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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR THE

THIRD REENGAGEMENT AND REFORM SUPPORT PROGRAM

IN THE AMOUNT OF SDR 7.5 MILLION

(US$11 MILLION EQUIVALENT)

INCLUDING SDR 4.1 MILLION IN PILOT CRW RESOURCES

(US$ 6.0 MILLION EQUIVALENT)

TO THE

REPUBLIC OF LIBERIA

September 13, 2010

Poverty Reduction and Economic Management 4
Country Department 1
Africa Region

CURRENCY EQUIVALENT
(As of September 10, 2010)

Currency Unit	=	Liberian Dollar
US$1	=	LR$71.0

FISCAL YEAR
July 1 – June 30

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
ASYCUDA	Automated System for Customs Data
BOB	Bureau of the Budget
CARP	Complaints, Appeals and Review Panel
CAS	Country Assistance Strategy
CBL	Central Bank of Liberia
CFAA	Country Financial Accountability Assessment
CISCAB	Civil Service Capacity Building
CMC	Cash Management Committee
CoC	Chain of Custody
CPIA	Country Policy and Institutional Assessment
CS-DRMS	Commonwealth Secretariat's Debt Recording and Management System
CRW	Crisis Response Window
CWIQ	Core Welfare Indicators Questionnaire
DFID	Department for International Development
DP	Decision Point under the Enhanced HIPC Initiative
DTIS	Diagnostic Trade Integration Study
DRF	Debt Reduction Facility
ECF	Extended Credit Facility
EEC	European Economic Commission
ECOWAS	Economic Community of Western African States
EGSC	Economic Governance Steering Committee
EIA	Environmental Impact Assessment
EITI	Extractive Industries Transparency Initiative
EU	European Union
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
FMC	Forestry Management Contract
FY	Fiscal Year
GAC	General Auditing Commission
GDP	Gross Domestic Product
GEMAP	Governance and Economic Management Assistance Program
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
IPSAS	International Public Sector Accounting Standards

IRC	Internal Review Committee
ITAS	Integrated Tax Administration System
JMAP	Joint Management Action Plan
JAS	Joint Country Assistance Strategy
LECAP	Liberia Expenditure Control and Accounting Program
LACE	Liberian Association for Community Empowerment
LEITI	Liberia Extractive Industry Transparency Initiative
LIC-DSA	Low-income country debt sustainability analysis
LICUS	Low Income Countries Under Stress
LISGIS	Liberia Institute of Statistics and Geo-Information Services
LRC	Liberia Revenue Code
LRDC	Liberia Reconstruction and Development Committee
MoF	Ministry of Finance
M&A	Ministries and Agencies
NGOs	Non-governmental Organizations
NSDS (2008)	National Strategy for the Development of Statistics
NTGL	National Transitional Government of Liberia
PFM	Public Financial Management
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PEMFAR	Public Expenditure Management and Financial Accountability Review
PPCC	Public Procurement and Concessions Commission
RMU	Resource Management Unit
RRSP	Re-engagement and Reform Support Program-I, II, III
SMP	Staff Monitored Program
SOE	State-Owned Enterprise
TIN	Taxpayer Identification Number
TOKTEN	Transfer of Knowledge Through Expatriate Nationals
TSC	Timber Sales Contract
UN	United Nations
UNDP	United Nations Development Programme
UNMIL	United Nations Mission in Liberia
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development

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REPUBLIC OF LIBERIA
THIRD REENGAGEMENT AND REFORM SUPPORT PROGRAM

TABLE OF CONTENTS

List of Tables:

List of Boxes:

List of Annexes:

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REPUBLIC OF LIBERIA
THIRD REENGAGEMENT AND REFORM SUPPORT PROGRAM

GRANT AND PROGRAM SUMMARY

Recipient: Republic of Liberia

Implementing Agency: The Ministry of Finance

Financing Data: The amount of this IDA grant has been increased from SDR 3.4 million (US$5 million equivalent) to SDR 7.5 million (US$11 million equivalent) through the addition of SDR 4.1 million (US$6 million equivalent) from the Crisis Response Window (CRW) to help mitigate the ongoing effects of the global economic slowdown on key priorities reflected in the Poverty Reduction Strategy.

Operation Type: Programmatic DPL (two operations) The proposed operation is the first in a series of two operations.

Main Policy Areas: The main policy areas supported by this operation include: (i) improving budget planning and execution; and (ii) improving land administration to reduce conflicts and enhance the investment climate.

Key Outcome Indicators

Key Indicators	Base-line	Target
Average difference between out-turn and legislated budget for each Ministry, as measured by PEFA indicator PI-2.	16% (FY08/09)	10% (FY10/11)
The timely production of IPSAS complaint financial statements to facilitate complete audit of the final account of the budget in keeping with the PFM Act.	*No complete financial statement produced and audits are transactional audits (2008/09)*	*Complete IPSAS compliant financial statements for FY09/10 produced for auditing (June 2011)*
Consolidation of land deeds in the National Archive.	*65 percent of Land deeds in national archive (2009)*	*90 percent of land deed in national archive (June 2011)*
Number of deeds digitized and filed in the National Archive.	*0 percent (2009)*	*75 percent (June 2011)*
Percentage decrease in the number of land dispute cases in the docket.	*To be determined*	*50 percent decrease from baseline (June 2011)*

Program Development Objective(s) and Contribution to the Country Assistance Strategy (CAS):	The objectives of the proposed grant are to support government-owned ongoing reforms to strengthen governance and improve the environment for private sector-led growth that is more broadly shared. More specifically, the RRSP III focuses on: (i) improving budget planning and execution; and (ii) improving land administration to reduce conflicts and enhance the investment climate. The grant is an integral part of IDA's Country Assistance Strategy for the period FY09-11 presented to the Board in April 2009 and is closely coordinated with assistance provided to support the program of government's reforms through the ongoing Economic Governance and Institutional Reform Project (US$11 million equivalent), the Liberia Land Sector Reform Project (US$3 million equivalent), the EU budget support operation and the IMF ECF.
Risks and Risk Mitigation:	The proposed operation is **high risk.** The principal risks are: ***Security risk.*** The security situation in Liberia remains fragile owing to the large number of (mostly) unemployed ex-combatants (a situation exacerbated by the effects of the global crisis), and the fragile political situation in some of Liberia's neighbors. ***Political risk.*** The political risks in Liberia have abated as more members of the Parliament coalesce around the Poverty Reduction Strategy (PRS) agenda even though the government of President Sirleaf does not have a majority in the country's Parliament. However, as the 2011 election approaches it may become increasingly difficult to reach agreement on critical reform issues that may need timely legislative action. ***Macroeconomic risk.*** The recent global financial crisis has highlighted Liberia's vulnerability to macroeconomic shocks in large part due to its dependence on imported food and fuel and on primary exports and foreign direct investment in key sectors. In addition, limited fiscal space and borrowing constraint limit the counter-cyclical response to macroeconomic shocks. ***Fiduciary risk.*** Government has made notable progress in improving governance, including the establishment of the Anti-corruption Commission in December 2008 and the conduct of several audits including of the five key spending ministries of Finance, Education, Health, Public Works and Ministry of Lands, Mines and Energy. However, there are still weaknesses in the fiduciary control environment that create opportunities for fraud and corruption. ***Natural disaster risk***. Liberia also faces potential natural disasters from climate-related hazards including floods, landslides, excessively high temperatures, drought, windstorms, and coastal erosion following sea level rise. ***Implementation Risk***. Some progress has been made in enhancing capacity in the public service including through the Senior Executive Service. However, the implementation of the many critical projects still overwhelms the government's limited capacity, resulting in implementation delays. ***Risk Mitigation***. These risks are mitigated respectively, through: (i) the continued commitment of the UN security forces through to 2012 and donor support for training of the local police force; (ii) training for legislators and legislative staff and technical assistance to help the government explain its position to legislators. In addition, through communication outreach the government will explain its

policy position to build support from civil society for the proposed reforms; (iii) government's continued adherence to a medium-term macroeconomic framework elaborated in the Poverty Reduction Strategy and supported by the IMF ECF. The macroeconomic risk would also be mitigated by close economic monitoring and coordination by the Bank, the IMF and other donors including through the Common Assessment Framework (CAF); (iv) the continued improvements in financial management and procurement systems and procedures supported by technical assistance from the World Bank and other donors is a key factor in mitigating the fiduciary risks; (v) actions such as; (a) revitalizing the National Disaster Relief Commission and its secretariat to educate the public about disaster risk reduction and to coordinate the Government's response to disasters (b) developing a national disaster management policy and plan, and establishing an inter-sectoral coordination mechanism to increase security against the priority threats of floods, coastal erosion, forest fires and chemical spills and (c) developing an integrated coastal zone management plan, a wetlands management policy and a water resources management are key to mitigating the natural disaster risk and (vi) World Bank's ongoing technical assistance to the Resource Management Unit and the Public Procurement and Concessions Commission (PPCC) as well as technical assistance from other donors including USAID, are helping to mitigate the implementation risks.

Project ID No.: P117279

REPUBLIC OF LIBERIA
THIRD REENGAGEMENT AND REFORM SUPPORT PROGRAM

1. INTRODUCTION

1.1 This program document proposes a Third Re-engagement and Reform Support Program Grant (RRSP III) to the Republic of Liberia in the amount of SDR 7.5 million (US$11 million equivalent). This operation is the first in a programmatic series of two one-tranche Development Policy Operations which aims to support government-owned ongoing reforms to strengthen governance and improve the environment for private sector-led growth that is more broadly shared. More specifically, the RRSP III focuses on: (i) improving budget planning and execution; and (iii) improving land administration to reduce conflicts and enhance the investment climate. Importantly, this support builds on and deepens previous related efforts under the first RRSP approved by the Board in December 2007 and the second RRSP approved by the Board in May 2008. The grant is an integral part of IDA's Country Assistance Strategy for the period FY09-11 presented to the Board in April 2009 and is closely coordinated with assistance provided to support the program of government's reforms through the ongoing Economic Governance and Institutional Reform Project (US$11 million equivalent), the Liberia Land Sector Reform Project (US$3 million equivalent), the EU budget support operation and the IMF Extended Credit Facility (ECF).

1.2 Liberia's progress since the end of the civil war in 2003 has been notable. Its resolve to improve governance has been marked by the agreement on GEMAP with donors, the establishment of the Anti-corruption Commission, the completion of more than 20 high quality audit reports (many of which have been published) and became the first country in Africa and second country in the world to achieve EITI compliance. Infrastructure is also being rebuilt and the delivery of social services is advancing. For example, the Basic Package of Health Services (BPHS) is now being delivered in 47 percent of government health centers, surpassing the initial target of 40 percent. The government is determined to maintain these reforms in the context of its Poverty Reduction Strategy (PRS) being implemented from April 1, 2008 to June 30, 2011.

1.3 The reforms supported by this grant are aligned to the government's PRS and reflect a continuation of focused support to the Republic of Liberia at a critical stage of its transition from post conflict recovery to long-term sustained growth and development. However, as the country attempts to make this transition, its open and still fragile economy has been severely affected by the succession of the food and fuel price crisis in 2008 and the global financial crisis in 2009. The impact of the global crisis has been substantial. The nascent growth has been curtailed through lower and delayed investments, fiscal space has been severely eroded as a result of the lower economic activity and the trade balance and overall balance of payments deteriorated. It is also likely that any poverty gains from the previous growth episodes may have been reversed.

1.4 The operation would provide financial support to the government in the context of this exceptionally unfavorable global economic environment. The amount of this grant has been increased from (US$5 million equivalent) to (US$11 million equivalent) through the addition of US$6 million from the Crisis Response Window (CRW) to help mitigate the ongoing effects of the global economic slowdown on key priorities reflected in the Poverty Reduction Strategy. Since Liberia remains at risk of debt distress, IDA resources are provided on grant terms, per the stipulations of the grant allocation system agreed with IDA donors for the IDA 15 period. Liberia is also eligible for annual exceptional post-conflict allocations from IDA.

2. LIBERIA'S DEVELOPMENT CHALLENGES AND PROSPECTS

A. POLITICAL AND SOCIOECONOMIC BACKGROUND

2.1 Poor governance and nearly fifteen years of brutal conflict destroyed lives, key institutions, infrastructure, and grounded the Liberian economy to a halt. Approximately 270,000 people were killed and about a third of the total population was displaced by the conflict. Schools and hospitals were damaged or destroyed and key social services were severely disrupted. Major infrastructure including roads, railroads, electricity generation and transmission, potable water and sewage facilities were utterly destroyed. The origin of the conflict is largely blamed on the exclusion and marginalization of a large part of the Liberia population from political power and the economic wealth from the country's natural resources. Poor economic governance and weak public financial management in particular allowed public resources to be utilized for the benefit a small group of political elite which heightened inequality and social instability. The social discontent erupted into a brutal civil war in 1989. A 1995 peace agreement led to the election of Charles Taylor as president in 1997, but did not last long as fighting broke out again in 1999.

2.2 The 2003 Accra Comprehensive Peace Accords and deployment of a 15,000 strong UN peacekeeping force and the activities of the several donors in Liberia have provided much-needed space to lay a solid foundation for recovery, including establishing a strong governance framework, rebuilding infrastructure and delivering essential social services. World Bank engagement since 2003 has focused on providing emergency stabilization support to begin the process of rebuilding state institutions and restarting public service delivery. During this period, the World Bank's programs focused on basic economic governance reforms, community-driven development for service delivery, and emergency infrastructure rehabilitation.

2.3 The inauguration of a new democratic government on January 16, 2006 following a period of ineffective rule by a National Transitional Government (NTGL) has brought renewed hope and new dynamism to the recovery efforts in Liberia. The country is now at an inflection point, moving from the transitional post-conflict recovery phase to laying the foundations for long-term development. The government's main focus is on sustaining economic growth—getting major transport corridors functioning to open up trade and commerce, revitalizing agriculture, and getting energy infrastructure up and running. Employment generation is also a key priority for the government to ensure that citizens experience the tangible benefits of peace and reform. Moreover, this priority has received heightened consideration in the wake of the negative impact of the global crisis on employment in key sectors in Liberia. On the policy side, the government is focusing on consolidating economic governance reforms and moving beyond the transitional Governance and Economic Management Assisted Program (GEMAP) which ended at HIPC completion point in June 2010, to a fully-owned and functioning Governance framework including an effective public financial management system based on the implementation of the new PFM law and the PFM Action Plan, and overseen by a PFM Reform Steering Committee.

2.4 Although Liberia has made notable progress on many fronts, the country remains fragile with substantial political and socioeconomic risks. The political risks are of particular attention as Liberia heads into national elections in 2011. With a Gross National Income per capita of US$150, Liberia is the second poorest country in the world. An estimated 63.8 percent of the population, or more than one and a half million Liberians, live below the national poverty line, with 47.9 percent of the population living in extreme poverty.[1] Many working age persons are still unemployed and countless are underemployed. Expectations from the population for concrete peace dividends remain very high but the government faces many challenges in fulfilling these expectations. Limited human and financial resources constrain the reach of the government and the 2008 food and fuel crisis and the 2009 global crisis have not only further constrained the public resources but have also adversely affected the private sector's efforts to increase production and employment. In December 2009, the final report of the Truth and Reconciliation Commission (TRC) was submitted to the Parliament for debate.

B. RECENT ECONOMIC DEVELOPMENTS

2.5 The strong postwar recovery continued in 2008 but the difficult international environment towards the end of 2008 through most of 2009 created substantial challenges for Liberia's fledgling economy. Despite the challenges however, growth, although substantially lower than the level projected before the crisis is estimated to be positive in 2009. Also, the government pursued prudent fiscal and monetary policies and as a result has maintained broad macroeconomic stability. The IMF Board approved the completion of the Fourth Review under the ECF-supported arrangement in June 2010.

2.6 **Impact of Global Crisis and the Government's Response**. The global crisis which emerged in the latter half of 2008 and deepened in 2009 has had considerable impact on the Liberian economy. The effects of the crisis have operated through three primary channels. First, through its effects on prices for Liberia exports: The price of iron ore is projected to fall from US cents 113.2 per dry metric ton in 2008 to 78.9 US cents in 2010. This projected reduction in price has had an adverse impact on the scheduling of investment in the iron ore industry with lower than planned start-up investment. The lower prices projected for palm oil, from US$885.9/metric ton in 2008 to US$792.1/metric ton in 2010 have also led to a slowdown in the planned investments in the oil palm sector. In addition, the lower price for logs resulted in delays in some of the start-up from the concessions which the government signed in 2009. The delayed or lower than planned investments is reflected in the decrease in the net foreign direct investment from US$272 million in 2008 to only US$153 million in 2009 (Table 2.5). Second, through its effects on the inflows of remittances from the diaspora as a result of the sharp rise in unemployment, particularly in the United States: Comparative data available for up to November 2009 show total remittances inflows down from US$883.9 million for the 11 months of 2008 to US$711.3 million for the comparable 11 months of 2009, a decline of nearly 20 percent. The third channel through which the effects of the global crisis impacted Liberia was through its adverse effect on external credit, particularly trade credit available to the private sector in Liberia. Net private financing which was US$111 million in 2008, fell to US$52 million in 2009.

2.7 At the macro level, the global crisis has resulted in a much weaker economy than envisaged under the government's PRS framework. Under the PRS, the growth forecast was 9.6

[1] Core Welfare Indicator Questionnaire 2007.

percent in 2008, increasing to 10.3 percent in 2009 and further to 14.8 percent in 2010 before slowing to 12.3 percent in 2011. The lower exports and investment as well as the lower demand in the domestic economy from the reduced remittances and credit has resulted in growth slowing to 7.1 percent in 2008 and decelerating to 4.6 percent in 2009. The weaker growth has resulted in substantial job losses in an economy where unemployment and underemployment is already relatively high. Good quality labor force data is currently not available in Liberia but reports from key employers in the mining and the commercial agriculture sub-sectors suggest that employment in these sectors has been adversely affected by the global crisis. Estimates suggest that the rubber sector may have shed around 4,000 workers and one mining company may have reduced its workforce by many as 1,000 workers. Although exports fell, the impact of the global crisis on the balance of payments was somewhat mitigated by the reduction in imports as well as marginal improvements on the services and income accounts. The net effect was an improvement in the overall balance of payments from a deficit of 57.4 percent of GDP in 2008 to a smaller deficit of 33.3 percent in 2009 (Table 2.2).

