decline in exports as a result of the fall in commodity prices, including rubber and iron ore, which together account for 86 percent of exports. As a result of these developments, key external debt indicators including the debt-to-GDP and debt-to-exports ratio have deteriorated. Consequently, stress tests indicate that the present value of public external debt-to-GDP and debt-to-exports indicators would breach the threshold over the medium term under the most extreme shock scenario. Furthermore, as Figure 1 below shows, if the primary balance is maintained at the same level of -7.7 percent, the Present Value (PV) of debt-to-GDP would eventually breach the public debt benchmark of 38 percent.

Figure 1: External Debt Sustainability Analysis



20. **The current macroeconomic framework provides an adequate basis for the proposed operation.** While Liberia has maintained a relatively good track record of prudent macroeconomic management, the twin shocks from the Ebola crisis and sustained, low commodity prices have presented considerable challenges for the government and have heightened downside risks over the short to medium term. The shocks have had considerable adverse economic impact, leading to the deterioration of some of the key macroeconomic indicators including the rate of GDP growth, the current account balance, the level of non-performing loans in banks and the fiscal balance and consequently a faster accumulation of debt with a consequent increase in the risk of debt distress. Nevertheless, the government's commitment to sound macroeconomic policies and corrective measures to respond to the shocks has been unwavering. For example, the government has taken important fiscal policy actions in response to the shocks, including prioritizing and reducing overall expenditure in response to lower than projected revenue inflows whilst taking actions to boost revenues. However, Liberia's medium term economic prospects including projected growth is subject to substantial downside risks arising from the

continued slump in international commodity prices, particularly in light of the slowdown in China. Slower growth from the sustained low prices for rubber and iron ore could further erode the fiscal position.

2.3 IMF RELATIONS

21. **Since November 2012, the Government of Liberia has been pursuing an economic program under a second Extended Credit Facility arrangement with the IMF with relative success, despite the intervening Ebola crisis.** The program is designed to support the acceleration of broad-based growth and has three primary objectives: (i) creating fiscal space for higher capital spending; (ii) strengthening the financial sector and improving access to credit; and (iii) underpinning growth through structural reforms. These objectives are complementary to those being pursued under the programmatic series of development policy operations (DPO), including this proposed operation. Collaboration between the IMF and the World Bank has been strong, including through joint missions as well as a joint work program plan, which include support for improving macroeconomic statistics. The second Extended Credit Facility (ECF) was initially agreed for a total of SDR 51.68 million or approximately US$71.6 million. In the wake of the Ebola outbreak, in September 2014, the IMF provided an ad hoc disbursement of SDR 32.3 million (about US$44.7 million) in augmentation under the current ECF Arrangement. In February 2015, the IMF Board also approved an SDR 32.3 million (about US$44.7 million) disbursement under the Rapid Credit Facility (RCF) as well as debt relief under the Catastrophe Containment and Relief (CCR) Trust. The completion of the Fourth Review enabled the disbursement of SDR 7.38 million (about US$10.2 million), bringing total disbursement under the arrangement to SDR 69.21 million (about US$95.8 million). The IMF concluded the most recent Article IV consultations on July 8, 2016.

3. THE GOVERNMENT'S PROGRAM

22. **The government has prepared an Ebola recovery plan to stabilize and stimulate the economy and build resilience over the medium term.** The Economic Stabilization and Recovery Plan (ESRP) focuses on providing additional resources to the health sector not only to prevent new cases of Ebola, but also to build more robust health systems. The primary aim of the ESRP is to get the economy back on track toward the primary goals of the country's medium and long-term development plans embodied in the AfT, which remains the government's overarching poverty reduction strategy. The AfT which was launched in 2012 is cast in the context of the government's long-term vision plan, which aims to transform Liberia into a more prosperous and inclusive society and to achieve middle income country status by 2030. The formulation of the national vision involved consultations with a wide range of stakeholders across the 15 counties. The Agenda for Transformation is built around five strategic pillars as summarized below.

23. **Pillar I: Peace, Security and Rule of Law**. The government's stated goal under this pillar is to ***create an atmosphere of peaceful co-existence based on reconciliation and conflict resolution and providing security, access to justice, and rule of law to all.*** Strategic interventions to achieve this goal include: (i) strengthening the security forces including through better oversight, recruitment, training and pay; (ii) strengthening peace building programs; (iii) implementing law reform; and (iv) strengthening the capacity of the Judiciary.

24. **Pillar II: Economic Transformation**. The government's goal is to ***transform the economy through development of the domestic private sector—using resources leveraged from FDI in mining and plantations; providing employment for a youthful population; investing in infrastructure for economic growth; addressing fiscal and monetary issues for macroeconomic stability; and improving agriculture and forestry to expand the economy for rural participation and food security.*** The strategic

interventions to achieve this goal include: (i) improving the business environment; (ii) providing incentives to increase employment and training; (iii) implementing a competition law to prevent monopolistic and restrictive trade practices; and (iv) establishing both a commercial code and a commercial court to enforce commercial contracts. To provide access to cheaper and reliable electricity services, the government is rehabilitating the Mount Coffee Hydroelectric plant and expanding the distribution network and connecting Liberia with the regional electricity market of the WAPP. It is also fostering the provision of electricity in rural areas using decentralized mini-grids powered by domestic, renewable sources of electricity.

25. **Pillar III: Human Development**. The government's goal under the human development pillar is ***to improve the quality of life by investing in more accessible and higher quality education; affordable and accessible quality health care; social protection for vulnerable citizens; and expanded access to healthy and environmentally-friendly water and sanitation services***. The strategic interventions include: (i) expanding public provision of basic education and enabling more private, faith-based and community-based provision; (ii) strengthening collaboration and coordination between education providers and beneficiaries and training; (iii) establishing a decentralized network for health services; (iv) implementing a national social protection policy; and (v) establishing the National Water Resource and Sanitation Board (NWRSB) with a clear mandate for sanitation and hygiene standards.

26. **Pillar IV: Governance and Public Institutions**. The government's overarching goal under this pillar is to, ***in partnership with citizens; create transparent, accountable and responsive public institutions that contribute to economic and social development as well as inclusive and participatory governance systems.*** Under this pillar the Government is: (i) improving procurement and property-tracking systems to manage and account for public assets; (ii) raising the bar for performance standards and building a robust system for managing performance and improving integrity in the public sector; (iii) strengthening demand-side governance interventions; and (iv) developing consistent policies on public, private and communal lands.

27. **Pillar V: Cross Cutting Issues**. The government is also taking action on eight (8) cross-cutting issues of the Agenda for Transformation including: (i) *Gender Equality*: To advance equality for all citizens of Liberia; (ii) *Child Protection*: To ensure the protection of children's rights; (iii) *Disabled*: To create opportunities for persons with disabilities to participate confidently in the country's economic, political and socio-cultural life; (iv) *Youth Empowerment*: To empower young people as full participants in all aspects of Liberian society; (v) *Environment:* To improve management of the environment; (vi) *HIV/AIDS:* To stem the spread of HIV and mitigate the impact of AIDS on those infected, their families and society; (vii) *Human Rights*: To combat human rights abuses and advance the welfare of all Liberians; and (viii) *Labor and Employment*: To improve living standards by creating sustainable and decent jobs for all.

4. THE PROPOSED OPERATION

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

28. **Despite the interruption of its implementation by the Ebola crisis, the AfT remains the central reference framework for the Government's medium term reforms agenda.** Key elements of these reforms are described in section 3 above and are laid out in the Government's Letter of Development Policy. To support the Government of Liberia in achieving these reforms, the proposed operation focuses on three primary areas: (i) governance and civil service reforms (AfT Pillar IV); (ii) economic transformation (AfT Pillar II); and (iii) human capital development (AfT Pillar III). Within these three

areas, the operation is selective of reforms which directly or indirectly address the issues of poverty, fragility and conflict. Additionally, in the wake of the Ebola crisis, special attention is paid to the rebuilding of more resilient health systems. Consequently, the operation is focused on reforms which are expected to contribute to: (i) improving transparency in key aspects of government's operation; (ii) increasing accountability in the management of public assets and reducing opportunity for corruption; (iii) building capacity for equitable service delivery; and (iv) enhancing inclusive growth and employment.

29. **The objectives of the proposed operation are:** (i) strengthening governance with particular emphasis on transparency and accountability as well as budget execution and oversight; (ii) addressing key constraints to growth, including electricity; and (iii) improving human capital development particularly through improved access to education and health. The objectives of the proposed operation remain relevant in the wake of the Ebola and commodity price crises and in fact proposed reforms are intended to build resilience to such shocks in the future.

30. **The design of the proposed operation draws on lessons from the implementations of five previous development policy operations**. These lessons include: (i) *Ownership of reforms*—in the previous five operations, the policy reforms reflected the government's own reform agenda articulated in the Poverty Reduction Strategies. This ensured strong ownership of the reforms from the onset. This proposed operation has adopted a similar approach, focusing on reforms from the government's own program articulated in its AfT; (ii) *Sequencing*—it is important to carefully choose prior actions that are likely to open the door for other important policy and institutional reforms; (iii) *Capacity for reform*—in Liberia, where capacity is weak, operations should be accompanied by a critical mass of technical assistance to ensure that the commitment and willingness to reform is supported by the capacity to reform. The design of this proposed operation reflects this lesson in the choice of prior actions, which are related to areas supported by the World Bank and other donors. The design of this also operations incorporates lessons on (iv) *selectivity*—through its choice of a few, manageable actions that have significant positive "knock-on" or leverage effects.

31. **Importantly, the design of this operation also draws lessons from the Ebola crisis; including the observation that a weak health system can have far reaching consequences for all sectors of the economy.** Given the erosion of some of the gains in the health sector by the Ebola crisis and the need to strengthen health systems going forward, the scope of the reforms under the human capital development pillar of the program has been broadened to include reforms focused on health system strengthening measures including surveillance and diagnostic capabilities as well as the development of human resources for the health sector.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

32. **The government's AfT focuses on achieving sustained growth and ensuring inclusiveness.** Achievement of the twin objectives will require, first, a deepening of the governance reforms focusing particularly on transparency as well as on enhanced governance. Reforms are also needed to not only improve the fiduciary systems but to also ensure that the civil service has the capacity to manage such systems. Second, to spur and maintain broad-based growth, reforms are needed to address the critical constraints to growth. Lastly, to assure inclusive growth, emphasis should be placed on improving access to health and education to ensure that all Liberians can take advantage of the job opportunities created through sustained growth.

Pillar 1: Governance and Civil Service Reforms

33. **The Ebola epidemic has brought to the fore underlying governance challenges that continue to affect Liberia, a decade after the end of conflict.** This includes increased perception of lack of trust in government, weak coordination, and poor preparation for crisis management. In spite of significant investments in governance programs to support the development of institutions, the effectiveness of the public administration system and overall coordination of public sector management remain weak. Progress has been made in creating the rules of the game, establishing the normative ethos of "good governance" as the defining principle of state-society relations in Liberia. Nevertheless, specific operational aspects of coordinating intra-governmental units into an effective whole is still a work in progress, and remains a major bottleneck in efforts to improve development outcomes. Consequently, government decision-making is reactive and uncoordinated, sometimes with disastrous consequences as the onset and spread of the Ebola epidemic have shown.

Transparency and Accountability

34. **Strengthening public institutions to ensure that revenues and government assets are well managed and free from corruption; and to increase transparency and accountability remain key objectives of the government's AfT.** The government's emphasis on transparency and accountability to reduce corruption is important for a number of reasons. First, given that economic exclusion was one of the primary drivers of conflict in the past, supported by a lack of transparency, the government is emphasizing transparency in all facets of its operation to ensure equality of opportunities for all Liberians. Second, since both foreign direct investment and donor transfers will be critical for financing Liberia's development agenda over the medium to long term, it is crucial for Liberia to become a reputable member of the global payment system to attract reliable legal capital flows. In addition, research[5] has shown that illicit financial flows into and out of the mining sectors in developing countries not only result in health risks through exposure to damaging chemicals, and substantial revenue loss, but also damage to the environment.

35. **The government has made notable progress in establishing the legal environment to deal with corruption and to increase transparency and accountability.** It passed the Freedom of Information Act in 2010 and a new Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Law in 2013 (PRSDPO-I Prior Action 1). These laws, as well as the Public Financial Management Act and the Public Procurement Commission Act, are intended to improve transparency and tackle corruption. The challenge is to ensure that capacity to implement these laws and regulations exists.

36. **Having passed the AML/CFT law in 2012 to provide the legal basis for the identification, investigation and prosecution of money laundering, corruption and financial crime, the government moved swiftly to establish the institution to police the law**. The Financial Intelligence Unit (FIU) was established in 2014 with responsibility for receiving, analyzing, and transmitting disclosures on suspicious transactions to the competent authorities in pursuant of the implementation of the anti-money laundering policies (PRSDPO-II Prior Action 1). The next important steps to facilitate the effective operation of the FIU include: (i) the preparation and issuance of regulations for currency transactions reports (CTRs) and suspicious transaction reports (STRs) by the FIU (PRSDPO-III Prior Action 1), critical for providing operational guidance for the FIU; and (ii) the adoption by the CBL's Board of policies and procedures for the conduct AML/CFT compliance inspections (PRSDPO-IV Indicative Trigger 1).

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[5] See for example, Illicit Financial Flows and the Extractive Industry in Ghana, Africa Centre for Energy Policy, February 2015 and Le Billon, Philippe " Extractive sectors and illicit financial flows: What role for revenue governance initiatives" Anti-Corruption Resource Centre. November 2011 No.13.

