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The World Bank**

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INTERNATIONAL DEVELOPMENT ASSOCIATION
PROGRAM DOCUMENT FOR A PROPOSED CREDIT
IN THE AMOUNT OF SDR 13.5 MILLION (US\$20 MILLION EQUIVALENT)

AND

A PROPOSED IDA CRISIS RESPONSE WINDOW GRANT
IN THE AMOUNT OF SDR 6.8 MILLION (US\$10 MILLION EQUIVALENT) TO THE
REPUBLIC OF LIBERIA
FOR THE
SECOND POVERTY REDUCTION SUPPORT DEVELOPMENT POLICY OPERATION

OCTOBER 29, 2014

Macroeconomics and Fiscal Management
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, 2014)

Currency Unit =	Liberian Dollar
US\$1.00	LR\$85.00

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
AfT	Agenda for Transformation
AML	Anti-money Laundering
ASYCUDA	Automated System for Customs Data
BSWG	Budget Support Working Group
CAF	Common Assessment Framework
CBL	Central Bank of Liberia
CDC	United States Centers of Disease Control and Prevention
CFT	Countering the Financing of Terrorism
CMC	Cash Management Committee
CPS	Country Partnership Strategy
CRW	Crisis Response Window
CSA	Civil Service Agency
CSOs	Civil Society Organizations
CTR	Currency Transaction Report
CWIQ	Core Welfare Indicators Questionnaire
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
EPA	Environmental Protection Agency
EU	European Union
FDI	Foreign Direct Investment
FIU	Financial Intelligence Unit
FY	Fiscal Year
GAC	General Auditing Commission
GDP	Gross Domestic Product
GII	Gender Inequality Index
HDI	Human Development Index
HDR	Human Development Report
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
LACE	Liberian Association for Community Empowerment
LDA	Liberia Development Alliance
LEC	Liberia Electricity Corporation
LESEP	Liberia Electricity System Enhancement Project
LRTF	Liberia Reconstruction Trust Fund
LTA	Liberia Telecommunications Authority

M&A	Ministries and Agencies
MFDP	Ministry of Finance and Development Planning
MLME	Ministry of Lands, Mines and Energy
MTEF	Medium Term Expenditure Framework
NDRC	National Disaster Relief Commission
NWRSB	National Water Resource and Sanitation Board
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PPCC	Public Procurement and Concessions Commission
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
PRSDPO	Poverty Reduction Support Development Policy Operation
PV	Present Value
SDR	Special Drawing Rights
SIDA	Swedish International Development Cooperation Agency
SOE	State-Owned Enterprise
UN	United Nations
UNMIL	United Nations Mission in Liberia
UP	Unity Party
USAID	United States Agency for International Development
WAPP	West African Power Pool
WHO	World Health Organization

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LIBERIA

SECOND POVERTY REDUCTION SUPPORT DEVELOPMENT POLICY OPERATION

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**SUMMARY OF PROPOSED CREDIT, GRANT AND PROGRAM
LIBERIA
SECOND POVERTY REDUCTION SUPPORT DEVELOPMENT POLICY
OPERATION (LR-PRSDPO-II)**

Borrower	Republic of Liberia		
Implementing Agency	Ministry of Finance and Development Planning (MFDP)		
Financing Data	IDA Crisis Response Window (CRW) Grant of SDR 6.8 million (US\$10 million equivalent) IDA Credit of SDR 13.5 million (US\$20 million equivalent) on regular terms, 38-year maturity and 6-year grace period.		
Operation Type	Programmatic PRSDPO. The proposed operation is the second 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 development objectives of the proposed operation are to sustain and deepen government-owned efforts to reform governance and civil service, and to support the broadening of reforms to include economic transformation and human development in the context of the implementation of the government's second Poverty Reduction Strategy—the Agenda for Transformation.		
Result Indicators	Key Indicators	Base-line (2012)	Target (2016/17)
	Pillar 1: Governance and civil service reforms		
	<i>Currency Transaction Reports and Suspicious Transaction Reports issued by the FIU(Number)</i>	None	>50 CTR >10 STR
	<i>Senior civil servants (directors and above) providing complete asset statement to LACC (%)</i>	56	75
	<i>Civil servants in grades 1-10 paid according to new pay structure (%)</i>	0	100
	<i>Civil servants paid through the IFMIS solution (%)</i>	0	100
	<i>Ministries and Agencies in which IFMIS is installed and operational (number)</i>	7	20+(MOF and all M&As)
	<i>Submission of Annual Financial Statements to GAC after end of fiscal year(months)</i>	> 12 months.	< 3 months
	<i>Trained and certified procurement analyst appointed in the civil service (number)</i>	None	100
	<i>Publication of annual Compliance Monitoring Report (CMR) by the PPCC (Yes/No)</i>	No.	Yes
	Pillar 2: Economic transformation		
	<i>Cost of electricity to end users/KWH(US\$)</i>	0.55	0.40
	<i>Urban access to electricity (number)</i>	12,742	50,000
	<i>Share of energy produced from high cost diesel (%)</i>	100	<20
	<i>Road maintained/Rehabilitated (km)</i>	250	618
	<i>Share of commercial bank credit to the agriculture sector (%)</i>	3.7	5.5
	Pillar 3: Human capital development		
	<i>Primary, junior secondary and senior secondary net enrollment rate (%)</i>	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
	Overall risk rating	The overall risk rating for the operation is substantial. Liberia is transitioning from conflict to long-term development but the country remains fragile with weak state capacity and vulnerable to external shocks. Porous borders and fragile neighbors pose additional political challenges.	
Operation ID	P146619		

**IDA PROGRAM DOCUMENT FOR A
CREDIT AND GRANT TO LIBERIA FOR A
SECOND POVERTY REDUCTION SUPPORT DEVELOPMENT POLICY
OPERATION**

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This program document proposes a Second Poverty Reduction Support Operation (PRSDPO II) to the Republic of Liberia for SDR 20.3 million (US\$30 million equivalent) including SDR 13.5 million (US\$20 million equivalent) on International Development Association (IDA) regular terms and SDR 6.8 (US\$10 million equivalent) in grant funding from the IDA Crisis Response Window (CRW).** The operation is the second in a programmatic series of four single-tranche operations to support the implementation of the government's Agenda for Transformation (AfT). The amount of the original operation (US\$10 million credit equivalent) has been increased by US\$20 million equivalent, including US\$10 million equivalent from the IDA Crisis Response Window (CRW) to help mitigate the ongoing effects of the Ebola epidemic. The outbreak of 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. The escalation of the epidemic since July has imposed enormously more challenges for the government including an impairment of its capacity to deliver basic services including critical health services. The outbreak has not only brought about a sharp disruption of economic activities across all sectors but has also heightened social and political tensions. The fiscal costs of the health and other interventions are rising even while fiscal revenues are falling creating substantial financing needs for the Government of Liberia.

2. **Liberia's primary development challenges which the AfT aims to address relate to sustaining the peace, achieving economic transformation, human development and improving governance and public institutions.** Addressing a history of exclusion, inequality and corruption is critical to sustaining the peace in Liberia. This challenge is complicated by the planned exit of United Nations Mission in Liberia (UNMIL) which has already begun and the limited fiscal space for scaling up the government's security apparatus. Economic transformation, including a diversification of the economy is critical for achieving inclusive growth. However, economic transformation is constrained by weak infrastructure including electricity, roads and telecommunication that limits connectivity, including to regional markets, and consequently increases fragility. Liberia's low level of human capital development precipitated by limited access and the quality of education and health services also limit access to economic opportunities including employment. Liberia's economic and social development is constrained by weak governance, including of natural resources, and inefficient public institutions.

3. **To support the government in addressing the primary development challenges the proposed operation focuses on three primary areas: (i) governance and civil service reforms; (ii) economic transformation; and (iii) human capital development.** Within these

three areas, the operation is selective of reforms which directly or indirectly address the issues of fragility and conflict in Liberia. Consequently, the operation focuses on reforms, which 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.

4. **The operation is being closely coordinated with other budget support operations from the European Union (EU) and the African Development Bank (AfDB) as well as with the International Monetary Fund's (IMF) Extended Credit Facility (ECF) approved in November 2012.** In addition, technical assistance to undertake the reforms will be provided by IDA and other donors including through the Economic Governance and Institutional Reform Project (US\$11 million equivalent) the Integrated Public Financial Management Reform Project (US\$28.5 million equivalent), including US\$23.5 million co-financing, and the Public Sector Modernization Project (US\$10.71 million equivalent).

5. **After nearly fifteen years of conflict which destroyed key institutions, infrastructure and the economy, Liberia is now transitioning from post-conflict recovery to long-term development.** Two relatively peaceful elections in 2006 and 2011 have provided the mandate to president, Ellen Johnson Sirleaf, whose Unity Party (UP) currently controls 22 of the 73 seats in the House and 11 of the 30 seats in the Senate. The lack of an absolute majority for any one political party in either the House or the Senate poses challenges to the passage of legislation. The generally weak institutional memory in the Legislature combined with limited technical support have contributed to the delays in the passage of legislation as well as other work of the Legislature including the ratification of credits from the World Bank and other creditors. However, improved dialogue between the Executive and the Legislature as well as technical assistance support from the World Bank is resulting in notable improvements.

6. **Liberia made notable progress in the reduction of poverty between 2007 and 2010 but poverty remains high.** Based on data from the 2010 Core Welfare Indicators Questionnaire (CWIQ), the incidence of poverty at the national level is estimated to have fallen to 56 percent from 64 percent of the population in 2007. The overall reduction is due mainly to the decline in rural areas, as urban poverty actually showed a marginal increase. The overall drop in poverty has been largely the result of economic growth, averaging nearly 7 percent over the period; a sharp fall in inflation, particularly since 2008; and steps taken by the government to (a) target the agriculture sector under its Poverty Reduction Strategy (PRS); and (b) provide income support to the poor and vulnerable through the Liberia Agency for Community Empowerment (LACE).