2.8 The fiscal impact of the crisis has been largely through the slowdown in revenue growth between FY07/08 and FY08/09 (5.2 percent increase compared to the previous fiscal year's 36.8 percent increase). The fiscal impact of the global crisis can in part be gauged by the variance between the estimates for total tax revenues in the PRS for FY09/10 and FY10/11. As Table 2.1 below shows, total tax revenues for FY09/10 are estimated to be nearly US$18 million lower than projected under the PRS largely as a result of lower international trade taxes and lower income and profit taxes reflecting the impact of the global crisis. For FY10/11 total tax revenues are US$57.3 million lower than forecasted under the PRS with the taxes on international trade and income and profit accounting for the largest differences. This unanticipated slowdown in revenues resulted in challenges in meeting the planned expenditures of US$371.9 million for the FY09/10 budget.

Table 2.1: PRS Revenue Forecast and Recent Forecast (US$ Million)

	PRS	**Most recent estimates for FY09/10**	**Variance**	**PRS**	**Forecast for FY10/11**	**Variance**
Total Tax revenue	222.2	204.3	-17.9	260.9	203.6	-57.3
Taxes on international trade and transactions	111.1	87.5	-23.6	132.3	94.3	-38.0
Taxes on Income and Profit	66.0	68.1	2.1	77.6	57.6	-20.0
Taxes on Goods and Services	41.9	42.4	0.5	47.4	48.3	-0.9
Other taxes on domestic	3.1	6.3	3.2	3.7	3.4	-0.3
Non-Tax Revenue	38.9	73.5	34.6	55	79.8	24.8
Grants	11.8	13.0	1.2	13.9	59.1	45.2

Source: PRS, IMF and World Bank Staff calculations

2.9 The government has responded to the global crisis on a number of fronts. First during the food crisis, it waived the import duty on rice, the country's food staple at an overall cost of US$8.7 million or about 0.9 percent of the FY09/10 GDP. With support from IDA it is also implementing a Cash-for-Work Temporary Employment Project to provide income to vulnerable households. Second, the government has been able to obtain more grants to help fill the gap from lower tax revenues. Third, the government has increased its focus on broadening the tax base through tax policy reforms and modernization of domestic tax and customs administration to improve tax compliance[2] and increase tax revenues. Fourthly, the government is working to improve its capacity within the Ministry of Finance to provide better revenue and expenditure forecast.

2.10 **Economic Growth, Inflation.** Real GDP growth has averaged 5.2 percent during 2004-2006 spurred mainly by the recovery of rubber exports following the end of the war in 2003. Growth increased further by 9.5 percent in 2007 driven by agriculture (mainly rubber), retail trade, communications, transport and the construction sub-sectors. Increased foreign direct investment in the mining sector and particularly iron ore mining also contributed to the increased growth in 2007. As discussed above, the global crisis which emerged in the latter half of 2008 slowed growth in Liberia from the original pre-crisis projection of 8.6 percent to 7.1 percent in 2008 (Table 2.2). It is estimated that GDP growth fell further to less than 5 percent in 2009. Inflation which remained stable in the single digit range between 2004 and 2006 increased to 14.7 percent at end 2007 largely as a result of increases in food and fuel prices. However as oil prices tumbled towards the end of 2008, the inflation rate moderated to 9.4 percent at the end of 2008. The end of period inflation rate is estimated at around 9.7 percent in 2009, largely reflecting the 4.1 percent depreciation in the nominal exchange rate as well as the uptick in oil prices in 2009.

Table 2.2: Liberia—Selected Economic and Financial Indicators, 2006-2012

Indicator	**2006**	**2007**	**2008**	**2009** Est.	**2010** Proj.	**2011** Proj.	**2012** Proj.
Real GDP (% growth)	7.8	9.5	7.1	4.6	6.3	8.5	8.3
Consumer prices (annual average % growth)	7.2	13.7	17.5	7.4	7.6	3.9	5.0
Consumer prices (end of period %)	8.9	14.7	9.4	9.7	4.8	4.7	5.0
Exchange rate (end of period L$/US$)	59.5	61.3	63.2	68.3	..	..	
Exports, f.o.b (US$Million)	162	208	254	153	249	312	405
Imports, f.o.b (US$Million)	441	499	709	563	690	963	1,061
External Current Account Balance, incl. grants (% of GDP)	-13.7	-31.2	-57.4	-33.3	-39.9	-55.8	-56.5
Broad Money (% Change)	34.4	40.1	41.4	43.1	12.6	10.2	11.5
Revenues and Grants (% of GDP)	15.0	21.9	25.9	27.3	31.8	34.5	34.5
Grants (% of GDP) 1/	0.2	0.2	0.8	2.7	1.4	5.9	3.8
Expenditures (% of GDP)	10.8	18.1	24.7	28.9	31.5	34.1	38.2
Capital Expenditure (% of GDP)	0.6	2.5	3.0	3.9	5.5	7.8	11.5
Overall surplus or deficit (incl. grants, cash basis)	4.2	3.7	1.2	-1.6	0.4	0.4	-3.7
Public sector domestic debt (% of GDP)	49.6	43.9	39.3	34.4	32.2	28.9	27.3
Public sector external debt (incl. arrears US$ Mn)[3]	5,032	4,197	3,203	1677	149	161	188
Public sector external debt (% of GDP)	823	563	377	191.9	15.6	21.8	24.2
Debt service charge (% of GDP)	0	0	1.6	0.0	0.4	2.4	2.2
Nominal GDP (US$ Millions)	611.6	745.5	797.6	861.9	913.5	992.6	1085.6

All figures are expressed as percent of GDP unless otherwise specified.
Fiscal data is on a cash basis. Non-zero fiscal balances are due to some budget expenditures being reported as financing items and to the drawdown of prior year's accumulated deposits.
1/ Assumes full delivery of HIPC Initiative, MDRI and beyond-HIPC assistance.
Source: IMF and Bank Staff Estimates

[2] Tax compliance is defined as the percentage of tax filed that is paid.
[3] Debt data for 2009 does not include the reductions as a result of the Paris Club relief and the commercial debt buy-back.

2.11 **Fiscal Policy**. Since 2006, the authorities have pursued a balanced cash budget and have made notable progress in fiscal management. Revenue collection increased by 73.3 percent in FY06/07 from about US$84.6 million in FY05/06. For FY07/08 revenues increased to US$200.8 million and further to US$211.3 million in FY08/09. These increases were largely due to relatively strong economic activity as well as improved tax administration. However, the slowdown in revenue growth between FY07/08 and FY08/09 is notable (5.2 percent increase compared to the previous fiscal year's 36.8 percent increase) and reflects the deceleration in economic activity as a result of the global crisis. A key challenge for the government on the revenue side is accurately forecasting revenues in the context of the often large and lumpy flows from concession contracts, the timeliness of which is subject to the vagaries of the negotiations.

2.12 On the expenditure side, the government has demonstrated strong fiscal restraint and has kept expenditure in line with revenue. Budget controls are stringent and allocations are made against actual cash plans. However, the government has continued to struggle with managing the intra-quarter expenditures. This is in part attributed to a weak (though improving) expenditure management system and the complications introduced by the commitment not to borrow. For FY06/07 total expenditure was 18.1 percent of GDP, up from 10.8 percent in FY05/06. Expenditure increased to 24.7 percent of GDP in FY07/08 and further to 28.9 percent of GDP in FY08/09.

2.13 **Monetary and exchange rate developments**. The Central Bank has maintained relative stability in the monetary sector through prudent monetary policies targeted at maintaining exchange rate stability. In 2006, broad money growth was 34.4 percent and increased to 41.4 percent in 2008. In 2009, it is estimated that the growth of broad money increased to 43.1 percent. However, these substantial rates in the growth of money supply in part reflect the fact that the initial base of broad money is low. Credit to the private sector in Liberian dollar equivalent, which grew by 46.2 percent in 2007 and 47.6 percent in 2008, is estimated to have slowed to 28.5 percent in 2009 as the global crisis and slower domestic growth adversely affected demand. However, the average lending rate has trended downward from 15.4 percent in June 2006 to 14.2 percent in June 2009. The exchange rate in Liberia is market determined and the Central Bank has maintained stability through foreign currency sales in a managed auction. The nominal exchange rate depreciated by 10.7 percent in 2007 and by a further 7.6 percent in 2008. It is estimated that the rate of depreciation slowed to 4.1 percent in 2009. However, in real terms the exchange rate has been broadly stable.

2.14 **External Trade and Balance of Payments**. Following the contraction of exports in 2004 which resulted mainly from the United Nations ban on timber, exports rebounded strongly in 2006 driven by the sharp recovery in rubber exports. Since then export growth has been somewhat slower, reflecting weaker demand and lower prices for the primary exports. However, import demand remained fairly robust, driven by the reconstruction efforts (both public and private) as well as the large donor presence on the ground. The trade deficit narrowed from 45.7 percent of GDP in 2006 to an estimated 39 percent of GDP in 2007 largely as a result of the increase in rubber exports. However, the deficit widened to 53.5 percent of GDP in 2008 as a result of sharp increase in imports in 2008 and a fall in exports. In 2009, the trade deficit is estimated to have narrowed to 46.8 percent of GDP largely due to the reduction in imports as a result of the global crisis. The current account deficit (including grants) also widened from 13.7 percent of GDP in 2006 to 31.2 percent in 2007 and further to 57.4 percent of GDP in 2008. It is estimated that for 2009 the current account of the balance of payments improved with the deficit narrowing to 33.3 percent of GDP. This improvement resulted from the much slower growth of imports due to the slowdown in foreign direct investment in key concessions in the mining sector.

2.15 **External and Domestic Debt**. Liberia's external debt burden rose from US$750 million in 1979 to US$1.4 billion in 1985. Inability to fully service the debt led to the accumulation of substantial arrears so that by June 2007, total external debt, including capitalized interest and penalties, amounted to an estimated US$4.7 billion. Of this amount, about US$1.6 billion was owed to multilateral creditors including the IMF, the World Bank and the African Development Bank, while approximately US$1.5 billion was owed to bilateral creditors, mostly Paris Club Creditors, and an estimated US$1.6 billion was owed to commercial creditors.

2.16 Liberia cleared its arrears to the World Bank and AfDB in December 2007 and to the IMF in March 2008. As a result, it reached the Decision Point under the Enhanced HIPC initiative in March 2008. This enabled the government to benefit from interim relief under the HIPC initiative. The government also reached an agreement with the Paris Club creditors on April 17, 2008. The agreement, concluded under "Cologne terms", resulted in the immediate cancellation of US$254 million of debt. In addition, given Liberia's limited capacity for debt repayment, Paris Club creditors also agreed to no payments between March 1, 2008 and December 31, 2010 provided that Liberia continues to satisfactorily implement an IMF-supported program. In mid-April 2009 the government concluded the buy-back of US$1.2 billion of its commercial debt. This effort was supported by a technical assistance grant under the Bank's Debt Reduction Facility (DRF) and US$15.2 million from the IBRD contribution to the DRF as well as support from Germany, Norway, United Kingdom and the United States. With the commercial debt buyback and the interim debt relief from multilateral and bilateral creditors, Liberia's debt, including arrears, currently stands at approximately US$1.7 billion down from US$4.7 billion in June 2007. Following the HIPC completion point reached in June 2010, Liberia has received additional debt relief from IDA, the African Development Fund and the IMF on MDRI terms (see Annex 7 for details on each of the floating completion point triggers).

2.17 It is estimated that the government of Liberia had domestic debt of about 34.4 percent of GDP in 2009. The debt to the Central Bank of Liberia accounts for about 84 percent of the total domestic debt, while the majority of other claims constitute salary arrears to government employees and arrears on goods and services.

2.18 **Debt Management**. The capacity of Debt Management Unit of the Ministry of Finance (MoF) was substantially eroded by the civil conflict both in terms of data (most debt records were destroyed during the war), and systems as well as human capacity. However, the government, with assistance from the Swiss Agency for Development and the World Bank, was able to reconcile the external commercial debt with the syndicate agents and/or current creditors of record to agree on the base amount of principal, contractual interest and interest penalties (where applicable). Building on this base and with data from multilateral and bilateral creditors the government has been able to reconstruct a relatively reliable database of total external debt. The legal and regulatory framework for government borrowing and other debt related transactions has been consolidated under the new Public Finance Management (PFM) Act, approved by the Parliament in September 2009. Enabling Regulations were passed by the Cabinet in November 2009. The government is also advanced in its steps to improve the debt management system by adopting the Commonwealth Secretariat's Debt Recording and Management System (CS-DRMS) which was installed at the end of April 2010.

2.19 As part of the commitment under HIPC and the ECF with the IMF, in June 2008, the government formulated a comprehensive national debt management strategy that sets out the legal and institutional framework governing the contracting and management of debt. This debt management strategy was revised and updated in November, 2009 and subsequently in June 2010 in preparation for post-HIPC debt management. The revised debt management strategy sets out to build a foundation for managing new borrowing in order to maintain a sustainable debt profile while responding to the country's urgent development financing needs.

C. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

2.20 Liberia faces many challenges in laying the foundation to transition from post-conflict recovery to long-term development. The recent global crisis affected the country's near-term outlook and highlighted its economic fragility. However, Liberia's medium-to-long-term prospects are good and the government recognizes that a stable macroeconomic environment will be critical to the achievement of rapid, inclusive and sustainable growth. The government is therefore committed to a macroeconomic framework that is anchored in sound fiscal, monetary, trade and exchange policies to foster competition, maintain price stability and encourage private sector investment to provide a foundation for rapid and sustained growth to increase employment and reduce poverty.

2.21 **Growth and Inflation**. The government's macroeconomic framework projects GDP growth to average 7.7 percent per annum for the 2010-2012 period down from the average of 14.3 percent per annum projected prior to the global economic slowdown. Growth is expected to be driven largely by new investments in key sectors including mining, rubber (substantial replanting) and infrastructure (rebuilding of roads). The global economic slowdown has resulted in lower primary commodity prices with adverse effects on planned investments in related sectors. The lower prices for logs have also resulted in delays in some of the start-up from the concessions that the government has recently signed. Overall, foreign direct investment in 2010 is expected to more than double from the US$153 million for 2009 to US$355 million (Table 2.5), thereby contributing to higher growth than in 2009. The growth projection for 2010 is 6.3 percent, up from the estimated 4.6 percent for 2009. As the prices for iron ore and rubber improve, it is expected that investment in these sectors will increase, thereby generating a sharp production increase from already established capacity. The increased production in the iron ore and rubber sector combined with the production from the forestry will spur GDP growth to 8.5 percent in 2011. However, as slack capacity is used up, GDP growth will moderate to around 8.3 percent in 2012 subject to continued recovery of the global economy. The authorities intend to reduce inflation from 9.7 percent in 2009 to single digit (around 5 percent) in 2010-2012. However, rising food and oil prices as a result of stronger demand as the global economy improves could mean higher inflation for Liberia.

2.22 **Fiscal Policy**. The government is committed to maintaining a balanced cash-based budget for most of the PRS period in order to help maintain macroeconomic stability. In September 2009, the Parliament enacted the Public Finance Management Act, along with the enabling regulations which were adopted in November 2009 will provide a comprehensive framework for the conduct of fiscal policy.

2.23 On the revenue side, the government will continue its efforts to reform revenue administration. A new Revenue Code, approved by the Parliament in August 2009, clarifies the legal frameworks for taxation. Tax units are now organized by taxpayers' size (large, medium and small). The government also plans to introduce an Integrated Tax Administration System (ITAS) in 2010 and a Value Added Tax (VAT) in the medium-term. To spearhead these reforms, the government has established a Tax Reform and Modernization Committee within the Ministry of Finance. On customs, the government's major priority is to implement the Automated System for Customs Data (ASYCUDA) to improve data collection and management, increase analytical capacity, decrease discretion and increase staff accountability and monitoring. With support from UNCTAD, ASYCUDA was established as a pilot in the Monrovia Free Port in November 2009. The government plans that following full implementation of ASYCUDA in the Monrovia Free Port it will be implemented at the LPRC oil jetty and the Roberts International Airport. The government also intends, with support from the World Customs Organization, to prepare a three-year strategic plan to modernize the customs service including the adoption of the ECOWAS Common External Tariff (CET). Table 2.3 below lists some of the ongoing and planned tax policy reforms that were recommended by the IMF and their current status. The government is also making efforts to better manage grant flows and is piloting an Aid Management Platform (AMP), a software package to track aid flows. The government therefore expects to raise revenues (excluding grants) as a share of GDP from 24.5 percent in FY08/09 to 30.8 percent in FY11/12.

Table 2.3: Ongoing and Planned Tax Policy Reforms

Recommendation	Status
Reduce top marginal CIT rate from 35% to 30%	Effective January 2010, the top Corporate Income Tax (CIT) rate was reduced from 35 percent to 25 percent to align the tax regime to regional norms.
Reduce top marginal PIT rate from 35% to 25%	Effective January 2010, the top Personal Income Tax (PIT) rate was reduced from 35 percent to 20 percent.
Reduce the number of tax brackets for PIT and raise threshold	Effected in the amended revenue code which was passed in August 2009.
Reduce the presumptive tax from 4% to 2%	Effective in April 2008.
Raise GST rate from 7% to 10%	Submission to be made to Parliament.
Base for GST should include duty and excise	On hold (except for airline tickets)
Increase excise on alcohol to 35-50%	Not implemented.
Harmonise tariffs with ECOWAS CET	Will be phased in over the medium term.
Reduce customs administration fee from 3% to 1.5% and apply to all imports	Under implementation.

The reforms have been recommended by Fund TA missions, which also estimated the impact on revenue.
Abbreviations: CIT (corporate income tax); PIT (personal income tax); GST (general sales tax); CET (common external tariff).
Sources: Muzondo et al (2006), Muzondo et al (2007), Ministry of Finance

2.24 On the expenditure side, the government remains focused on priorities identified in the PRS. It intends to promote better expenditure controls, and improve the efficiency, quality and transparency of public expenditure while keeping spending to the limits of revenues. The fiscal policy framework envisages that the fiscal deficit will increase from 1.6 percent of GDP in FY08/09 to a larger deficit of 3.7 percent of GDP in FY11/12 primarily as a result of increased expenditure including interest payments and capital spending mainly for infrastructure.

