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CONFORMED COPY

GRANT NUMBER H385 - LBR

Financing Agreement

(Economic Governance and Institutional Reform Project)

between

REPUBLIC OF LIBERIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 29, 2008

GRANT NUMBER H385 - LBR

FINANCING AGREEMENT

AGREEMENT dated May 29, 2008, entered into between the REPUBLIC OF LIBERIA (“Recipient”) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Financing Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to six million seven hundred thousand Special Drawing Rights (SDR 6,700,000) (variously, “Grant” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are May 1 and November 1 in each year.
- 2.05. The Payment Currency is the Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 1 to this Agreement. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01 The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 4.02. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty years after the date of this Agreement.

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Minister responsible for finance.
- 5.02. The Recipient's Address is:

Minister of Finance
Ministry of Finance
Broad Street
Monrovia
Liberia

5.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	1-202-477-6391

AGREED at Monrovia, Republic of Liberia, as of the day and year first above written.

REPUBLIC OF LIBERIA

By: /s/ Antoinette M. Sayeh
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Ohene O. Nyanin
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to improve the efficiency and transparency in managing public financial and human resources.

The Project consists of the following two Parts:

Part I: Public Financial Management

Carrying out a comprehensive program of technical assistance on public financial management processes and systems including:

1. Strengthening the resource management unit within MOF through provision of technical assistance, implementation of the Public Financial Management Law and regulations including drafting procedures, training, and developing an internal audit strategy and standards, installation of a check writing system, upgrading the computer network and accounting software, and establishing payment capability in selected counties through recruiting and posting paymasters/controllers.
2. Strengthening the human resource capacity for planning and budgeting through the MOF's Financial Management Training School.
3. Strengthening the procurement capacity in the PPCC, ministries, departments, private sector and LACE through acquisition and installation of procurement software, operating costs, office equipment and information technology.
4. Strengthening tax administration reforms by the MOF revenue department including carrying out needs assessment, implementing and maintaining a computerized integrated tax administration system, and training.
5. Supporting mining sector reforms including audit of revenues and payments from extractive industries and strengthening institutions responsible for the mining sector and the EITI Secretariat.
6. Strengthening the internal and external oversight functions of institutions such as the General Auditing Commission and the Ways and Means Committees in the National Assembly through provision of technical assistance and training, operational costs, equipment, and software.

Part II: Supporting the Civil Service Reform Program

Supporting the design and implementation of a civil service reform program through:

1. Implementing a computerized human resource management information system linked to payroll and pension at MOF and training of staff in the system's use.
2. Rehabilitating and strengthening LIPA's training capacity through provision of equipment; development of course materials, training of trainers, professionalization of the public procurement function including developing the public management curricula of LIPA and a relevant academic discipline at the University of Liberia, and developing a policy paper and road map for establishing a procurement career path.

SCHEDULE 2

Project Execution

Section I. Institutional and Implementation Arrangements

A. Institutional Arrangements

1. MOF

The MOF shall have overall responsibility for execution of the Project.

2. National Steering Committee

The Recipient shall maintain at all times until the completion of the Project, a national steering committee (the National Steering Committee) with a composition, mandate and resources satisfactory to the Association to be responsible for Project oversight, including *inter alia*: providing conceptual and strategic guidance to the implementing agencies for Project design, implementation and coordination of activities; reviewing Project progress and performance; approving the Annual Work Program and Budget; and resolving implementation problems or conflicts.

3. Project Technical Committee

The Recipient shall maintain, at all times until the completion of the Project, a Project technical committee (the Project Technical Committee) with a composition, mandate and resources satisfactory to the Association to be responsible for, *inter alia*: day to day Project management and coordination; review of the proposed Annual Work Program and Budget; carrying out of the Project's mid-term review; monitoring of progress against the performance indicators referred to in Section II.A of this Schedule and preparation of Project reports on such progress.