37. **The Government of Liberia has made notable progress in strengthening the legal and operational aspects of the Liberia Anti-Corruption Commission (LACC) to effectively pursue its mandate.** A new three-year strategy was approved (PRSDPO-II Prior Action 2), and is under implementation. The new strategy focuses on: (i) developing a system for reducing corruption risks; (ii) adopting policies and regulations necessary to improve the Asset Disclosure (AD) systems; and (iii) enhancing sanctions against public officials for corruption, misuse and abuse of public office and assets. Important actions to strengthen the operational aspects of the LACC include the establishment of an Asset Disclosure Unit (PRSDPO-III Prior Action 2) and the hiring of a key operational staff—the Asset Verification Officer—to complete the full complement of operational staff. The Disclosure Unit is expected to manage two core systems: First, the **AD Collection and Compliance system,** responsible for: (i) Collection (intake and processing) of AD forms in accordance with the defined cycles; (ii) identifying ***with objective certainty***, officials who have complied and not complied with AD obligations, and (iii) imposition of administrative sanctions for non-compliance. Second, the **AD Processing and Analysis System**, responsible for: (i) risk-based classification of AD forms received; (ii) analyzing AD forms; and (iii) identifying 'red flag' indicators for further processing and/or investigation; and (iv) investigating or forwarding cases to designated law enforcement authorities for further investigation and prosecution. An additional important step is the articulation of legal and regulatory policies for asset disclosure to provide clear guidance and resources for public officers to comply (PRSDPO-IV Indicative Trigger 2).

Prior Action for PRSDPO-III

- ***Prior Action 1***: The Recipient has facilitated the effective operation of its Financial Intelligence Unit through issuing: (a) *Regulation on Currency Transaction Reporting for Financial Institutions* (FIU/CBL/SR1A-CTR/02/2016); (b) *Regulation on Suspicious Transaction Reporting for Financial Institutions* (FIU/CBL/SR2A-STR/02/2016); (c) *Regulation for Further Distribution and Action on the UN List of Terrorists and Terrorist Groups* (FIU/OR1A-ER/02/2016); and (d) *Regulation Dealing with Cross-Border Transportation of Currency and Bearer Negotiable Instruments* (LRA/FIU/OR1-TCN/02/2016).

- ***Prior Action 2***: The Asset Disclosure Unit within the Recipient's Liberia Anti-Corruption Commission (LACC) has become operational as evidenced by the employment of an asset verification officer pursuant to an employment contract dated November 2, 2015.

Civil Service Reform

38. **Strengthening public institutions to ensure that revenues and government assets are well managed and quality public service is equitably delivered is one of the key objectives of the AfT.** In this context, the government has begun the process of establishing an independent, accountable, merit-based and performance-oriented civil service through strategic reforms. Formal processes for entry into the Civil Service and standard personnel management practices have been created. However, implementation of these formal processes such as entry and exit procedures, job descriptions and grades remains challenging. The current Civil Service remuneration structure is inequitable and comprises disparate and highly opaque wages. This has been worsened by the absence of a performance management system and a basis for career progression within the Civil Service. However, the Civil Service Agency (CSA) is currently piloting a new performance management system that, if successful, will be rolled-out across the entire civil service. The current compensation structure is mostly comprised of discretionary allowances that have been a source of tension in the civil service. In the short term, focus will be on: (i) assigning job grades, career ladders and introducing a performance management system across the civil service; (ii) introducing a system for open and merit-based recruitment and promotion

and (iii) establishing a system for manpower forecasting and control of the total civil service employment.

39. **Pay reform is one of the most important policy priorities in public sector management in the short to medium term.** To address this policy issue, the government has prepared and adopted a revised pay reform strategy merging allowances and base pay for civil service cadres, with a view to enhancing transparency and accountability of the public service. Following this important measure, the government should move to: (i) complete merging of allowances and base pay for civil servants at levels 1-4 (Technical and Support (TAS) staff (PRSDPO-III Prior Action 3); and then (ii) complete the merging of allowances and base pay for civil servants at levels 5-10 (PRSDPO-IV Indicative Trigger 3). The merging of the allowances with the base pay specifically targets the discretionary allowances. These allowances are allocated by ministers to some staff without any transparent and clearly articulated eligibility criteria. The discretionary allowances were designed to reward performance, but are essentially used as salary "top-ups". These discretionary allowances comprise a general allowance that is allocated to civil servants and a corresponding "special allowance" for mainly political appointees. The discretion in the allocation has led to a lack of uniformity across the civil service, thereby distorting the entire civil service remuneration structure. Therefore merging discretionary allowances with base pay will remove the distortion in civil servants' salaries.

Prior Action for PRSDPO-III

- ***Prior Action 3***: The Recipient has completed merging of discretionary allowances and base pay for civil servants at levels 1-4 as evidenced by a Personnel Action Notice from the Recipient's Civil Service Agency to the Ministry of Finance and Development Planning, dated April 12, 2016 setting out the consolidated pay scale for each of the grades covered under levels 1-4.

Customs Administration

40. **Efficient customs administration is critical to the government's growth and inclusiveness objectives under the AfT.** Efficient customs systems ensure that revenues are effectively and efficiently collected to finance priority investments that are essential for growth. Further, an efficient customs administration system also helps to improve the business environment and encourage private investments thereby contributing to growth. Given Liberia's recent past of a long conflict, driven in part by economic exclusion, the customs systems also need to be transparent and equitable with service providers and customers having clear understandings of their respective responsibilities.

41. **The government has made extraordinary progress in strengthening customs administration despite capacity challenges.** A one-stop shop has been established at the Freeport of Monrovia, which has resulted in a reduction in the processing time for customs clearance and enabled effective collection of trade and customs data. The Automated System for Customs Data (ASYCUDA) has been successfully rolled out to 9 of the 17 border points including Robert International Airport, Ministry of Land, Mines and Energy, and the Buchanan port. Despite notable progress in customs administration there are some remaining essential policy and institutional actions for effective administration and improved service delivery including: (i) the timely roll-out of ASYCUDA to the remaining eight border points to ensure effective coverage of all border points (PRSDPO-IV Indicative Trigger 4); and (ii) the preparation and implementation of a Customs Customer Service Charter approved by Cabinet following consultations with stakeholders (PRSDPO-IV Indicative Trigger 5).

42. **The outbreak of Ebola severely disrupted the roll-out of ASYCUDA to border points as initially planned and the program is off-track and well behind schedule.** United Nations Conference on Trade and Development (UNCTAD) support to the customs reform process has been severely constrained by

the Ebola outbreak. Furthermore, a subsequent assessment conducted by the customs department suggested that some infrastructure upgrade will now be required in most of the 8 border points before ASYCUDA could be rolled-out to them. In the meantime, the focus will shift to implementing the migration from ASYCUDA-World version 1 to the ASYCUDA-World version 3. Consequently, the prior action: *Roll-out of ASYCUDA to remaining eight ports including: (i) Toe Town, (ii) Harper, (iii) Logautuo, (iv) Yealla, (v) Mendikoma, (vi) Jorwah, (vii) Butuo, and (viii) Greenville* will be deferred to the next operation in the programmatic series. The original target has been modified to reflect the delays.

Public Financial Management

43. **Improvement of the public financial management systems remains at the core of Liberia's economic governance reform and the roll-out of IFMIS to all ministries and agencies remains the lynch-pin of the government's public financial management (PFM) reform strategy.** This is also an area where the government has made substantial progress despite the Ebola crisis. The Integrated Public Financial Management Reform Unit has been able to negotiate an upgrade of the IFMIS software from version 6.5 to the web-enabled version 7 through funding from the government's budget. Furthermore, the government has completed an impressive roll-out of the upgraded IFMIS to 50 ministries and Agencies (more than half of total M&As) up from the nineteen completed in November 2014 (PRSDPO-II Prior Action 5). In addition, a further 30 donors projects have been included in the system adding to the initial five (5) pilot projects (PRSDPO-II Prior Action 5), making a total of 35 projects now included in the IFMIS. The completion of the installation of the CSM module (PRSDPO-II Prior Action 4), will enable the government to effectively manage the civil service cycle from recruitment to retirement. A new Personnel Action Notice (PAN) process has already reduced the arbitrary addition of staff to the payroll. The migration of the entire civil service payroll to IFMIS (PRSDPO-I Prior Action 3) and the ongoing work to have biometric records for the entire civil service will strengthen payroll management. Going forward, the government needs to sustain the notable PFM progress it has made and: (i) complete the on-going work on biometric records and assure its quality; (ii) continue to improve budget transparency through regular and timely publication of quarterly fiscal out-turns (PRSDPO-IV Indicative Trigger 6).

44. **The government has shown on-going commitment to budget transparency, including through embracing the open-budget initiative but continues to face challenges in budget preparation, execution and oversight.** The submissions of the budget and approvals by the Legislature have not been timely. For example, although the FY16 budget was submitted on May, 2015 in keeping with the PFM law, it was only approved on August 25, 2015—and yet it was one of the earliest approvals. The previous year's budget was only approved on November 27, 2014, more than a full quarter into the new fiscal year and the FY2017 budget was approved on September 22, 2016. Notable progress has been made on the quality and timeliness of financial statements, which since FY11 have been prepared in accordance with cash basis International Public Sector Accounting Standards (IPSAS) requirements. Moreover, the submission of final accounts to the General Auditing Commission (GAC) is now timely and in keeping with the PFM law (PRSDPO-I Prior Actions 4 and PRSDPO-II Prior Action 6). Since August 2013, the joint Public Accounts and Audit Committee (PAC) of the Legislature has started public hearings on the outstanding audit reports issued by the GAC as of June 2013 but progress has been slow.

Prior Actions for PRSDPO-III

- ***Prior Action 4***: The Recipient has, through its Civil Service Agency, improved civil service payroll management by: (a) completing the validation of all employees through biometric authentication; and (b) linking the human resource management information system (HRMIS) to the payroll system as evidenced by a letter and interim reports from the Civil Service Agency to the Ministry of Finance and Development Planning dated May 2, 2016.

- ***Prior Action 5***: The Recipient has prepared and published quarterly comprehensive Government finance statistics as set forth in the *Annual Fiscal Outturn Report for FY 2013/2014* and the *Annual Fiscal Outturn Report for FY 2014/2015*.

- ***Prior Action 6***: The Recipient has submitted to the General Auditing Commission its report on the *Annual Consolidated Fund for FY 2014/2015* for audit, with a view to improving internal budget controls.

Procurement

45. **Noteworthy progress has been made in re-establishing the legal and regulatory framework for public procurement, increasing the number of skilled practitioners and enhancing institutions.** However, weaknesses remain in entrenching the practices and has been a major constraint to effective budget execution and in particular the capital budget so critical to Liberia's development agenda. The reform of the public procurement system began in September 2005 and in October 2010, an Amended and Restated Public Procurement and Concession Act was approved. However, despite the steps taken to sensitize and train public procurement practitioners, the overall efficiency of the management of public procurement in Liberia has shown only marginal improvement but the pace of progress has accelerated recently.

46. **To address the heavy demands for effective procurement services, the government adopted an aggressive approach to procurement reforms focused on two pillars:** First, building the capacity of procurement personnel in order to have functioning procurement structures in procuring entities—including having a career track for procurement specialists—on which the government has already taken action (PRSDPO-II Prior Action 7). Two outstanding areas for action are; (a) the establishment of minimum standards and procurement accreditation system to certify procurement practitioners (PRSDPO-III Prior Action 7), and (b) the entrenchment of procurement training (PRSDPO-IV Indicative Trigger 8). The second pillar is strengthening the Public Procurement and Concessions Commission (PPCC) to adequately perform its regulatory functions stipulated in the PPC Act. In pursuit of this, the government completed a technical review of draft implementing regulations, and updated regulations were adopted by the Commissioners of the PPCC, with a view to strengthening the procurement systems (PRSDPO-II Prior Action 8). The PPCC also launched in October 2014, a clear road map/plan for the reform of the PPCC focusing on: (a) capacity building for compliance monitoring; (b) capacity building of procurement officers; (c) establishing a career track for procurement officers; (d) developing a procurement accreditation system to certify procurement practitioners; and (e) consolidating the existing procurement training program into a sustainable one.

Prior Actions for PRSDPO-III

- ***Prior Action 7***: The Recipient's PPCC has approved and published minimum standards and a procurement accreditation system entitled *Design of a Procurement Professionalization System for Liberia* dated *May 25, 2016* to certify procurement practitioners with a view to professionalizing public procurement.

47. ***Results**:* The outcomes expected under the governance and civil service reform pillar are more transparent, accountable and responsive public institutions that contribute to economic and social development. The establishment of a Financial Intelligence Unit (FIU) and its connection with other FIUs are expected to result in increased transparency in financial transactions as indicated by the number of CTRs and STRs issued by the FIU. A new strategy for the Liberia Anti-Corruption Commission and an effective Asset Disclosure unit with adequate regulations are expected to result in greater transparency and accountability in the civil service as indicated by an increased number of senior civil servants (75

percent by 2017) filing asset statements to the LACC. Accountability and transparency in the civil service will also be reinforced by pay reform, which includes the merging of base pay and allowances. The roll-out of IFMIS to Ministries and Agencies is expected to facilitate the accurate and timely preparation of IPSAS compliant financial statements submitted to the GAC for audits, which are then reviewed by the Legislature to complete the cycle of budget accountability. It is also expected to result in the regular and timely publication of quarterly fiscal out-turn reports to provide timely fiscal policy signals to the private sector and civil society as the basis for investment decisions and demand side governance actions. Procurement reforms are expected to result in more certified procurement specialists in the civil service (at least 100 by 2017) to help improve budget execution. The publication of annual compliance reports by the PPCC is crucial for demand-side accountability.