2.25 The FY09/10 budget, which was approved by the Parliament in August 2009, continues the vein of a cash-balanced budget with zero borrowing. The budget approved by the Parliament targets spending of US$371.9 million to be financed by projected revenues including grants. However, the projected revenues include non-tax revenues from ungratified concessions and overly optimistic projections of gains from tax administration. Following consultations with the IMF and the World Bank, the government has identified approximately US$80 million of revenue at risk from the budget estimates (including approximately US$40 million from the China Union Concession and approximately US$21.1 million from the Western Cluster concessions) and has made an equivalent amount of expenditure contingent on the realization of the at risk revenues. The core budget has therefore been established at US$290.9 million. (Table 2.4).

2.26 **Monetary and Exchange Rate Policy**. The monetary policies envisaged under the macroeconomic framework of the PRS are expected to contribute to macroeconomic stability by maintaining broad exchange rate stability in order to reduce inflationary pressures. In the latter regard, the primary tool for the Central Bank is the foreign exchange auction. In August 2009, the gross reserves of the Central Bank were boosted by SDR103 million from the IMF, thereby raising the reserve coverage from less than one month of goods and services imports to 3.1 months of goods and services imports. Given this still modest level of reserves, the government intends to continue its efforts to build reserves in order to strengthen the Liberian dollar. To further enhance the monetary policy framework, the Central Bank will continue to strengthen the policy tools to manage liquidity and exchange rate stability. The domestic banking system is expanding, the level of financial intermediation and competition is increasing, capital and liquidity are high and nonperforming loans are declining. The government recognizes the limited scope for exchange rate policy in the currently highly dollarized environment in Liberia and is taking steps to reduce dollarization in the financial system through the authorization of the use of local currency for the payment of some trade taxes and the increase in the proportion of civil servants' salary paid in Liberian dollar. The government is also taking steps, with support from the IMF to develop the infrastructure for a Treasury bill market to launch a short-term domestic Treasury bill program.

Table 2.4: Fiscal Framework 2005/06-2011/12

Indicator	2005/06 Actual	2006/07 Actual	2007/08 Est.	2008/09 Est.	2009/10 Proj.	2010/11 Proj.	2011/12 *Proj.*
				(Millions of U.S. dollars)			
Total revenue and grants	85.6	148.3	206.9	234.9	290.9	342.4	374.7
Total revenue	*84.6*	*146.8*	*200.8*	*211.3*	*277.9*	*283.3*	*334.0*
Total expenditure and net lending	61.4	123.0	197.1	248.9	287.6	338.4	414.9
Current expenditure	*57.8*	*106.4*	*173.2*	*215.1*	*237.4*	*261.2*	*290.3*
Capital expenditure	*3.7*	*16.6*	*23.9*	*33.8*	*50.2*	*77.2*	*124.6*
Overall surplus or deficit	24.1	25.3	9.8	-14.0	3.2	4.0	*-40.2*
				(Annual percentage change)			
Total revenue and grants	6.5	73.2	39.5	13.5	23.8	17.7	9.4
Total expenditure and net lending	-3.7	100.3	60.2	26.3	14.7	17.7	22.6
				(Percent of GDP)			
Total revenue and grants	15.0	21.9	25.9	27.3	31.8	34.5	34.5
Total revenue	*14.8*	*21.6*	*25.2*	*24.5*	*30.4*	*28.5*	*30.8*
Total expenditure and net lending	10.8	18.1	24.7	28.9	31.5	34.1	38.2
Current expenditure	*10.1*	*15.7*	*21.7*	*25.0*	*26.0*	*26.3*	*26.7*
Capital expenditure	*0.6*	*2.5*	*3.0*	*3.9*	*5.5*	*7.8*	*11.5*
Overall surplus or deficit	4.2	3.7	1.2	-1.6	0.4	0.4	-3.7

Source: IMF.
Note: Data is on a cash basis.

2.27 **External Trade and Balance of Payments**. Liberia is an open import/export dependent economy with total trade estimated in 2009 at 80 percent of GDP. Therefore policies affecting its trade and balance of payments are an integral part of its overall macroeconomic policy framework. On the trade side, exports for 2010 though recovering from the impact of the global crisis are still well below the level for 2008. However, imports—of food and for reconstruction needs—have continued to expand resulting in a widening of the trade deficit. The external current account deficit is expected to deteriorate from 33.3 percent of GDP in 2009 to 39.9 percent of GDP in 2010 and further to 56.5 of GDP in 2012 (Table 2.5). This deterioration reflects the adverse balances on the trade, services and income accounts. The current accounts deficits are expected to be fully financed by official transfers and foreign direct investments. Nevertheless, Liberia would continue to require a large amount of grant financing for the implementation of the PRS and to ensure stability in its external accounts. A slower than expected recovery from the global crisis with lower commodity prices, a slowdown in foreign remittances and possibly lower aid flows would result in a widening of the current account deficit, possibly beyond what could be fully financed by foreign direct investment and transfers and thereby putting pressure on the limited reserves of the Central Bank.

Table 2.5: Balance of Payments, 2008-12

(Millions of US dollars, unless otherwise indicated)

	2008	2009 Prel.	2010 Proj.	2011 Proj.	2012 Proj.
Trade balance	-455	-409	-441	-651	-656
Exports, f.o.b.	254	153	249	312	405
Of which: rubber	225	93	157	130	124
Imports, f.o.b	-709	-563	-690	-963	-1,061
Services (net)	-1,007	-792	-882	-835	-846
Of which: UNMIL services 1/	-488	-455	-455	-418	-342
Income (net)	-160	-145	-185	-140	-105
Of which: public interest payments due 2/	-90	-111	-109	-5	-4
Of which: IMF	-1	1	0	0	0
Current transfers	1,134	1,054	1,129	1,050	964
Donor transfers (net)	1,087	1,004	1,066	965	875
Of which: UNMIL transfers	646	600	600	550	450
Private transfers (net)	47	50	63	85	89
Current account balance	-488	-291	-380	-576	-643
Current account balance, excluding grants	-1,575	-1,296	-1,446	-1,541	-1,518
Capital and financial account (net)	370	358	1,139	584	644
Capital account (HIPC debt relief 3/)	1,197	1,527	1,439	5	0
Financial account	-827	-1,168	-300	579	644
Foreign direct investment (net)	272	153	355	548	584
Portfolio investment (net)	0	0	0	0	0
Other investment (net)	-1,099	-1,322	-654	31	59
Official financing: Medium and long-term (net)	-1,210	-1,373	-672	-20	27
SDR allocation	0	163	0	0	0
Disbursements	0	0	0	0	48
Amortization 3/	-1,210	-1,536	-672	-20	-21
Private financing (net 4/)	111	52	18	52	33
Errors and omissions	43	0	0	0	0
Overall balance	-75	67	760	7	0
Financing	75	-67	-760	-16	-17
Change in net foreign assets (increase 5/)	-15	-178	-868	-16	-17
Of which: Net use of Fund credit and loans 3/	22	18	-847	7	0
Disbursements	882	18	14	7	0
Repayments	-860	0	-861	0	0
Exceptional financing	90	111	108	0	0
Debt forgiveness	1,197	1,527	1,439	0	0
Change in arrears 6/	-1,197	-1,527	-1,439	0	0
Debt rescheduling plus HIPC interim debt relief 7/	90	111	108	0	0
Financing gap	0	0	0	9	17
Memorandum items:					
Current account balance (percent of GDP)					
Including grants	-57.4	-33.3	-39.9	-55.8	-56.5
Excluding grants	-185.3	-148.2	-151.8	-149.3	-131.5
Excluding grants and public interest payments due	-174.7	-135.6	-137.7	-146.2	-129.5
Trade Balance (percent of GDP)	-53.5	-46.8	-46.3	-63.0	-57.6
Donor transfers (net, percent of GDP)	127.9	114.9	111.9	93.4	76.8
Public sector external debt (medium and long-term)					
Debt outstanding, including arrears	3,203	1,677	149	161	188
(percent of exports of goods and services)	503.3	341.7	24.3	22.8	25.5
(percent of GDP)	377.0	191.9	15.6	21.8	24.2
Debt service charges (after relief)	13.6	0.0	3.4	24.8	25.1
(percent of GDP)	1.6	0.0	0.4	2.4	2.2
Terms of trade (2000=100)	102.6	104.9	148.6	115.6	103.6
Gross official reserves	86.2	312.2	334.2	351.5	361.9
Gross official reserves (months of imports 8/)	0.7	3.1	2.6	2.3	2.3

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

1. Net of estimated value of goods and services purchased by UNMIL (and its staff) in Liberia.
2. From 2007, interest charged on debt stock after application of traditional debt relief mechanisms.
3. Assumes debt relief at the HIPC completion point in 2010.
4. Includes short-term trade credits and private sector operating balances abroad.
5. Includes SDR assets and excludes SDR liabilities for US$ 163.2 million.
6. Includes debt forgiveness from multilateral creditors and Paris Club creditors .
7. Includes deferred debt service payments in the interim period.
8. Excludes UNMIL imported services

2.28 In summary, Liberia's macroeconomic framework, which forms the basis for its Extended Credit Facility (ECF) (formerly PRGF) support from the IMF, provides an adequate basis for the proposed operation. Despite the significant economic shock from the global crisis, the government has generally maintained a satisfactory track record of prudent macroeconomic policies and sustainable medium term macroeconomic framework. However, this framework is subject to significant domestic risks (security and political—given the upcoming 2011 elections) as well as external economic shocks including that from a slower than expected recovery in the global economy. Mitigating factors are Liberia's recent track record in macroeconomic management including prudent fiscal policy, which will help address the new challenges emerging from the global slowdown, the government's focus on growth enhancing structural reforms, and support provided by donors, including through the proposed operation. In addition, the successful April 2009 US$1.2 billion commercial debt buyback has substantially reduced the debt overhang as well as litigation risks. Continued strong donor coordination will also be critical to ensure external financial and technical assistance to Liberia.

2.29 **Debt Sustainability**. The latest update (June 2010) of the low-income country debt sustainability analysis (LIC DSA) takes into account recent economic developments and progress in structural reforms since the March 2009 DSA. The medium-term projections for 2010-15 are consistent with the 2009 DSA, but adjustments have been made to near term projections to better reflect the impact of the global financial crisis particularly on exports and foreign direct investments. New borrowing of about 3 percent of GDP, of which 2 percent is assumed to be on concessional terms, is included in the baseline. The baseline scenario assumes full delivery of HIPC and MDRI debt relief at the achievement of HIPC completion point reached in June 2010.

2.30 After debt relief, Liberia's external debt to exports ratio will remain below the policy related threshold throughout the projection period. The NPV of the external debt is expected to decline from 15 percent of GDP in 2010/11 to 12 percent of GDP by 2015/16 but increase to about 17 percent of GDP in 2030. The PV of external debt to exports ratio will remain at about 21 percent until 2015/16 after which it will increase to 27 percent of GDP in 2030. The PV of the external debt to revenues will remain well below the policy related threshold. The ratios of debt service to exports and revenues remain very low throughout the projection period. These dynamics show that the assumed concessional borrowing up to 3 percent of GDP has a limited impact on debt developments. These results remain broadly unchanged under the alternative scenarios, including under the assumptions of less favorable terms for new loans and of no iron ore production.

2.31 Liberia's risk of debt distress is assessed to be low following the debt relief under the HIPC and the MDRI relief. In the baseline scenario, which includes new borrowing up to 3 percent of GDP on concessional terms, Liberia's debt indicators remain well below the relevant indicative thresholds. The debt situation does not appear to be significantly vulnerable to shocks. Nonetheless, Liberia debt outlook appears to be sensitive to FDI flows and export shocks.

3. LIBERIA'S DEVELOPMENT STRATEGY

3.1 Liberia completed its first full Poverty Reduction Strategy in March 2008 that sets out the government's priority agenda for the three year period from April 2008 to June 2011. The comprehensive strategy builds on the gains made under the 150-day action plan and the Interim

Poverty Reduction Strategy (I-PRSP). The PRS process began in mid-2007, and included extensive stakeholder participation, through regional consultations across all 15 counties, thematic consultations, and specific stakeholder group consultations. At the end of the process, the PRS was vetted by the larger Stakeholders Consultative Committee (SCC).

3.2 The PRS is built around four pillars, which represent the core strategic areas of intervention: Peace and Security, Economic Revitalization, Governance and Rule of Law, and Infrastructure and Basic Services. These four pillars also reflect some continuity with the pillars of the I-PRSP. In addition, six priority cross-cutting themes were mainstreamed through the pillar strategies, including gender equity, peace-building, environmental issues, HIV and AIDS, children and youth, and monitoring and evaluation (M&E).

3.3 The four pillars of the PRS and their objectives are briefly summarized below. Each of these objectives requires donor support, which Liberia is seeking on the basis of its PRS which was broadly endorsed by donors at a forum in Berlin, Germany in June 2008.

- *Pillar I: Peace and Security*. Under this pillar, the government aims to rebuild national security institutions capable of assuming authority as the international peacekeeping force is drawn down. Emphasis is placed on reforming security institutions and training soldiers, police officers, and other personnel in the security sector, as well as building public confidence in the government's ability to maintain peace and security. The main objective is to create a secure and peaceful environment that is conducive to sustainable, inclusive, and equitable growth and development.

- *Pillar II: Economic Revitalization.* The government's strategy focuses on private sector-driven growth supported by public sector actions aimed at strengthening market functions. The government will focus on reforming public institutions and processes and also establish a regulatory environment that is conducive to investment. Emphasis is placed on agriculture, as well as the traditional growth sectors of forestry and mining. The main objective is to establish a stable and secure environment that will put Liberia on an irreversible path towards rapid, sustained, and inclusive growth and development.

- *Pillar III: Strengthening Governance and Rule of Law.* Under this pillar, the government plans to develop and implement a decentralization policy, implement measures to harmonize land ownership, access to land and the enforcement of formal land titles, work to curb corruption, and reach out to civil society. The government also plans to undertake public sector reform, including civil service and judicial reform. The main objective is to work in partnership with citizens to build and operate effective institutions and systems that will strengthen peace and promote and uphold democratic governance, accountability, and justice for all.

- *Pillar IV: Infrastructure and Basic Services.* The government's main priorities under this pillar include: roads and bridges, energy infrastructure, transport facilities, and water and sanitation systems, financed over time with significant private sector participation, as well as improvements in health and educational services. The main objective is to deliver basic services more equitably across the country and to create the conditions and linkages needed to achieve broad-based growth and poverty reduction.

3.4 Since 2007, the government has taken noteworthy steps in implementing reforms in the areas of strengthening governance and economic revitalization under the support of the first and second Re-engagement and Reform Support Program Grant and the IMF PRGF and ECF. With respect to the first RRSP's targeted results, achievements include the improvement of budget execution resulting from the greater effectiveness of the inter-ministerial cash management committee; budget preparation and submission to the Parliament have been more timely; also, the government has committed to more transparency in the management of the revenues from the natural resources' sectors by completing the four sign-up criteria for the EITI[4] (see Annex 4 for details on the first RRSP anticipated results and actual outcomes).

3.5 Under the second Re-engagement and Reform Support Program Grant, the government pursued a deepening of the policy and institutional reforms under the key pillars of economic revitalization and strengthening governance and rule of law. Significant results were achieved under this operation. On the governance side, the interim system for accounting and reporting in the Ministry of Finance was extended to the Office of the Comptroller General. This resulted in the preparation of more timely and complete financial reporting including summary reports of revenue and expenditure by sector or program code. The system also facilitated the automation of bank reconciliation. The better reporting and consequently management of the budget has led to a reduction in the variance between the legislated budget and the actual budget from 19 percent in FY06/07 to 16 percent for the FY07/08 budget. The approval by Parliament of the new Public Finance Management Act and supporting regulations as well as the provision of implementing regulations and manuals and instructions for the Public Procurement and Concessions Act have resulted in some improvement in the procurement process. The percentage of value of non-competitive procurement has been substantially reduced from around 80 percent in 2008 to less than 30 percent as of December 2009. On the civil service reform, the government has focused on building a smaller and more effective service. A key first step in this regard was the implementation of a biometric identification system based on the one-staff, one-file principle. A key result achieved to date is that 60 percent of the Monrovia-based civil servants have been captured in the system. Another key result achieved under this operation was the passage of a new Revenue Code by the Parliament in August 2009 to eliminate discretions in the granting of fiscal incentives.

3.6 The government intends to pursue and deepen reforms and institutional development efforts in these areas. The remainder of this section highlights the salient features of the current situation in these areas of reform as well as the government's main policy efforts and the specific measures supported by the proposed grant. The policy matrix in Annex 3 details the government's program of reforms with specific activities in each reform area.

A. GOVERNANCE AND REBUILDING CORE STATE FUNCTIONS AND INSTITUTIONS

3.7 Liberia's crises over the last quarter century from war, mismanagement and human rights abuse, which contributed to the deepening of poverty, can be blamed largely on poor

[4] A full assessment of the first RRSP target results has been prepared as part of its Implementation Completion and Results Report (ICR 00001014).

governance. Widespread corruption, which persisted during the National Transitional Government of Liberia period, led to the establishment in September 2005 of the multi-donor Governance and Economic Management Assistance Program (GEMAP) – an innovative Security Council-backed framework for improving economic governance support by international technical assistance. The GEMAP included the immediate implementation of robust remedial measures focusing on five areas: financial management and accountability; improving budgeting and expenditure management; improving procurement practices and the granting of concessions; establishing processes to control corruption; and supporting key institutions and capacity building. The situation has improved over the last three years but the country continues to suffer from weak public institutions, corruption, limited justice and limited capacity to address these deficiencies.[5] Addressing the persistent poor governance practices requires an effort to restructure and strengthen central and local governance institutions, systems, and processes. There is a need to further improve the effectiveness of the budget through better planning, execution, reporting and auditing and further strengthening of the budget system including automation. These reforms are underpinned by the analysis and recommendations from the 2008 Public Expenditure Management and Financial Accountability Review (PEMFAR) undertaken in 2008 by the World Bank in collaboration with the Liberian government and other donors including the African Development Bank, the International Monetary Fund, the Department for International Development (DFID) and the Swedish National Auditing Office.