7. **According to the 2014 Human Development Report (HDR), Liberia is ranked 175th of 187 countries on the Human Development Index (HDI) and 145th out of 152 countries on the Gender Inequality Index (GII) with a GII score of 0.655.** The key factors which contribute to Liberia's gender inequality include low female secondary school completion, high adolescent fertility, and high maternal mortality. The ratio of female to male primary school enrollment is 91 percent, and the female primary school completion rate is 60 percent compared with 72 percent for male. The ratio of female to male school enrolment falls to 81 percent at the

secondary level. Adolescent fertility rates are high at 122 births per 1,000 for women ages 15-19 in 2011, as compared to an average of 105 in Sub-Saharan Africa. As of 2010, the maternal mortality rate was estimated to be 770 maternal deaths per 100,000 live births, the 7th highest in the world and well above the regional average of 500.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

8. **The Liberian economy has been hit hard by the Ebola epidemic and the related health crisis.** Real gross domestic product (GDP) growth which was estimated at 8.7 percent in 2013 and initially projected at 6 percent in 2014 could fall to 2.5 percent. For the first half of 2014, before the crisis, growth has been driven by the expansion in the mining sector (mainly iron ore) as well as increased activities in the construction sector spurred by both public and private investment. Rubber production and exports have slowed reflecting lower international prices and developments in the forestry sector have been adversely affected by weak administrative oversight capacity. Growth in manufacturing continued to be constrained by inadequate electricity and the generally weak business environment. The epidemic has resulted in disruption of production processes across several sectors, caused not only by illness and death but by fear associated with the outbreak. However, the major shocks have been through the services, mining and agriculture sectors (Table 1). Average inflation which increased from 6.8 percent in 2012 to about 7.6 percent in 2013, due to higher food prices and the depreciation of the exchange rate, is expected to be higher in 2014 reflecting the impact of the Ebola crisis on agriculture and trade.

Table 1: Estimated Impact of Ebola on GDP Growth

	<i>Contribution to growth shock (%)</i>	<i>Initial Projection (June 2014)</i>	<i>Revised Projection</i>
<i>Real GDP Growth</i>		5.9	2.5
Agriculture	18.0	3.5	1.3
Forestry	-0.1	2.0	2.0
Mining	27.3	4.4	-1.3
Manufacturing	4.6	9.6	5.0
Services	50.2	8.1	4.0

Source: World Bank and IMF staff estimates

9. **Unemployment, which was already a major issue particularly among youth, will be exacerbated by the Ebola crisis.** The substantial slowdown in economic activity across all sectors is leading to lay-offs, while the delays in investments in key sectors including mining and commercial agriculture (oil palm) will severely limit the level of job creation. Before the crisis, more than three-quarters of the labor force was in vulnerable employment and the proportion is much higher for women. The livelihoods of a vast number of itinerant traders have been adversely affected by the closure of rural and urban markets as well as the closure of the borders with Sierra Leone, Guinea and Côte d'Ivoire.

10. **Lower exports, higher food imports, and reduced international travel and cross-border commerce will place a strain on the balance of payments.** Liberia's projected exports for 2014 are expected to decrease from a previous estimate of US\$560 million to US\$467 million, nearly 4 percentage points of GDP less than the initial projection, due to slowdown in

iron ore, rubber and palm oil production. There has also been a sharp decrease in international travel to Liberia as several major airlines have suspended flights, leading to lower revenues and financial inflows, and many projects involving expatriate workers or business travelers have been scaled down. Imports are expected to be about 16 percent lower than the initial projection, reflecting lower demand for capital goods, following the delays in investments. Overall, the merchandise trade deficit is expected to narrow from the initial projection of US\$900 million to US\$764 million. Projected improvements on the services and income accounts and increased official transfers are expected to lead to an improvement of the current account, with the deficit falling from the initially projected 46.5 percent of GDP to 36.4 percent, slightly higher than the 34.7 percent of GDP estimated for 2013.

11. Monetary policy is focused on containing Liberian dollar-denominated inflation through the maintenance of exchange rate stability. The Liberian dollar-denominated treasury bills introduced by Central Bank of Liberia (CBL) in early 2013 have been effective in mopping up some of the excess liquidity of local Liberian dollars in the banking sector. However, the effectiveness of Liberia dollar instruments as a monetary policy tool remains limited, given the high level of dollarization of the economy. Further, the absence of an anchor for monetary policy remains a key challenge. The weekly foreign exchange auctions are the Central Bank's primary instruments for maintaining exchange rate stability. The Liberian dollar depreciated by 12 percent in 2013. Growth in broad money which recovered in 2013 growing by 28.7 percent is likely to slow sharply in 2014 reflecting the Ebola induced slowing of economic activities.

Table 2: Liberia-Selected Economic and Financial Indicators, 2011 -2015

Indicator	2011	2012	2013	2014	2014	2015
	Prel.	Prel.	Est.	Initial Proj.	Revised Proj.	Proj
Real GDP (% growth)	7.9	8.3	8.7	5.9	2.5	4.5
Consumer prices (annual average % growth)	8.5	6.8	7.6	8.3	11.4	9.7
Consumer prices (end of period %)	11.4	7.7	8.5	7.7	13.1	8.1
Exchange rate (end of period L\$/US\$)	72.2	73.5	77.4	
Exports, f.o.b (US\$ Millions)	374	479	559	560	467	430
Imports, f.o.b (US\$ Millions)	996	1,067	1,146	1,460	1,231	1,278
Current account balance incl. grants (% of GDP)	-32.7	-28.0	-34.7	-46.5	-36.4	-40.5
Gross official reserves (US\$ Millions)	401.0	381.3	393.1	414.0	414.6	382.2
Gross official reserves (months of imports)	3.0	2.8	2.7	2.8	2.9	2.8
Broad Money (% Change)	41.4	-1.4	7.8	5.4	-13.2	3.6
Revenues and Grants (% of GDP)	26.5	28.0	30.2	27.1	27.4	24.0
Expenditures (% of GDP)	27.1	31.4	31.7	30.9	31.2	35.7
Overall surplus / deficit (incl. grants)	-0.6	-3.4	-1.6	-3.8	-3.8	-11.8
Public sector domestic debt (% of GDP)	20.7	17.7	16.7	15.1	15.2	14.5
Public sector external debt (incl. arrears US\$ Mn)	166.0	192.1	215.7	340.4	330.5	492.8
Public sector external debt (% of GDP)	11.8	12.2	14.7	20.4	20.4	27.2
Nominal GDP (US\$ Millions)	1,537.8	1,645.6	1,853.0	2,034.1	2,014.0	2,139.3

Source: IMF and Bank Staff Estimates

12. The fiscal impact of the Ebola crisis is also expected to be substantial. The fiscal out-turn for FY 2013 showed a smaller deficit of 1.6 percent of GDP (down from 3.4 percent in FY 2012) largely as a result of lower than planned capital spending. However, since onset of the

Ebola crisis, fiscal revenues have started to fall, reflecting lower economic activity as well as lower tax compliance. Tax revenues for the 2014/15 fiscal year, initially projected at US\$399 million, could be lower by about US\$40 million, or about 10 percent. Increased expenditure, directed mainly to the health sector (approximately US\$20 million), but also to address social protection needs related to the loss of livelihoods (about US\$47 million), is substantial and accommodated in part through some shifting from capital to recurrent spending. Increased spending in the face of the falling revenues and flat external grants will increase the FY2014/15 projected fiscal deficit from 7 percent to 11.8 percent of GDP.

Table 3: Liberia-Key Fiscal Indicators, 2011 -2015

	2011	2012	2013	2014	2014	2015
	.	Prel.	Prel.	Initial Proj.	Revised Proj.	Proj
Total revenue and grants	26.5	28.0	30.2	27.1	27.4	24.0
Tax Revenue	19.0	21.8	20.1	18.6	18.8	16.9
Non-Tax Revenue	4.6	4.5	7.6	4.6	4.6	4.3
Grants	2.8	1.7	2.5	4.0	4.0	2.8
Expenditures	27.1	31.4	31.7	30.9	31.2	35.7
Current expenditure	21.9	26.7	26.8	21.0	21.2	23.8
Wages and salaries	9.8	11.1	11.5	9.8	9.6	9.6
Goods and services	6.1	7.0	8.8	6.3	5.7	5.7
Interest	0.3	0.3	0.3	0.4	0.4	0.6
Capital Expenditure	5.2	4.7	4.9	9.9	10.0	11.9
Overall surplus / deficit (incl. grants)	-0.6	-3.4	-1.6	-3.8	-3.8	-11.8
Identified Financing	0.6	3.4	1.6	3.8	3.8	7.4
External	0.3	0.9	0.4	4.5	4.5	7.1
Domestic including Central Bank	0.3	2.5	1.2	-0.7	-0.7	0.3
Financing gap	0.0	0.0	0.0	0.0	0.0	4.3
Possible IMF Augmentation, grants and loans	0.0	0.0	0.0	0.0	0.0	3.2
Uncovered gap	0.0	0.0	0.0	0.0	0.0	1.1

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

Table 4: Balance of Payments Financing Requirements and Sources, 2011 -2015 (US\$ millions)

	2011	2012	2013	2014	2014	2015
		Prel.	Prel.	Initial Proj.	Revised Proj.	Proj
Trade balance	-622	-588	-587	-900	-764	-848
Services (net)	-797	-748	-743	-707	-664	-637
Income (net)	-161	-261	-371	-345	-333	-331
Current transfers	1,077	1,108	1,022	965	1,008	924
Current account balance	-504	-489	-679	-987	-754	-892
Capital and financial account (net)	526	451	668	977	663	832
Financial account (net)	526	451	668	977	663	832
Foreign direct investment (net)	292	333	432	330	193	291
Official financing (net)	38	-3	50	106	119	142
Private financing (net)	195	121	186	541	350	398
Financing	-11	38	11	10	-2	61
Change in gross reserves (increase -)	-24	20	-12	-21	-16	32
Net use of IMF credit and loans	14	18	23	31	20	28
Financing gap	0	0	0	0	93	0
Possible IMF augmentation	0	0	0	0	49	0
Repayments	0	0	0	0	-43	0

Source: IMF

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

13. **Liberia's near and medium-term economic prospects have been severely affected by the Ebola crisis through its adverse impact on all sectors.** Planned foreign direct investments in the natural resources sectors have been delayed. Public and domestic private sector investments, particularly in the construction sector, have also been delayed as the government has shifted resources to health and social protection. Medium-term growth and employment will be directly and indirectly affected by the delayed investments. Furthermore, potential downside risks from the deepening of the Ebola crisis could be more substantial, operating through the investment growth channel as well as through the economic activity fiscal revenue channel.

14. **Under optimistic scenarios of epidemiological containment by March 2015,¹ GDP growth is projected to recover to about 4.5 percent in 2015.** Such recovery is likely to be driven by the mining sector getting back to steady state capacity and a sharp recovery in services as rural and urban markets are re-opened. The re-start of public investment in infrastructure is also expected to be slow and costly and increased private investments in infrastructure, including in commercial and residential construction, may be the initial impetus for growth in the wake of the Ebola crisis. The general price level is expected to rise in the short-term, reflecting food scarcity on account of the interruption of domestic agricultural production as well as transportation and markets. Average inflation is projected to increase to 13 percent for 2014 before falling back to single digit in 2015.