Pillar 2: Economic Transformation

Infrastructure

48. **Important progress has been made in narrowing Liberia's infrastructure deficit but it remains a major constraint to rapid and inclusive growth, and to economic transformation.** Over the past five years, Liberia has made progress in the rehabilitation of important main roads including that linking Monrovia and Buchanan—the second largest city. In the energy sector, total installed capacity has increased from 22 to 60 Mega Watts (MW) thanks to the commissioning of three thermal generation plants between December 2015 and August 2016. The Rural and Renewable Energy Agency (RREA) has also launched its strategy to expand electricity services using mainly renewable sources. Although the additional power has provided electricity service to a larger number of consumers including in some of the very poor areas of Monrovia and in rural areas, the supply is still inadequate to meet current demand including from larger industrial and agricultural customers. Overall access to electricity is below 10 percent largely as a result of the high cost (US$0.55/KWh). The 2014 Household Income and Expenditure Survey (HIES) suggests that 92.4 percent of poor households have no access to electricity compared to 71.3 percent of non-poor households.

49. **The government is actively pursuing its objectives of expanding access, increasing the quality and reliability of services, and reducing the price of electricity.** Since about 80 percent of the cost of electricity is related to the cost of the fuel, the government is prioritizing generation from hydro. In March 2015, the government adopted a Least Cost Power Development Plan (LCPDP) that lays out the generation and transmission options for supplying current and long-term electricity demand. The LCPDP identifies the interconnection with the regional electricity market through the CLSG interconnection line, as an important option to expand electricity supply at a lower cost, and decrease the carbon foot print of the Liberian electricity sector. In the medium term, imports of cheaper regional electricity during the dry season will allow LEC to turn off thermal generation, and in the longer term, access to the regional market will facilitate the development of Liberia's hydroelectricity capacity, including for export. The government is aware that the success of its strategy to reduce cost by shifting from more expensive and more polluting diesel to HFO-based generation, in the short-term, will depend on realizing the potential savings from price differential of the fuels on the international markets.[6] This is why it is crucial for the

[6] LEC reported HFO generation cost of US$0.05/kWh, compared to hydropower generation from Mt. Coffee reported to be around US$0.025/kWh, and diesel based generation at a cost of US$0.12/kWh. See **Preparation of a**

Government to implement an open and competitive procurement process for the supply of fuel used in electricity generation by LEC to ensure the lowest Cost Insurance and Freight (CIF) of the fuel (PRSDPO-III Prior Action 8). It is also important to ensure efficient delivery of electricity services and in this regard a signed contract between the LEC Board and a competitively selected firm for the management of LEC is critical (PRSDPO-IV Indicative Trigger 9).

50. **The government has made notable progress on land reform.** First, with the establishment of the Land Commission in August 2009 with a mandate to propose, advocate and coordinate reforms of land policy, laws and programs in Liberia. Second, in May 2013, the government adopted a Policy Framework for Land Tenure Reform which clarifies land rights related to public land, government land, customary land and private land (PRSDPO-I Prior Action 5). Since then it has moved to draft the Land Rights Act, which after validation by a broad cross-section of stakeholders in June 2014 was submitted to the Legislature for approval. In the meantime the government also completed and validated a Land Administration Policy in 2015. In September 2016, the Legislature passed the Land Authority Act. An important next step is for the Government to establish the Liberia Land Authority through the appointment of commissioners and the provision of budgetary resources for its operation in keeping with the Act (PRSDPO-IV Indicative Trigger 10). The Land Authority will have responsibility for land governance and administration.

51. **In the transport sector, the government remains committed to providing priority roads to improve access to key social services as well as support commercial activities to spur growth.** However, revenue constraints in the wake of the shocks from the Ebola crisis and the sustained downturn in commodity prices have compelled the government to alter its short-term policy focus. Consequently, emphasis has shifted from pursuing an omnibus Road Act—focused on institutional changes within the current Ministry of Public Works to focus instead on the implementation of a Road Fund Act, which includes measures for domestic resource mobilization to provide an adequate and stable source of financing for road maintenance. As a result, the government has also decided to delay action on the Road Act.

Prior Action for PRSDPO-III

- ***Prior Action 8***: The Recipient has: (a) issued a Petroleum Import License dated August 23, 2016 to LEC to import HFO to generate electricity for public service with its own generating plants; and (b) introduced an open and competitive procurement process for the importation of HFO for LEC's own generating plants, through LEC's Board Policy Resolution dated July 4, 2016, mandating all procurement of fuels for LEC's generation of electricity to be done through an international competitive bidding process.[7]

52. ***Results:*** The overall outcomes expected from reforms proposed under the economic transformation pillar in line with the government's AfT include private sector development to provide jobs; growth spurred by infrastructure investments and improvements in agriculture to expand the rural economy and broaden the base of the economy. The government's least cost power development plan, the tariff strategy and regulations for the electricity sector, are expected to result in a shift of electricity generation from high cost diesel to lower cost fuels and eventually to hydro, and consequently reduced cost and increased access to electricity (to 50,000 connections by 2017). This shift is already taking place

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Government of Liberia Least Cost Power Development Plan (LCPDP), Ministry of Lands, Mines and Energy, Liberia. August 2014.

[7] This prior action is aimed at promoting greater transparency and strengthening governance in the energy sector with a view to increasing efficiency in electricity generation.

with the commissioning of a new 38MW plant in December 2015, which resulted in the share of energy produced from high cost diesel falling from 100 percent to 42 percent towards the expected target of less than 20 percent by 2017. Lower cost electricity is expected to spur growth, increasingly from manufacturing and services, resulting in increased employment. Since the establishment of the Collateral Registry in June 2014 (prior action for PRSDPO-II), the share of commercial bank's credit to the agricultural sector increased from 4.5 percent in December 2012 to 6.8 percent in December 2014, surpassing the target of 5.5 percent. This, in concert with improvement in land tenure through the establishment of a comprehensive land administration system, is expected to expand the rural economy providing more jobs.

Pillar 3: Human Capital Development

53. **Human capital development is one of the central pillars of the government's Poverty Reduction Strategy—the AfT**. The government's human development goal under the AfT is to improve quality of life by investing in more accessible and higher quality education and affordable and accessible quality healthcare. While the government is making some strides with the provision of health services, particularly with the provision of the package of basic services, the Ebola outbreak and subsequent rapid escalation was a poignant wake-up call that the overall health system is not sufficiently robust to withstand such shocks. Progress continues to lag in the education sector, a situation made worse by the extended closure of all schools due to the Ebola Virus Disease (EVD) epidemic.

Education

54. **Both access and quality of education are low in Liberia.** More than half of household heads have no secondary education and 38.2 percent of household heads have no education at all. There is also a sharp rural/urban divide; 45.1 percent of rural household heads have no education at all compared with 30.1 percent of urban household heads. Overall gross enrollment at the primary level increased from 86.3 percent in 2007 to 87.7 percent in 2010. Gross enrollment rates at the secondary level are about half what they are at the primary level but increased from 50.9 percent in 2007 to 58.4 percent in 2010. The rate for males increased from 56.9 percent to 65.1 percent, while the rate for females increased from 44.2 percent to 51.7 percent. The availability and quality of education at the primary and secondary levels are affected by both supply and demand-side factors that pose major challenges. On the supply side, the major factors include: (a) lack of adequate school buildings, as nearly one-third of public schools were destroyed during the conflict; (b) a shortage of qualified teachers—only one-third of primary school teachers in public school have had training; and (c) poor teacher management and deployment.

55. **Over the short to medium term, the government intends to focus on assuring equitable access to high quality basic education and developing skills among youth that make them increasingly employable and productive in order to better capitalize on the demographic dividend**. There are two necessary conditions for ensuring high quality basic education and school attendance. First, well trained teachers need to be effectively deployed to ensure adequate coverage for both urban and rural schools to provide greater incentive for school attendance. The government has already taken an important action through the adoption of a comprehensive implementation plan for teacher recruitment, training and deployment across all levels of the education system with a view to improving incentives for attendance (PRSDPO-II Prior Action 10). However, the Ebola crisis has adversely affected the implementation of the plan. Second, there is need for a framework to ensure that the resources for the education sector are equitable deployed by region and pupils socioeconomic status (PRSDPO-III Prior Action 9). To improve learning outcome, the government is piloting public-private partnership in up to

120 public schools. In this regard, it has partnered with Bridge International Academies[8] and other partners to provide school management, teacher support, and instructional materials that together is expected to significantly improved literacy and numeracy gains as compared to the existing public system. Given recent developments in the sector, the next operation in the series will explore both deepening and broadening the reforms in the sector.

Health

56. **Liberia's health outcomes have been generally improving since the end of the civil war in 2003, although the results have been mixed.** Under-five mortality rate fell to 78 per 1,000 live births in 2010 in Liberia from 241/1,000 in 1990. On the other hand, according to the 2013 Liberia Demographic and Health Survey (LDHS), maternal mortality ratio (MMR) (1,072) was higher than the 2007 LDHS (994) - already one of the highest in the world. The EVD outbreak eroded a number of previous gains, and in effect, weakened an already fragile health system. Deliveries by skilled birth attendants, for example, declined by 7 percent from 2013 to 2014; and Antenatal care (ANC) 4th visits dropped by 8 percent.

57. **Pre-Ebola, the GoL's budgetary allocation to health reached about 12 percent of expenditure, with external assistance estimated to account for roughly three times this amount.** Budget execution is on an upward trend from a low of 66 percent in FY10, to 78 percent in FY11. The health sector remains heavily dependent on donor funding, which rose from 72 percent to 82 percent of total institutional health expenditures between 2007/08 and 2009/10, but much of the donor funding is off-budget (about 75 percent), which suggests significant opportunities to improve allocative efficiency. An urgent challenge for the Government is therefore to move donor funding on budget to get a clearer picture of the resources available to the sector. The government needs not only to move gradually to this position over the medium term but also to improve the rates of execution of the allocated budget. To help facilitate the move towards a higher rate of budget execution, the Ministry of Health (MoH) is expected to conduct a half-year budget execution review for FY16, with a view to improving budget execution (PRSDPO-III Prior Action 10). Furthermore, the Ministry is expected to follow-up the half-year review with a full-year review of the execution of the FY16 budget (PRSDPO-IV Indicative Trigger 11), to further assess the issues and constraints to budget execution and draw lessons for improvement.

Prior Action for PRSDPO-III

- ***Prior Action 9***: The Recipient's Ministry of Education (MoE) has adopted a framework for equitable resource allocation by region and pupil's poverty status, particularly with respect to the school grant scheme as evidenced in its briefing paper to cabinet entitled *Revision of the Framework for Equitable Allocation by Region and Pupil's Poverty Status with Respect to School Grant Scheme* dated May 6, 2016.

- ***Prior Action 10***: The Recipient's Ministry of Health has conducted a half-year budget execution review for FY16 as evidenced in its report on *Absorptive Capacity of Funds at Ministry of Health* dated May 5, 2016 with a view to improving budget execution.

58. ***Results:*** The overall outcomes expected under the human capital development pillar are more accessible and higher quality of education and effective execution of the health sector's budget leading to a more robust health system with better access and health outcomes. A comprehensive implementation plan for teacher recruitment, training and deployment across all levels of the education system as well as a framework for the more equitable allocation of resources is expected to result in

[8]Bridge International Academies is a large education innovation company operating in Africa and Asia and focused on improving primary education.

higher school enrollments and better education outcomes. Improvements in education will allow more Liberians to take better advantage of employment opportunities created by the economic transformation discussed above.

Table 6: Summary of Triggers, Prior Actions and Status of Implementation for PRSDPO-III

Triggers from PRSDPO-I	Prior Actions for PRSDPO-III	Reason(s) for Change	Status
Pillar 1: Governance and Civil Service Reform			
Transparency and Accountability			
Regulations on Currency Transaction Reports (CTRs) and Suspicious Transaction Reports (STRs) issued by the FIU.	#1. The Recipient has facilitated the effective operation of its Financial Intelligence Unit through issuing: (a) *Regulation on Currency Transaction Reporting for Financial Institutions* (FIU/CBL/SR1A-CTR/02/2016); (b) *Regulation on Suspicious Transaction Reporting for Financial Institutions* (FIU/CBL/SR2A-STR/02/2016); (c) *Regulation for Further Distribution and Action on the UN List of Terrorists and Terrorist Groups* (FIU/OR1A-ER/02/2016); and (d) *Regulation Dealing with Cross-Border Transportation of Currency and Bearer Negotiable Instruments* (LRA/FIU/OR1-TCN/02/2016).	No Change	Completed
Asset Disclosure Unit within the LACC is operational with adequate staffing.	#2. The Asset Disclosure Unit within the Recipient's Liberia Anti-Corruption Commission (LACC) has become operational as evidenced by the employment of an asset verification officer pursuant to an employment contract dated November 2, 2015.	No Change	Completed