3.8 In order to improve governance and the rule of law, the government intends to focus on four main objectives: (1) enhancing citizen participation in and ownership of government policy formulation and implementation; (2) building effective and efficient public institutions; (3) strengthening and enhancing the integrity of legal and judicial institutions; and (4) expanding access to justice, and enhancing the protection and promotion of human rights. In order to achieve these objectives, the government will develop and implement a decentralization policy, continue the work to curb corruption, reach out to civil society, and undertake public sector reform including civil service reform. Judicial reform efforts will focus on building the capacity of the judicial system through training and institutional reform, and expanding access to justice by strengthening the provision of legal aid and enhancing the protection of human rights.

3.9 The government has already taken a number of steps to improve governance and restore the justice system. It has: (i) developed a comprehensive anti-corruption policy, strategy, and implementation framework and has established an anti-corruption commission that has been operational since December 2008; (ii) transformed the Governance Reform Commission established under the Accra Peace Accord into an organ of the State that will continue to monitor the governance reform agenda and process; (iii) established an Independent National Commission for Human Rights and a Truth and Reconciliation Commission that has produced its final report which is under consideration by the Parliament; (iv) begun to develop a more professional and efficient civil service and completed a Civil Service Reform Strategy in June 2008 whose implementation so far has focused on pension reform, pay and grading reform and

[5] Robust governance diagnostics are scarce, but the 2006 Global Integrity Report[5] rated Liberia as "very weak" on four of six indicators including: governance accountability; administration and civil service; oversight and regulation; and anti-corruption and rule of law. Liberia's ranking on the World Bank Governance control of corruption indicator has consistently improved. In 2008, Liberia scored 33.3 percentile compared to 11.7 percentile in 2005. A similar development has been seen in the Transparency International's Corruption Perceptions Index, where Liberia increased its score from 2.4 out of 10 in 2008 to 3.1 in 2009.

the establishment of the Human Resource Management Information System; (v) initiated discussions on decentralization towards the development of a comprehensive strategy; and (vi) initiated structural reforms in key ministries and agencies.

3.10 The government has demonstrated its commitment to transparency by requiring all ministers to declare their assets. To help ensure transparency, civil society is represented on the Economic Governance Steering Committee (EGSC) and the GEMAP technical team and can report freely on GEMAP and its findings. The government also cancelled 87 forestry concessions and ordered a review of all the contracts concluded under the NTGL. In addition, the government passed a landmark forestry law that ensures that local communities play a greater role in the approval and monitoring of timber concessions and that the communities benefit from the revenues from the concessions. Furthermore, with support from IDA through the Liberia Chain of Custody System Project the government is implementing the Chain of Custody (COC) system for all timber sales from Forestry Management Contracts (FMCs) and Timber Sales Contracts (TSCs). The technical assistance from IDA will focus on forestry sector monitoring, the development of a Chain of Custody System information system and training.

3.11 In May 2008, the government established the Liberia Extractive Industry Transparency Initiative (LEITI) (with membership from the government, civil society, the private sector and donors) to help ensure transparency and accountability in the mineral and forestry sectors. The LEITI Secretariat's first full audited report of receipts and payments from the extractive industries was published in February 2009. Liberia was designated an EITI compliant country on October 14, 2009 becoming the first country in Africa to be so designated and the second country in the world. The 2nd EITI Report covering the period July 1, 2009-June 30, 2009 and involving seventy-one (71) companies and five (5) agencies of Government was published on February 18, 2010. The report covered companies operating in the following four sectors: (1) mining; (2) Oil; (3) Forestry; and (4) Agriculture. The government intends to build on the EITI efforts to implement an EITI ++ or 'value chain' approach to concessions in three key sectors namely mining, agriculture and forestry. The EITI++ strategy that the government plans to develop will help to ensure the implementation of good policies and practices along the entire value chain, from how access is granted to resources, to monitoring operations, to collecting taxes, to sound macroeconomic management and distribution of revenues, and to spending of resources for sustainable growth and poverty reduction.

3.12 A modernization process of Liberia's legal and regulatory framework has begun, and the media currently provides significant oversight over this process. The aim of the reforms is to enhance the legal and regulatory framework of the commercial and industrial sectors in a manner that will establish a more stable and predictable commercial environment. In March 2010, the Supreme Court, with support from UNMIL and UNDP hosted a week-long National Judicial Conference (the first since 1976) aimed at improving Liberia's judicial system. Given an overwhelming legislative agenda that included identifying conflicting laws, a Law Reform Commission was recently established. Commercial Law reform is ongoing and a draft of the new Commercial Code should be ready by the middle of 2010. A Commercial Court has also been designated and rules of court need to be established.

3.13 Liberia's public financial management systems have improved markedly since 2006, through an ambitious reform agenda agreed between the government and the international partners. However, many of Liberia's current financial management structures are transitional, and designed to strengthen central controls, curb corruption, and enable centralized planning during the reconstruction phase. As GEMAP comes to a close and Liberia transitions to greater control over systems and processes and as revenues increase and more donor funding is channeled through the budget, there will be a need to shift towards longer-term and more sustainable PFM solutions in some areas and to continue implementing, monitoring and entrenching those new systems that have recently been introduced.

3.14 The government has taken significant steps to improve public financial management. It resurrected the Cash Management Committee,[6] which had been created in the 1980s but ceased to function after the outbreak of civil war in 1990, to contain expenditures within available cash revenues. Strict cash management policies have been instituted to avoid incurring arrears, and are monitored by an external controller, as required under the Governance and Economic Management Assistance Program (GEMAP). The cash management and commitment control system has improved accountability and transparency and curbed expenditure arrears but will need to evolve in the medium term. In the Ministry of Finance it is necessary to shift responsibility for operating the system away from GEMAP technical experts to those officials of the MoF who would normally be in charge of the payment process, and to rationalize the approval process further, as it currently involves a large number of separate steps. In addition, over the medium term and in the context of the PRS, the government needs to shift from cash-based management to increased program budgeting and cash flow forecasting. These improvements, along with many others are required under the PFM Act. The implementation of the PFM Act is laid out in the PFM Action Plan and will be coordinated by a PFM ministerial-level Steering Committee, supported by the PFM Reforms Coordination Unit at the Ministry of Finance. This transition is being supported by technical assistance from the World Bank through the ongoing Economic Governance and Institutional Reform Project (EGIRP), and the Integrated Financial Management Information System Project (IFMIS) which, together, are focused on improving the efficiency and transparency in managing public financial and human resources, concentrating on: (i) improving the legal and regulatory framework on financial management; (ii) improving the regulatory and administrative framework for procurement; (iii) improving budget preparation and execution; (iv) strengthening internal and external audits to provide better oversight; (v) improve civil service and pay-roll management; (vi) strengthening debt management; and (vii) improving aid coordination.

Legal and regulatory framework for financial management

3.15 The legal and regulatory framework for public financial management has been consolidated under the new Public Finance Management Act which was enacted in September 2009 and the enabling regulations approved in November 2009. The new Public Finance Management Act covers the full public financial management cycle, including budget preparation, approval and execution, borrowing, public debt and guarantees, cash management, accounting and reporting, internal control and audit, and autonomous agencies and special funds. The government is now focused on rolling-out the new Act and enabling regulations to ensure that they are fully applied. Development of an Accounting Manual is being pursued under the auspices of the IFMIS project as an off-shoot of the PFM Act and Regulations.

[6] The CMC consist of the Minister of Finance as the chairperson and the Minister of Planning, Minister of State for Financial, Economic and Legal Affairs, and the Deputy Minister of Finance for the budget are members, along with the public financial management advisor (with co-signatory authority) under GEMAP.

Procurement

3.16 Fourteen years of civil war also 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 under the transition government in September 2004 and culminated in September 2005 with the enactment of the Public Procurement and Concessions Act (PPCA). This Act, which came into effect in January 2006, is Liberia's first significant step toward subjecting public sector contracts to meaningful competition. Overall, the PPC Act is comprehensive, and provides a framework for a sound procurement and concessions system based on a decentralized structure where individual line ministries or inter-ministerial committees conduct procurement or tender concessions, with regulatory functions conducted by the Public Procurement and Concessions Commission (PPCC).

3.17 With the support of a LICUS grant signed in June 2006, the government has made significant progress in implementing the Public Procurement and Concessions Act, particularly in light of the challenges faced in the Liberian post conflict context. One of the key achievements is the creation of greater public awareness of the benefits of a well functioning public procurement system by engaging civil society, beneficiaries and the private sector. The massive dissemination of the PPC Act and the numerous training sessions organized by the PPCC have resulted in a better understanding of the PPCA by the public procurement practitioners and the Private sector. The unrelenting awareness campaigns orchestrated by the PPCC have also informed the Liberian citizens of the relevance of procurement and concessions reform in ensuring the efficient use of public resources. It is expected that this will trigger a long-term process of procurement monitoring by the private sector and civil society, which would translate into gradual social accountability and behavior change on the part of all stakeholders of the Liberia public procurement system.

3.18 However, despite the aggressive steps taken in sensitizing and training public procurement practitioners, the overall efficiency of the management of public procurement in Liberia has not improved sufficiently. The impact of the reform was undermined by the weak institutional environment that resulted from a long and devastating civil war. The procurement structures created by the PPCC Act have not been adequately resourced (staffing and logistics) to sustain the momentum already gained through procurement training and sensitization efforts. The lack of Public Procurement and Concessions regulations and manuals were also added impediments to the effective implementation of the Public Procurement and Concession Act. The reform also largely focused on the strengthening of the PPCC's, whose leadership was consistently challenged.

3.19 As there is still some confusion as to the boundaries of the roles and responsibilities of the respective players, including the PPCC, which was often pulled into approving procurement transactions and waivers, the PPCC prepared detailed implementing regulations and manuals to the PPCC Act of 2005. One major goal is to provide procuring entities with clear instructions on the correct application of the Act. The Cabinet in September 2009 accepted the proposed Regulations and Manual that are consistent with the PPCC Act of 2005. These new Regulations are now in force.

3.20 During October to December 2009, the government, with the support of the UNDP with the International Senior Lawyers Project, and support from the World Bank worked on proposed Amendments to the PPCC Act to address clarifications on roles and responsibilities of the Commission, its Commissioners, the Secretariat to PPCC, the Executive Director and the Complaints, Appeals and Review Panel (CARP). The Amendments also addressed appointment processes for the various members and staff of PPCC, and the procedures for procurement. The President of Liberia has indicated that there should be new legislation for an 'independent concessions entity" but that should not be part of the current proposed Amendments to the PPCC Act.

3.21 The government intends to prepare a second round of amendments to the PPCC Act so as to limit the scope of the Act to procurement functions only, and in parallel the government will propose new legislation for the oversight, regulation, process of competitive transactions as well as monitoring and assessment of concessions. This two step approach to reforms will allow more clarity in the strengthening of the separate responsibilities for public procurement and concessions. While procurement units and committees have been established within ministries and agencies, many lack sufficient capacity and resources to perform their roles appropriately, and efforts are ongoing to strengthen them gradually with support from a procurement consultancy firm.

3.22 In conclusion, public procurement reform is ongoing and its implementation is encountering a number of challenges due to apparent resistance to change. Making reforms operational in Liberia will continue to be an intensely political matter, and reform design must take into account the local political economy and local capacity. The Bank has intensified its dialogue with the PPCC and other stakeholders to better understand the political economy issues. In addition, there is ongoing analytical work to better understand the institutional issues. From the outset, the challenges are exacerbated by the high expectations of the government and other stakeholders in terms of how quickly reforms can respond to demands for procurement efficiency in a post-conflict environment where the entire public sector administration had collapsed and much broader reforms were needed.

Budget preparation and execution

3.23 The past three fiscal years have seen substantial improvements in budget preparation coordination, with the establishment of the multi-agency Budget Committee, which provides oversight of the budget process and advice to Cabinet on policy proposals and the strategic direction of the budget. The recurrent and investment budgets have been merged into a single budget which has helped to simplify the budgeting process. Ministries and agencies are engaged early in the budget process through a budget circular setting out guidelines for budget preparation. The institutional responsibilities for preparing and implementing the government budget have been consolidated within the Ministry of Finance with the merger of the Bureau of the Budget with the Ministry of Finance. The Parliament's role in the budget approval and execution process has been strengthened and the timeliness of budget enactment has improved with the enactment of the 2009/10 budget the earliest on record. In addition, as specified in the new Public Finance Management Act, the Ministry of Finance will undertake a mid-term budgetary review with conclusions and recommendations submitted to the Parliament by mid-February. The World Bank through the ongoing EGIRP is providing technical assistance for capacity building and greater communication between the Parliament and Executive to ensure that the Parliament is able to perform its oversight role and scrutinize budget execution reports.

3.24 The government has prepared a multi-year budgeting strategy that would place the annual budgets in the context of the medium-term fiscal framework. At present, a one-year budget is prepared. As a component of the PRS, the government undertook a three year costing exercise, yielding costing estimates by fiscal year and sector required to meet the PRS objectives. It also estimated the anticipated budgetary resources that will be devoted to achieving the PRS objectives, and in doing so provided a first step towards a multi-year budget. The costing exercise also illuminated the multi-year financing gap that will affect the government's ability to rebuild the economic and social infrastructure needed to underpin economic revitalization and combat poverty. Currently all appropriations lapse at the end of the fiscal year, except for certain sensitive appropriations such as the County Development Fund (which is transferred into an escrow account if unallocated in the current fiscal year). Thus, the multi-year nature of investments is not taken into account. A multi-year budgeting strategy is also expected to help reduce the variance between budget and actual out-turns through the discipline it will bring to the overall budget process.

3.25 Budget execution procedures have also shown improvement over the last year. A strict cash management and commitment control system has been established within the Ministry of Finance and approves all payments. Spending agencies are required to submit monthly cash plans, which determine their allotments, and can subsequently raise purchase orders based on these allotments. All payments are reviewed by the Cash Management Committee prior to approval and checks are issued by the Ministry of Finance. All revenues are collected and expenditures made from a single consolidated account at the Central Bank of Liberia. The Ministry of Finance has also been more proactive in informing ministries and agencies of anticipated changes in resources. These systems have helped to re-impose fiscal discipline on the previously weak budget execution system. However, as the government moves towards the implementation of the Integrated Financial Management System (IFMIS) in July 2011, these systems may need to be reviewed and re-engineered as greater responsibility is decentralized to budget owners in the ministries and agencies.

3.26 Although budget controls have improved substantially, the accounting system is still in need of improvement. In some ministries the accounting system is not based on a double entry method of book keeping, does not maintain a general ledger and does not include sufficient reports to permit reporting based on generally accepted accounting principles. It also omits debt and contingent liabilities. The interim Sun Accounting System introduced in 2008 produces budget reports broken down by major programs with coverage of expenditures at both the commitment and payment stages. Comprehensive financial statements are not produced at present, but annual fiscal reports detailing revenue and expenditure performance are consistently produced within four months of the end of the fiscal year. Different departments along the budget execution chain utilize stand-alone spreadsheets and databases. The preparatory work to implement the Integrated Financial Management Information System in mid-2011 has started. Templates to report in accordance with International Public Sector Accounting Standards have been prepared and development of a Government Finance Statistics compliant Chart of Accounts has been completed in readiness for implementation of the IFMIS, which will address many of the current shortcomings in the accounting and financial reporting structure. Fiscal reporting has, however improved with the production of timely quarterly outturn reports and annual fiscal reports, but the quality of the reporting could be further strengthened.

Internal and external audits

3.27 The government has made considerable progress in implementing its external audit strategy. The external audit function is undertaken by an independent General Auditing Commission (GAC), established in 2005 and headed by the Auditor General. In order to increase professionalism, all staffs at the GAC were made to reapply for their jobs in 2007. Applicants were tested, interviewed and screened before the new set of auditors was appointed. The GAC was also strengthened through the engagement of experienced auditors from neighbouring countries. In addition, the logistical capability enhanced through support under the EGIRP project. Up to December 2009, the GAC completed 22 audits including the audit for the 2005/06, 2006/07 and 2007/08 central government accounts and three forensic audits. These audits and their publication are likely to have a positive impact on accountability within the public sector. As the Auditor General has pointed out: *"More broadly, but equally important, GAC's recent audit reports have begun to legitimately attack the culture of impunity that pervades many of these institutions."*[7] The GAC audit strategy is now evolving to focus less on transactional issues while increasing emphasis on systems.

3.28 Although the completion and publication of audits are very positive steps, there is need for a clearly defined strategy for audit recommendation follow-up with clear responsibilities to the chief accounting officers at the ministries and agencies. This is necessary to make sure that audit recommendations are implemented. Currently, there is no clear system for follow-up on audit recommendations and the GAC, although already taxed in its capacity has been playing a role. In this regard the GAC has received support from UNMIL to establish an audit validation mechanism to ensure the implementation of audit recommendations. If the follow-up on audit recommendations are not systematic it would not only undermine the morale at the GAC but also serves to harden the culture of impunity that now exists. In this regard, it is important that the Public Accounts Committee be fully active in interfacing with the GAC and the audited ministries and agencies to address the infractions, making referrals to the PPCC, the Ministry of Justice or the Anti-Corruption Commission as is deemed necessary.

3.29 Internal audit remains weak. Although the new Public Finance Management Act makes specific reference to the internal auditor as part of the internal control mechanism, only a few ministries and agencies have functioning internal audit units, and these staffs are poorly trained. As a first step to improving the internal audit function, an internal audit strategy was completed and approved in June 2008. The strategy was updated to make it consistent with the PFM Act. Clear institutional arrangements have been elaborated in the strategy underpinning the independence of the internal auditors. Overall oversight responsibility is vested in the Internal Audit Governance Board with an operational secretariat headed by a qualified auditor. The Ministry of Finance has started recruiting internal auditors with funding assistance from UNDP and through the EGIRP.

Civil service reform and payroll management

3.30 A major constraint to the implementation of the Poverty Reduction Strategy is the weak capacity at all levels of the civil service but particularly at the middle management level. The two major challenges are to eliminate the large number of "ghost workers" and to strengthen the

[7] Building an Audit Recommendation Follow-up Process for the GAC: A Preliminary Proposed Framework. June 24, 2009.

technical capacity of the service. In FY08/09 Liberia's civil service had an estimated 32,816 persons or about 1 percent of the population. Of this number, 12,238 are in the Ministry of Education and 2,405 in the Ministry of Health. Military and police personnel are not included in this count. The annual personnel costs amounted to 30 percent of the national budget in FY08/09. The government has indicated its intention to build a smaller, better paid and more professional civil service, with high priority placed on rebuilding human capacity and building effective systems for civil service performance and accountability.