15. **Liberia's external position is likely to deteriorate over the medium term.** The slow-down in production as well as delays in investments in key concessions in mining and agriculture caused by the Ebola outbreak will lead to lower exports in 2015. At the same time, recovery in imports including food, fuel and capital items will lead to an increase in the trade deficit from about US\$764 million in 2014 to US\$848 million in 2015. With no substantial recovery on the services and income account and the expected lower current transfers, the current account deficit is projected to deteriorate from a deficit of 36.4 percent of GDP in 2014 to a larger deficit of 40.5 percent of GDP in 2015. Most of the current account deficit is expected to be financed by foreign direct investment, official and private financing but there will be a net decrease in gross reserves from US\$414 million in 2014 to US\$382.2 million in 2015.

16. **In the medium term, monetary policies will remain focused on containing inflation, but the fiscal policy agenda has shifted from creating fiscal space for investments in line with the Agenda for Transformation to focus on addressing the Ebola crisis.** The foreign exchange auction remains the primary instrument for intervening in the foreign exchange market. The Central Bank is also taking steps to improve the legal framework for the regulation and supervision of the National Payments System and has established a collateral registry. The Ebola outbreak is expected to have a substantial fiscal impact over the medium term. Fiscal revenues will be about 10 percentage points of GDP lower in FY14/15 and slow to recover thereafter, given slower growth and issues with compliance. At the same time, expenditures directly related to the crisis and additional social protection expenditure policy will push up current and total expenditure by more than 4 percentage points of GDP. Consequently, the fiscal deficit is

¹ World Health Organization (WHO) and the United States Centers for Disease Control and Prevention (CDC).

expected to climb to nearly 12 percent of GDP in FY2015 with little improvement over the medium term.

17. **The contours of the FY2014/15 budget have been substantially changed by the Ebola outbreak.** Total revenues including grants are expected to fall to about US\$513 million, well below budget’s forecast of US\$559 million. At the same time, recurrent spending, particularly on health is expected to increase from the planned US\$436 million to more than US\$500 million and even though some of this spending shock is to be absorbed by shifting resources from the capital side of the budget, overall expenditure will be well beyond the US\$559 million initially budgeted. The budget includes core revenues of US\$507 million; contingent revenues of US\$23.6 million and planned borrowing of US\$28 million including US\$18 million from external creditors. The major portion of the contingent revenue is expected to come from state-owned enterprises.

18. **The updated² Debt Sustainability Analysis (DSA) indicates that Liberia continues to have a low risk of debt distress.** Although external debt accumulation has been faster than initially envisaged, the pace of disbursement has been below expectation due in part to slower project implementation. However, Liberia’s medium-term debt profile (2014-2017) is less favorable due to slower growth and a larger stock of debt. The further slowing of growth by the Ebola crisis is only likely to exacerbate the debt profile in the short-to-medium term. However, over the long term and assuming the crisis is addressed, Liberia’s debt profile will improve with higher GDP. The projected present value of Liberia’s external debt stock would remain low and sustainable with all debt indicators below the policy-related thresholds over the medium-to-long term (Table 5).

Table 5: Policy-based Debt Burden Indicators

	Thresholds	Baseline Scenario Ratios				
		2014	2015	2016	2017	2024
PV of debt-to-GDP ratio	30	10.9	13.7	15.2	16.0	18.3
PV of debt-to-export ratio	100	24	33	38	40	50
PV of debt-to-revenue ratio	200	47	61	67	70	88
Debt service-to-export ratio	15	1	2	3	2	2
Debt service-to-revenue ratio	18	2	3	5	3	4

Source: 2014 Updated Debt Sustainability Analysis, World Bank and IMF

19. **In summary, Liberia has maintained a good track record of macroeconomic management which has resulted in robust growth and stability up to the time of the Ebola crisis in mid-2014. The current macroeconomic framework (which also forms the basis for the ECF program with the IMF) provides an adequate basis for the proposed operation.** Liberia’s medium term economic prospects remains positive, but subject to substantial economic risks if the Ebola epidemic escalates. The economic risk arises from two primary related channels: First, if the Ebola crisis deepens, GDP growth could slow sharply or the economy could even contract with adverse social effects given the underlying fragility. Second, slow growth or a contraction could further erode the government’s revenue position in the face of

² The DSA was updated in June 2014. The key parameters of the DSA are unlikely to change markedly if Ebola is contained within the short-to-medium term.

already considerable demand for increased spending to address the health and social consequences of the Ebola crisis.

2.3 IMF RELATIONS

20. **In November 2012, Liberia entered into a second ECF with the IMF following the successful conclusion of the first ECF in May 2012.** The program which is intended to support the government's program to accelerate broad-based growth has three central objectives: (i) Creating fiscal space for higher capital spending by containing personnel costs and other current transfers; (ii) Strengthening the financial sector through reducing vulnerabilities and improving access to credit; and (iii) Underpinning growth with structural reforms to further improve public financial management, governance, and the business environment. The second ECF is for a total of SDR 51.68 million or approximately US\$78.9 million, of which a cumulative total of SDR22.15 has been disbursed following the successful completion of the Third Review by the IMF's Executive Board in June 2014.

3. THE GOVERNMENT'S PROGRAM

21. **The Government of Liberia is currently implementing its second full Poverty Reduction Strategy (PRS)—Agenda for Transformation (Aft) launched in December 2012.** The Aft is cast in the context of a long-term vision plan, the aim of which is to transform Liberia into a more prosperous and inclusive society and to achieve middle income country status by 2030. The process of formulating the national vision involved consultations with a wide range of stakeholders across the 15 counties including, political party leaders, youth and student groups, religious groups, civil society organizations, government agencies, the private sector and development partners. The Agenda for Transformation is built around five strategic pillars explicitly reflecting the government's key medium-term priorities.

22. **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's administration.

23. **Pillar II: Economic Transformation.** The government's goal is to *transform the economy through development of the domestic private sector—using resources leveraged from foreign direct investment (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, (iv) establishing both a commercial code to govern transactions

and a commercial court to enforce commercial contracts. To provide the infrastructure for economic transformation, the government is rehabilitating the Mount Coffee Hydroelectric plant and re-establishing the main transmission and distribution facilities for connection with the West African Power Pool (WAPP) supply. The government is also rehabilitating segments of the nationwide road network. On information and communications technology, the government is supporting the deployment of the national fiber optic infrastructure, linking the country to international high-speed broadband access. Priority interventions for the transformation of the agricultural sector include improving research and extension services.

24. **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 including the establishment of a national database to register and track beneficiaries of social protection interventions; and (v) establishing the National Water Resource and Sanitation Board (NWRSB) with a clear mandate for sanitation and hygiene standards.

25. **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 assets throughout Liberia; (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, including enhanced public awareness, coalition strengthening of CSOs to monitor enhanced PFM reforms and anti-corruption activities; and (vi) developing consistent policies on public, private and communal land in consultation with stakeholders.

26. **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 so that women and men, girls and boys enjoy equal rights and opportunities; (ii) *Child Protection*: To ensure the protection of children's rights and shield them from the effects of vulnerability and discrimination; (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 to ensure that it contributes to sustained economic development and growth in all sectors; (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, irrespective of sex, ethnicity, geographical location, political affiliation

and socioeconomic condition; and (viii) *Labor and Employment*: To improve living standards by creating sustainable and decent jobs for all Liberians.

4. THE PROPOSED OPERATION

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

27. **The Agenda for Transformation provides a broad and detailed reference framework for the reforms that the government is proposing to undertake over the medium-term.** 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 operation focuses on three primary areas: (i) governance and civil service reforms (Pillar IV); (ii) economic transformation (Pillar II); and (iii) human capital development (Pillar III). Within these three areas, the operation is selective of reforms which directly or indirectly address the issues of poverty, fragility and conflict in Liberia. 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.

28. **The objectives of the proposed operation are to sustain and deepen government-owned efforts to reform governance and civil service, and to support the broadening of reforms to include economic transformation and human capital development in the context of the implementation of the government's second Poverty Reduction Strategy—Agenda for Transformation.** More specifically, these reforms are focused on: (i) strengthening governance with particular emphasis on transparency and accountability to reduce corruption; budget execution and oversight; (ii) creating the environment for economic transformation through addressing infrastructure constraints; agricultural credit; and (iii) improving human capital development particularly through improved access and quality of education.

29. **The design of this operation draws on lessons from the implementations of four previous development policy operations.** These lessons include: (i) *Ownership of reforms*—in the previous four operations, the policy reforms (including the prior actions) reflected the government's own reform agenda articulated in the Poverty Reduction Strategy. This ensured strong ownership of the reforms from the onset. This proposed operation has adopted a similar approach of focusing on reforms from the government's own program articulated in its Poverty Reduction Strategy—Agenda for Transformation; (ii) *Sequencing*- It is important to carefully choose prior actions that are likely to open the door for other important policy and institutional reforms. For example, the passage of the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) is a necessary first step for the establishment of a financial intelligence unit; (iii) *Capacity for reform*—In Liberia, where capacity is weak, Development Policy 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 through other operations as well as the IMF through the new three-year arrangement under the ECF agreed with the Government of Liberia in November 2012.

Finally, the design of this operations incorporates lessons on (iv) *selectivity* through its choice of a few, manageable actions that have significant positive “knock-on” or leverage effects.

30. **The design of future operations in the program series starting with the Third Poverty Reduction Support Development Policy Operation (PRSDPO III) will draw lessons from the current Ebola crisis; including the observation that Liberia’s weak health system can have far reaching consequences on 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 focus on strengthening health systems going forward, the scope of the reforms under the human capital development pillar of the program will be broadened to include reforms focused on health system strengthening measures including surveillance and diagnostic capabilities as well as the development of human resources for health.

4.2 PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

31. **The government’s Poverty Reduction Strategy—the Agenda for Transformation, focuses on the twin objectives of achieving sustained growth and ensuring inclusiveness.** These objectives recognize that fragility and conflict remain the primary risks to Liberia’s long term development. However, achievement of the twin objectives will require, first, a deepening of the governance reforms focusing particularly on transparency and tackling corruption as well as on enhanced governance of the natural resource sector. 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, including the substantial infrastructure deficit (energy and roads); and constraints to the agriculture sector including weak land tenure and lack of access to credit. Third, to assure the objective of inclusive growth there needs to be emphasis on improving access and the quality of education and training to ensure that a wide cross-section of Liberians can take advantage of the job opportunities created through broad-based growth.