Civil Service Reform			
Complete merging of allowances and base pay for civil servants at the levels 1-4.	#3. The Recipient has completed merging of discretionary allowances and base pay for civil servants at levels 1-4 as evidenced by a Personnel Action Notice from the Recipient's Civil Service Agency to the Ministry of Finance and Development Planning, dated April 12, 2016 setting out the consolidated pay scale for each of the grades covered under levels 1-4.	No Change	Completed
Customs Administration			
Roll-out of ASYCUDA to remaining 8 ports including: (i) Toe Town, (ii) Harper, (iii) Logautuo, (iv) Yealla, (v) Mendikoma, (vi) Jorwah, (vii) Butuo, and (viii) Greenville.		Roll-out affected by Ebola and decision taken to upgrade infrastructure at remaining border points.	Deferred to PRSDPO-IV
Public Financial Management			
Complete the validation of all employees through biometric authentication and link the HRMIS to the payroll system.	#4. The Recipient has, through its Civil Service Agency, improved civil service payroll management by: (a) completing the validation of all employees through biometric authentication; and (b) linking the human resource management information system (HRMIS) to the payroll system as evidenced by a letter and interim reports from the Civil Service Agency to the Ministry of Finance and Development Planning dated May 2, 2016.	No Change	Completed
Prepare and publish quarterly comprehensive GFS-compliant fiscal operational report for Liberia for FY2013/14 and first two quarters FY2014/15.	#5. The Recipient has prepared and published quarterly comprehensive government finance statistics as set forth in the *Annual Fiscal Outturn Report for FY 2013/2014* and the *Annual Fiscal Outturn Report for FY 2014/2015*.	No Change	Completed
Submit IPSAS compliant financial statement of the GOL for FY2013/14 to the GAC for audit.	#6. The Recipient has submitted to the General Auditing Commission its report on the *Annual Consolidated Fund for FY 2014/2015* for audit, with a view to improving internal budget controls.	No Change	Completed
Procurement			
Approval by PPCC of minimum standards and procurement accreditation system to certify procurement practitioners in Liberia.	#7. The Recipient's PPCC has approved and published minimum standards and a procurement accreditation system entitled *Design of a Procurement Professionalization System for Liberia* dated *May 25, 2016* to certify procurement practitioners with a view to professionalizing public	No Change	Completed
Pillar 2: Economic Transformation			
Infrastructure: Energy and Power			
Complete least cost power development plan and have same approved by the Cabinet and implement an open competitive procurement process for imports of heavy fuel oil used in electricity generation for LEC to ensure the lowest CIF cost of the fuel	#8. The Recipient has: (a) issued a Petroleum Import License dated August 23, 2016 to LEC to import HFO to generate electricity for public service with its own generating plants; and (b) introduced an open and competitive procurement process for the importation of HFO for LEC's own generating plants, through LEC's Board Policy Resolution dated July 4, 2016, mandating all procurement of fuels for LEC's generation of electricity to be done through an international competitive bidding process.	Wording of prior action changed to reflect more directly the action that would give LEC access to lower cost fuel.	Completed
Infrastructure: Transport			
Prepare and submit to the Legislature a Road Act to define public roads and the legal and the legal rights and responsibilities for the control of such roads.		Dropped reflecting change in Government's priority.	Dropped

Pillar 3: Human Capital Development			
Education			
Adopt a framework for equitable resource allocation by region and pupil's socio-economic status, particularly with respect to the school grants scheme.	#9. The Recipient's Ministry of Education has adopted a framework for equitable resource allocation by region and pupil's poverty status, particularly with respect to the school grant scheme as evidenced in its briefing paper to cabinet entitled *Revision of the Framework for Equitable Allocation by Region and Pupil's Poverty Status with Respect to School Grant Scheme* dated May 6, 2016.	No Change	Completed
Health			
None (Newly added prior action to reflect government policy priority in the health sector)	#10. The Recipient's Ministry of Health has conducted a half-year budget execution review for FY2016 as evidenced in its report on *Absorptive Capacity of Funds at Ministry of Health* dated May 5, 2016 with a view to improving budget execution.	Prior Action added	Completed

Table 7: PRSDPO-III Prior Actions and Analytical Underpinnings

Prior actions	Analytical Reports	Key Findings and Recommendations
1.Governance and Civil Service Reform		
Prior action #1	**US State Department's 2013 Money Laundering Report**	The relative openness of Liberia's economy coupled with its desire for foreign investment makes the country vulnerable to some degree of illegal business activities.
Prior action #2	**Transparency International (2012)**	Liberia is perceived as having progressed in the fight against corruption over the last few years. Accord. However, corruption remains endemic and permeates most sectors of the society
Prior action #3 &4	**Public Expenditure and Financial Accountability (2012)**	Payroll control is the most significant area of weakness in the current PFM system. The swift introduction of the HRMIS [CSM] module within the IFMIS, and continuation of the efforts to "clean" up the payroll through effective use of audits, will help to address this problem.
	Public Expenditure Review (2013)	Implement the medium-term wage reform strategy to improve transparency and ensure medium-term sustainability of wage bill. Complete biometric registration for all civil servants.
Prior action #5&6	**PEFA (2012)**	The preparation of financial statements is not yet an established practice in the GoL. Financial statements are submitted with significant delay, well outside the 4 months required in the Act.
Prior action#7	**Annual Report of the PPCC (2010)**	PPCC can make progress in its implementation program of the PPC Act if the following issues are given urgent consideration: (i) Procurement and installation of the off-the-shelf computerized procurement monitoring software that would enable PPCC to collect and disseminate national procurement statistics and monitor procurement compliance; and (ii) Professionalization of procurement in Liberia to ensure the timely and regular supply of procurement staff for entities in both the public and private sectors.
2. Economic Transformation		
Prior action #8	**Liberia: Inclusive Growth Diagnostics (2012)**	High cost/lack of access to electricity reduces competitiveness of otherwise potentially attractive value-added sectors.
3. Human Capital Development		
Prior action #9	**Liberia: Public Expenditure Review Human Development (2012) and Liberia Poverty Note: Tracking the Dimensions of Poverty (2012).**	Resource allocation in the Education Sector is pro-rich and at the primary level is inequitable across counties. Ensure that spending on public education targets disadvantaged and/or marginalized children, especially at the pre-primary and primary levels. School grants should be weighted so that poor children receive more benefits.
Prior action #10	**Liberia: Public Expenditure Review Human Development (2012)**	Budget execution by the MoHSW has been less than optimal and needs to be urgently addressed. Looking for the reasons behind the observed less than optimal budget execution is another key challenge that both the MoHSW and MoF need to tackle. This would help to convince partners that the GoL is serious about efficiently spending what is currently available to it, and help to justify any calls to increase funding.

4.3 LINK TO CPS, OTHER WORLD BANK OPERATIONS AND THE WBG STRATEGY

59. **The entire programmatic series including the proposed operation is fully aligned with the World Bank's Country Partnership Strategy (CPS)[9] for Liberia, which is fully consistent with the government's AfT—which remains the Government's overarching strategy.** The principal objective of the CPS is to support the government's AfT to contribute to sustained growth, poverty reduction and shared prosperity while exiting fragility and building resilience. The CPS Pillars are aligned to the following pillars of the AfT: (i) *Governance and Public Sector Institutions* to improve public sector and natural resource governance. (ii) *Economic Transformation* to reduce constraints to rapid, broad-based and sustained economic growth to create employment; and (iii) *Human Development* to increase access to quality basic social services and reduce vulnerability.

60. **Under the three pillars of the CPS, the World Bank Group is pursuing a broad mix of technical assistance operations, which complements the PRSDPO-III toward achieving key CPS outcomes.** On economic governance and civil service reform, these include; a US$28.5 million Integrated Public Financial Management Reform Project, (including US$5 million from IDA) approved in 2011, providing support to enhance budget planning systems including the IFMIS and technical assistance to improve laws and systems to support prevention and detection of money laundering and corruption. On economic transformation, the World Bank is supporting the revitalization of road infrastructure through the multi-donor Liberia Reconstruction Trust Fund (LRTF). In addition, the Liberia Electricity System Enhancement Project (LESEP) for US$32 million and the WAPP Cote d'Ivoire, Liberia Sierra Leone and Guinea Power Interconnection Project approved in May 2012 for US$144.5 million and the Liberia Renewable Energy Access Project approved in January 2016 for US$ 27 million including a US$25.0 million grant from the Scaling Up Renewable Energy Program in Low Income Countries (SREP) all aim to reduce cost and expand access to electricity in Liberia. On human resource development, the World Bank is implementing the US$40 million Global Partnership for Education Grant for a Basic Education Project to improve management and accountability and for the construction of schools in rural areas. On health, the World Bank is implementing a Health System Strengthening Projects (US$15 million) aimed at improving the quality of maternal and child health and reducing infectious diseases.

4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

61. **The GoL has maintained its good track record of broad-based consultations on key policies and strategies.** More recently and in the context of the implementation of the AfT, prior to the Ebola crisis, the consultations have also embraced the monitoring of the outcomes under the AfT. The formulation of the AfT, on which the reforms proposed under this operation are based, involved extensive consultations across the country at the county and district levels and across several stake-holder groups, including civil society and the private sector. In January 2016, the President reaffirmed the government's commitment to maintaining such broad-based consultations. The collaboration amongst development partners in Liberia remains relatively strong as clearly demonstrated in the successful response to the Ebola crisis. Donor sectoral working groups remain relatively active and together with the Budget Support Working Group (BSWG) are key instruments of policy dialogue and donor coordination in support of the government's medium term strategy.

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[9] The Country Partnership Strategy (CPS) (Report number 74618) was discussed by the Board in July, 2013.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACT

62. **Prior actions under this operation are expected to have both direct and indirect positive poverty and social effects although not significant in the short term.** First, the resources under the operation will increase fiscal space allowing the government to increase public resources towards its Ebola recovery and AfT priorities and help mitigate the shocks from lower commodity prices. With the substantial slowdown in economic activity and the sustained low prices for rubber and iron ore, the government's fiscal resources from tax and non-tax revenues are well below the levels prior to the crisis and inadequate to maintain effective service delivery. Second, the reforms intended to enhance political and economic governance; support economic transformation and improve education and health, will foster more efficient and transparent use of public resources as well as promote inclusive growth to increase employment reduce poverty and inequity. Annex 4 summarizes the Poverty and Social impacts of the reforms under this operation.

5.2 ENVIRONMENTAL ASPECTS

63. **The reforms proposed under this operation are focused largely on economic governance, economic transformation and human capital development.** These reforms, summarized in Annex 4, are not expected to have any significant negative direct environmental effects. The reforms supporting least cost power development and access by the Liberia Electricity Corporation to fuel at a lower cost, is complementary to the project support being provided by the World Bank under the Liberia Accelerated Electricity Expansion Project (LACEEP) project, which involves the construction of facilities for off-loading, transport and storage, of fuel in support of the least-cost procurement of the fuel under which specific measures to mitigate any adverse environmental effects have been outlined in the Oil Spill Response Plan (OSRP)[10].

64. **The storage and transfer of liquid petroleum products carries the risks of leaks or accidental releases.** The OSRP establishes a predetermined line of response and action, including lines of authority and responsibility and correct reporting and communication procedures. The OSRP also includes procedures for spill control, isolation and clean up. The plan also includes steps for the development of monitoring and follow-up programs, and root cause assessments to ensure that spill incidents do not recur. The risks of fuel spill during operation is small and will be largely localized and is mainly related to off-loading at the port from moored vessels and pumping it through the pipeline (1.5 km) into the rehabilitated or newly constructed storage tanks. To decrease the risks of spills from the tanks to the adjoining environment, the areas surrounding the fuel storage tanks will have concrete flooring and a secondary containment retaining wall designed to hold 110 percent capacity of the largest tank. In addition, the tanks will be fitted with high-level alarms to minimize over-filling and spillage. Slow migrating spills along the pipeline will be contained with an absorbent material and faster migrating spills will be contained with the use of containment dykes or trenches with a plastic base.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

65. **The findings of the 2012 public expenditure and financial accountability (PEFA) show that the Government has taken considerable actions to improve public financial management since the 2008 PEFA assessment.** These actions reflect the strong political commitment to PFM reforms and the

[10] The OSRP meets the requirements of Liberia's Environmental Protection Agency (EPA) Act.

determined implementation of reforms despite capacity constraints. There has been significant recorded progress in the implementation of the IFMIS, revenue administration including the establishment of the Liberia Revenue Authority, debt management, procurement, internal audit, accounts reconciliation and budget classification systems. The government's annual budgets are published and accounting and financial reporting have also improved but are not yet at an adequate standard.

66. **Liberia maintains an exchange rate system that is free of restrictions on payments for current and capital transfers.** The safeguards assessment update, finalized in November 2015, noted that the slow progress in implementing recommendations from the 2011 and 2013 assessments contributed to heightened safeguards risks at the CBL. The assessment recommended strengthening independent oversight by the Board of Governors and the Audit Committee, and aligning the investment guidelines with best international practice to shield the CBL from counterparty risks. The assessment also noted the need for a strategy to address the imbalances between operating revenues and expenditures to improve the CBL's financial position.[11] The implementation of these recommendations will be monitored under the IMF's program.

67. ***Overall fiduciary environment***: Continued engagement by the development partners in the PFM area has resulted in an enhanced fiduciary environment in Liberia. The World Bank's lead role through the Public Sector Modernization project, and the Integrated Public Financial Management Reform project (IPFMRP) under implementation, continues to provide the thrust for further strengthening of the PFM platform. The consolidated gains of the PFM reforms over the years have given rise to the need for the amendment of the PFM Act 2009. Draft amendments to the Act have been submitted to the Attorney General's Office and the revised law is expected to be enacted in FY17. The GAC is also implementing rigorous assurance standards across line ministries to safeguard public funds. The GAC Act (2014) provides the GAC with the administrative and financial autonomy needed to enhance the Commission's oversight responsibilities for transparency and accountability. Nevertheless, the fiduciary risk remains high.

68. ***Recipient and Financing Agreement:*** The proceeds of the proposed Operation, consisting of SDR 28.7 million (US$40 million equivalent) Grant, of which US$8 million is from the CRW, would be made available to the GoL, represented by the Ministry of Finance and Development Planning, in a single tranche upon effectiveness.