3.31 The Civil Service Reform Strategy (CSRS), endorsed by the cabinet in June 2008, provides a guiding framework for these reforms. The implementation of this highly ambitious strategy had a slow start but to date significant achievements have been reached. Learning from the challenges and successes of the initial year of implementation the Civil Service Agency (CSA) has clearly defined five medium term priorities in addition to continuing the "capacity injection programs." These priority areas are: (i) pay reform; (ii) establishing a Human Resources Management System (HRMIS); (iii) pensions reform; (iv) creating a merit based system; and (v) decentralizing CSA services. DFID, who has been the lead donor on the governance sector supporting the development and initial implementation of the Civil Service Reform Strategy, is pulling out from the sector following changes in their internal policies. The closing of the DFID program has led to a funding gap in implementing the CSRS. The prioritized agenda and initial results will help the government to attract increased funding from donors. To coordinate the efforts and minimize administrative costs a pooled fund mechanism has been suggested for the public sector reform in Liberia.

3.32 Up to date the following achievements have been reached:

i. *Pay Reform:* The Cabinet has adopted the Medium Term Pay Reform Strategy as well as a new rationalized grading structure for civil servants. This will allow the government to move into the new grading structure, reduce discretionary allowances and target their salary increases in FY10/11. The next step is for the government to align the wage bill and fiscal budget with the strategy. The adopted strategy pegs the wage bill ceiling first to 40 percent of revenue moving up to 42 percent. For FY09/10, the wage bill accounts for 38 percent of revenue.

ii. *HR records and payroll management*: The pay reform is supported by the on-going Human Resources Management Information System (HRMIS) exercise, which will help to remove the "ghosts" from the payroll using biometric identification and create a clean "one–employee-one file" registry of all civil servants. It is expected that the estimated 3,500 "ghosts" remaining on the civil service payroll will be removed through the biometric identification process. The new HRMIS system will be linked to the IFMIS system and harmonize the currently separate employee databases between the CSA and MOF payroll. The government has completed the pilot phase of the HRMIS and is expecting to have a complete clean employee registry by March 2010. Even with the new system in place strengthening the control of the people on the payroll, the government lacks the processes and capacity to effectively manage their staffing levels and do manpower planning. Currently the decentralized approach to personnel management has led to the CSA having no records of established (approved) number of employees for each ministry. The existing budgeting process also does not require the number of approved employees, as the budget circular recommends that ministries calculate their payroll expenditure for the next fiscal year based on the existing number of staff. Efforts are being made to address these challenges and the HR management department has been strengthened as part of the CSA restructuring. Simultaneously with the HRMIS exercise the Ministry of Finance has improved the payment processes for civil servant salaries by increasing payment points in the counties and moving from check payments to direct deposit payments. Currently 34 percent of government payroll is paid through direct deposit.

iii. *Capacity building:* To alleviate the enormous capacity challenge the government is successfully implementing specific “capacity injection” programs; like the Senior Executive Service (SES) Program, Transfer of Knowledge Trough Expatriate Nationals (TOKTEN) program, Scott Fellows program and the Public Financial Management Training Program (FMTP). The effect of these programs can already be felt. For example, through the SES program 97 professionals have been recruited and placed in key positions across all ministries and agencies. These professionals have already made a visible impact on the government’s efficiency and their capacity to undertake reforms. According to the PRS the SES program will be aligned with the government salary structures and the government will take over the funding positions by 2011. The Financial Management Training Program is another success story. The graduated students from the program have been used to fill some critical gaps both centrally and in the counties as well supporting the implementation of on-going reform efforts. As an example, a significant number of students have been included as part of the Integrated Financial Management Information System team to work with the consultants and eventually to take over the operation and maintenance of the system.

iv. *Mandates and Functions Reviews:* The CSA is soon to complete its internal reorganization and restructuring and is leading the systematic mandates and functions review (MFR) exercise. The first five ministries are currently implementing the reviews. The DFID funded Adam Smith International (ASI) team has been supporting the CSA in the reorganization and restructuring exercise, which is planned to be completed by the end of the ASI project in March 2010. All five ministries that have been part of the first wave of MFR’s should completed by June 2011. The participating ministries are the Ministry of Public Works, Ministry of Labor, Ministry of Planning and Economic Affairs, Ministry of Agriculture, Ministry of Education and the CSA. The Ministry of Education, which comprises one third of the entire payroll, has proven to be the most challenging one to complete. To date, ten ministries have established Internal Review Committees (IRC) to oversee and guide their internal reform and restructuring process. The CSA supports the members of the committees to ensure the administrative reforms are in line with the overall civil service reform framework. These IRCs have been able to guide the resources used for reforming individual ministries to support the broader institutional reform agenda.

Debt Management

3.33 The legal and regulatory framework governing the contracting of debt (borrowing or, guarantees), and the management, recording and reporting on debt have been consolidated under the new Public Finance Management Act that was passed by the Parliament in September 2009. The enabling Regulations for the Act were approved in November 2009. The PFM Act also established the Debt Management Committee to approve all borrowings and the issues of guarantees. The committee is comprised of the Minister of Finance (Chair), the Governor of the Central Bank, the Minister of Justice, and two members appointed by the President.

3.34 The Debt Management Unit (DMU) is expected to serve as a technical secretariat to the Debt Management Committee. In 2009, considerable efforts were made to strengthen the DMU. The staffing of the unit has been strengthened with the recruitment of a Director through the Senior Executive Service. Also, seven additional technical staff has been added to the unit. The government is also taking steps to modernize the system used for debt management and reporting and has received support from the World Bank to procure and install the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) and also to provide the necessary training in the use of the system.

3.35 As part of the commitment under HIPC and the ECF with the IMF, in June 2008, the Government formulated a comprehensive national debt management strategy that sets out the legal and institutional governing the contracting and management of debt. This debt management strategy was revised and updated in November 2009 and subsequently in June 2010 in preparation for post-HIPC debt management. The revised debt management strategy sets out to build a foundation for managing new borrowing in order to maintain a sustainable debt profile while responding to the country's urgent development financing needs.

3.36 Debt recording needs improvement going into the transition to the CS-DRMS but reporting has improved substantially. The DMU currently records external debt on an aggregate level by creditor and not on a loan-by-loan basis. Debt service payments are based on creditor's payment notices. However, all records are still kept in Excel spreadsheets and there are no strict control and security system.

Aid coordination

3.37 The new Public Finance Management Act that was passed by the Parliament in September 2009 also makes provision for the better reporting of off-budget aid flows. The Act provides for the mandatory reporting to the Minister of Finance and the Minister of Planning and Economic Affairs of all information related to donor funding not channeled through the national budget. An Aid Management Unit was established within the Ministry of Finance with the responsibility to begin reporting on aid flows. The FY09/10 budget which was passed in July 2009 included an annex with fairly comprehensive estimates of aid flows.

Prior actions under the proposed RRSP III

3.38 The proposed RRSP III would support two policy and institutional reform actions that will contribute directly to the CAS objective of rebuilding core state functions and institutions. The prior actions are critical to deepening governance reforms and aimed at improving budget planning and execution. Importantly, these measures build on and deepen previous related efforts under the first RRSP approved by the Board in December 2007 and the second RRSP approved by the Board in May 2008. These actions are the linchpin of the government's reform to increase efficiency, transparency and accountability of public resources.

- The first action is to prepare by the Ministry of Finance and approve by the Cabinet a multi-year budgeting strategy. The preparation of a multi-year budgeting strategy by the Ministry of Finance and its approval by Cabinet would allow the government to place the annual budgets in the context of the medium-term fiscal framework for the PRS, take into account the multi-year nature of investments, and help reduce the variance between budget and actual out-turns through the discipline it will bring to the overall budget process. At present, a one-year budget is prepared by the Ministry of Finance and all appropriations lapse at the end of the fiscal year, except for such sensitive appropriation as the County Development Fund. The government is obligated by the new PFM Act to shift to a multi-year budget in the context of the MTEF to help guide investment and development spending. In the preparation of the 2012/13 budget some of the basic necessary pre-conditions for the implementation of the MTEF would have already been in place. The Government has established a macro-fiscal unit in the Ministry of Finance which is supported by the IMF and the AfDB, and has already developed some capacity for macro-fiscal analysis and projections. In addition, the Government has established a good track record for strong expenditure management. The Government has also prepared sector strategies and plans for the key spending sector ministries including health and education. The multi-year budgeting strategy is proposed to set out the time frame for its implementation in keeping with the requirements of the new PFM Act, establish the time-frame for the development of sector plans as the basis for sector program budgets, and establish pilot ministries for the preparation of multi-year budgets. In addition, the strategy will indicate government's plans to carry out capacity building in Ministries and Agencies to improve the skills for budget planning. **A key indicator of progress on this prior action will be a further reduction in the variance between the approved budgets and actual out-turns.**

- The second action is the adoption of International Public Sector Accounting Standards (IPSAS-cash basis) and adoption of public finance management enabling regulations and manuals on the basis of the new PFM Act. As the PEMFAR pointed out, the legal and regulatory framework for PFM in Liberia was contained in two instruments, the Executive Law of 1972 and the Revenue Code of 2000. Although several amendments have been made over the years, the rules are not sufficiently comprehensive as they do not adequately cover the PFM cycle, do not provide clarification of roles and responsibilities for managing public funds and of reporting requirements. A comprehensive PFM Act that addresses weaknesses in budget preparation, budget execution and cash planning, GOL banking arrangement, GFSM 2001-compatible accounting and reporting, debt and guarantee management together with the attendant regulations was passed in August 2009. This new Act in combination with the enabling regulations and manuals, the PFM Steering Committee and the PFM Action Plan and the adoption of IPSAS will provide the basis for strengthening fiscal management. Together with the Government Finance Statistics compliant Chart of Accounts, they are key building blocks in sequence for the implementation of IFMIS. Earlier actions which the government took in support of this transition also include the transition to the Sun Accounting System to facilitate double entry book keeping. **A key indicator of results under this prior action is the timely production of IPSAS compliant financial statements to facilitate complete audit of the final account of the budget in keeping with the PFM Act.**

Proposed Triggers for RRSP IV

3.39 The government intends to take a more programmatic approach to its policy and institutional reforms as it moves towards the MTEF. It has articulated comprehensive reforms

(Annex 3) to improve governance in the context of its current Poverty Reduction Strategy (PRS) and Common Assessment Framework (CAF). Through the instrumentality of the Budget Support Working Group led by the Ministry of Finance, the prior actions and triggers for budget support operations have been harmonized across donors providing budget support to the Government.

3.40 The governance related triggers to be considered for the next operation (RRSP IV) are:

- The preparation of a needs assessment and strategy for training of procurement staff in the five key ministries (Ministry of Finance, Ministry of Education, Ministry of Health, Ministry of Public Works and the Ministry of Lands, Mines and Energy) followed by the establishment of procurement committees and procurement units in these ministries and the preparation and publication of procurement plans by these ministries in accordance with the PPCC Act and Regulations.

- Internal Audit Units established and well resourced in terms of staffing (a least two professional audit staff) and operational budget in 5 high risk M+As using GAC risk profile and producing quarterly internal audit reports for the Internal Audit Governance Board.

- Tax and Custom strategic plan prepared by the Ministry of Finance and approved by the Cabinet and training need assessment and staff training plan for tax and customs prepared and approved by the Ministry of Finance. In addition; (i) new Customs legislation submitted to Cabinet, (ii) ASYCUDA++ rolled out to the international airport (RIA) and two more border points, and (iii) ITAS is operational in the Bureau of internal revenue and the tax payer identification system is modernized with linkage to other government registration systems.

3.41 Other important policy actions were identified as HIPC completion point triggers aimed at modernizing the legal framework for PFM and further enhancing transparency in budget execution and reporting, including on poverty-reducing spending, and strengthening the institutional set-up for public procurement. Specifically, these are: (i) quarterly publication in the Procurement bulletin and monthly publication in the Website of all signed procurement contracts over US$25,000 for goods, US$10,000 for consulting services, and US$50,000 for works and all signed sole-sourced procurement and concessions contracts that have been identified by the PPCC as a result of the PPCC's compliance monitoring activities for at least 6 months leading up to completion point; (ii) implement the new PFM Act and supporting financial regulations for at least 12 months leading up to completion point; (iii) complete successive annual external audits of five key government ministries (Health, Education, Public Works, Finance and Lands, Mines and Energy) prepared under the authority of the General Auditing Commission, submitted to the Parliament and disclosed publicly; (iv) regular public reporting of payments to, and revenues received by, the government for the extractive industries (mining and minerals) in a participatory manner in line with EITI criteria during at least the year leading up to the completion point; (v) establish an independent Anti-Corruption Commission consistent with the Anti-Corruption Act, and ensure it is operational for at least 12 months leading up to the completion point; (vi) develop a debt management strategy in consultation with partners and establish a debt management unit recording all information on external and domestic public and publicly guaranteed debt, including for state owned enterprises, and ensure it is operational for at least 12 months leading up to the completion point and publish on a quarterly basis and on a government website, data on external and domestic public and publicly guaranteed debt, including debt stocks and terms and conditions of new loan agreements for at least 6 months leading up to the completion point.

B. Facilitating Pro-Poor Growth

3.42 As elaborated in the PRS, the government's strategy for accelerating economic growth is based on: (i) rebuilding basic infrastructure, especially roads and ports; (ii) restoring production in the leading natural resources sectors including mining and forestry while ensuring that the benefits are widely shared; and (iii) reducing production costs to establish the foundation for diversification of the economy. The pillar also includes eight strategic sector goals: (1) to revitalize the food and agriculture sector; (2) to develop the forestry sector as a source of income for the rural population; (3) to expand mining as an engine of economic growth and social development; (4) to develop an equitable national land tenure and land use system; (5) to create a strong enabling environment for private sector investment; (6) to promote a stable and market-based financial system; (7) to promote productive employment; and (8) to dissolve, privatize or reform state-owned enterprises.

3.43 The government has indicated that growth will be private sector-led, while it will focus on reforming public sector institutions and processes in order to facilitate investment and strengthen market functions. It also aims to introduce policies to facilitate the expansion and functioning of markets and to establish a regulatory environment that is conducive to long-term growth. Emphasis is placed on agriculture, as well as the traditional growth sectors, forestry and mining. Liberia also hopes to stimulate light manufacturing, primarily through downstream production from the agriculture, forestry and rubber sectors. The 2008 Diagnostic Trade Integration Study (DTIS) identified some key sectors in which Liberia shows comparative advantage, including tree crops (rubber, cocoa oil palm), mining, forestry and fisheries. The DTIS has also provided an action matrix to help guide the implementation of key measures for the development of these sectors.

3.44 The regulatory framework for business is improving but there is still much to be done. The World Bank Doing Business 2010 ranked Liberia 149th out of 183 countries on the ease of doing business. This is a substantial improvement on its overall ranking of 159th out of 183 countries in the 2009 survey which also represents a notable improvement on its 2008 ranking. The improvement in the overall ranking in the 2010 survey largely reflected the progress made in *Starting a Business* (improved from 62nd in 2009 to 57th in 2010); *Dealing with Construction Permits* (improved substantially from 179th in 2009 to 135th in 2010) and *Trading across Borders* (improved from 117th in 2009 to 112th in 2010). Liberia has been successful in reducing the number of procedures for starting a business from 10 in 2009 to 6 in 2009 and further to 5 in 2010. The time for *Starting a Business* has also been reduced from 68 days in 2008 to 31 days in 2009 and further to 20 days in 2010. Although the number of procedures for *Dealing with construction Permits* has only been reduced marginally from 25 to 24 between 2009 and 2010, the time was substantially reduced from 321 days to 77 days. The rankings reflect some slippage on a number of important indicators including Employing Workers (fell from 118th in 2009 to 121st in 2010); *Registering Property* (fell from 172nd in 2009 to 174th in 2010); *Getting Credit* (fell from 131st in 2009 to 135thin 2010); *Protecting Investors* (fell from 143rd in 2009 to 147th in 2010); and *Paying Taxes* (fell from 79th in 2009 to 85th in 2010). However, in all cases the slippage is due primarily to the changes in the survey methodology and the addition of two new countries to the sample and not to adverse changes in the business environment in Liberia.

3.45 The Mini-Diagnostic Analysis of the Investment Climate carried out by Foreign Investment Advisory Service (FIAS) carried out in March 2006 found that the legislation of Liberia discriminates against foreign investors mainly in three areas: (i) land tenure and ownership; (ii) restriction on sectors for investment; and (iii) residency and work permits. The limitation on who can own land in Liberia and the uncertainties regarding land titling add to the cost and risks of private investment. Commercial users of land and its resources need security of tenure for investment. The government recognizes these issues and has established a Law Reform Commission to review laws and the constitution including issues related to citizenship. The government has also established and adequately resourced a land commission to address issues of land ownership and tenure.

3.46 The government has taken a number of other steps to improve the environment for private sector investment. First, it has amended the Liberia Revenue Code (LRC) to provide a transparent schedule of investment incentives for selected economic sectors. The amendments also contain fiscal regimes for natural resources and large agriculture projects. Second, the government has revised the Investment Code to streamline investment procedures and remove potential conflicts with the LRC. In addition, the government plans to submit the fiscal framework for the forestry sector to the Parliament before June 2010. The government is also taking steps to strengthen the financial sector to improve access to finance by micro, small and medium-sized enterprises. In this regard, the Microfinance Unit at the Central Bank of Liberia has drafted a microfinance policy framework for Liberia which will be implemented before the end of 2010.

3.47 Efforts to rehabilitate basic infrastructure for the road transport, telecommunications, the port, energy and water and sanitation are also underway although financial and human resources are major constraints to the pace of implementation of related projects. Among these, and based on the prioritization of interventions through nationwide stakeholders' consultations, the government continues to focus particular attention on road rehabilitation, including through the submission of legislation to Parliament for the establishment of a Road Maintenance Fund to achieve sustainable financing for routine and periodic maintenance of the road network and the development of the Special Implementation Unit of the Ministry of Public Works into a fully professional Infrastructure Implementation Unit. This would then be phased into a Road Authority as other line ministries acquire the capacity to carry out their own infrastructure projects.