Pillar 1: Governance and Civil Service Reforms

32. **The outbreak of 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 investment in governance programs to support the development of institutions, the effectiveness of the public administration system and overall coordination of public sector management remains weak.

33. **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 has shown.

Transparency and Accountability

34. **Key objectives of the government's Agenda for Transformation are to strengthen public institutions to ensure revenues and government assets are well managed and free from corruption; and to increase transparency and accountability of public and private institutions.** 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 development agenda over the medium to long term, it is crucial not only to improve transparency and accountability in government operations but to also strive to become a reputable member of the global payment system to attract reliable capital flows.

35. **The Government of Liberia has taken some steps to establish the legal environment to deal with corruption and to increase transparency and accountability.** In 2010 the Freedom of Information Act was passed and more recently (April 2013), the government passed a new Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Law (Prior Action for the First Poverty Reduction Support Development Policy Operation of the First Poverty Reduction Support Credit. All these laws, as well as the Public Financial Management Act and the Public Procurement Commission Act, are intended to tackle corruption. The challenge is to ensure that capacity to implement these laws and regulations exists across all ministries and agencies.

36. **Having passed the AML/CFT law as a first step to providing the legal basis for the identification, investigation and prosecution of money laundering, corruption and financial crime, further measures are needed to support effective implementation.** These measures include: (i) the establishment of a Financial Intelligence Unit (FIU) responsible for receiving, analyzing, and transmitting disclosures on suspicious transactions to the competent authorities in pursuant of the implementation of the anti-money laundering policies; (ii) the preparation and issuance of regulations for currency transactions reports (CTRs) and suspicious transaction reports (STRs) by the FIU; and (iii) the establishment of membership in the international organization of financial intelligence units—the Egmont Group—to gain access to the network of information from other FIUs to effectively build cases for prosecution.

37. **There is need to strengthen the legal and operational aspects of the Liberia Anti-corruption Commission (LACC) to effectively pursue its mandate.** The government has recently appointed a new head for the LACC and a new three-year strategy has been approved. The new strategy focuses on: (i) developing a system for reducing corruption risks; (ii) adopting policies and regulations necessary to improve the asset disclosure systems; and (iii) enhancing sanctions against public officials for corruption, misuse and abuse of public office and assets, as mentioned in GAC reports. Further actions to strengthen the operational aspects of the LACC include; (i) the establishment of an Asset Disclosure Unit within the LACC; and (ii) the articulation of legal and regulatory policies for asset disclosure to provide clear guidance for public officers.

Prior Action for PRSDPOII

- **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 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.

Civil Service Reform

38. **It is the government's objective under the AfT to strengthen public institutions to ensure that revenues and government assets are well managed and quality public service is equitably delivered.** In this context, 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. However, implementation of these formal processes such as entry and exit procedures, job descriptions and grades remains weak. Low technical capacity within the government has undermined efficiency in the public sector and hindered service delivery. Interim capacity surge arrangements such as the Senior Executive Service (SES) provide short term relief, but are not sustainable.

39. **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. The compensation structure comprises discretionary allowances that have been a source of tension in the civil service, since selected senior officials are entitled to a discretionary allowance that is susceptible to abuse by senior managers. In the short term, focus should be on: (i) assigning job grades, career ladders and introducing 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.

40. **Pay reform, performance management and technical leadership are the most important policy priorities in public sector management in the short to medium term.** To address these policy issues the government is preparing a revised pay reform strategy merging allowances and base pay for civil servants. Following this, the government should move to (i) complete merging of allowances and base pay for civil servants at levels 1-4 (TAS 1-4) and then (ii) complete the merging of allowances and base pay for civil servants at levels 5-10 (P 1-4 and E 1-3).

Prior Action for PRSDPOII

- **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.

41. **The improvement of the public financial management systems has been at the core of Liberia’s economic governance reform.** In pursuit of its goal of ensuring that revenues and government assets are well managed, free from corruption with increased transparency and accountability, the government has resurrected the Cash Management Committee, (which had ceased to function after the outbreak of civil war in 1990) and shifted from cash-based management to increased program budgeting and cash flow forecasting to meet the requirements of the 2009 PFM Act. The government also adopted a Medium Term Expenditure Framework (MTEF) for its budget in accordance with the requirements of the PFM law.

42. **The government is committed to budget transparency and has embraced the open budget initiative but faces challenges in budget preparation, execution and oversight.** The submissions of the budget and approvals by the Legislature have not been timely. For example, the 2013/14 budget was submitted in May, 2013 and was approved after more than a full quarter into the new fiscal year. Financial statements for FY2011/12 and FY2010/11 were prepared in accordance with cash basis IPSAS, for the first time. However, the substantial delay in submitting final accounts to the General Auditing Commission has had a knock-on effect on timely audit of the accounts. The recommendations of the General Auditing Commission are generally not responded to and, as a result, there are no agreed follow-up actions. However, since August 2013, the joint Public Accounts and Audit Committee (PAC) of the Legislature has started public hearings on the 85 outstanding audit reports issued by the GAC as of June 2013.

43. **The roll-out of IFMIS (including the Civil Service Management (CSM) Module) to all ministries and agencies is the lynch-pin of the government’s PFM reform strategy.** The CSM module will enable the government to effectively manage the civil service cycle from recruitment through retirement. A new Personnel Action Notice process has already reduced the arbitrary addition of staff to the payroll. Migration of the entire civil service payroll to IFMIS is already completed (prior action for (PRSDPOI) PRSCI) and the ongoing work to have biometric records for the entire civil service will considerably strengthen payroll management. The government is also piloting the migration of donor-financed projects from the legacy system to IFMIS as part of the reforms to facilitate the use of country systems.

Prior Actions for PRSDPOII

- **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 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 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.

Procurement

44. **Fourteen years of civil war contributed to the complete loss of public procurement policies, practices, and procedures, as well as the skills of practitioners and institutions.** Under several regimes, the procurement process lost accountability, competitiveness, economy, efficiency and transparency. The reform of the public procurement system began with the enactment of the first Public Procurement and Concessions Act (PPCA) in September 2005. In October 2010, the government launched an Amended and Restated Public Procurement and Concession Act. However, the Regulations for the 2005 Act are still in force, and require revision to align them with the new PPC Act of 2010. Overall, the PPCA Act is comprehensive, and provides a framework for a sound procurement and concessions system. However, despite the steps taken to sensitize and train public procurement practitioners, the overall efficiency of the management of public procurement in Liberia has not improved. Consequently, inadequate procurement capacity has been a constraint to effective budget execution.

45. **To address the massive reconstruction needs and the heavy demand for effective procurement services, the Government of Liberia has adopted an aggressive approach to procurement reforms that focuses on three pillars:** (i) strengthening the Public Procurement and Concessions Commission (PPCC) to adequately perform its regulatory functions stipulated in the PPC Act. This will involve updating regulations and preparing a road map/strategic plan to outline reform requirements for the next three to five years. There is also need to build the capacity of an existing compliance monitoring directorate to ensure that procurement plans formulated at the beginning of the fiscal year are monitored for compliance with the procurement law and made available to the public; (ii) building the capacity of procurement personnel (through intensive procurement training) in order to have functioning procurement structures in procuring entities including having a career track for procurement specialists; and (iii) building the capacity of the private sector to promote responsiveness and competition in available procurement opportunities.

Prior Actions for PRSDPOII

- **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 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.

46. **Results:** The overall outcome expected under the governance and civil service reform pillar are transparent, accountable and responsive public institutions that contribute to economic and social development. The establishment of a Financial Intelligence Unit (FIU) with the attendant regulations and connection with other FIUs is expected to result in increased transparency in financial transactions (helping to reduce corruption) as indicated by the currency transaction reports and suspicious transactions reports issued by the FIU. A new strategy for the Liberia Anti-Corruption Commission (LACC) coupled with the subsequent operationalization of the Asset Disclosure (AD) unit and the establishment of legal and regulatory policies for the AD

unit is expected to result in greater transparency and accountability in the civil service in Liberia as indicated by an increased number of senior civil servants providing complete asset statements to the LACC. Accountability and transparency in the civil service will also be reinforced by pay reform, which include the merging of base 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 review by the Legislature to complete the cycle of budget accountability. Procurement reform measures are expected to result in more certified procurement specialists in the civil service and consequently, improved budget execution. The preparation and publication of annual compliance reports by the PPCC is therefore crucial for demand-side accountability in improving procurement and budget execution.

Pillar 2: Economic Transformation

47. **The government's Agenda for Transformation envisages a more diversified economy with more inclusive growth that would lead to further reductions in poverty.** In the near term, growth is expected to be driven by the substantial inflows of foreign direct investments in the natural resource sectors including rubber, iron ore and oil palm as well as strong growth in the construction and services sectors. 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, which has the potential to make a substantial contribution to creating a more diversified economy with substantial employment and enhancement of food security.

Infrastructure

48. **Despite notable progress made thus far, the infrastructure deficit remains a major constraint to rapid inclusive growth.** Over the past five years, Liberia has made progress in the rehabilitation of important main roads; the management of the port of Monrovia; and the establishment of the Liberia Telecommunications Authority (LTA). However, the existing public electricity generation system is composed of high cost diesel generation units with total installed capacity of about 20 Mega Watts (MW)—double what existed at the end of the war in 2003—but still inadequate to meet current demand including from concessions. Furthermore, access to electricity is concentrated in selected parts of Monrovia. The government's capacity for substantial investment in the power sector is limited and although there is interest in private participation, there is as yet no regulatory framework to facilitate private participation in infrastructure.

49. **The government's objectives for the energy sector are to expand access, increase the quality and reliability of electricity services, and to reduce the price of electricity from the current level of 0.54 US\$/kWh.** It is focusing on increasing coverage for poor customers in urban and rural areas and expanding the customer base to include commercial and industrial customers. Since about 80 percent of the cost of electricity is related to the cost of the fuel, the government is prioritizing generation from hydro and cheaper heavy fuel oil. Over the short to medium term the government is proposing to: (i) complete a least cost power development plan that lays out the generation and transmission/interconnection options for supplying current and

near-term (projected) demand for electricity; (ii) implement open and competitive procurement process for imports of HFO used in electricity generation for Liberia Electricity Corporation (LEC) to ensure the lowest CIF cost of the fuel; (iii) develop an electricity tariff strategy that appropriately balances the long-term sustainability of the energy sector with the distributional impact, given the evolution of the generation mix; and (iv) establish a regulatory unit with a clear mandate and technical capacity to provide oversight of the energy sector.