69. ***Funds Flow and Disbursement Arrangements:*** The funds will be deposited into an account designated by the GoL at the CBL that is part of the country's foreign exchange reserves. The equivalent local currency amount will, within five working days, be transferred to the Consolidated Fund of the government that is used to finance budgeted expenditures and appropriately accounted for in the government's financial management system. Disbursements from the Consolidated Fund by the government shall not be tied to any specific purchases and no special procurement requirement shall be needed. The proceeds of the operation shall, however, not be applied to finance expenditures in the negative list as defined in the Schedules of the Financing Agreements. If any portion of the Grant is used to finance ineligible expenditures as defined in the Schedules of the Financing Agreements, IDA shall require the government to promptly, upon notice from IDA, refund an amount equal to the amount of the said payment to IDA. Amounts refunded to IDA upon such request shall be cancelled from the Grant.

70. ***Assurance Requirements:*** Based on the level of fiduciary risk associated with this operation, IDA shall require an independent audit of the designated account as an additional fiduciary arrangement.

[11] IMF Staff Report: Fourth Review Under the Extended Credit Facility Arrangement, IMF Country Report No. 16/8

The audit will provide assurances that: (a) the funds have indeed been received and deposited into the account; (b) the funds received in the designated account were, within five working days of receipt, transferred to the consolidated fund account (Treasury Account) of the Government of Liberia to finance budgetary expenditures; and (c) the amounts so received have been appropriately accounted for in the financial management system of the government. The audit report shall be made available to IDA within six months from the date of receipt of the funds in the designated account. As part of the immediate additional fiduciary arrangement, the GoL, through the Ministry of Finance and Development Planning shall, within 30 days after the Grant has been disbursed by IDA to the designated account of the Central Bank of Liberia, provide a written confirmation to IDA that the local currency equivalent of the Grant has been credited into the Consolidated Fund of the Government of Liberia to finance budgetary expenditures. The audited financial statements submitted to the Legislature will be published.

71. The expected closing date of the operation is June 30, 2017.

5.4 MONITORING, EVALUATION AND ACCOUNTABILITY

72. **The Ministry of Finance and Development Planning (MFDP) will have overall responsibility for the implementation of the reforms supported by the operation.** More specifically, the Aid Management Unit within the MFDP will directly responsible for the implementation of the operation. The government has established, with support from donors, a Monitoring and Evaluation (M&E) department within the Liberia Development Alliance (LDA) to monitor progress on the implementation of the AfT. The Aid Management Unit will be responsible for tracking progress (through the indicators) towards the medium-term objectives of the program. The objectives and indicators of the operation are aligned with those of the AfT. Furthermore, much of the policies from the AFT, including those covered by this operation as well as those covered by other donors including the EU and the African Development Bank (AfDB), are covered in the Common Assessment Framework (CAF). The monitoring of the operation will therefore not create additional burden for the government. Technical assistance is being provided under a Multi-donor Trust Fund for data analysis. The Budget Support Working Group and the CAF provide a mechanism for government and donors to engage in transparent and candid review of progress on the policy reform program supported by the operation. Regular meetings of the BSWG will provide timely feedback on progress and allow the government to take action to ensure that reforms are being completed in a timely manner. On the World Bank's side, the implementation will be monitored and evaluated through continuous dialogue and timely missions. The results framework in Annex 1 provides a list of results indicators that form the basis for monitoring progress over the programmatic series. Where possible, results indicators will be collected on a gender disaggregated basis to monitor progress, including on school enrollment rates.

73. **Grievance Redress**. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns.

74. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond.

75. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS
For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

76. **The overall risk rating for the operation is substantial.** Liberia's transition from conflict to long-term development has been set back by the Ebola crisis and the country remains fragile with weak state capacity and vulnerable to economic shocks as demonstrated by the impact of the sustained low prices for rubber and iron ore. The country and fiduciary risks and mitigation measures are summarized below.

77. **Ebola epidemic:** Liberia was declared Ebola free by the World Health Organization (WHO) in January 2016, but there have been subsequent outbreaks. In addition, recent research suggests that the Ebola virus has been detected in "recovered" males for up to 18 months after and that those recovering from Ebola are likely to have long-term health issues.[12] Given the evidence of the economy wide effects, a new Ebola crisis could have adverse effects on the political, economic and social domains as well as on the implementation of reforms under the program. ***Mitigation:*** To help mitigate risks of a new Ebola epidemic, many businesses and government agencies are maintaining the hand-washing protocol. In addition, the Government is working with multilateral and bilateral partners to build more resilient health systems. The budget support provided through the proposed operation will also help to mitigate the risk.

78. **Political and governance:** Political and governance risks are substantial. The current security situation in Liberia remains fragile, but stable. Given the extremely limited fiscal space, the government is facing substantial challenges in expanding its security apparatus to fill the gap created by the phased UNMIL drawdown. The political situation is currently stable but could get increasingly unstable as the 2017 elections approach. The operation includes reforms which are likely to reduce opportunities for corruption and rent-seeking. It may therefore be difficult to secure political commitments from perceived "losers" to ensure effective implementation of such reforms. ***Mitigation:*** To help mitigate the security risks, UNMIL and other donors are providing support to expand the training of more local police force to strengthen their presence in key areas. To help mitigate the political risk the World Bank will continue to engage with Liberia through, for example, information exchanges on reform, including in coordination with the IMF and other donors.

79. **Macroeconomic:** Macroeconomic risks are substantial. Liberia is an open economy, heavily dependent on foreign direct investments and primary exports, for fiscal revenues, foreign exchange and decent jobs. It is also dependent on imported fuel and food, including the primary staple—rice. These dependencies amplify the country's vulnerability to risks of external shocks with both fiscal and balance of payments implications. The substantial negative impact of the sustained low prices for Liberia key exports—rubber and iron ore, serves to highlight the vulnerability to macroeconomic shocks. Fiscal risks, possibly associated with the upcoming presidential elections are considered to be moderate in large part because the current President considers fiscal prudence to be part of her legacy. ***Mitigation:*** The maintenance of prudent macroeconomic management as demonstrated for example by the reduction in the FY2016 budget as revenues fell below forecast for the first half of the fiscal year. Furthermore, the close monitoring of the economy, jointly by the World Bank and the IMF will help to mitigate the

[12] http://www.who.int/mediacentre/news/releases/2016/ebola-zero-liberia/en/

macroeconomic risks. There are also ongoing efforts, including through the proposed operation, to broaden the base of the economy through improved access to electricity and the improvement of the business environment.

80. **Operational design, implementation and sustainability:** Every effort has been made to keep the design of this operation relatively simple. Nevertheless, implementation and maintenance of the reforms will require collaboration and coordination amongst state agencies. The already generally weak capacity of the state and the weight of the implementation of the many critical, priority projects under the AfT poses substantial risks of implementation delays as well as of sustainability of some of the reforms. ***Mitigation:*** Many of these implementation risks are difficult to mitigate. However, the World Bank has consistently ensured the provision of training and technical assistance for state building as crucial complementary activities to the DPO series, including under this proposed operation. As discussed in sections 4.3 and 4.4, there are a number of complementary technical assistance projects and supporting activities being pursued by the World Bank and other donors to mitigate the implementation and sustainability risks.

81. **Fiduciary:** Fiduciary risks are high. The continued engagement of the development partners in the PFM area has resulted in an enhanced fiduciary environment in Liberia including effective capacity. However, despite the notable progress made in improving the fiduciary system, there are still weaknesses that present opportunities for misappropriation of funds. ***Mitigation:*** To help mitigate the fiduciary risks to this operation, the government is continuing its roll-out of the IFMIS to key ministries and agencies and to expand its coverage to donor resources including projects. This proposed operation will also support strengthening of procurement capacity in the Ministries and Agencies as well as at the PPCC to enhance oversight.

Table 8: Summary of Risks

Risk Categories	**Rating (H,S,M or L)**
1. Political and Governance	S
2. Macroeconomic	S
3. Sector strategies and policies	M
4. Technical design of project or program	M
5. Institutional capacity for implementation and sustainability	S
6. Fiduciary	H
7. Environmental and social	M
8. Stakeholders	M
9. Other (Ebola)	S
Overall	S

ANNEX 1: POLICY AND RESULTS MATRIX

Medium Term Objectives	Prior Actions under PRSDPO-I (PRSCI)	Prior Actions under PRSDPO-II	Prior Actions under PRSDPO-III	Indicative Triggers for PRSDPO-IV	Results Indicators by 2017	Baseline (2012)	Expected Targets (2017)
Pillar 1: Governance and Civil Service Reform AfT Goal: ***In partnership with citizens, create transparent, accountable and responsive public institutions that contribute to economic and social development as well as inclusive and participatory governance systems.***							
1A. Transparency and Accountability							
Improve transparency by adopting & implementing AML/CFT Law in accordance with international obligations.	**Prior Action 1:** Prepared and submit draft Anti-Money Laundering and Countering the Financing of Terrorism Law to the Legislature	**Prior Action 1**: The Recipient has established a financial intelligence unit whose vocation is to help increase transparency in the Recipient's financial transactions.	**Prior Action 1:** The Recipient has facilitated the effective operation of its Financial Intelligence Unit through issuing: (a) *Regulation on Currency Transaction Reporting for Financial Institutions* (FIU/CBL/SR1A-CTR/02/2016); (b) *Regulation on Suspicious Transaction Reporting for Financial Institutions* (FIU/CBL/SR2A-STR/02/2016); (c) *Regulation for Further Distribution and Action on the UN List of Terrorists and Terrorist Groups* (FIU/OR1A-ER/02/2016); and (d) *Regulation Dealing with Cross-Border Transportation of Currency and Bearer Negotiable Instruments* (LRA/FIU/OR1-TCN/02/2016).	**Indicative Trigger 1:** The Central Bank of Liberia Board has adopted policies and procedures to conduct AML/CFT compliance inspections to assess compliance of financial institutions with AML/CFT obligations set forth in laws related to international AML/CFT obligation pursuant to membership in the Egmont Group of FIUs	*Currency Transaction Reports and Suspicious Transaction Reports issues by the FIU (Number)*	None	>50(CTR) >10(STR)
Strengthen the Liberia Anti-corruption Commission and improve legal framework for Asset Disclosure system.		**Prior Action 2:** The Recipient has completed the preparation of a three-year strategy, whose substance is acceptable to the Association, for the Liberia Anti-Corruption Commission.	**Prior Action 2:** The Asset Disclosure Unit within the Recipient's Liberia Anti-Corruption Commission (LACC) has become operational as evidenced by the employment of an asset verification officer pursuant to an employment contract dated November 2, 2015.	**Indicative Trigger 2:** Legal and regulatory policies for Asset Disclosure issued by the LACC to provide clear guidance and resources for public officers to comply.	*Senior Civil servants (Directors and above) providing complete asset statement to LACC (%)*	56%	75%
1B: Civil Service Reform							
Rationalize civil service pay scale		**Prior Action 3:** The Recipient has prepared and adopted a revised pay reform strategy merging allowances and base pay for civil service cadres, with a view to enhancing transparency and accountability of the Recipient's public service.	**Prior Action 3**: The Recipient has completed merging of discretionary allowances and base pay for civil servants at levels 1-4 as evidenced by a Personnel Action Notice from the Recipient's Civil Service Agency to the Ministry of Finance and Development Planning, dated April 12, 2016 setting out the consolidated pay scale for each of the grades covered under levels 1-4.	**Indicative Trigger 3:** Complete merging of discretionary allowances and base pay for civil servants at levels 5-10.	*Civil servants in grades 1-10 paid according to new pay structure (%)*	0%	100%

Medium Term Objectives	Prior Actions under PRSDPO-I (PRSCI)	Prior Actions under PRSDPO-II	Prior Actions under PRSDPO-III	Indicative Triggers for PRSDPO-IV	Results Indicators by 2017	Baseline (2012)	Expected Targets (2017)
1C: Customs Administration							
Strengthen tax and customs administration including expanding customs coverage	**Prior Action 2:** Rolled-out the Custom administration system (ASYCUDA) to two additional ports of Bo-Waterside and Ganta			**Indicative Trigger 4:** Roll-out of ASYCUDA to remaining eight border points. **Indicative Trigger 5**: The preparation and implementation of a Customs Customer Service Charter approved by Cabinet following consultations with stakeholders.	*Ports where ASYCUDA is operational (%)* *Share of total Customs revenue captured by ports where ASYCUDA is operational (%)*	41% 90%	80% 100%
1D: Public Financial Management							
Improved credibility, effectiveness, efficiency, and comprehensiveness in public resource management systems and practices.	**Prior Action 3:** Migrated payroll processing from the Legacy system to the IFMIS solution.	**Prior Action 4:** The Recipient has completed the installation of the civil service management module of the integrated financial management information systems (IFMIS), with a view to strengthening fiscal discipline and budget transparency.	**Prior Action 4:** The Recipient has, through its Civil Service Agency, improved civil service payroll management by: (a) completing the validation of all employees through biometric authentication; and (b) linking the human resource management information system (HRMIS) to the payroll system as evidenced by a letter and interim reports from the Civil Service Agency to the Ministry of Finance and Development Planning dated May 2, 2016.		*Civil servants paid through the IFMIS solution (%)*	0%	100%
		Prior Action 5: The Recipient has completed the roll-out of the IFMIS to eleven (11) additional ministries and agencies, for a total of nineteen (19) and brought five (5) donor-financed projects onto pilot tested mode in IFMIS, with a view to facilitating management of public systems.	**Prior Action 5:** The Recipient has prepared and published quarterly comprehensive government finance statistics as set forth in the *Annual Fiscal Outturn Report for FY 2013/2014* and the *Annual Fiscal Outturn Report for FY 2014/2015*.	**Indicative Trigger 6:** Prepare and publish quarterly comprehensive GFS-compliant fiscal operations report for Liberia for FY 2015/16 and first 2 quarters of FY2016/17	*Ministries and Agencies in which IFMIS is installed and operational (Number)*	7 (MoF and 6 other M&As)	20+(MoF and All M&As)
	Prior Action 4: Submitted IPSAS-based financial statements of the GoL for FY 2010/2011) and for FY 2011/2012) to the GAC.	**Prior Action 6:** The Recipient has submitted its IPSAS-based financial statements for FY 2012/2013 to its General Auditing Commission for audit, with a view to improving internal budget controls.	**Prior Action 6:** The Recipient has submitted to the General Auditing Commission its report on the *Annual Consolidated Fund for FY 2014/2015* for audit, with a view to improving internal budget controls.	**Indicative Trigger 7:** Submit IPSAS compliant financial statements of the GoL for FY2015/16 to the GAC for audit.	*Submission of Annual Financial Statements to GAC after end of fiscal year(months)*	> 12 months	< 3 months