3.48 On the telecommunication sector, the government has undertaken a telecom sector reform including the adoption of a Telecommunications Act and the establishment of the Liberia Telecommunications Authority (LTA). The new framework was intended to meet an immediate need to improve provision of services, promote fair competition, and create a predictable environment for the operators and consumers. The reforms resulted in significant benefits, increased private sector participation, and led to a dramatic increase in the subscriber base primarily resulting from a boom in the mobile sector. However, the sector's potential to improve competitiveness of Liberia's economy, facilitate economic growth and social reconstruction and ensure fuller integration of the country in the global economy remains largely underutilized. Going forward, the government's policy priorities for the telecommunication sector will focus on: (i) improving international connectivity; (ii) universal access of telecommunications service across Liberia; (iii) exploring the strategic options for the publicly owned Liberia Telecommunications Corporation (LTC) including privatization; (iv) strategic options for e-government; (v) interconnection and licensing regulation; and (vi) ensuring the effective and smooth functioning of LTA.

3.49 The war and international sanctions severely disrupted port operations in Liberia even as port management has been riddled with problems for years. The physical infrastructure of the main port in Monrovia is in a deplorable state, with the marginal wharf and oil jetty needing replacement. The physical layout of the port and available equipment is unsuitable for modern port operation. The government's policy priority over the short to medium-term is to complete the requisite legal and institutional reforms for the modernization of the port of Monrovia to reduce the cost of shipping to Liberia to ultimately lower the cost of imported goods. A key part of this plan is the privatization of the operation of the port. In March 2010, a concession was awarded to the Dutch–based APM Terminal to develop and improve the port facility. Under this arrangement, the concessionaire will invest in, inter alia the construction of a new marginal wharf, ship-to-shore container handling equipment and increasing the container holding capacity of the port.

3.50 Liberia's power sector infrastructure was destroyed during the civil war. The existing public generation system is composed of high cost, high-speed diesel generation units with total installed capacity of 9.6 Mega Watts (MW). Electricity is supplied via isolated networks to street lights, schools, hospitals, administrative buildings and a few private consumers in selected parts of Monrovia. The remainder of the country has no access to public electricity. However, the government is committed to the development of the power sector as a driver of economic growth and to ensure access to electric services to create jobs, eradicate poverty and improve the lives of the population. To this end, the Government of Liberia endorsed the National Energy Policy in early 2009, which sets out clear goals for energy policy and how they are to be pursued. In 2009 Liberia also ratified the ECOWAS Energy Protocol, which ensures that Liberia's energy system will be developed in line with West African regional standards. In the urban area, the Government is pursuing a Management Contract for Liberia's power utility Liberia Electricity Corporation (LEC), which is expected to be in place by mid-2010. In addition, a donor-financing package of about US$50 million will be made available to help rebuild Monrovia power's energy network. Financing will come from the Government of Norway, USAID, IDA and GPOBA resources. To service rural areas with modern energy services, the Government of Liberia established the Rural and Renewable Energy Agency in January 2010. The first projects that the RREA will pursue are the construction of a pilot micro hydro plant and two off-grid solar town electrification schemes financed through a World Bank administered Dutch trust fund. At the regional level, the Government of Liberia is pursuing with its neighbors the construction of the Côte d'Ivoire, Sierra Leone, Liberia and Guinea transmission interconnection which IDA has committed to co-finance.

3.51 To promote productive employment, the government will need to make a big push on education and training as currently the quality and management of education are poor and learning achievements are out of sync with the demands of the labor market. Furthermore, there is no clear policy for technical and vocational training to build marketable skills even in areas where there are high demand for these skills. Over the medium-term, the government intends to focus on improving the quality and access of education including a focus on early childhood education as well as improving school based management and, the quality and deployment of teachers to ensure better quality of services in poor rural areas. On technical and vocational training the government intends to focus on the governance and the standardization of the training curricula in line with assessed labor market needs.

Prior actions under the proposed RRSP III

3.52 The operation would support a key policy action to improve the environment for private investment in support of the Economic Revitalization pillar elaborated above. This policy action, namely the establishment and adequately resourcing of a Land Commission to identify, guide and facilitate reforms in land policy, law and program is a significant step toward improving the environment for investment in Liberia. Establishing a working system to promote the reconciliation of land disputes and which can also improve the public's perception about the government's capacity for dealing with land conflicts would have a significant positive impact on promoting private sector participation in the economy. Land issues are not only a regular source of intense conflict among Liberians but it has been cited as perhaps the single issue which could re-ignite conflict.

3.53 Women have consistently less access than men to key productive inputs including land (16 percent of women compared to 33 percent of men own land). The government has begun to address the issue of women's property rights with the passage of the Inheritance Act (2003) that establishes rights of inheritance for spouses under both statutory and customary marriages. Weak institutional capacity and extremely limited knowledge about rights among the population, and minimal access to legal aid are major issues. Despite some progress, important challenges remain to ensure equal treatment and protection of women's and girls' under the law.

3.54 There is no national land policy in Liberia and the national institutional framework for land administration and management is improperly designed, uncoordinated and ineffective. In addition, there is no cadastre and no effective and reliable land information system. As a result, security of tenure is virtually non-existent in Liberia. Additionally, the maintenance of land deeds are fragmented with some deeds being kept in the National Archives, the Ministry of Foreign Affairs, the Presidential Mansion and in the counties. This fragmentation of deed storage makes administration and conveyance inefficient and costly. Key indicators of results under this prior action are therefore the consolidation of all land deeds in the National Archives, the number of deeds digitized and filed in the National Archive and the percentage decrease in the number of land dispute cases in the docket. This policy action, when completed, will contribute to the CAS objective of facilitating pro-poor growth.

3.55 Following the establishment of the Land Commission, the Bank is providing support through a Land Sector Reforms project (US$2.98 million) supported by the State and Peace Building Fund (SPF). The project will, among other things build capacity in the Land Commission, support analytical and diagnostic work for land reform, strengthen Land Surveying cartography and land adjudication in the Ministry of Lands, Mines and Energy, help rehabilitate land records, improve the adjudication of land disputes and increase land registration. The Joint UN program for Gender Equality and Women's Economic Empowerment is providing technical support to the government to address the gender dimension of the land reform process and support the implementation of the Inheritance Law.

3.56 As mentioned above, the government intends to take a more programmatic approach to its policy and institutional reforms and has articulated comprehensive reforms (Annex 3) to support economic revitalization in the context of its Common Assessment Framework (CAF). Through the instrumentality of the Budget Support Working Group led by the Ministry of Finance, the prior actions and triggers for budget support operations have been harmonized across donors providing budget support to the Government.

Proposed Triggers for RRSP IV

3.57 The economic revitalization related triggers to be considered for the next operation (RRSP IV) are:

- Completion of assessment of the legal framework for land (both statutory and customary law) to determine amendments required to existing land laws.

4. BANK GROUP'S SUPPORT TO THE GOVERNMENT'S PROGRAM

A. LINK TO THE CAS

4.1 The overarching aim of the Bank's Joint Country Assistance Strategy (JAS) with the AfDB for the period FY 09–12, which was discussed at the Board on April 21, 2009, is to support Liberia's transition from post conflict recovery to long-term development. More specifically, the JAS, which is fully aligned with the PRS pillars and objectives, focuses on three strategic objectives: (i) rebuilding core state functions and institutions; (ii) rehabilitating infrastructure to sustain economic growth; and (iii) facilitating pro-poor growth. These objectives are aligned to Pillars II, III, and IV of the government's PRS but they also reflect the respective comparative advantage of the World Bank and the African Development Bank as well as the fact that other donors are leading in specific thematic areas.

4.2 The proposed grant is an integral part of the JAS as it directly supports continuing and deepening government-owned policy reforms to rebuild core state functions and institutions and support private sector development by: (i) improving budget planning and execution (ii) enhancing revenue administration; and (iii) land administration to reduce land conflicts and enhance the investment climate.

B. COMPLEMENTARITY WITH OTHER BANK ACTIVITIES

4.3 The RRSP III is closely coordinated with and is complementary to government's reforms supported by several IDA-financed ongoing or planned operations and advisory services in the areas of its focus. On economic governance and institutional reform, the Economic Governance and Institutional Reform Project (EGIRP-US$11 million) approved by the Bank's Board in May 2008 is providing complementary financial and technical assistance in support of the public financial management reforms (including the implementation of the PFM Act laid out in the PFM Action Plan, support for an integrated tax administration system, public procurement reform, and the strengthening of the payment system, aid flow monitoring and the external audit function) and the civil service reform program. An IFMIS project (US$3.7 million) is also assisting the government in strengthening financial management systems through the provision and installation of a computerized financial management information system in the Ministry of Finance and through strengthening manual accounting systems in line ministries and the counties. These grants are complemented by:

- A Trust Fund for Liberia (TFLIB) with a total commitment of US$25 million is providing support for improving economic and natural resource governance, public sector/civil service reform and infrastructure for the delivery of basic services.
- A LICUS Trust Fund (US$45 million) is also providing support on public financial management, civil service and judicial reforms, public procurement, natural resource management and the provision of labor intensive public works in urban areas.

4.4 On economic revitalization, the World Bank is supporting the implementation of the Liberia Reconstruction Trust Fund (LRTF), a multi-donor trust fund, for infrastructure rehabilitation. The Bank is also providing support through a Land Sector Reforms project (US$2.98 million) supported by the State and Peace Building Fund (SPF) to rehabilitate land records, improve the adjudication of land disputes and increase land registration. The HIPC Initiative also supported reform progress in these areas by focusing several completion point triggers on critical PFM and EITI reforms (see Section 3).

C. COLLABORATION WITH THE IMF

4.5 The World Bank and IMF have maintained a good track record of collaboration in Liberia including through their support to GEMAP since its beginning as well as joint work in a number of areas, including the Debt Sustainability Analysis, arrears clearance and the HIPC process to Decision Point. Staffs from the two institutions have also worked on the Joint Staff Advisory Note (JSAN) on the full PRS that was completed in June 2008. There have also been joint missions for macroeconomic monitoring and monitoring of progress on the HIPC floating triggers to reach Completion Point. Both the World Bank and the IMF have continued to provide support for the implementation of the PRS in a number of areas including the strengthening of Liberia’s statistical capacity and improving PFM. The IMF and the Bank provided coordinated support for the drafting of the new PFM Act, the Regulations and the Manuals and the Bank is providing assistance for the implementation of PFM reforms. The IMF completed the diagnostic of tax administration and the Bank is providing implementation support including the installation of an integrated tax administration system.

4.6 To further enhance the collaboration between the Bank and the IMF, the country teams have agreed on and continue to implement a Joint Management Action Plan (JMAP) for FY10. The IMF is leading the dialogue on fiscal, monetary, and balance of payments policies. The Bank’s work focuses on supporting the modernization and strengthening of public procurement; the rehabilitation of urban and rural infrastructure; strengthening land administration and enhancing the governance of the natural resource sector to boost growth. The Bank and the IMF will also provide joint policy advice on the modernization of tax administration, public finance management and decentralization.

D. COORDINATION AND HARMONIZATION WITH OTHER DONORS

4.7 Donor coordination is improving among the main donors active in Liberia. These donors, including the United States, the IMF, the African Development Bank, the European Commission and the World Bank, co-hosted a two-day Liberia Partners Forum in Washington, D.C. in February 2007 to discuss the Interim Poverty Reduction Strategy and its implementation. A similar forum was supported by the World Bank and hosted by Germany in Berlin in June 2008 after the completion of the full PRS. The strong support for the government’s reform program registered in the 2007 forum was reiterated in the 2008 forum and donors pledged significant development assistance and debt relief as Liberia moves from a short-term relief to a long-term development agenda. The World Bank is active in the Liberia Reconstruction and Development Committee (LRDC) – the government-led body that coordinates the implementation of the national development agenda both within government and with donors. The World Bank is also participating in the LRDC sub-committees established to monitor implementation progress of the Economic Revitalization Pillar, Infrastructure and Basic Services Pillar and the Governance and Rule of Law Pillar.

4.8 The Bank is an active member of the UN Country Team and works closely with the large UN presence in Liberia, in particular, the UN Mission in Liberia (UNMIL) and UNDP. In addition to working together on emergency infrastructure repairs funded by the Bank, the UNDP administers a number of other Bank financed emergency projects. To ensure harmonized approaches with the UN, the Bank has integrated its program as part of the Joint UN programs for Food Security, Gender Equality and Youth. The Bank is also working closely with the ILO to help address the twin issues of unemployment and the provision of feeder roads by focusing on labor-intensive road construction in the rural areas. The Bank's work on economic governance and institutional reforms is complementary to the Civil Service Capacity Building (CISCAB) program being implemented by the Department for International Development, as well as the governance work being done by other donors, including the IMF, the African Development Bank, UNDP and United States Agency for International Development (USAID). In keeping with the principles of harmonization and coordination, the Bank has a joint strategy with the African Development Bank and held extensive consultations with the U.N. system and other development partners during the preparation of the Bank's Joint Country Assistance Strategy (JAS) for Liberia, including on the policy and institutional reforms supported by the proposed operation. The international partners also meet regularly to confer on strategy and implementation issues. As the lead donor in the infrastructure sector, the Bank administers the Liberia Reconstruction Trust Fund (LRTF), which is a multi-donor trust fund for infrastructure. Current donors include Germany, Ireland, Sweden and the World Bank (through LICUS).

4.9 The Government of Liberia is committed to its Common Assessment Framework (CAF) as the primary mechanism for harmonizing donor support to Liberia (including budget support) as the Governance and Economic Management Program (GEMAP) will be phased out after HIPC completion point reached in June 2010. This approach is expected to reduce the transaction cost on government and better coordinate the support of the different donors towards the single national development strategy (PRS) and the PFM Action Plan. The Budget Support Working Group within the Ministry of Finance has been the key focal point for the CAF process. However, the Aid Management Unit in Ministry of Finance is envisioned to be the technical body to coordinate the CAF process. The main donors including the three donors currently providing budget support to Liberia i.e. the World Bank, the African Development Bank and the European Union are fully engaged in the CAF process. As Annex 3 shows, the budget support provided by the World Bank, the African Development Bank and the European Union are harmonized around improving Liberia's public finance management system in the larger context of improving governance.

4.10 The additional resources provided through the addition of US$6 million from the Crisis Response Window (CRW) to help mitigate the ongoing effects of the global economic slowdown on key priorities reflected in the Poverty Reduction Strategy is complementary to and will be coordinated with similar support being proposed by other donors. For example, the EU is proposing to provide support to mitigate the effects of the crisis through its Vulnerability FLEX mechanism which was established in August 2009. It is estimated that the support from the Vulnerability FLEX mechanism could be at least US$16 million depending on the extent of the fiscal gap for FY10/11. The African Development Bank has already frontloaded its planned

FY09/10 disbursement in FY08/09 to help offset the crisis-related revenue shortfall for that fiscal year. Table 4.1 below shows the near term estimates for budget support financing.

Table 4.1: Liberia Budget Support (US$ Million)

Donor	**2008/09**	**2009/10**	**2010/11**
African Development Bank	23.6	0.0	15.5
World Bank	0.0	4.0	13.0
O/W CAS	0.0	4.0	7.0
O/W CRW	0.0	0.0	6.0
European Union	0.0	9.0	30.3
O/W V-FLEX	0.0	0.0	16.0
Total Budget support	**23.6**	**13.0**	**58.8**

Source: IMF and World Bank Staff

Box 4.1: Donor Coordination/Harmonization

Responding to the severe lack of accountability and transparency in public financial management, the Governance and Economic Management Assistance Program (GEMAP) was signed between the transitional government and key donor partners in September 2005. This program has laid out the framework for partners' projects supporting the governance reform efforts in increasing transparency in public financial management and procurement. The GEMAP is coordinated by the Economic Governance Steering Committee (EGSC), that is chaired by the President and brings together donors, international and regional (ECOWAS, African Union) partners, key ministries and civil society. The GEMAP Technical Team (TT) addresses operational issues arising in GEMAP implementation and promotes progress in capacity building. With the closing of GEMAP at the HIPC completion point, the technical coordination of economic management and governance reforms was transferred to the PFM reforms coordination unit which will harmonize the policy objective of increasing budget support. The previous EGSC higher level guidance for economic governance will be transferred to the PFM Reform Steering Committee.

Since the re-engagement of most development partners after the Accra Peace Accord in 2003, there has been close coordination among the donors in Liberia. Under the National Transitional Government of Liberia (NTGL, 2003-2006) the Bank financed and led the coordination function of the Results-Focused Transition Framework. This framework led to the development of the Liberia Reconstruction and Development Committee (LRDC), which is chaired by the President and brings together all key donor and government counterparts. The LRDC is organized under four PRS priority Pillars, with each Pillar headed by a key Ministry. Through this forum, the government articulates its national priorities and works directly with donors to ensure that resources are directed to priority interventions. The LRDC structure coordinated the PRS development process and is the oversight body jointly with the Ministry of Planning and Economic Affairs. PRS monitoring is proceeding relatively well, but meaningful policy dialogue is limited, as well as high-level participation in meetings at sector level. Following a one year review of PRS implementation, the government has reprioritized its interventions and increased the internal accountability mechanisms and policy coordination to ensure newly set targets are met.

The 2008 Paris Declaration Survey on aid effectiveness gave Liberia low scores in most indicators. Despite the existing strong coordinating mechanisms, the overall tracking of both government's poverty reducing expenditure and donor expenditure is poor, but efforts have been made to improve it. Before 2008, no aid flows had been reported in the budget or recorded in national accounting systems. Using government systems for implementation is challenging for the donors due to its low capacity. To overcome these challenges and increase aid effectiveness, the LRDC secretariat is developing an Aid Management Strategy that will be implemented under an oversight Steering Committee comprising the LRDC Secretariat and the Ministries of Finance and Planning and Economic Affairs. As part of this strategy, the capacity in tracking aid flows has been boosted through the establishment of an Aid Management Unit within the Ministry of Finance. The Unit hosts a web based Aid Management Platform that was launched in January 2009. Following the data collected by the Aid Management Unit, the government was able to include an annex estimating the aid flows against PRS priority sectors in the budget for FY09/10. On the partners' side, there has been progress with respect to efforts to create coordinated mechanisms to reduce the government's burden in donor relations including pooled funds in infrastructure, education and health and joint UN programs on Food Security and Nutrition, Gender Based Violence, Youth Employment and Gender Equity and Women's Economic Empowerment.