4. Project Financial Management Unit

The Recipient shall maintain at all times until the completion of the Project, a Project financial management unit (the PFMU), with a composition including a full time unit head, accountant and internal auditor, mandate and resources satisfactory to the Association to be responsible for carrying out the day to day financial management of the Project including *inter alia*: establishing and maintaining an effective accounting system; preparing the financial reports referred to in Section II.B.2 of this Schedule; budget programming and processing of payments; facilitating the financial audits referred to in Section

II.B.3 of this Schedule; coordinating the processing and selection of the procurement management firm; and preparing Project Reports on a quarterly basis.

B. Implementation Arrangements

1. Project Implementation Manual

The Recipient shall carry out the Project in accordance with the arrangements and procedures set out in the Project Implementation Manual setting out *inter alia*, administrative, financial and accounting, procurement and disbursement procedures, performance indicators, terms of reference of staff and other activities and arrangements (provided, however, that in case of any conflict between the arrangements and procedures set out in the Project Implementation Manual and the provisions of this Agreement, the provisions of this Agreement shall prevail) and, except as the Association shall otherwise agree, shall not amend, abrogate or waive any provision of the Project Implementation Manual, if such amendment, abrogation or waiver may, in the opinion of the Association, materially or adversely affects the implementation of the Project.

2. Annual Work Program and Budget

The Recipient shall:

- (a) prepare in accordance with terms of reference acceptable to the Association and not later than November 30 of each year during Project implementation, starting in 2008, furnish to the Association for its approval, an annual work program and budget (Annual Work Program and Budget) for the following calendar year, each said program to include, *inter alia*: the Project activities to be carried out during the twelve months immediately following the presentation of each said program; the annual budget for such activities; and the Procurement Plan, disbursement schedule and chart of accounts for such activities; and
- (b) carry out such annual work program during such following year as shall have been approved by the Association.

3. **Anti-Corruption**

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth below in sub-paragraph (b) of this paragraph. Each Project Report shall cover the period of six months and shall be furnished to the Association not later than one (1) month after the end of the period covered by such report.
- (b) The performance indicators referred to above in sub-paragraph (a) consist of the following:
 - (i) decrease in variance between budget out-turn and legislated budget allocation for each Ministry;
 - (ii) revenue administration cost as a percentage of revenue;
 - (iii) increase in the percentage of number of procurement for which the bidding invitation is advertised; and
 - (iv) decrease in discrepancy between nominal roll and payroll.
- (c) Without limitation on the generality of sub-paragraph (a) above, the Recipient shall carry out jointly with the Association; on or about twelve (12) months after the Effective Date, a comprehensive mid-term review to assess the status of Project implementation. Not later than one (1) month before such review, the Recipient shall prepare and furnish to the Association, a report for purposes of such review that is satisfactory to the Association.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions. Without limitation on the foregoing, the Recipient shall maintain an integrated accounting software system that is satisfactory to the Association.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal under the Financing was made. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods.** All goods required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods.** The following table specifies the methods of procurement other than International Competitive Bidding, which may be used for goods. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) Limited International Bidding
(b) National Competitive Bidding
(c) Shopping
(d) Direct Contracting
(e) Procurement from United Nations Agencies (and the Inter-Agency Procurement Services Office)

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Single Source Selection
(b) Individual Consultants
(c) Selection Based on Consultants' Qualifications
(d) Least Cost Selection

D. Review by the Association of Procurement Decisions

1. The Procurement Plan shall set forth those contracts which shall be subject for the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects," dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions) to finance 100% of Eligible Expenditures.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (Inclusive of Taxes)
(1) Component 1: Consultant's services (including audits), training, workshops, goods and operating expenses	5,150,000	100%
(2) Component 2: Consultant's services (including audits), training, workshops, goods and operating expenses.	1,350,000	100%
(3) Unallocated	200,000	
TOTAL	6,700,000	100%

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawals shall be made in respect of payments for expenditures prior to the date of this Agreement.
2. The Closing Date is August 31, 2011.