Medium Term Objectives	Prior Actions under PRSDPO-I (PRSCI)	Prior Actions under PRSDPO-II	Prior Actions under PRSDPO-III	Indicative Triggers for PRSDPO-IV	Results Indicators by 2017	Baseline (2012)	Expected Targets (2017)
1E: Procurement							
Strengthen and professionalize the Procurement capacity of the civil service		**Prior Action 7:** The Recipient has structured, within its civil service, a career track for procurement specialists, with a view to improving budget execution.	**Prior Action 7:** The Recipient's PPCC has approved and published minimum standards and a procurement accreditation system entitled *Design of a Procurement Professionalization System for Liberia* dated *May 25, 2016* to certify procurement practitioners with a view to professionalizing public procurement.	**Indicative Trigger 8:** Cabinet has approved the transition order for the Procurement Training School to be moved to the University of Liberia and the PPCC has provided a detailed plan, including the timeline for the transition, with a view to entrenching procurement training and enhancing professionalization of procurement specialists,	*Trained and certified procurement analyst appointed in the civil service (Number)*	None	100
Strengthen oversight and regulation of procurement system		**Prior Action 8:** The Recipient has completed the technical review of draft implementing regulations, adopted by the Board of Commissioners of the Recipient's Public Procurement and Concession Commission, with a view to strengthening the Recipient's procurement systems.			*Publication of annual Compliance Monitoring Report (CMR)by PPCC* *(Yes/No)*	No	Yes .

Medium Term Objectives	Prior Actions under PRSDPO-I (PRSCI)	Prior Actions under PRSDPO-II	Prior Actions under PRSDPO-III	Indicative Triggers for PRSDPO-IV	Results Indicators by 2017	Baseline (2012)	Expected Targets (2017)
Pillar 2: Economic Transformation **AfT Goal:** ***To transform the economy so that it meets the demands of Liberians through development of the domestic private sector—using resources leveraged from FDI in mining and plantations; providing employment for a youthful population; investing in infrastructure for economic growth; addressing fiscal and monetary issues for macroeconomic stability; and improving agriculture and forestry to expand the economy for rural participation and food security.***							
2A.Infrastructure: Energy and Power							
Provide affordable electricity to industry, MSMEs and households in urban areas and improve access to alternate generation methods elsewhere.			**Prior Action 8:** The Recipient has: (a) issued a Petroleum Import License dated August 23, 2016 to LEC to import HFO to generate electricity for public service with its own generating plants; and (b) introduced an open and competitive procurement process for the importation of HFO for LEC's own generating plants, through LEC's Board Policy Resolution dated July 4, 2016, mandating all procurement of fuels for LEC's generation of electricity to be done through an international competitive bidding process.	**Indicative Trigger 9:** To ensure an efficient delivery of electricity services to users, the contract between the LEC Board and a competitively selected firm for the management of LEC has been signed and the new management contractor has taken over the management of the Utility.	*Cost of Electricity to end users/KWH* *Urban access to electricity (number)* *Share of energy produced from high cost diesel (%)*	$0.55 12,742 100%	<$0.40 50,000 <20%
2B.Agriculture and Land Reform							
Develop comprehensive national land tenure and land use system that will provide security of tenure	**Prior Action 5:** Adopted a Policy Framework for Land Tenure Reform which clarifies land rights related to public land, government land, customary land and private land.			**Indicative Trigger 10:** The Government has established the Liberia Land Authority through the appointment of commissioners and the provision of budgetary resources for its operation in keeping with the 2016 Act.	*Land parcels with use and ownership rights recorded under new policy (Number)*	None	>100
Improve access to credit for the agricultural sector including for small farmers and rural MSMEs		**Prior Action 9:** The Recipient has established a collateral registry with a view to improving credit and expanding the rural economy.			*Share of commercial bank credit to the agriculture sector (%)*	3.7%	5.5%

Medium Term Objectives	Prior Actions under PRSDPO-I (PRSCI)	Prior Actions under PRSDPO-II	Prior Actions under PRSDPO-III)	Indicative Triggers for PRSDPO-IV	Results Indicators by 2017	Baseline (2012)	Expected Targets (2017)
Pillar 3: Human Capital Development **AfT Goal:** ***To improve quality of life by investing in more accessible and higher quality education; affordable and accessible quality healthcare; social protection for vulnerable citizens; and expanded access to healthy and environmentally-friendly water and sanitation services.***							
3A. Education							
Ensure equal access to basic education and a variety of post-basic education and training opportunities that lead to improved livelihood		**Prior Action 10:** The Recipient has adopted a comprehensive, fully costed implementation plan for teacher recruitment, training and deployment across all levels of the education system with a view to improving incentives for school attendance.	**Prior Action 9:** The Recipient's Ministry of Education has adopted a framework for equitable resource allocation by region and pupil's poverty status, particularly with respect to the school grant scheme as evidenced in its briefing paper to cabinet entitled *Revision of the Framework for Equitable Allocation by Region and Pupil's Poverty Status with Respect to School Grant Scheme* dated May 6, 2016.		*Primary, junior secondary, and senior secondary net enrollment rates (%)*	Primary: Male 31.6% Female 33.3 Junior Secondary 7.1% Senior Secondary 5.4%	Primary: Male 45% Female 45% Junior Secondary 20.0% Senior Secondary 15.4%
3B. Health							
			Prior Action 10: The Recipient's Ministry of Health has conducted a half-year budget execution review for FY2016 as evidenced in its report on *Absorptive Capacity of Funds at Ministry of Health* dated May 5, 2016 with a view to improving budget execution.	**Indicative Trigger 11:** Conduct a full-year budget execution review with a view to ensuring improved budget execution.	*Health budget execution rate-recurrent (%)* *Health budget execution rate-capital (%)*	(FY13) 96.0% (FY13) 74.9%	>96.0% >90.0%

ANNEX 2: LETTER OF DEVELOPMENT POLICY

REPUBLIC OF LIBERIA
MINISTRY OF FINANCE & DEVELOPMENT PLANNING
P.O. BOX 10-9016
1000 MONROVIA, 10 LIBERIA

OFFICE OF THE MINISTER

GOL/MFDP/2-1/BSK/ymj/9167/'16

September 7, 2016

RECEIVED
14 SEP 2016

Dr. Jim Yong Kim
President
The World Bank Group
Washington, DC

Letter of Development Policy

Dear Dr. Kim:

On behalf of the Government of Liberia, I would like to provide you with an update on the state of the economy in the wake of the Ebola Virus Disease epidemic; the sharp decline in global commodity prices, particularly Liberia's primary exports of rubber and iron ore; the ongoing UNMIL drawdown and its impact on the economy at large; the upcoming General and Presidential Elections in 2017; and the risk associated with our Development Agenda aimed at sustainable, inclusive, and pro-poor growth and development.

1. Current Context

The substantial socio-economic progress that Liberia has achieved since the Civil War ended risks being eroded by the impact of the Ebola Virus Disease (EVD) outbreak in March 2014, which has had several resurgences up until early this year. The epidemic has exacted a terrible human toll, devastated our national health care system, and severely impacted livelihoods for many Liberians.

Prior to the outbreak, Liberia had been growing at about 7 percent on average since 2011, institutions were being rebuilt, and social indicators were gradually improving. However, since July 2014, the sudden and sharp decline in economic activity by many Liberians, foreign investors and contractors fearful of the Ebola virus has led to substantial losses of output, revenue, and employment and incomes.

Real GDP growth declined from the 5.9 percent initially estimated for 2014 to about 1 percent, as key sectors including agriculture, mining, manufacturing, and service contracted during the second half of 2014. In 2015, Real GDP growth was estimated at zero percent, rising to a projected 2.5 percent growth rate in 2016, which signals an improved but still weak domestic performance in the wake of slow global growth, particularly affecting Liberia's primary commodities, rubber and iron ore.

The slump in activity is also compressing Government revenues, while rising spending needs for health care and social protection to mitigate the impact crisis is offsetting long-term investments and expanding the fiscal deficit. To address the impact of the two shocks, the Government has intervened in key areas of the economy through interventions programmed in the post Ebola Economic Stabilization and Recovery Plan (ESRP) and the reprioritized *Agenda for Transformation* (*AfT*).

We thank the World Bank for its prompt support for this response, through the Ebola Emergency Response Project and additional financing for other projects. We also appreciate the support from other Development Partners, including the European Union, the United States Government, the International Monetary Fund and the African Development Bank, which are directly supporting the costs of the Ebola Response and our broader fiscal needs. Nonetheless, the economic situation remains critical with few signs of a recovery.

The longer the slump continues, the deeper the damage to Liberians' welfare and to public finances, and the more difficult recovery becomes. Also seriously impacting the economy is the ongoing drawdown of the United Nations Missions in Liberia, which particularly undermines performance in the service sector. In this context, the upcoming 2017 General and Presidential Elections presents an additional critical challenge with a projected expenditure of over US$60 million, excluding the cost of security, which is a vital component of any electioneering exercise.

2. The Government's Program

As we navigate these great challenges, the Government of Liberia remains committed to resuming its medium term development strategy, the *Agenda for Transformation (AfT),* were equipped with the lessons learned from this crisis, which have highlighted the compelling needs to promote and sustain inclusive growth and economic diversification, and strengthen institutions involved with service delivery. Still, we believe that the various policy actions we have taken over recent years, some as part of our engagement with the World Bank and other budget support partners, are incrementally improving our ability to navigate and recover from such challenges.

The outbreak of the Ebola epidemic has brought to the fore underlying **governance and civil service capacity** challenges that continue to affect Liberia, a decade after the end of conflict. This includes lack of trust in government, challenges in coordination, and insufficient preparation for crisis management. While we have made progress in creating defined rules for institutional scope and behavior, the Government must raise transparency to improve governance. In this direction, the National Legislature passed the Freedom of Information Act of 2010, and in April last year it approved a new Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Law. To implement the AML/CFT Law, we established a Financial Intelligence Unit (FIU) that will help make financial transactions more transparent, and recently approved regulations to ensure the Unit's effective operation. We are also working to improve the effectiveness of the Liberian Anti-Corruption Commission, with the Commission's new head having adopted a new three-year strategy focused on (i) developing a system for reducing corruption risks; (ii) adopting policies and regulations necessary to improve the asset disclosure systems; (iii) established the Assets Disclosure Unit; and (iv) enhancing sanctions against public officials for corruption, misuse and abuse of public office and assets, as identified by the Government Auditing Commission (GAC).

To address weaknesses in the public service's technical capacity and efficiency, the Government proposes to establish an independent, accountable, merit-based and performance oriented civil service through strategic reforms. Formal processes for entry into the Civil Service and standard personnel management practices have been created. An immediate issue is the current Civil Service remuneration structure, which is inequitable and comprises disparate and highly opaque wages, and amplifies weaknesses in performance management and promotion structures. Towards addressing these issues, the Government has adopted a revised pay reform strategy, merging allowances and base pay for civil service cadres. The Government has completed the validation of all civil servants using biometric authentication and has merged base pay and discretional allowances for grades1-4.

The expenditure and financing pressures of the current crisis highlight the importance of effective and efficient **public financial management and procurement** systems. In recent years, the government has improved cash management, by creating a Cash Management Committee and shifted from cash-based management to increased program budgeting and cash flow forecasting. To further improve expenditure control and efficiency, the Government has installed the civil service management module of the integrated financial management information system (IFMIS), and has completed IFMIS roll-out to a total of 36 ministries and agencies, and brought 10 donor-financed projects onto IFMIS in pilot tested mode. We expect to expand the system to most remaining ministries and agencies by the end of this calendar year. The Government is also working to improve the efficiency of its spending by rebuilding our cadre of procurement specialists, lost during the civil war, and the Public Procurement and Concession Commission (PPCC) has produced detailed regulations, manuals and guides to facilitate the implementation of the 2010 Public Procurement Act. The Government has also taken steps to enhance the regulatory and oversight capacity of the PPCC. Towards making public finances more transparent, the government is now preparing its financial statements on an IPSAS cash basis, and is submitting these for audit to the GAC. We expect these efforts together to support transparent, accountable and responsive public institutions that contribute to Liberia's sustained economic and social development.