E. ANALYTICAL UNDERPINNINGS

4.11 The design of the RRSP III has benefited from recent and ongoing analytical Bank and IMF reports, as well as close policy dialogue on the key areas covered by the operation. The analytical underpinning for the design of the PFM elements of the RRSP III is provided primarily by the 2008 Public Expenditure Management and Financial Accountability Review (PEMFAR), which was the first comprehensive assessment of public expenditure and financial management systems in Liberia. The PEMFAR reflects the findings of the assessment conducted jointly by the World Bank, the African Development Bank, the IMF, UNDP, DFID and the Swedish National Auditing Office (SNAO), between September and December 2007 in conjunction with the government of Liberia. Some of the specific recommendations from the

PEMFAR that have been reflected in the prior and other actions include the recommendations to: (i) adopt International Public Sector Accounting Standards (IPSAS); (ii) develop a roadmap for a gradual shift to multi-year budgeting; and (iii) implement an Integrated Tax Administration System which can capture all relevant tax data.

4.12 The design of the operation has also benefited from the recently completed study on Insecurity of Land Tenure, Land Law and Land Registration which provided input into the design of the operation as reflected in the prior action for the establishment and adequate resourcing of a Land Commission.

4.13 The design of the RRSP III has benefited from the analytical work undertaken for the annual Doing Business survey, which included Liberia in the 2008, 2009 and 2010 surveys and therefore provided a very comprehensive and comparative assessment of business regulation in Liberia and their enforcement. On private sector issues, the design of the operation also benefited from the Mini-Diagnostic Analysis of the Investment Climate carried out by the Foreign Investment Advisory Service (FIAS) in March 2006 as well the recent ESW on employment and pro-poor growth completed in December 2009.

4.14 In addition to the more formal analytical work, the design of the operation has also been informed by the ongoing policy dialogue with the authorities conducted in the context of stand-alone World Bank missions or joint mission with the IMF.

F. LESSONS LEARNED

4.15 The design of this operation has benefited from the guidance provided from OPCS, lessons from other development policy operations as well as the specific lessons from the two previous Reengagement and Reform Support Program Grants. These lessons are discussed in detail below:

- In the previous two operations, the policy reforms (including the prior actions) were embedded in the government's own reform agenda articulated in the Poverty Reduction Strategy. There was therefore strong ownership of the reforms from the onset. This proposed operation has adopted a similar approach of embedding the reforms into the government's own program articulated in the PRS. Given the government's good track record of reforms to date, this will help to ensure the implementation of the reforms supported by this operation.

- Given the generally limited capacity within the public sector in post conflict countries such as Liberia, it is important to be selective in the choice of policy and institutional reforms to be undertaken at this particular stage in the country's transition. Operations that are simple in design and have fewer manageable actions (that have significant positive "knock-on" or leverage effect) are likely to be more effective than operations that attempt broad coverage. The design of this operation reflects this lesson through its attempt to focus on a few carefully selected prior actions that, in an environment of limited capacity, are deemed essential for keeping the overall governance reform program on track and are important for enhancing the investment climate.

- 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 establishment of an adequately resourced Land Commission is a critical first step to begin the rehabilitation of land records, improve the adjudication of land disputes and increase land registration.

- An important lesson for this operation drawn from the implementation of other development policy operations is the need to assess the key risks to the individual policy and institutional reform measures to be undertaken and to be proactive in the application of mitigating measures. This is particularly important in post conflict countries where capacity, security and political economy risks are non-trivial. This operation has not only benefited from an upfront assessment of the key risks but has also identified some of the mitigating measures that are being or need to be applied to address these risks.

- The effectiveness of Bank supported policy and institutional reform operations can be substantially enhanced by its complementarities with other Bank financed operations, particularly technical assistance that provide critical support to enable the government to pursue the particular policy or institutional actions. 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 the EGIRP, the IFMIS project, the Land Sector Reform Project and the IMF through the ECF agreed with the government.

5. THE THIRD REENGAGEMENT AND REFORM SUPPORT PROGRAM

A. DESCRIPTION OF THE OPERATION

5.1 **Reform Program**. The success of Liberia's efforts to transition from post-conflict recovery to laying the foundations for long-term development will depend on the government's ability to rebuild core state functions and institutions, rehabilitate infrastructure to deliver basic services whilst ensuring that growth is both sustained and increasingly pro-poor. It must do so within a governance framework that elicits public trust, support and participation. This is particularly import in the post GEMAP era which began after the HIPC completion point in June 2010. Moreover, the government must maintain the nascent peace and security to help provide the business environment for private sector-led growth. This is going to be a key challenge leading up to the general elections due in November 2011. Effective communication and stakeholder engagement to keep the populace informed and build ownership for key reforms will be necessary.

5.2 The government's medium-term strategy, articulated in its PRS, is described in Section 3 above. This provides the broad reference framework for the government's Letter of Development Policy (LDP) attached as Annex 2 and its policy matrix in Annex 3. Through its LDP, the government has requested that the Bank support an important subset of the reforms outlined in its strategy, primarily under Pillar II and III, for improving governance and revitalizing the economy. As described in Section 4, other donors are supporting other reform areas reflecting their respective institutional mandate or comparative advantage. The World Bank's support to the full Poverty Reduction Strategy is described in the joint World Bank/African Development Bank Country Assistance Strategy.

5.3 **Objective**. The objectives of the proposed grant are to support government-owned ongoing reforms to strengthen governance and improve the environment for private sector-led growth that is more broadly shared. This support is particularly needed given the context of an exceptionally unfavorable global economic environment. More specifically, the RRSP III focuses on: (i) improving budget planning and execution; and (iii) improving land administration to reduce conflict and enhance the investment climate. The resources made available through this grant will help create fiscal space to allow the government to implement activities that would otherwise be beyond its fiscal capabilities.

B. PRIOR ACTIONS FOR RRSP III

5.4 The proposed operation would support selected reforms in the government's program described in Section 3 and in its Letter of Development Policy that are deemed essential to its successful implementation. The table below details these prior actions. The rationale for their selection has been discussed in Section 3, namely their importance to the program and expressed government commitment and feasibility. The three prior actions for the proposed grant were broadly defined in the previous operation as further policy actions that were critical to the success of the overall program[8]. It should be noted that these prior actions also support the three key strategic objectives of the CAS and are part of a well integrated and sequenced series of reforms whose implementation would continue to be supported by the Economic Governance and Institutional Reform Project, the IFMIS project, the Land Sector Reform Project and the IMF three-year ECF program. Compliance with these prior actions as defined in the Financing Agreement forms the basis for IDA to proceed with the proposed operation. Annex 3 details the full government's program of reforms in these areas including the prior actions in the table below.

[8] The prior action "Modernize the taxpayer identification system with linkage to other government registration systems" was deferred to a follow-up operation RRSPIV as the Government has requested additional time to complete the prior action due to delays beyond their control.

Table 5.1: Prior Actions for the Proposed Grant

Prior Actions	Status of Implementation	Reason for Change
I. Governance and Rebuilding Core State Functions and Institutions		
1. Prepare by the Ministry of Finance and approve by the Cabinet a multi-year budgeting strategy.	**Implemented:** The draft strategy was completed by the MOF and endorsed by the Cabinet in June 2010.	
2. Adopt International Public Sector Accounting Standards (IPSAS-cash basis) and adopt public finance management enabling regulations and manuals on the basis of the new PFM law.	**Implemented:** Cabinet adopted PFM regulations and IPSAS in November 2009. PFM and IPSAS manuals have been prepared and circulated.	
3. Modernize the taxpayer identification system with linkage to other government registration systems.	**Dropped**	While the Government made good progress in contracting a consulting firm to supply and implement the Integrated Tax Administration System (ITAS) which included the modernization of the taxpayer identification system, delays beyond the Government control prevented the firm from mobilizing to complete the implementation on a timely basis. The measure was therefore dropped as a prior action for RRSPIII and included as trigger for RRSPIV.
II. Facilitating Pro-poor Growth		
4. Establish and adequately resource a Land Commission to identify, guide and facilitate reforms in land policy, law and program.	**Implemented:** The Act to establish the Land Commission was approved by the Parliament in July, 2009. The Commissioners were nominated in September, 2009 and budgetary resources of US$600,000 were included in 2009/10 budget for Land Commission.	

C. PROPOSED TRIGGERS FOR RRSP IV

5.5 As the government transitions from post-conflict recovery to long-term development planning, it will need to continue and, indeed, deepen the key governance reforms to rebuild state institutions and strengthen governance whilst gradually shifting its focus to a set of second generation reforms geared at improving the environment for private sector investments to spur growth. In this regard, the government intends to take a more programmatic approach to its policy and institutional reforms and has articulated comprehensive reforms (Annex 3) to support governance and economic revitalization in the context of its Common Assessment Framework (CAF). Through the instrumentality of the Budget Support Working Group led by the Ministry of Finance, the prior actions and triggers for budget support operations have been harmonized across donors providing budget support to the Government. The following policy measures will be considered triggers for the next budget support operation (RRSP IV) from IDA.

I. Governance and Rebuilding Core State Functions and Institutions
1. The preparation of a needs assessment and strategy for training of procurement staff in the five key ministries (Ministry of Finance, Ministry of Education, Ministry of Health, Ministry of Public Works and the Ministry of Lands, Mines and Energy) followed by the establishment of procurement committees and procurement units in these ministries and the preparation and publication of procurement plans by these ministries in accordance with the PPCC Act and Regulations.
2. Internal Audit Units established and well resourced in terms of staffing (a least two professional audit staff) and operational budget in 5 high risk M+As using GAC risk profile and producing quarterly internal audit reports for the Internal Audit Governance Board.
3. Tax and Custom strategic plan prepared by the Ministry of Finance and approved by the Cabinet and training needs assessment and staff training plan for tax and customs prepared and approved by the Ministry of Finance. In addition; (i) new Customs legislation submitted to Cabinet, (ii) ASYCUDA++ rolled out to the international airport (RIA) and two more border points, and (iii) ITAS is operational in the Bureau of internal revenue and the tax payer identification system is modernized with linkage to other government registration systems.
II. Facilitating Pro-poor Growth
4. Completion of assessment of the legal framework for land (both statutory and customary law) to determine amendments required to existing land laws.

Box 5.1: Good Practice Principles on Conditionality

Principle 1: ***Reinforce Ownership***
This development policy operation supports the government's governance and economic revitalization reform program that is a core element of the Poverty Reduction Strategy (PRS). The PRS is the result of comprehensive consultations with all levels of society that were unprecedented in Liberia's history. It included detailed discussions with Liberians at the district and county levels, civil society organizations, the private sector, the Parliament and international partners. At a donors' meeting in Berlin, Germany in June 2008, donors broadly endorsed the PRS. These reforms are led by the Liberia Reconstruction and Development Committee (LRDC) that is led by the President. The reforms supported not only reflect a continuation of reforms started under the I-PRS but also a deepening of the reforms to establish a credible, proven governance framework to transition from the Governance and Economic Management Assistance Program (GEMAP) to the government's own system under the PFM Steering Committee. The government has demonstrated strong track record of ownership and commitment to the program through fully embracing the GEMAP, through its performance on the IMF related programs including the successful completion of the third review under the ECF-supported arrangement.

Principle 2: ***Agree up front with the government and other financial partners on a coordinated accountability framework***
In June 2008, the government of Liberia and donors (under the UN umbrella) agreed on a coordinated accountability framework for the joint monitoring of the PRS and UNDAF activities. The Liberia Reconstruction and Development Committee (LRDC) that has responsibility for the monitoring of the implementation of the PRS developed (with support from UNMIL) a live web-based template that is capable of tracking performance indicators at the county level. In 2009, the LRDC was placed under the Ministry of Planning and Economic Affairs to improve the coordination of planning and monitoring. Donor aid coordination and policy dialogue is also managed through the Liberia Reconstruction and Development Committee. Coordination efforts are relatively strong, and reporting on aid flows has improved with the establishment of the Aid Management Unit within the Ministry of Finance to track and report on aid flows.

Principle 3: ***Customize the accountability framework and modalities of Bank support to country circumstances***
The formulation of the comprehensive PRS and the increasing alignment of the government's budget, beginning with the FY08/09 budget and continuing with the FY09/10 budget, to the priorities of the PRS, established a clear framework for the modality and timing of aid. This development policy operation therefore responds to the expressed demand from government for more aid to be channeled through the budget and targeted at PRS priorities. The accountability framework, designed as it is from the county level up, is also intended to reflect the government's intention expressed in the PRS to have increased decentralization of fiscal responsibility over time.

Principle 4: ***Choose only actions critical for achieving results as conditions for disbursement***
The three prior actions for the proposed grant were chosen on the basis of their operational importance for the achievement of critical milestones and objectives in the government's reform program in the critical areas of governance and economic revitalization. These prior actions are therefore focused on policies or institutional actions to improve the country's fiduciary environment and improve the environment for private sector-led growth.

Principle 5: ***Conduct transparent progress reviews conducive to predictable and performance-based financial support***
The Economic Governance Steering Committee (EGSC) chaired by the President of Liberia is the body responsible for the oversight of the Governance and Economic Management reform program, including the measures supported by the proposed grant. The Committee has representation from senior government ministers, the donor community and civil society. The committee receives and reviews progress reports from the Liberian Reconstruction and Development Committee (LRDC), the GEMAP technical team and other technical committees. The EGSC has a regular schedule of monthly meetings that are highly results-focused.

D. ANTICIPATED RESULTS OF THE PROGRAM

5.6 The proposed operation supports key elements of a longer-term reform program in the context of the government's Poverty Reduction Strategy. There are some important results that are anticipated in the short term in the context of this operation. These results are summarized below under the respective prior actions. In addition, the additional financial resources provided from the Crisis Response Window (CRW) will result in a substantial mitigation of the fiscal space constrained by the global crisis and allow the Government greater latitude for spending on its key PRS priorities including health, education and infrastructure.

Results Framework	
Prior Actions	**Results Indicators**
Component 1: Governance and Rebuilding Core State Functions and Institutions	
Prior Actions 1. Prepare by the Ministry of Finance and approve by the Cabinet a multi-year budgeting strategy.	Average difference between out-turn and legislated budget for each Ministry, as measured by PEFA indicator PI-2. *Baseline: 16% (FY08/09)* *Target: 10% (FY10/11)*
2. Adopt International Public Sector Accounting Standards (IPSAS-cash basis) and adopt public finance management enabling regulations and manuals on the basis of the new PFM Act.	The timely production of IPSAS complaint financial statements to facilitate complete audit of the final account of the budget in keeping with the PFM Law. *Baseline: No complete financial statement produced and audits are transactional audits (FY08/09.)* *Target: Complete IPSAS compliant financial statements for FY09/10 produced. (June 2011).*
Component 2: Facilitating Pro-poor Growth	
4. Establish and adequately resource a Land Commission to identify, guide and facilitate reforms in land policy, law and program.	Consolidation of land deeds in the National Archive. *Baseline: 65% of Land deed in National Archive (2009)* *Target: 90 percent of land deed in National Archive (June 2011).* Number of deeds digitized and filed in the National Archive. *Baseline: 0 percent (2009)* *Target: 75 percent (June 2011)* Percentage decrease in the number of land dispute cases in the docket. *Baseline: To be determined* *Target: 50 percent decrease from baseline(June 2011)*

6. OPERATION IMPLEMENTATION

A. COUNTRY OWNERSHIP

6.1 The proposed operation is fully supported and owned by the authorities as indicated in the government's Letter of Development Policy. The specific reforms it supports are critical elements of the government strategy as articulated in the PRS which has been strongly promoted by both the President and Minister of Finance in the donor's forum in Berlin, Germany as well as in bilateral meetings. The PRS is the result of comprehensive consultations with all levels of society that were unprecedented in Liberia's history. It included detailed discussions with Liberians at the district and county level, civil society organizations, the private sector, the Parliament and international partners. Consultations confirmed the four pillars underlying the government's poverty reduction strategy with high priority being accorded to securing lasting peace, strengthening the judiciary and combating corruption, job creation, and restoring Liberia's infrastructure. In terms of the specifics, County consultations revealed concerns over the prevalence of corruption at all levels of government, the prevalence of child labor, and problems with land tenure. On the issue of decentralization, Liberians expressed frustration with the process of selection of county officials, and complained that payments are too centralized. During the discussion around the economic revitalization pillar, participants listed agriculture, roads, and access to finance as their highest priorities. Many in the counties voiced concerns about environmental degradation, illegal mining and logging associated with natural resource concessions. With regard to taxes, participants complained that taxes are taken and spent in Monrovia in a less-than transparent manner, and that the Government has not done enough to explain its tax policies. On infrastructure and basic services, the concern most frequently cited across nearly all counties was the shortage and poor state of roads. People also noted the shortage of safe drinking water and electricity. In the education sector, they expressed concern over the shortage and inadequacy of educational facilities, the shortage of trained teachers, and the under-representation of girls in schools. The government's policy matrix which this operation supports largely reflects a response to the key priorities which emanated from these consultations.

B. FIDUCIARY ASPECTS

6.2 A Public Expenditure Management and Financial Accountability Review (PEMFAR) completed in 2009 included an analysis of Liberia's PFM strengths and weaknesses. The findings from the PEMFAR show that the government has taken considerable actions to improve public financial management since 2006. As detailed in section 3, government revenues have increased several folds since FY02/03, and expenditure controls have been strengthened through the establishment of the cash management committee and the interim commitment control system. The new PFM Act and enabling Regulations have addressed weaknesses in the legal and regulatory framework. The external audit functions have improved (although capacity is still limited) and debt and aid management have also improved. However, further work is needed on budget planning and execution; revenue administration; and accounting, recording and reporting and will be undertaken as the implementation of the PFM Act laid out in the PFM Action Plan gathers pace. This is a central objective of the public financial management component of the operation, the ongoing Economic Governance and Institutional Reform Project, the IFMIS project and complementary ongoing and planned IDA and other donors' interventions (see Section 4).

6.3 Both physical and bureaucratic infrastructure was decimated by the war, including due to an exodus of most of the skilled personnel. Thus, human capital in the area of financial management is decidedly low, affecting both the private and public sectors. A decision was made early in the re-engagement process to develop a centralized project financial management unit, the PFMU in the MoF, to create a reservoir of skilled fiduciary personnel that would be available for all donor-funded investment projects. It is this unit that this operation will also tap into to avoid the obvious FM capacity constraints. Fiduciary risks for this operation are mitigated by the fact that a centralized expenditure processing for government expenditures, with adequate in-built control capacities, exists at the Ministry of Finance, that ensures the application of due diligence on public expenditures prior to disbursement and that supports public financial management reforms related to public spending until a full roll-out of the IFMIS to spending ministries and agencies is completed and capacities built in satellite government departments. Procurement capacity within the public sector is still weak but has improved somewhat with support from an international firm specialized in procurement which was earlier contracted with the support of the EGIRP to build national procurement capacity in both the MoF and other ministries.