Agriculture and Land Reform

50. **The development of Liberia’s agricultural sector is vital to the government’s objectives of increasing employment and reducing poverty.** However, Liberia’s considerable agricultural potential is largely unrealized owing to lack of secure land tenure and limited access to credit. The Land Commission has made some progress with the adoption of a policy framework for land tenure reform which clarifies land rights related to public land, government land customary land and private land (Prior Action for (PRSDPOI) PRSCI). Further related action to be taken by the government includes the establishment of a comprehensive land administration system to administer land rights including through processes to manage state land, record and register private land and assess land value to determine tax. The lack of credit for investments generally and in agriculture in particular largely reflects the fact that Liberia’s financial sector is still in its infancy; the poor credit culture in the country and the ineffective legal system that makes it costly for creditors to take actions against delinquent borrowers. Liberia’s payment and settlement and credit reporting system remain weak and rudimentary. The establishment of an effective collateral registry is expected to improve credit generally including to the agricultural sector.

Prior Action for PRSDPOII

- **Prior Action 9:** The Recipient has established a collateral registry with a view to improving credit and expanding the rural economy.

51. **Results:** The overall outcomes expected from reforms proposed under the economic transformation pillar in line with the government’s AfT include the development of the private sector to provide employment; growth spurred by investments in infrastructure and to improvements in agriculture to expand the rural economy. The least cost power development plan to guide government’s investment in the power sector coupled with a clear tariff strategy and policies and regulations for the electricity sector is expected to result in electricity production shift from high cost diesel to lower cost hydro and HFO and consequently reduced cost and greater access to electricity. Lower cost electricity is also expected to spur private sector led growth, resulting in increased employment. Better road infrastructure, supported by the new Road Act will not only facilitate investment and growth but will also result in better access to key social services including education, health and security. The establishment of a collateral registry is expected to result in greater access to credit by the agriculture sector as indicated by the increased share of credit to the sector. 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 and better jobs.

Pillar 3: Human Capital Development

52. **Human development is one of the central pillars of the government’s Poverty Reduction Strategy—the Agenda for Transformation.** In the strategy, the government explicitly recognizes that human development is fundamental to its transformation agenda which seeks to provide opportunities for all. The government’s human development goal under the AfT is 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 health and environmentally-friendly water and sanitation services. While the government is making some strides with the provision of health services, particularly with the provision of the package of basic services, progress lags in the education sector, a situation made more complicated by the closing of all schools due to the EVD epidemic.

Education

53. **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. Improved access to education is generally seen to improve the probability of getting better remunerated work, reducing the likelihood of poverty and social exclusion, and providing positive externalities of higher productivity growth and enhanced health. 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—recent data suggest that only one-third of primary school teachers and 60 percent of junior secondary teachers in public school have had training; and (c) poor teacher management and deployment, with an oversupply in urban schools and shortages in rural areas.

54. **Over the short to medium term, the Government of Liberia intends to focus on assuring equitable access to high quality free basic education and developing skills among youth that make them increasingly employable and productive.** Two necessary conditions for ensuring high quality basic education include: (i) well trained teachers who are effectively deployed to ensure adequate coverage for both urban and rural schools to provide greater incentive for school attendance; and (ii) a framework to ensure that the resources for the education sector are equitable deployed by region and pupils socioeconomic status.

Prior Action for PRSDPOII

- **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.

55. **Results:** The overall outcome expected under the human capital development pillar is more accessible and higher quality of education. A comprehensive implementation plan for teacher recruitment, training and deployment across all levels of the education system as well as a framework for the equitable allocation of resources is expected to result in higher school enrollments and better education outcomes. Improvement in education and training will allow more Liberians including those in the rural areas to take better advantage of the employment opportunities that are created by the economic transformation discussed above.

Table 6: Summary of Triggers, Prior Action and Status of Implementation for PRSDPOII

Triggers from PRSCI (PRSDPOI)	Prior Actions for PRSDPOII	Reason for Change	Status
Pillar 1: Governance and Civil Service Reform			
<i>Transparency and Accountability</i>			
Established a Financial Intelligence Unit (FIU) as provided for in the AML/CFT law and approved by the Cabinet.	The Recipient has established a financial intelligence unit whose vocation is to help increase transparency in the Recipient's financial transactions.	No change	Completed
A 3-year strategy for the Liberia Anti-Corruption Commission (LACC) completed and approved by the Commissioners.	The Recipient has completed the preparation of a three-year strategy, whose substance is acceptable to the Association, for the Liberia Anti-Corruption Commission.	No change	Completed as evidenced by a copy of the approved strategy
<i>Civil Service Reform</i>			
Prepared and adopt a revised pay reform strategy merging allowances and base pay for civil service cadres.	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.	No change	Completed as evidenced by copy of the strategy adopted on June 24, 2014
<i>Public Financial Management</i>			
Complete the installation of the Civil Service Management (CSM) module of the IFMIS.	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.	No change	Completed
Complete the roll-out of the IFMIS to 15 additional M&As for a total of 23 and brought five (5) donor-financed projects onto IFMIS.	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.	Minor change to reflect the impact of Ebola on implementation capacity	Completed
Submitted IPSAS-based financial statements for FY 2012/2013 to GAC for audit.	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.	No change	Completed as evidence by copy of financial statement
<i>Procurement</i>			
Approval by Cabinet of a procurement career track for procurement specialists within the civil service.	The Recipient has structured, within its civil service, a career track for procurement specialists, with a view to improving budget execution.	Minor change to reflect the independence mandate of the Civil Service Agency	Completed
Complete technical review of implementing regulations of the Public Procurement and Concession Commission (PPCC) and have regulations approved by Cabinet.	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.	Minor change to reflect the independence mandate of the PPCC	Completed

Triggers from PRSCI (PRSDPOI)	Prior Actions for PRSDPOII	Reason for Change	Status
Pillar 2: Economic Transformation			
<i>Infrastructure</i>			
Complete least cost power development plan and have same approved by Cabinet by end-September 2013 and implement open competitive procurement process for imports of heavy fuel oil (HFO) used in electricity generation for LEC to ensure the lowest CIF cost of the fuel.		The prior action has been deferred to PRSDPOIII to give the government more time for technical analysis and consultations with stake-holders	Deferred
Prepared and submitted to the Legislature a Road Act to define public roads and the legal rights and responsibilities for the control of such roads.		The prior action has been deferred to PRSDPO III to give the government more time for stake-holders consultations.	Deferred
<i>Agriculture and Land Reform</i>			
Establish Collateral Registry and adopt Rural Credit Policy Framework	The Recipient has established a collateral registry with a view to improving credit and expanding the rural economy.	Action on adoption of Rural Credit Policy Framework superseded by the Maya Declaration on financial inclusion therefore action has been dropped.	Completed as evidence by IFC press release
Pillar 3: Human Capital Development			
Adopted a comprehensive and fully costed implementation plan for teacher recruitment, training and deployment across all levels of the education system to improve the incentive for school attendance.	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.		Completed as evidence by a copy of the plan.

56. **The design of the PRSDPOII operation is underpinned by the considerable analytical work completed over the last two years on a range of important policy issues.** The key pieces of analytical work and their findings/recommendations and the links with the PRSDPOII prior actions are summarized in Table 7 below.

4.3 LINK TO CPS AND OTHER BANK OPERATIONS

57. The proposed operation is fully aligned with the Bank's Country Partnership Strategy (CPS)³ for Liberia which is fully consistent with the government's AfT. The overarching 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 (ii) *Human Development* to increase access and quality of basic social services and reduce vulnerability. The CPS also mainstreams the themes of capacity development and gender equity.

³ The Country Partnership Strategy (CPS) was discussed by the Board in July, 2013.

Table 7: Link between the PRSDPO Series and Analytical Work

Prior actions	Analytical Reports	Key Findings and Recommendations
1. Governance and Civil Service Reform		
Prior action#1	US State Department Money Laundering Report - 2013	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 since the 2003 Accra Comprehensive Peace Accord. However, corruption remains endemic and permeates most sectors of the society
Prior action#3	Public Expenditure and Financial Accountability (PEFA) (2012)	Improving payroll control is the other key short term priority. 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.
Prior action#4,5&6	PEFA (2012)	The preparation of financial statements is not yet an established practice in the GoL. The Controller and Accountant General (CAG) prepared a set of central government consolidated financial statements for FY2009/10, as required under the new PFM Act and the recently adopted cash basis IPSAS standard. However, they were submitted with such significant delay – 17 months after the end of the fiscal year, well outside the 4 months required in the Act.
Prior action#7	PEMFAR (2009)	Establish a procurement career path within the civil service in partnership with the Civil Service Agency.
Prior action#8	PEFA (2012)	Further work on regulations and other subsidiary instruments will be required if all aspects of the revised Act (Public Procurement Act) are to be effectively implemented.
2. Economic Transformation		
Prior action#9	Liberia: Inclusive Growth Diagnostics (2012)	High cost/lack of access to electricity reduces competitiveness of otherwise potentially attractive value-added sectors.
Prior action#10	The National Transport Master plan of Liberia (2012)	The Vehicle and Traffic Act of 1972 is limited and does not include highway legislation that classifies various standards of national, urban or rural roads.
Prior action #11	Improving Access to Finance for Micro, Small and Medium Enterprises (2013)	The result of the predominance of real estate compared with other forms of collateral is that profitable or potentially profitable businesses, which have assets other than real estate, are often excluded from access to investment and working capital. A major reason for the preference for real estate has been the lack of a movable assets registry
3. Human Capital Development		
Prior action #12	Liberia: Public Expenditure Review- Human Development (2012)	A teacher development strategy is needed to ensure that Liberia's education system is well-managed and has a sufficient number of adequately trained and motivated cadres of educators. Teacher development is a critical factor in ensuring cost efficiency in public education expenditure. Resource allocation in the Education Sector is pro-rich and at the primary level is inequitable across counties.
	Liberia Poverty Note: Tracking the Dimensions of Poverty (2012)	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.