The Government's *Agenda for Transformation* envisages an **economic transformation and human capital development** to achieve a more diversified economy with further reductions in poverty. The emergence of a more diversified economy is constrained by the lack of infrastructure, inadequate human capital, and insecure land tenure and limited access to domestic financing, particularly to the agricultural sector. To address the major energy constraints, the Government is expanding the electricity generating capacity, based on low cost fuels including heavy fuel oil (HFO), and taking measures to ensure that HFO is sourced at the lowest cost. Scarce credit for investments generally and in agriculture in particular largely reflects the underdeveloped nature of Liberia's financial sector, stymied by a poor credit culture and weak legal system that makes it costly for creditors to take actions against delinquent borrowers. However, the Government has established an effective collateral registry, housed by the Central Bank of Liberia, which is expected to make credit more accessible. A diversified, prosperous nation requires a population that has equitably benefited from quality education and systems. Both access to quality of education and health care are low in Liberia. The availability and quality of education at the primary and secondary levels are dragged down by: (a) lack of adequate school buildings, especially given the destruction through the war; (b) a shortage of qualified teachers—only one-third of primary school teachers and 60 percent of junior secondary teachers in public school have had training; and (c) inadequate teacher management and deployment, with an imbalance of supply between urban and rural schools. Towards addressing these needs, the Government has adopted a comprehensive, fully costed plan for teacher recruitment, training and deployment across all levels of the education system. We expect this will both improve the quality of education supplied, and so increase demand for education by improving the returns to schooling. More recently, the Government has implemented a mechanism to ensure that resources are equitably distributed amongst schools, based on the poverty status of the region and students.

3. Conclusion

The Ebola crisis highlighted weaknesses in the health system, and consequently the Government is taking steps to build a more resilient health system including ensuring better execution of the budget for effective service delivery. The Government of Liberia remains committed to the ongoing reforms, while instituting a number of interventions to mitigate the impact of the Ebola crisis and the decline in the global commodity prices on the economy. The Government is committed to continuous collaboration with our Development Partners to ensure sustained progress in these areas as well as to address the challenges occasioned by UNMIL's drawdown and the 2017 General and Presidential Elections.

The reform efforts of this Government is made possible by the World Bank continuous support through the Poverty Reduction Development Policy Financing Operation series, including the current proposed operation, which ensures Liberia's sustained prosperity for all its citizens. Acknowledging the significant contribution that the World Bank has made in various phases of our national life, we are counting on your continuous engagement and support.

Please accept the assurances of my highest esteem.

Sincerely,

Boima S. Kamara
MINISTER

ANNEX 3: FUND RELATIONS ANNEX

INTERNATIONAL MONETARY FUND

COM COMMUNICATIONS DEPARTMENT

Press Release No. 16/334
FOR IMMEDIATE RELEASE
July 12, 2016

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2016 Article IV Consultation with Liberia

On July 8, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Liberia.

The Ebola epidemic and the fall in commodity prices revealed the vulnerabilities of Liberia's economy. After barely positive growth in 2014, GDP was flat in 2015 mainly due to the decline in activity in the iron ore and rubber sectors. The current account deficit deteriorated, reflecting weaker exports receipts and the Ebola-related surge in imports. While international gross reserves increased last year, the Central Bank of Liberia's net foreign exchange position declined due to operational deficits and exceptional support to the banking sector, under stress from the Ebola epidemic. Lower revenue from the natural resource sectors and higher Ebola-related spending, largely financed by donor support, pushed the FY2015 overall government deficit to 8.4 percent of GDP. The FY2016 deficit is estimated to have declined to 7 percent of GDP as continued revenue weakness forced the government to contain spending.

In 2016, growth is expected to rise to 2.5 percent, thanks to a rebound in services and the start of gold production, while inflation should stay in the single digits. The overall government deficit is projected to remain broadly constant, thanks to strong fiscal measures to address lower natural resource revenues, declining external budget support, the cost of the 2017 elections, and the take-over of security from UNMIL.

Over the medium term, economic growth is expected to increase to 5.5 percent on average, due to a recovery in mining, improvement in infrastructure, particularly energy and roads, and higher agricultural productivity. The fiscal position should improve, thanks to the authorities' commitment to improve domestic revenue mobilization and contain spending. Resolution of the

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

backlog of non-performing loans and improving bank profitability could support economic growth through higher credit, especially for small- and medium-size enterprises (SMEs).

The main risks to the outlook include a stronger-than-anticipated effect of the commodity price decline, the worsening of security conditions, and a large scale re-emergence of the Ebola virus. Policy slippages also could weigh on medium-term growth.

Executive Board Assessment[2]

Executive Directors noted that the commodity price shock hit the Liberian economy just when it started to recover from the Ebola outbreak. Directors observed that, while growth should recover in the coming years, the outlook faces downside risks, including a stronger-than-expected commodity price impact, a possible reemergence of the Ebola epidemic, and a deterioration in security conditions. Directors commended the authorities' measures to tackle the aforementioned shocks. They underscored the importance of continued sound macroeconomic policies, and the stepping up of structural reforms to boost growth, enhance the economy's resilience and reduce its dependence on natural resources.

Directors commended the authorities for the ambitious measures embedded in the draft FY2017 budget. They agreed that the domestic revenue mobilization measures would help mitigate the revenue shortfall from lower activity in the natural resource sector and from the post-Ebola decline in external budget assistance. At the same time, Directors welcomed that the containment of expenditure still secures essential social spending such as on health and education. Directors recommended the further deepening of the revenue base while increasing its fairness. They also called on the authorities to continue strengthening public financial management. Directors noted that fiscal policy would benefit from a longer-term orientation, and encouraged the authorities to consider a medium-term fiscal anchor to improve policy predictability and transparency. They called for strengthening the medium-term debt strategy to prevent a further increase in the risk of debt distress.

Directors encouraged the authorities to boost external buffers. In order to build up adequate international reserves, the Central Bank of Liberia needs to rigorously implement its agreed three-year financial plan, phase out exceptional support to the banking sector, and limit foreign exchange interventions to volatility smoothing. Directors stressed the importance of enhancing the central bank's independence and its coordination with the fiscal authorities in order to strengthen liquidity management. Given the constraints posed by the dual currency system, they also agreed that, in the long run, a gradual process of de-dollarization would increase the space of monetary policy.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors called on the authorities to address financial sector vulnerabilities, notably by strengthening bank supervision and establishing a bank emergency assistance framework. While recognizing that the loss of correspondent banking relationships is a global issue, they recommended reinforcing frameworks for tax transparency and anti-money laundering and combating the financing of terrorism.

Directors stressed the importance of improving economic resilience. In this regard, strengthening the business environment could help diversify the economy by supporting private sector development. Improving financial inclusion would be another channel to support economic growth and diversification.

Liberia: Selected Economic Indicators

	2014	2015	2016	2017	2018	2019	2020	2021
	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percentage change unless otherwise indicated)								
GDP and Price								
Real GDP	0.7	0.0	2.5	4.7	5.2	5.7	6.0	6.5
Real GDP excluding mining sector	0.3	2.6	4.3	4.1	5.7	6.1	5.3	5.4
Nominal non-mining per capita GDP (U.S. dollars)	438	452	471	496	534	574	611	714
Nominal GDP (millions of U.S. dollars)	2012	2035	2138	2289	2512	2767	3025	3249
Consumer prices (annual average)	9.9	7.7	8.4	8.3	7.7	7.1	7.1	7.5
(Percent of GDP, fiscal year)								
Central government operations[1]								
Total revenue and grants	27.4	32.5	32.1	30.3	27.1	27.5	27.6	27.6
Total revenue	23.5	22.5	20.5	23.6	23.8	24.5	24.7	24.8
Grants, including Ebola-related support	3.9	10.0	11.7	6.7	3.2	2.9	2.9	2.8
Total expenditure and net lending	29.3	40.9	39.2	37.0	33.4	31.9	31.7	31.4
Current expenditure	24.3	32.0	28.4	27.3	25.5	23.4	22.8	22.3
Capital expenditure	5.0	8.8	10.8	9.7	8.0	8.5	8.9	9.1
Overall fiscal balance, including grants	-1.9	-8.4	-7.0	-6.8	-6.3	-4.4	-4.1	-3.8
Overall fiscal balance, excluding grants	-5.8	-18.4	-18.7	-13.5	-9.6	-7.4	-6.9	-6.6
Public external debt	13.2	23.0	28.2	32.3	35.9	37.5	38.2	38.5
Central government domestic debt	14.1	14.6	13.0	12.1	10.2	8.8	7.5	6.9
(Percent, unless otherwise indicated)								
M2/GDP	34.6	34.8	33.6	33.3	32.7	32.2	31.6	31.2
Credit to private sector (percent of GDP)	18.8	20.1	21.1	21.5	21.8	22.0	22.4	23.5
Credit to private sector (annual percent change)	5.6	8.1	10.3	9.4	10.8	11.2	11.5	12.7
(Percent of GDP, unless otherwise indicated)								
External sector								
Current account balance								
including grants	-32.5	-33.6	-31.3	-27.7	-26.6	-26.6	-26.5	-27.0
excluding grants	-95.1	-88.8	-76.6	-54.1	-51.0	-49.1	-47.4	-44.7
Trade balance	-37.0	-46.0	-41.1	-34.1	-30.6	-31.6	-27.0	-24.9
Exports	24.0	13.1	12.4	12.2	11.8	11.6	12.2	13.5
Imports	-61.0	-59.1	-53.6	-46.3	-42.4	-43.2	-39.2	-38.3
Grants (donor transfers, net)	62.6	55.2	45.3	26.4	24.4	22.5	20.9	17.7
Gross official reserves (millions of U.S. dollars)	411	446	457	509	581	638	688	748
Months of imports of goods and services[2]	2.4	2.6	2.7	3.0	3.3	3.5	3.6	3.7
CBL's net foreign exchange position[3]	178.6	164.4	189.1	227.0	302.2	373.1	433.4	493.3

Sources: Liberian authorities; and IMF staff estimates and projections.

[1] Including major off-budget items, such as Mt. Coffee project. Fiscal data and projections refer to fiscal year (July–June).

[2] In months of next year's imports excluding imports related to UNMIL operations and FDI projects such as iron-ore concessions.

[3] Net foreign exchange position is evaluated at the program exchange rates, instead of the current market exchange rates, and therefore, valuation adjustments are shown separately.

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Pillar 1: Governance and Civil Service Reform		
Transparency and Accountability		
Prior action #1: The Recipient has facilitated the effective operation of its Financial Intelligence Unit through issuing: (a) *Regulation on Currency Transaction Reporting for Financial Institutions* (FIU/CBL/SR1A-CTR/02/2016); (b) *Regulation on Suspicious Transaction Reporting for Financial Institutions* (FIU/CBL/SR2A-STR/02/2016); (c) *Regulation for Further Distribution and Action on the UN List of Terrorists and Terrorist Groups* (FIU/OR1A-ER/02/2016); and (d) *Regulation Dealing with Cross-Border Transportation of Currency and Bearer Negotiable Instruments*	**Positive:** AML/CFT actions could lead to a reduction of illicit financial inflows which the research shows are often associated with the extractive industry including illegal mining that the research has shown could have adverse effects on the environment, including the rainforest.	**Positive:** Expected to: (i) promote inflows of foreign direct investment for growth and employment creation and (ii) reduce the misallocation of public resources both of which are expected to have positive impacts on poverty over the medium to long term.
Prior action #2: The Asset Disclosure Unit within the Recipient's Liberia Anti-Corruption Commission (LACC) has become operational as evidenced by the employment of an asset verification officer pursuant to an employment contract dated November 2, 2015.		
Civil Service Reform		
Prior action #3 The Recipient has completed merging of discretionary allowances and base pay for civil servants at levels 1-4 as evidenced by a Personnel Action Notice from the Recipient's Civil Service Agency to the Ministry of Finance and Development Planning, dated April 12, 2016 setting out the consolidated pay scale for each of the grades covered under levels 1-4.	**Neutral:** This action is not expected to have any environmental effects.	**Positive:** Better and more transparent wages to civil servant is expected to improve the delivery of social services, however the impact is only expected to be at the margin and not significant.
Public Financial Management		
Prior action #4: The Recipient has, through its Civil Service Agency, improved civil service payroll management by: (a) completing the validation of all employees through biometric authentication; and (b) linking the human resource management information system (HRMIS) to the payroll system as evidenced by a letter and interim reports from the Civil Service Agency to the Ministry of Finance and Development Planning dated May 2, 2016.	**Neutral:** These fiduciary actions are not expected to have any environmental effects.	**Neutral**: Expected to improve efficiency of public resource management and reduce opportunities for corruption.
Prior action #5: The Recipient has prepared and published quarterly comprehensive Government finance statistics as set forth in the *Annual Fiscal Outturn Report for FY 2013/2014* and the *Annual Fiscal Outturn Report for FY 2014/2015*.		
Prior action #6: The Recipient has submitted to the General Auditing Commission its report on the *Annual Consolidated Fund for FY 2014/2015* for audit, with a view to improving internal budget controls.		