Section V. Other Undertakings

- A The Recipient shall furnish for review by the Association the proposed terms of employment, including performance monitoring measures for the project coordinator and shall ensure that, at all times during the implementation of the Project, such staff are maintained under the terms of employment, so approved by the Association, and their performance is evaluated in accordance with the performance monitoring measures so approved.

APPENDIX

Definitions

1. “Annual Work Plan and Budget” means the program referred to in Section I.B.2 of Schedule 2 to this Agreement.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants,” dated October 15, 2006.
3. “Civil Service Reform Program” means the program designed to improve and strengthen the Recipient’s civil service and set forth or referred to in the letter dated April 30, 2008, from the Recipient to the Association.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
5. “EITI” means the Extractive Industries Transparency Initiative of the World Bank, a multi country initiative pursuant to which the Recipient, for its part, has by a memorandum of understanding dated April 4, 2008, signed by the minister of finance of the Recipient and development partners, committed to carrying out specific programs, policies, and actions relevant to its extractive industries.
6. “EITI Secretariat” means the administrative body established by the Recipient to carry out functions relevant to EITI pursuant to the policy note on the implementation of the EITI signed by the President of the Recipient, dated May 7, 2007, and pursuant to a memorandum of understanding dated April 4, 2008, signed by the minister of finance of the Recipient and development partners.
7. “General Auditing Commission” means the entity established pursuant to the amendment of Section 53.2 of Executive Law 1972 of the laws of the Recipient.
8. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).

9. “LACE” means the Liberia Agency for Community Empowerment established and operating pursuant to the Community Empowerment Act of the Recipient dated July 22, 2004, or any successor thereto.
10. “LIPA” means the Liberia Institute of Public Administration established and operating pursuant to an Act of the Legislature of the Recipient dated May 13, 1969, or any successor thereto.
11. “Ministry of Finance” or “MOF” means the Recipient’s ministry responsible for finance.
12. “MOF Financial Management Training Programme” means the programme established for financial management training and operating pursuant to the memorandum of understanding between the University of Liberia, Ministry of Finance, the Civil Service Agency of Liberia, and LIPA, dated November 17, 2006.
13. “National Steering Committee” means the committee referred to in Section I.A.2 of Schedule 2 to this Agreement.
14. “National Traditional Council” means the Recipient’s entity created through the traditional council election process completed in 2006, or any successor thereto.
15. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
16. “Procurement Plan” means the Recipient’s 6-month procurement plan for the Project, dated April 23, 2008, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of the said paragraphs.
17. “Project Financial Management Unit” or “PFMU” means the unit established within MOF for purposes of carrying out financial management of the projects financed by the Association, including the Project, and referred to in Section I.A.4 of Schedule 2 to this Agreement.
18. “Project Implementation Manual” means the Recipient’s manual referred to in Section I.B.1 of Schedule 2 to this Agreement, to be adopted by the Recipient

after the Effective Date of this Agreement, and as the same such manual may be amended from time to time.

19. "Project Technical Committee" means the committee referred to in Section I.A.3 of Schedule 2 to this Agreement.
20. "Public Financial Management Law" means Executive Law 1972 (and the Revenue Code of Liberia Act of 2000) of the laws of the Recipient, as amended to the date of this Agreement.
21. "Public Procurement and Concession Commission" or "PPCC" means the entity established and operating pursuant to the Public Procurement and Concessions Act of the Recipient, dated September 8, 2005, or any successor thereto.
22. "University of Liberia" means the public university in the Recipient's territory established and operating pursuant to the Charter granted to the University of Liberia by the national legislature of the Recipient in 1951.
23. "Ways and Means Committees" means the committees responsible for scrutinizing the annual budget of the Recipient in each chamber (house and senate) of the national legislature of the Recipient.