58. **Under the three pillars of the CPS, the World Bank is undertaking a broad mix of technical assistance operations which complements the PRSDPOII toward achieving key CPS outcomes.** On governance and civil service reform, these include; an additional credit of US\$7 million approved by the Bank's Board in 2011 to the US\$11 million grant of the Economic Governance and Institutional Reform Project (EGIRP) which is providing technical assistance for public financial management and governance reform, including strengthening of public procurement. A US\$28.5 million integrated Public Financial Management Reform Project,

(including US\$5 million from IDA)⁴ approved in 2011 is 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 West African Power Pool (WAPP) Cote d'Ivoire, Liberia Sierra Leone and Guinea Power Interconnection Project approved in May 2012 for US\$144.5 million are being implemented to reduce the 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 at the central and local levels, for the construction of schools in rural areas and for the procurement and distribution of teaching material.

4.4 CONSULTATIONS COLLABORATION WITH DEVELOPMENT PARTNERS

59. **The Government of Liberia has established a good track record for broad-based consultations on key policies and strategies as well as on the budget.** The consultations have also embraced the monitoring of outcomes. This record was highlighted in the consultations for the government's two poverty reduction strategies including the most recent—the AfT. The AfT, which includes the reforms covered under this operation, has been the subject of extensive consultations across all levels of society. It included detailed discussions with Liberians at the district and county level, civil society organizations, the private sector, the Legislature and international partners. The AfT was formally adopted by delegates at a three-day National Visioning Conference in December 2012. Although there have been broad consultations on the reforms, there are still political risks related to their implementation and sustainability.

60. **The collaboration amongst development partners in Liberia has improved substantially despite the multiplicity of players.** There are active donor working groups, co-chaired with the government in several priority sectors including energy, transport, agriculture, forestry, land, justice and peace, health and education. The government has established the Liberia Development Alliance (LDA) and the Budget Support Working Group (BSWG) as instruments of coordination for donor support to the Agenda for Transformation. There is strong thematic collaboration; for example, support for the governance and public institutions pillar is provided by the African Development Bank (AfDB), the EU, the United States Agency for International Development (USAID) and the Swedish International Development Cooperation Agency (SIDA) and the UN including some US\$23.5 million of co-financing for the Liberia Integrated Public Financial Management Reform Project being implemented by the World Bank. Support for economic transformation including financing for roads, energy and agriculture comes primarily from the AfDB, the EU, Germany, Norway, Sweden, the United States, China and Japan. For human development, the main partners are the EU, France, Germany, the United States, Sweden and the UN. The government macroeconomic framework has been prepared with support from the IMF. The budget support provided primarily by the EU, the AfDB and the

⁴ Includes African Development Bank (AfDB), the United States Agency for International Development (USAID) and the Swedish International Development Cooperation Agency (SIDA)

World Bank is also coordinated in the context of the Budget Support Working Group and a Common Assessment Framework (CAF) agreed with the Government of Liberia.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACTS

61. **The proposed operation is expected to have overall positive direct and indirect effects on poverty and social welfare.** First, the resources under the operation will increase fiscal space allowing the government to increase public resources towards its AfT priorities. The government's fiscal resources from tax and non-tax revenues are substantially below the financing required for the effective implementation of the AfT. Second, the policy and institutional reforms intended to enhance economic governance; support economic transformation and improve education will foster the efficient and transparent use of public resources as well as promote inclusive growth to reduce poverty.

62. **The links between poor economic governance, economic inequities and conflict in Liberia are well documented.** In the past, public resources were utilized to benefit a small group of political elite, which heightened inequality and social instability. Reforms focused on improving economic governance including: anti-corruption and transparency, as well as those covering public financial management, procurement and budget oversight, are intended to strengthen budget planning and execution to ensure that the AfT priorities are achieved. In addition, strengthening the civil service, including better pay, is expected to result in the more efficient delivery of public service particularly to the poor.

63. **The reforms supporting economic transformation are intended to expand and diversify the economy, providing more employment and reducing poverty.** Reforms, including for infrastructure, as well as those covering the agricultural sector are expected to transform the Liberian economy from one with a narrow base, exporting only primary products to a more diversified economy fueled by lower cost energy and with road, port and telecommunication infrastructure to improve competitiveness. In addition, improvements in road and electricity infrastructure are expected to facilitate greater access to key social services including health and education for the poor. Table 8 below summarizes the Poverty and Social impacts of the reforms under this operation.

Table 8: Summary of Poverty and Social Impacts

Prior Actions for PRSDPOII	Poverty and Social Effects
Pillar 1: Governance and Civil Service Reform	
<i>Transparency and Accountability</i>	
<ol style="list-style-type: none"> The Recipient has established a financial intelligence unit whose vocation is to help increase transparency in the Recipient's financial transactions. The Recipient has completed the preparation of a three-year strategy, whose substance is acceptable to the Association, for the Liberia Anti-Corruption Commission 	Positive: Expected to: (i) promote inflows of foreign direct investment for growth and employment creation and (ii) reduce the misallocation of public resources.
<i>Civil Service Reform</i>	
<ol style="list-style-type: none"> 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. 	Positive: Better and more transparent wages to civil servant is expected to improve the delivery of social services.
<i>Public Financial Management</i>	
<ol style="list-style-type: none"> 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. 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. 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. 	Neutral: Expected to improve efficiency of public resource management and reduce opportunities for corruption.
<i>Procurement</i>	
<ol style="list-style-type: none"> The Recipient has structured, within its civil service, a career track for procurement specialists, with a view to improving budget execution. 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. 	Neutral: Expected to improve oversight of public resource management.
Pillar 2: Economic Transformation	
<i>Agriculture and Land Reform</i>	
<ol style="list-style-type: none"> The Recipient has established a collateral registry with a view to improving credit and expanding the rural economy. 	Positive: Expected to lead to increased investment in agriculture and services and lead to lower poverty through growth and job creation.
Pillar 3: Human Capital Development	
<ol style="list-style-type: none"> 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. 	Positive: Better education and training could allow more Liberians including those in the rural areas to take better advantage of job opportunities or to create self-employment.

5.2 ENVIRONMENTAL ASPECTS

64. **The reforms proposed under this operation are focused largely on economic governance, economic transformation and human capital development.** These reforms are not expected to have any direct environmental effects. However, reforms related to infrastructure and agriculture could produce negative environmental effects. For example, increased credit to the agriculture sector could encourage greater use of fertilizer, pesticides and other agricultural chemicals inappropriate use of which could have adverse effects on the environment. Such negative effects could be avoided through greater monitoring by the Environmental Protection Agency (EPA) whose capacity is low but improving. For example, the EPA's Inter-sectoral Coordination group meets monthly to ensure update and awareness on environmental measures and programs as well as for information sharing.

Table 9: Summary of Environmental Effects

Prior Actions for PRSDPOII	Environmental Effects
Pillar 1: Governance and Civil Service Reform	
<i>Transparency and Accountability</i>	
1. The Recipient has established a financial intelligence unit whose vocation is to help increase transparency in the Recipient's financial transactions. 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.	Positive: Actions could lead to a reduction of financing for illegal mining that has adverse effects on the environment including the rainforest.
<i>Civil Service Reform</i>	
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.	Neutral: Action not expected to have any effect on the environment
<i>Public Financial Management</i>	
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. 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. 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.	Neutral: Actions not expected to have any effect on the environment.
<i>Procurement</i>	
7. The Recipient has structured, within its civil service, a career track for procurement specialists, with a view to improving budget execution. 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.	Neutral to positive: Most actions not expected to have any effect on the environment. However, some regulatory actions including safeguards could have a positive impact on the environment.
Pillar 2: Economic Transformation	
<i>Agriculture and Land Reform</i>	
9. The Recipient has established a collateral registry with a view to improving credit and expanding the rural economy.	Largely positive: However, possible negative effects could be mitigated through close monitoring by EPA.
Pillar 3: Human Capital Development	
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.	Neutral: Action not expected to have any effect on the environment.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

65. **The findings from the 2012 PEFA show that the Government of Liberia has taken considerable actions to improve public financial management since the 2008 PEFA assessment.** These actions reflect the strong political commitment to the PFM reform strategy and the determined implementation of reforms despite capacity constraints. The implementation of the IFMIS, revenue administration, debt management, procurement, internal audit, accounts reconciliation and budget classification systems have been the main areas where improvements have been recorded. The government's annual budgets are published and accounting and financial reporting have also improved but are not yet at an adequate standard, although the increased use of IFMIS for accounting and reporting have resulted in significant improvements in 2013.

66. **Liberia maintains an exchange rate system that is free of restrictions on payments for current and capital transfers.** The 2011 safeguard assessment of the Central Bank of Liberia (CBL) found strengthened safeguards in place, including through the International

Financial Reporting Standards (IFRS). However the update of the 2011 assessment completed in August 2013, noted the Central Bank's slow progress in implementing recommendations from the 2011 assessment including strengthening the internal audit function; independent review of monetary program data; and a review of the currency operations. Key recommendations from the update include: the continued appointment of international external auditors for the next three-year term; resuming independent internal audits on monetary data; and strengthening Board oversight on the external audit process and compliance of bank operations with the CBL Act. The implementation of these recommendations will be monitored under the IMF's program.

67. ***Overall fiduciary environment:*** The focused engagement of development partners in the PFM area has resulted in a more conducive fiduciary environment in Liberia including effective capacity. The World Bank's lead role through EGIRP, the IFMIS and the Integrated Public Financial Management Reform projects under implementation, in the context of the new PFM Act, are providing the thrust for further strengthening of the PFM platform. The office of the General Auditing Commission is also vigorously implementing rigorous assurance standards across line ministries with the objective of safeguarding public funds. The Public Procurement and Concessions Commission is leading the path towards improved regulatory framework for public procurement. Nevertheless, the fiduciary risk remains high.

68. ***Recipient and Financing Agreement:*** The proceeds of the proposed Operation, consisting of SDR 13.5 million (US\$20 million equivalent) Credit and SDR 6.8 million (US\$10 million equivalent) Grant from the Crisis Response Window (CRW), would be made available to the Government of Liberia, represented by the Ministry of Finance and Development Planning, in a single tranche each, upon effectiveness.

69. ***Funds Flow and Disbursement Arrangements:*** The funds will be deposited into an account designated by the Government of Liberia at the Central Bank of Liberia that is part of the country's foreign exchange reserves. The equivalent local currency amount will, within 5 working days, be transferred to the Consolidated Fund (Treasury account) of the government that is used to finance budgeted expenditures and appropriately accounted for in the financial management system of the government. Disbursements from the Consolidated Fund by the Government of Liberia 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 or Credit is used to finance ineligible expenditures as so 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 or Credit.