Procurement		
Prior action #7: The Recipient's PPCC has approved and published minimum standards and a procurement accreditation system entitled *Design of a Procurement Professionalization System for Liberia* dated *May 25, 2016* to certify procurement practitioners with a view to professionalizing public procurement.	**Neutral:** These actions are not expected to have any environmental effects.	**Neutral: Expected to improve oversight of public resource management.**
Pillar 2: Economic Transformation		
Infrastructure: Energy and Power		
Prior action #8: The Recipient has: (a) issued a Petroleum Import License dated August 23, 2016 to LEC to import HFO to generate electricity for public service with its own generating plants; and (b) introduced an open and competitive procurement process for the importation of HFO for LEC's own generating plants, through LEC's Board Policy Resolution dated July 4, 2016, mandating all procurement of fuels for LEC's generation of electricity to be done through an international competitive bidding process.	**Positive:** Lower cost energy including for fuel could lead to less reliance on charcoal with positive effects on reducing the rate of deforestation. Research on Liberia suggest that wood-fuel use falls with increase access to electricity. Wood-fuel use could fall from the current level of about 95 percent of the population to about 80 percent, if access to electricity were to be increased to about 50 percent of the population. **Negative:** Indirect negative effects are not significant and are mostly related to the spillage of fuel during storage and transfer. As discussed above, the risks are small and the Liberia Electricity Corporation has developed an Oil Spill Response Plan to address such spills if they do occur.	**Positive:** Expected to lead to increased investments in manufacturing and services and lead to lower poverty through growth and the creation of better paying jobs. Use of HFO instead of diesel will help reduce the utility' losses from theft of fuel, because the former can only be used for generation of electricity and ship engines, while the latter is widely used in transport. Cheaper fuel is also expected to lead to lower household cost, including the health cost of using fuelwood, and increased consumption, including of more nutritious foods. Women are at a higher health risk, including carbon monoxide poisoning arising from the use of fuel wood, as they do most of the cooking. **Negative:** Increase in electricity consumption because of lower prices and higher service reliability is likely to result in some additional amount of carbon emissions, but this increase is likely to be marginal because: (i) HFO replaces diesel used by LEC and by all users currently using diesel generators; (ii) net additional demand for electricity from increased economic activity and larger number of users will be served not only by thermal-based generation, but also by hydroelectric generation plants and by cheaper imported electricity; and (iii) with a rate of electrification of less than 10 percent and a Government's strategy aimed towards diversification of the generation mix, the contribution of Liberia to the global emission of carbon gas emissions will remain negligible in the foreseeable future.

Pillar 3: Human Capital Development		
Prior action #9: The Recipient's Ministry of Education has adopted a framework for equitable resource allocation by region and pupil's poverty status, particularly with respect to the school grant scheme as evidenced in its briefing paper to cabinet entitled *Revision of the Framework for Equitable Allocation by Region and Pupil's Poverty Status with Respect to School Grant Scheme* dated May 6, 2016.	**Neutral:** These actions are not expected to have any environmental effects.	**Positive:** Expected to lead to the better targeting of resources to the poor and encourage greater access to education by the poor thus lowering chronic poverty.
Prior action #10: The Recipient's Ministry of Health has conducted a half-year budget execution review for FY2016 as evidenced in its report on *Absorptive Capacity of Funds at Ministry of Health* dated May 5, 2016 with a view to improving budget execution.	**Neutral:** These actions are not expected to have any environmental effects.	**Positive:** Expected to lead to increased access to better health care, resulting in lower maternal and infant mortality.

ANNEX 5: LIBERIA CRISIS RESPONSE WINDOW ELIGIBILITY MATRIX

CRW Eligibility Requirements	Considerations
1. Review available impact data to inform early assessment of need to access CRW resources.	• The end of the global commodity super cycle has not only seen considerable fall in commodity prices but these low prices have been sustained in some cases for more than two years. Since January 2014, the price of iron ore has fallen by 68 percent from US$128 per metric ton to just US$41 per metric ton in December 2015 and have remained low since then. Rubber prices have sustained a more secular decline falling by 56 percent from US$2.65 per pound in April 2011 to US$1.16 per pound in December 2013, and by a further 51.2 percent to just US$0.52 per pound in December 2015. Therefore, since 2011, rubber, which accounts for 68 percent of Liberia's exports had lost nearly 80 percent of its value. Palm oil prices have also suffered a substantial decline, falling by 34 percent, from US$865 per ton in January 2014 to US$568 per ton in December 2015. • The adverse economic impact of the slump in prices of key commodity exports has been substantial for Liberia's largely undiversified, export dependent economy. The three primary commodities of iron ore, rubber, diamond, and palm oil together accounted for more than 90 percent of Liberia's exports and a quarter of GDP. Based on data from the IMF, Liberia's GDP collapsed from nearly 9 percent growth in 2013 to 0.7 percent in 2014 and stagnated in 2015 as the impact of lower commodity prices began to pass through to the service sector, through reduced aggregate demand. Economic growth is projected to recover to 2.5 percent in 2016, just in line with population growth. Growth in real per capita GDP is therefore expected to stagnate. • The collapse in growth has also taken its toll on employment in key affected sectors including mining (iron ore) and commercial agriculture (palm oil and rubber). With the dwindling profitability of the iron sector, companies in the subsector, either shut down or scaled down considerably by end of 2015. Three companies, namely China Union, Putu Mines and Western Union, have closed. The main iron ore producer, Arcelor Mittal, has scaled down its operations by about 50 percent and has postponed new investments. Based on company announcements as well as newspaper reports it is estimated that more than 1,000 jobs have been lost in the mining sector with the closure of one operation (China Union) and reduced levels of operation at other mines. • The slump in commodity prices has worsened Liberia's external position considerably. Overall exports, which amounted to US$559 million before the shocks in 2013, fell to US$436 million in 2014 and as the commodity crisis deepened exports shrunk to US$232 million in 2015. The World Economic Outlook projections by IMF suggest weak prospects for a recovery in the medium term, with overall exports at US$242 million in 2017 and US$258 million in 2018 as iron and rubber prices are expected to remain low. Liberia's trade balance has worsened as a direct result of the

	lower commodity prices and exports. Although imports have largely been flat, lower exports have led to a substantial increase in the merchandise deficit from US$461 million in 2013 to US$825 million in 2015 – m the highest merchandise trade deficit recorded since the end of the conflict in 2003. As a result of the deteriorating trade balance, the current account deficit of the balance of payments widened from US$554 million (28.2 percent of GDP) in 2013 to US$801 million (39.3 percent of GDP) in 2015. No marked improvement is expected over the medium term. • The fiscal impact of the commodity price shock has been considerable, with a sharp reduction in domestic revenues. Fiscal revenues from the mining sector (94 percent iron ore) collapsed from US$54.7 million in 2014 to US$28.9 million in 2015, a decline of 47.2 percent. Revenues from rubber and oil palm also fell from US$12.1 million in 2014 to US$9.7 million in 2015. Overall, tax revenues have fallen from US$386 million in FY2014 to US$369 million in FY2015, well below the Government initial projection of US$400 million. The reductions would have been much more severe had the Government not taken measures to improve tax administration, including the launch of the new Revenue Authority. • The impact of the commodity price shocks is likely to reverse some of the gains made in reducing poverty, through consistent economic growth and strategic social interventions since 2006. In 2007, 68 percent of the population was below the poverty line.[13] By 2013, the level of poverty is estimated to have fallen to 58.3 percent. Simulations suggest that with the slowdown in growth, initially precipitated by the Ebola crisis and exacerbated by the commodity price shocks, poverty could increase to about 60 percent in 2015, thereby reversing the trend seen since 2007. There are already high levels of chronic food insecurity in Liberia and this is also likely to increase with the slowdown in growth and women, in particular, are more likely to be affected by the job losses resulting from the slowdown in growth.
2. Assessment may also take into account whether the country has: • **Issued a declaration of emergency;** • **Requested CRW resources.**	• The government is aware that with the front-loading of IDA17 resources to help respond to the Ebola crisis the IDA envelope has been exhausted. It has previously requested exceptional financing from IDA to help mitigate the impact of the commodity price shocks and has reiterated the request on April 12, 2016. The Government has also made a request to the IMF for augmentation under its current ECF program, to help fill the financing gap resulting from the substantial loss in fiscal revenues. In addition, the Government has reached out to several other donors including the African Development Bank and the European Union to request grant financing.
3. Assessment of World Bank capacity to respond without	• Available IDA resources are limited, given that Liberia is emerging from conflict with low IDA envelopes due to weak CPIA ratings and poor, albeit improving governance. In terms of IDA17 revised allocations, of the US$180 million equivalent, US$110 million was committed thus far in FY15-16

[13] Measured on a Purchasing Power Parity (PPP) basis.

accessing CRW.	(US$20 million for a budget support operation, US$60 million for Energy Additional Financing, US$10 million for Youth Opportunities Project, US$10 million for Urban Water Supply Project, and US$10 million for the Social Safety Nets Project), leaving US$70 million for the rest of the IDA17 cycle. The regular IDA17 resources for Liberia were re-programed to respond to the challenges of the Ebola crisis. Many of the mainstream developmental projects were put on hold. With the very limited remaining IDA17 resources it is very important to close some gaps and finance cost overruns (formed due to the Ebola crisis) in the key infrastructure development activities (municipal services, roads maintenance, resilience building).
4. Outline cooperation with other development partners.	• The Bank has been working closely with the IMF, including through joint missions, to closely monitor the impact of the commodity price shocks. The Bank has also been liaising with other budget support donors including the African Development Bank, the European Union as well as bilateral donors through the Budget Support Working Group to not only monitor the impact of the commodity price shock but also the Government's policy response to the shocks.
5. Validation of initial impact data and other information to calculate final allocation.	• In Liberia, real GDP growth slowed to 0.7 percent in 2014 and 0.0 percent in 2015, from 8.7 percent in 2013, reflecting the twin shocks of Ebola and lower commodity prices. The economy has been very slow to recover, with stagnation in the mining and services sectors. Growth is projected at 2.5 percent in 2016. Over the medium term, the recovery in the services sector, together with the restart of public and private investment in infrastructure, will contribute to faster growth.
Preliminary information on factors of the crisis: **6(a). Severity of the crisis and costs of recovery.**	• The crisis precipitated by the commodity price shocks is extensive and severe with substantial effects on Liberia's growth, fiscal revenues, external position as well as likely impact on poverty. On growth, the IMF WEO projections before the commodity shocks and the estimated outturn for 2015, suggest that the shock may have eroded as much as 7 percentage points of GDP of growth. On the fiscal side, a US$25.8 million revenue loss was sustained from the mining sector during 2015 and the amount is likely to be larger in 2016 as production falls further in response to sustained lower prices. An additional US$2.4 million loss from the rubber and oil palm sectors pushed the total loss from key commodity sectors to US$28.2 million in 2016. • Simulations suggest that with the slowdown in growth initially precipitated by the Ebola crisis and exacerbated by the commodity price shocks, poverty could increase to about 60 percent in 2015, thereby reversing the trend seen since 2007.
6(b). Number of affected persons.	• It is estimated that more than 1,500 Liberians will be directly affected by the lay-offs in the iron ore, rubber and oil palm sectors as a result of closure of mines, reduction in production in the rubber and mining sector. Given the average household size of five, and the high dependency ratio, many more Liberians, including children and the elderly will be indirectly affected by the effects of the commodity price shocks on the sectors. Large

	segments of Liberia's population of 4.5 million will be directly and indirectly affected by the reduction of government spending as a consequence of the reduction in revenues. • In terms of the poverty effects, as the simulation suggest that poverty could increase by 2 percentage points with the slowdown in growth, 90,000 persons could be pushed below the poverty line as a result of the commodity price shocks.
6(c). Estimates of GDP and fiscal impact.	• The WEO projected growth rates of 7.4 percent and 7.6 percent for 2014 and 2015, respectively before the commodity price shocks. The actual growth rates were 0.7 percent for 2014, mostly reflecting the Ebola crisis, and 0.0 percent for 2015, largely reflecting the commodity price shocks but some carry-over from the Ebola crisis. GDP growth was therefore a substantial 7 percentage points lower than expected. • On the fiscal impact, revenues from the mining sector (94 percent iron ore) collapsed from US$54.7 million in 2014 to US$28.9 million in 2015, a decline of 47.2 percent. Revenues from rubber and oil palm also fell from US$12.1 million in 2014 to US$9.7 million in 2015. Overall, tax revenues have fallen from US$386 million in FY2014 to US$369 million in FY2015, well below the Government's initial projection of US$400 million.
6(d). Availability of resources to respond to the crisis from: **(i) IDA Portfolio;** **(ii) Domestic resources;** **(iii) Other external financing.**	**IDA Resource** • Liberia's IDA17 allocation was equivalent of US$180 million, of which US$110 million has been committed. The remaining US$70 million have been programmed. **Domestic resources** • Liberia's revenue base (tax and non-tax) has been severely eroded by the impacts of the commodity price crisis, with revenue/GDP ratios declining by nearly 5 percentage points of GDP relative to pre-crisis projections. The revenue/GDP ratio fell from 27.4 percent of GDP in 2013 to 22.5 percent of GDP in 2015 and is projected to fall further to 20.3 percent of GDP in 2016. **Other external financing** • The anticipated increase in grants to nearly 12 percent of GDP in 2016, is inadequate to close the financing gap left by the reduction in revenues from the commodity price shocks and absent the CRW support, the government would need to borrow some US$121 million to close the financing gap. The IMF is considering to provide a one-off augmentation of access under the ECF as budget support to mitigate the fiscal impact of the commodity price shocks.
6(e). Country absorptive	• Liberia could effectively absorb the additional US$20 million from the CRW. For FY2016, the fiscal deficit is projected at US$172 million or about

capacity.	8.3 percent of GDP. Over the medium term, the deficit is not expected to be less than US$150 million or about 8 percent of GDP. On account of the commodity price shocks and lower revenues, the Government has had to reduce its FY2016 budget by some US$62 million with cuts in some key areas. Grant financing of US$20 million could therefore be readily absorbed by the government to help mitigate some of these cuts. • Furthermore, increased borrowing to help address the Ebola crisis has shifted Liberia's rating as assessed by the joint IMF/World Bank Debt Sustainability Analysis (DSA) from low to moderate risk of debt distress. The resources from the CRW along with resources from other donors will help Liberia bridge the substantial financing gap in a way that does not contribute to a worsening of the debt dynamics.
6(f). Country size.	• Liberia is a relatively small country with a population of 4.5 million. It is open (imports plus exports is 80 percent of GDP) and export dependent and remains vulnerable to terms of trade and commodity shocks. Importantly, it is a post-conflict, fragile state.