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. 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 5 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 6 months from the date of receipt of the funds in the designated account. As part of the immediate additional fiduciary arrangement, the Government of Liberia, through the Ministry of Finance shall, within 30 days after the Grant or Credit 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 or Credit 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, 2015.

5.4 MONITORING AND EVALUATION

72. **The Ministry of Finance and Development Planning will have overall responsibility for the implementation of the reforms supported by the operation.** More specifically, the Aid Management Unit within the Ministry of Finance and Development Planning will have direct responsibility for the implementation of the operation. The government has established, with support from donors, a Monitoring and Evaluation (M&E) department within the LDA to monitor progress on the implementation of the AfT. The Aid Management Unit within the Ministry of Finance and Development Planning 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 the objectives and indicators of the government's AfT. Furthermore much of the policies from the AFT, including those covered under this operation as well as those covered by other donors including the EU and the 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 (BSWG) 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 that are results-focused 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 Bank's side, the implementation of the operation will be monitored and evaluated through continuous dialogue and timely missions. Furthermore, scheduled Implementation Status and Results Reports will be prepared and made public.

6. SUMMARY OF RISKS AND MITIGATION

73. **The overall risk rating for the operation is substantial.** Liberia is transitioning from conflict to long-term development but the country remains fragile with weak state capacity and vulnerable to shocks as demonstrated by the Ebola crisis. Porous borders and fragile neighbors pose additional political challenges. The country and fiduciary risks and mitigation measures are summarized below:

Ebola epidemic: A deepening of the Ebola crisis poses considerable cross-cutting risks for the operation. Already, the outbreak is having an adverse impact on the daily lives of millions of people through the tragedy of human loss; the closure of borders and markets; the interruption of agricultural cycles; the restriction on the movement of people; the suspension of regional and international flights; and the delay in public and private investments.

Mitigation: To help mitigate further risks from the Ebola outbreak, the government is working with a number of multilateral and bilateral partners to provide the personnel, equipment and supplies needed to contain the spread and care for those infected. The budget support provided through the proposed operation will also enable the government to better address the risk.

Political and governance: The current security situation in Liberia is fragile, but stable. However, regional instability poses an on-going risk, more so with the gradual UNMIL drawdown. The operation includes reforms which are likely to reduce opportunities for corruption and rent-seeking behavior. It may therefore be difficult to secure political commitments from perceived “losers” to ensure effective implementation of the 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 Bank will engage more with the Legislature including in coordination with the IMF and other donors.

Macroeconomic: Liberia is heavily dependent on foreign direct investments and primary exports, for its fiscal revenues, foreign exchange and many of the decent jobs. It is dependent on imported fuel and food, including the primary staple—rice. The country is therefore vulnerable to external shocks and risks of fiscal slippage, exchange rate depreciation and inflation.

Mitigation: Some of these risks will be mitigated through the maintenance of prudent macroeconomic management with the support from the IMF through its ECF arrangement. There are also ongoing efforts, including through this operation, to broaden the base of the economy.

Operational design, implementation and sustainability: The design of this operation is relatively simple but implementation of the reforms will require coordination amongst state agencies. The capacity of the state is weak and implementation of the many critical, priority projects under the AfT overwhelms the limited capacity. Implementation delays of complementary projects could also pose risks for the implementation of the overall reforms.

Mitigation: Many of these implementation risks are difficult to mitigate but the World Bank will continue to support measures such as training and technical assistance for state building.

Fiduciary: Despite progress made in improving the fiduciary system, there are still weaknesses that present opportunities for corruption.

Mitigation: To help mitigate the fiduciary risks, this operation is supporting the roll-out of the IFMIS to key ministries and agencies and to expand its coverage to donor resources. This operation will also support strengthening procurement.

Environmental and social: Liberia is highly vulnerable to climate change as a large proportion of the coastal community live in poorly constructed housing with little protection from sea or

storm surges. Climate change-induced sea level rise combined with increasing storms and sea-surges could have catastrophic effects and hence draw fiscal resources from reforms.

Mitigation: To mitigate the natural disaster risks, the government has revitalized the National Disaster Relief Commission (NDRC) to educate the public and coordinate the disaster response. The UN is providing support to help assess and plan for the various natural disaster risks.

ANNEXES

ANNEX 1: LETTER OF DEVELOPMENT POLICY



OFFICE OF THE MINISTER

REPUBLIC OF LIBERIA MINISTRY OF FINANCE & DEVELOPMENT PLANNING

P.O. BOX 10-9016
1000 MONROVIA, 10 LIBERIA



GOL/FM/2-1/AMK/dem/7678/'14

October 30, 2014

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

Letter of Development Policy

Dear Mr. Kim:

On behalf of the Government of Liberia, I would like to provide you with a brief update on the socioeconomic impact of the Ebola crisis; the risk associated with our development agenda aimed at sustainable, inclusive, and pro-poor growth and development; and request your continued support through a Poverty Reduction Development Policy Financing Operation.

1. Current Context

The substantial socioeconomic progress that Liberia has made in the decade since the civil war ended risks being eroded by the deepening crisis triggered by the outbreak of the Ebola Virus Disease. The second wave of the epidemic that started in June has spread very rapidly, both in terms of the number of new cases and the geographic areas affected. Our fragile health system lacks the capacity to deal with an epidemic of that intensity, and has been further weakened by the numerous deaths of our health workers. The epidemic is inflicting a terrible human toll through the direct impact of the virus and the collapse of the health system more broadly.

In addition, the effects of the epidemic are severely damaging livelihoods for many Liberians. Prior to the outbreak, Liberia had been growing at about 7 percent on average since 2011, institutions had been re-built, and social indicators were gradually improving. Since July 2014, the sudden withdrawal from economic activity by many Liberians, foreign investors and contractors fearful of the Ebola virus, has led to substantial losses of output, revenues, employment and incomes. Some prices have increased as quarantine zones and curfews restrict the movement of goods and operation of markets, further undermining welfare. Preliminary indications are that GDP growth could fall from the nearly 5.9 percent initially estimated for 2014 to about 1 percent, as key sectors including agriculture, mining, manufacturing, and service sectors contract during the second half of 2014. Even in the best case scenarios where the epidemic is defeated in the fourth quarter of 2014, its economic effects are likely to linger into 2015.

The sectors most important for Liberians' livelihoods – agriculture and commerce – have been particularly impacted. This is unwinding Liberia's progress in reducing poverty – the share of the population living in material poverty fell from about two-thirds of the population in 2007 to 56 percent in 2010, and was expected to continue this downward trend until the onset of this crisis. The slump in activity is also compressing government revenues, while rising spending needs for health care and social protection to respond to the crisis are offsetting long-term investments and expanding the fiscal deficit.

The government has developed a National Strategy to respond to the epidemic and reopen the larger health system; and an Economic Recovery Plan to stabilize and revitalize the economy. With the support of our international partners, progress against the virus has already been achieved in areas that were initially its hotbeds; and in recent weeks tentative, initial indications have emerged that the broader epidemiological situation may be stabilizing, although we remain vigilant and continue to strengthen our capacity to respond.

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 our 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, if any. The longer the slump continues, the deeper the damage to Liberians' welfare and to public finances, and the more difficult recovery becomes.

2. The Government's Program

As we navigate these great challenges, the Government of Liberia remains committed to resuming its long-term development vision, the *Agenda for Transformation (Aft)*. Indeed, this crisis highlights the compelling needs to promote and sustain inclusive growth, and strengthen institutions involved with service delivery. Still, we believe that 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 and management of crisis. Progress has been made in creating defined rules of institutional scope and behavior. The Government has worked to raise transparency and improve governance. In 2010 the Freedom of Information Act was passed and in April last year the Legislature approved a new Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Law. Towards implementing that law, we have established a Financial Intelligence Unit (FIU) that will help make financial transactions more transparent. We are also working to improve the effectiveness of the Liberian Anti-Corruption

Commission, with the Commission's new head having prepared 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; and (iii) 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 prepared and adopted a revised pay reform strategy merging allowances and base pay for civil service cadres.

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 the roll-out of the IFMIS to a total of nineteen ministries and agencies, and brought five (5) donor-financed projects onto pilot tested mode in IFMIS. We expect to expand the system to most remaining ministries and agencies by the end of this 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 Concessions Commission (PPCC) has prepared and adopted detailed regulations, manuals and guides to facilitate the implementation of the 2010 Public Procurement Act. 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 General Auditing Commission (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, insecure land tenure and limited access to domestic financing particularly to the agricultural sector. 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. This year we 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 a quality education system. Both access and quality of education are low in Liberia. The availability and quality of education at the primary and secondary

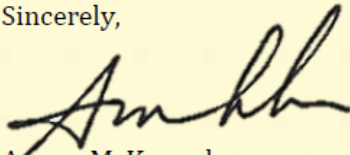
levels are dragged by: (a) lack of adequate school buildings, especially given the destruction through the war; (b) a shortage of qualified teachers—only one-third of primary school teachers and 60 percent of junior secondary teachers in public school have had training; and (c) inadequate teacher management 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 to improve the quality of education supplied, and so increase demand for education by improving the returns to schooling.

3. Conclusion

After an auspicious start, 2014 has become the most challenging year for Liberia since the end of the civil war. With the support of our partners, we will defeat the Ebola threat. Hastening its end is our paramount concern, at this time. Afterwards we will face considerable challenges to stabilize and revitalize not just our health system, but our broader public institutions and economy. The reform efforts this Government is continuing to institute, many of which have been supported by our budget support partners including the World Bank through the PRSDPF series, will place Liberia in a stronger position to counter future challenges and also ensure sustained prosperity for all our citizens.

We are counting on your continued engagement and support, and we extend to you the assurances of our highest esteem.

Sincerely,



Amara M. Konneh
M I N I S T E R

ANNEX 2: POLICY MATRIX AND RESULTS FRAMEWORK

Medium Term Objectives	PRSDPOI (PRSCI) (FY2013/14)	PRSDPOII (FY2014/15)	PRSDPOIII (FY2015/16)	PRSDPOIV (FY2016/17)	Indicators	Baseline (2012)	Expected Targets	Data Source	Ministry/Agency responsible for data collection
Pillar 1: Governance and Civil Service Reform									
AfT Goal: <i>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.</i>									
1A. Transparency and Accountability									
Improve transparency and reduce corruption by adopting & implementing AML/CFT Law in accordance with international obligations.	Prepared and submit draft Anti-Money Laundering and Countering the Financing of Terrorism Law to the Legislature	The Recipient has established a financial intelligence unit whose vocation is to help increase transparency in the Recipient's financial transactions.	Regulations on Currency Transaction Reports (CTRs) and Suspicious Transaction Reports (STRs) issued by the FIU	Complete all necessary steps to finalize application of the FIU for membership in the Egmont Group of FIUs	<i>Currency Transaction Reports and Suspicious Transaction Reports issues by the FIU (Number)</i>	None	>50(CTR) >10(STR)	Records of the FIU	LACC Ministry of Justice FIU
Strengthen the Liberia Anti-corruption Commission and improve legal framework for Asset Disclosure system.		The Recipient has completed the preparation of a three-year strategy, whose substance is acceptable to the Association, for the Liberia Anti-Corruption Commission.	Asset Disclosure unit within the LACC is operational with adequate staffing	Legal and regulatory policies for Asset Disclosure issued by the LACC to provide clear guidance for public officers.	<i>Senior Civil servants (Directors and above) providing complete asset statement to LACC (%)</i>	56%	75%	Compliance records of the LACC	LACC
1B: Civil Service Reform									
Rationalize civil service pay scale and publish the pay scale		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.	Complete merging of allowances and base pay for civil servants at levels 1-4.	Complete merging of allowances and base pay for civil servants at levels 5-10.	<i>Civil servants in grades 1-10 paid according to new pay structure (%)</i>	0%	100%	Civil Service Agency records	Civil Service Agency

Medium Term Objectives	PRSDPOI (PRSCI) (FY2013/14)	PRSDPOII (FY2014/15)	PRSDPOIII (FY2015/16)	PRSDPOIV (FY2016/17)	Indicators	Baseline (2012)	Expected Targets	Data Source	Ministry/Agency responsible for data collection
1C: Customs Administration									
Strengthen tax and customs administration including expanding customs coverage	Rolled-out the Custom administration system (ASYCUDA) to two additional ports of Bo-Waterside and Ganta		Roll-out of ASYCUDA to remaining 10 ports including: Yekepa, Toe Town, Harper, Logautuo, Yealla, Mendicoma, Jorwah, Butuo, Greenville and Bongoid. .	The preparation and implementation of a Customs Customer Service Charter approved by Cabinet following consultations with stakeholders	<i>Ports where ASYCUDA is operational (%)</i>	41%	100%	Customs records	MOF/Bureau of Customs and Excise
					<i>Share of total Customs revenue captured by ports where ASYCUDA is operational (%)</i>	90%	100%	Customs reports provided by ports	Bureau of Customs and Excise
1D: Public Financial Management									
Improved credibility, effectiveness, efficiency, and comprehensiveness in public resource management systems and practices.	Migrated payroll processing from the Legacy system to the IFMIS solution.	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.	Complete the validation of all employees through biometric authentication and link the HRMIS to the payroll system.		<i>Civil servants paid through the IFMIS solution(%)</i>	0%	100%	IFMIS records	CSA/MOF
		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.	Prepare and publish quarterly comprehensive GFS-compliant fiscal operations report for Liberia for FY 2013/14 and first 2 quarters of FY2014/15	Prepare and publish quarterly comprehensive GFS-compliant fiscal operations report for Liberia for FY 2014/15 and first 2 quarters of FY2015/16	<i>Ministries and Agencies in which IFMIS is installed and operational (Number)</i>	7 (MOF and 6 other M&As)	20+(MOF and All M&As)	IFMIS reports	MOF
	Submitted IPSAS-based financial statements of the GoL for FY 2010/2011) and for FY 2011/2012) to the GAC.	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.	Submit IPSAS compliant financial statements of the GoL for FY2013/14 to the GAC for audit.	Submit IPSAS compliant financial statements of the GoL for FY2014/15 to the GAC for audit.	<i>Submission of Annual Financial Statements to GAC after end of fiscal year(months)</i>	> 12 months	< 3 months	GAC records	MOF/GAC

Medium Term Objectives	PRSDPOI(PRSCI) (FY2013/14)	PRSDPOII (FY2014/15)	PRSDPOIII (FY2015/16)	PRSDPOIV (FY2016/17)	Indicators	Baseline (2012)	Expected Targets	Data Source	Ministry/Agency responsible for data collection
IE: Procurement									
Strengthen and professionalize the Procurement capacity of the civil service		The Recipient has structured, within its civil service, a career track for procurement specialists, with a view to improving budget execution.	Approval by PPCC of minimum standards and procurement accreditation system to certify procurement practitioners in Liberia	Approval by Cabinet of the transition order for the Procurement Training School.	<i>Trained and certified procurement analyst appointed in the civil service (Number)</i>	None	100	Verified by the CSA through Personnel Action Notice and appointment records	CSA PPCC
Strengthen oversight and regulation of procurement system		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.	Complete Road Map for the reform of the Public Procurement and Concession Commission and have said Road Map approved by Commissioners		<i>Implementation progress on Road Map for Reform of the Public Procurement and Concession Commission (Number of milestones met)</i>	None	TBD	PPCC progress report on implementation of the strategy	PPCC
					<i>Publication of annual Compliance Monitoring Report (CMR) by PPCC (Yes/No)</i>	No	Yes	Published of the PPCC's website	PPCC

Medium Term Objectives	PRSDPOI (PRSCI) (FY2013/14)	PRSDPOII (FY2014/15)	PRSDPOIII (FY2015/16)	PRSDPOIV (FY2016/17)	Indicators	Baseline (2012)	Expected Targets	Data Source	Ministry/Agency responsible for data collection
Pillart 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.			Complete least cost power development plan and have same approved by the Cabinet and implemented an open competitive Procurement process for imports of heavy fuel oil (HFO) used in electricity generation for LEC to ensure the lowest CIF cost of the fuel.	Cabinet approval of an electricity tariff strategy that appropriately balances the long-term sustainability of the energy sector with the distributional impact, given the evolution of the generation mix.	<i>Cost of Electricity to end users/KWH</i> <i>Urban access to electricity (number)</i> <i>% of energy produced from high cost Diesel</i>	\$0.55 12,742 100%	\$0.40 50,000 <20%	LEC monthly report verified by a sampling of business and residential consumers	LEC Ministry of Lands, Mines and Energy (MLME) Ministry of Finance and Development Planning
2B.Infrastructure: Transport									
Improve and maintain road infrastructure to ensure reliable, safe, affordable and efficient transport services			Prepare and submit to the Legislature a Road Act to define public roads and the legal rights and responsibilities for the control of such roads	Submit to the Legislature, legislation to facilitate private participation in road infrastructure.	<i>Roads maintained/Rehabilitated (km)</i>	250	618	Ministry of Public Work's record	Ministry of Finance and Development Planning Ministry of Public Works
2C.Agriculture and Land Reform									
Develop comprehensive national land tenure and land use system that will provide equitable access to land and security of tenure	Adopted a Policy Framework for Land Tenure Reform which clarifies land rights related to public land, government land, customary land and private land.			Establish comprehensive land administration system to administer land rights including through processes to manage state land, record and register private land, and assess land value to determine tax.	<i>Land parcels with use and ownership rights recorded under new policy</i>	None	TBD	Land Registry records	Ministry of Lands, Mines and Energy (MLME) Land Commission Ministry of Agriculture
Improve access to credit for the agricultural sector including for small farmers and rural MSMEs		The Recipient has established a collateral registry with a view to improving credit and expanding the rural economy.			<i>Share of commercial bank credit to the agriculture sector (%)</i>	3.7%	5.5%	Central Bank's monetary reports	Ministry of Finance and Development Planning Central Bank of Liberia

Medium Term Objectives	PRSDPOI (PRSCI) (FY2013/14)	PRSDPOII (FY2014/15)	PRSDPOIII (FY2015/16)	PRSDPOIV (FY2016/17)	Indicators	Baseline (2012)	Expected Targets	Data Source	Ministry/Agency responsible for data collection
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 a high quality free and compulsory basic education and a variety of post-basic education and training opportunities that lead to improved livelihood		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.	Adopt framework for equitable resource allocation by region and pupils' socio-economic status, particularly with respect to school grants scheme.		<i>Primary, junior secondary, and senior secondary net enrollment rates</i>	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%	Ministry of Education Survey	MOE

ANNEX 3: FUND RELATIONS NOTE

IMF Executive Board Concludes Third Review Under Extended Credit Facility Arrangement for Liberia and Approves US\$11.4 Million Disbursement

Press Release No. 14/328
July 3, 2014

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Liberia's economic performance under the three-year arrangement under the Extended Credit Facility (ECF) for Liberia. The completion of the review enables the disbursement of an amount equivalent to SDR 7.382 million (about US\$11.4 million), bringing total disbursements under the arrangement to SDR 29.528 million (about US\$45.7 million). In completing the review, the Board also granted a waiver for the nonobservance of the floor on government revenue, and modified the targets for end-June net foreign reserves and public sector gross external borrowing.

The ECF arrangement for Liberia for SDR 51.68 million (about US\$79.9 million) was approved by the IMF's Executive Board on November 19, 2012 (see [Press Release No. 12/449](#)).

Following the Executive Board's discussion, Mr. David Lipton, IMF First Deputy Managing Director and Chair issued the following statement:

"Liberia's growth performance remains strong. Real GDP growth is estimated at 8.7 percent in 2013, reflecting increased iron-ore production. Output is projected to continue to expand at a healthy pace over the medium term as new mining projects come on stream and non-mining activities pick up, supported by the implementation of large public infrastructure projects.

"The authorities continue to make progress in implementing their economic program, but further efforts are critically needed in some areas. The completion of the payroll cleanup will help save about 0.5 percent of GDP annually and the pilot phase of the Treasury Single Account has been launched. At the same time, substantial revenue shortfalls and recently-uncovered spending commitments for road projects outside the budget process underscore significant remaining capacity and institutional constraints.

"The authorities are taking appropriate actions to strengthen revenue collection and avoid the recurrence of extra-budgetary commitments. Additional measures to improve compliance by large taxpayers and state entities are being implemented, and the new Liberia Revenue Authority will focus on improving tax controls. The authorities have also requested external audits of the problematic road contracts, together with a broader review of procurement practices in other ministries. Additional structural measures, to be supported by Fund technical assistance, aim at strengthening expenditure controls and oversight of investment projects.

"Containing inflation in the dual currency regime will require more effective liquidity management. Enhanced coordination between fiscal and monetary authorities, together with further development of monetary policy instruments, would help better control the Liberian dollar money supply.

"The current debt accumulation is broadly in line with the temporary scaling up of public investment envisaged under the program, but borrowing plans need to carefully balance development needs and debt sustainability."