6.4 In 2008, the IMF staff conducted an updated safeguard assessment of the Central Bank of Liberia (CBL) following the interim assessment conducted in 2007. The updated assessment found that while the CBL has largely addressed measures to increase transparency (as recommended in the interim assessment) significant risks exist in the control framework of the Bank. An area of concern was the weak internal audit capacity, including the lack of effective oversight of CBL financial reporting, as well as audit and control systems by the Audit Committee. A subsequent special audit conducted in August 2008 indicated that the monetary data submitted by the CBL are accurate and that progress has been made on improving some aspects of the general control environment. The CBL has also made progress in implementing other recommendations, including adoption of investment guidelines and segregating the duties of the Banking and Financial Departments regarding placement of CBL resources. Following a fraudulent fund transfer in May 2009, the CBL has re-evaluated and strengthened controls over its banking processes.

6.5 ***Overall fiduciary environment***: The strengthened engagement of development partners, with the Bank taking a lead role, is manifesting itself in a more conducive fiduciary environment in Liberia. The EGRIP, the IFMIS project under implementation, and the new PFM Act are providing the thrust of the PFM strengthening platform in government. Equally, the pursuit of systematic capacity building initiatives aimed at further strengthening the competence of the human resources within the PFM arena are delivering positive outcomes. 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. A new PFM Act has been passed and its full implementation is underway. Nevertheless, the fiduciary risk remains high, until much of the reforms that also underpin the focus of this operation are achieved.

C. GRANT ADMINISTRATION, DISBURSEMENT AND AUDITING

6.6 ***Recipient and Financing Agreement:*** The proposed Grant, amounting to SDR 7.5 million (US$11 million equivalent), would be made available to the Government of Liberia, represented by the Ministry of Finance, in a single tranche, upon grant effectiveness.

6.7 ***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 Grant shall, however, not be applied to finance expenditures in the negative list as defined in the Schedule of the Financing Agreement. If any portion of the Grant is used to finance ineligible expenditures as so defined in the Schedule of the Grant Financing Agreement, 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.

6.8 ***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, converted into local currency and 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 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 Credit has been credited into the Consolidated Fund (Treasury Account) of the Government of Liberia to finance budgetary expenditures.

6.9 The expected closing date of the Grant is June 30, 2011.

D. ENVIRONMENTAL ASPECTS

6.10 The specific reforms supported by the proposed development policy grant are not likely to have significant negative effects on the country's environment, forests and other natural resources. The reforms supported aim primarily to enhance governance and improve the environment for private sector development. However, it is recognized that a rapid resumption of economic activities in a post conflict situation could increase pressure on the ecosystems. There is therefore a need to enhance the ability of the Government to be able to monitor compliance of environmental impact of particularly concessions and other economic activities that could increase the pressure on the ecosystem. In this regard, the Global Environmental Fund and UNDP supported capacity building program already underway includes environmental legal support to provide training including for two new deputy Environmental Protection Agency (EPA) heads is a positive step.

6.11 Actions proposed under this operation related to land reform focus on policy and institutional actions and are therefore not expected to have any negative environmental effects. However, it is recognized that the land reform could have some positive effects on the environment. For example, a 2008 OECD good practice paper argued that "when farmers and herders do not have long-term security over the land they use, the incentives for environmentally sustainable practices are lost."[9] Lack of clear property rights can reduce the incentive to plant trees or undertake soil protection investment. At the same time, it is acknowledged that unsuitable rules governing the access to land can produce adverse environmental effects. The government's aim is to develop a comprehensive system of land tenure and land use that will help to mitigate any adverse environmental impact that could result from tenure security.

6.12 Since 2003, Liberia has approved a National Environmental Policy and enacted two major environmental laws—Environmental Protection and Management Law, and the Environmental Protection Agency Act, the latter which established the EPA in April 2003. The EPA became fully functional in 2006 with the appointment of a Board of Directors and a Policy

[9] Natural Resources and Pro-Poor Growth: The Economics and Politics, OECD 2008

Council. In 2007, Liberia's first State of the Environment Report was published, thereby establishing the baseline for monitoring environmental conditions and trends.

6.13 During the implementation of the PRS the government is committed to maintaining an environmental governance regime that will be capable of engaging effectively in regional cooperation with neighboring countries in the management of trans-boundary environmental resources and in the enforcement of international conventions. Over the PRS implementation period, the government also intends to: (i) ensure the strict application of Environmental Impact Assessment (EIA) requirements for all key infrastructure and industrial projects, and publish sector-specific EIA guidelines for infrastructure, forestry and mining; (ii) review the Environmental Policy and the Environment Protection and Management Law to identify priority subsidiary regulations and/or guidelines for their implementation; (iii) promote transparency and accountability and raise public environmental awareness; (iv) conduct periodic workshops to inform and train staff from line ministries, agencies, the private sector and NGOs on their duties and responsibilities under national environmental laws; (v) strengthen the capacity of NGOs and civil society to monitor the implementation of agreements between timber and mining concessions, the government, and communities and ensure that funds are channeled towards poverty reduction; and (vi) deploy EPA environmental inspectors in the remaining nine unstaffed counties. The World Bank is providing technical assistance to a number of institutions including the Ministry of Lands, Mines and Energy, the National Investment Committee and the Environmental Protection Agency to help improve sector governance including safeguards.

E. POVERTY AND SOCIAL IMPACT

6.14 The proposed RRSP III is expected to have a significant positive direct impact on poverty reduction. First, the resources under the grant will generate fiscal space to allow the government to devote additional public resources towards its PRS objectives. The government is committed to aligning the national budget with the PRS, and projects that 55-65 percent of its revenues will directly support poverty reduction activities. However, given its limited resource envelope and large PRS funding gap, any additional financing will further the government's ability to advance its poverty reduction objectives.

6.15 Second, the measures supported by the proposed grant would contribute to economic revitalization and the strengthening of public sector governance, enhancing public resources and fostering its transparent and efficient use. The links between poor 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. By improving budget planning and execution, enhancing revenue administration and strengthening fiscal management in concert with ongoing improvements in oversight functions, the Liberian people will be empowered to hold its elected leaders accountable.

6.16 More specifically, the prior actions encourage the introduction of multi-year budgeting at the Ministry of Finance, with the aim of further strengthening the budget planning execution process. This will allow the government to place the annual budgets within the context of the medium-term fiscal framework. Support for the Adoption of International Public Sector Accounting Standards (IPSAS) and the adoption of public finance management enabling regulations for the new PFM Act, set out in the PFM Action Plan will improve the framework for fiduciary control and oversight.

6.17 The prior action focused on the establishment and adequately resourcing of a Land Commission to identify, guide and facilitate reforms in land policies, laws and programs is a significant step toward improving the environment for investment in Liberia. Land issues are not only a regular source of intense conflict among Liberians but they have been cited as perhaps the single issue which could re-ignite conflict. The link between conflict and poverty is well established in Liberia. In 2008, the World Bank completed an economic and sector work (ESW) that examined land insecurity in Liberia. The study, entitled "Insecurity of Land Tenure, Land Law and Land Registration in Liberia" argues that security of tenure is virtually non-existent in Liberia, a situation which hampers development and fuels conflict. The study also points out that the rural poor of Liberia depend almost entirely upon land and other natural resources for their livelihoods, including their food, fuel, shelter, water and medicines. Unequal access to and ownership of land and other resources have contributed significantly to economic and political inequities throughout Liberia's history, and have exacerbated tensions and conflict. Access to land rights in the urban areas is also important as the study points out that in urban and peri-urban areas, secure land and property have direct links to growth and poverty reduction by the connection to land and the action of land markets, which redistribute wealth by giving access to appreciation in land values and can transfer land to more productive users. Sustainable livelihood opportunities for Internally Displaced People (IDP) continue to be a major problem in Liberia and a primary issue is access to land. In the Comprehensive Food Security and Nutrition Survey (CFSNS) conducted in 2006, 41 percent of households reported that farm sizes were smaller than they were before the war.

6.18 The government recognizes the key role that land access and secure land tenure can play in poverty reduction and this is reflected in the substantial land sector reform content in the Liberia's Poverty Reduction Strategy. Recent analytical work [10] also highlighted that access to land and security of tenure are constraints to improving productivity and production in agriculture and consequently adversely affects the reduction of poverty. A framework which allows for the development and execution of policy and institutional actions to address land reform in a sustainable way is likely to have positive effects on poverty.

F. MONITORING AND EVALUATION

6.19 The MoF will have overall responsibility for the implementation of the reforms supported by the operation as well as for the M&E for the actions supported by the operation. The monitoring and evaluation capacity within government is generally weak but improving with support from the World Bank Institute and UNDP which is providing support to strengthen the monitoring and evaluation capacity specifically at the Planning Ministry and the Liberia Institute of Statistics and Geo-Information Services (LISGIS). With the implementation of the PRS and other donor aligned strategies and framework of support such as the joint CAS and the UNDAF, the demand for M&E is already high on an administration which has very little human and institutional capacity. Therefore, the monitoring and evaluation of this operation will be aligned to the M&E process that is already established for the PRS.

6.20 The indicators to be monitored under this operation fall under Pillar II and III of the PRS, the M&E of which falls under a broad-based committee under the chairmanship of the Minister

[10] "Liberia: Employment and Pro-poor growth" December 2009 and "Supporting the Implementation of Gender-Aware Programs to Enhance Women Farmers' Contributions to Agriculture and Food Security" December 2009.

of Finance. The monitoring and evaluation for this operation will also draw on the regular monitoring of government macroeconomic policies that the IMF will be engaged in under the ECF program. This approach to the M&E of the operation is expected to be effective in tracking the relevant indicators while at the same time minimizing the transaction costs on the government.

6.21 Monitoring will also draw on the already established program-monitoring committee established in the Ministry of Finance to provide the macroeconomic monitoring information including the following:

- Detailed reports on monthly revenue and expenditure on both a cash and a commitment basis by budget line and a completed summary table on central government operations (monthly, within three weeks after the end of the month);

- Outstanding appropriations, allotments and commitments, and disbursements for line ministries and agencies (monthly, within three weeks after the end of the month);

- Disbursements of budget support grants and loans by donors (monthly, within three weeks after the end of the month).

G. RISKS AND RISK MITIGATION

6.22 In the current environment of a country emerging from conflict, the proposed operation will be faced with significant country, fiduciary and implementation risks. These risks and measures to mitigate them are detailed below:

Security risk. The security situation in Liberia remains fragile owing to the large number of (mostly) unemployed ex-combatants (a situation exacerbated by the effects of the global crisis), and the fragile political situation in some of Liberia's neighbors, Côte d'Ivoire and Guinea.

Political risk. The political risks in Liberia have abated as more members of the Parliament coalesce around the Poverty Reduction Strategy agenda even though the government of President Sirleaf does not have a majority in the country's Parliament. However, as the 2011 election approaches it may become increasingly difficult to reach agreement on critical reform issues that may need timely legislative action. In addition there is the risk that substantial "election spending" could lead to substantial fiscal slippage manifested in a large fiscal deficit.

Macroeconomic risk. The recent global financial crisis has highlighted Liberia's vulnerability to macroeconomic shocks in large part due to its dependence on imported food and fuel and on primary exports. In addition, its limited fiscal space and borrowing constraint limit the counter-cyclical response to macroeconomic shocks. The improved prospects and the projected strong growth performance in the medium-to-longer-term will depend to a large extent on progress in addressing key infrastructure gaps. There is some risk of fiscal slippage from increased expenditure and particularly capital expenditure for projects leading up to the elections.

Fiduciary risk. Though government has made notable progress in improving governance, including the strengthening of the General Auditing Commission, the strengthening of cash management and controls and the establishment of the Anti-corruption Commission, there are still weaknesses in the fiduciary control environment that create opportunities for fraud and corruption.

Natural disaster risk. Liberia also faces potential natural disasters from climate-related hazards, including floods, landslides, excessively high temperatures, drought, windstorms, and coastal erosion following sea level rise.

Implementation risk. Some progress has been made in enhancing capacity in the public service including through the Senior Executive Service. However, the implementation of the many critical, priority projects still overwhelms the government's limited capacity, resulting in implementation delays.

6.23 ***Risk Mitigation***. These risks are mitigated respectively, through: (i) the continued commitment of the UN security forces through to 2011 and donor support for training of the local police force; (ii) training for legislators and legislative staff and technical assistance to help the government explain its position to legislators. In addition, through communication outreach the government will continue to explain its policy position to build support from civil society for the proposed reforms; (iii) government's continued adherence to a medium-term macroeconomic framework elaborated in the Poverty Reduction Strategy and supported by the IMF ECF. The macroeconomic risk would also be mitigated by close economic monitoring and coordination by the Bank, the IMF and other donors; (iv) the continued improvements in financial management and procurement systems and procedures supported by technical assistance from the World Bank and other donors is a key factor in mitigating the fiduciary risks; (v) actions such as; (a) revitalizing the National Disaster Relief Commission and its secretariat to educate the public about disaster risk reduction and to coordinate the Government's response to disasters (b) developing a national disaster management policy and plan, and establishing an inter-sectoral coordination mechanism to increase security against the priority threats of floods, coastal erosion, forest fires and chemical spills and (c) developing an integrated coastal zone management plan, a wetlands management policy and a water resources management are key to mitigating the natural disaster risk and (vi) World Bank's ongoing technical assistance to the Resource Management Unit and the Public Procurement and Concessions Commission (PPCC) as well as technical assistance from other donors including USAID, are helping to mitigate the implementation risks.

6.24 In IDA's assessment, the potential benefits of the proposed operation outweigh the residual risks and warrant IDA's assistance for implementing critical reforms and policy actions in a coordinated fashion with other donors, while supporting risk mitigation actions to maximize the sustainability of the reform agenda.

ANNEXES

Annex 1: Timetable of Key Processing Events

Concept Review:	March 25, 2010
ROC Meeting:	May 17, 2010
Appraisal:	May 26, 2010
Negotiations:	June 9, 2010
Board Presentation:	September 30, 2010
Effectiveness (planned):	November 30, 2010
Closing Date:	June 30, 2011

Annex 2: Letter of Development Policy

REPUBLIC OF LIBERIA
MINISTRY OF FINANCE
MONROVIA, LIBERIA

OFFICE OF THE MINISTER

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June 1, 2010

Dr. Robert B. Zoellick
President
World Bank
Washington, DC
United States of America

Dear Dr. Zoellick,

Liberia continued to make important progress on reconstruction and development during the fourth year of President Ellen Johnson Sirleaf's administration. Progress occurred despite the deepening impact of the global financial crisis. Economic growth and job creation was significantly impacted through reduced foreign investment flows and a reduction in remittance flows. However, indications of recovery are now increasingly evident. Having met all of the triggers and benchmarks, Liberia expects to reach the Enhanced Heavily Indebted Poor Country Initiative (HIPC) completion point in June 2010: completed the governance, debt management, social and public financial management reforms outlined in Liberia's HIPC floating triggers. Liberia has been implementing its Poverty Reduction Strategy for the second year and is moving into the final year of implementation. Building on the development agenda outlined in the Poverty Reduction Strategy Paper, this letter describes in more detail the key policies and actions we plan to pursue in the coming year in order to achieve our goals of a prosperous and stable Liberia. Our core economic and social objectives remain unchanged: maintaining peace and macroeconomic stability, creating new jobs through policies to support private sector development, delivering tangible improvements in living conditions particularly road infrastructure and electricity supply, strengthening public accountability and governance, and expanding the delivery of health and education services. After the HIPC completion point, we will have more policy room to achieve these actions with the attainment of low debt vulnerability and the availability new external financing options.

1. Economic Context

Four years into President Sirleaf's administration, substantial progress has been made in reconstruction and development though many challenges remain. In 2005, the government budget was a paltry US$80 million. Civil servants salaries were as low as US$15 per month. Exports were valued at US$131 million. Sanctions on diamond and timber exports were still in place. Our roads, not maintained for many years, had countless pot-holes, some virtually impassable, resulting in extremely high repair and maintenance costs on vehicles. Large foreign and domestic arrears were accumulating alongside significant revenue leakages. The Central Bank's international reserves stood at just a little over US$5 million.

Reflecting the underlying concerns about the management of the economy, net outflows of remittances were US$133 million, foreign direct investment was virtually non-existent, and Liberia's massive external debt had accumulated to over US$4 billion, equivalent to US$1,500 for each Liberian citizen, one of the highest debt-per-capita ratios in the world.

Since that time, the economic outlook has improved markedly, although there have been major setbacks due to the financial crisis. Indeed, growth rates have been considerably weaker than those projected in the PRSP. For instance, though growth was anticipated to be 10.3 percent in 2009 it only reached 4.6 percent. Recovery is expected in 2010 with a projected 5.9 percent growth rate driven by iron ore mining, rubber exports and the forestry sector. On the domestic front, food production, primarily rice and cassava, has picked up substantially reducing market prices and growth is accelerating in construction and telecommunication sectors.

The collapse in global demand in 2009, particularly for natural rubber, had a negative effect on Liberia's exports. Total exports in 2008 were estimated at US$242 million of which US$207 was rubber. In 2009, total exports amounted to US$152 million, down 37 percent from the previous year, with rubber exports down 54 percent to US$ 95 million. The financial downturn has also adversely impacted public revenues. Indeed, the approved budget for 2009/10 Fiscal Year was US$371.9 million but serious revenue shortfalls, largely on account of the drop in GDP forecasts and delayed concessionary revenue, have put over 20 percent of the budget at risk.

The Central Bank of Liberia (CBL) reserves now stand at approximately US$266 million. Strong demand for US dollars combined with limited supply caused the Liberian dollar to depreciate by roughly 12 percent in 2009. To curb this fall, the Government has put in place measures to encourage the wider use of the Liberian dollar. Inflation has been broadly stable through 2009 fluctuating between 6 and 9 percent.

The government has continued to make substantial progress on its external debt. After returning to good standing with the major international financial institutions and reaching the Decision Point in the Enhanced Highly Indebted Poor Country (HIPC) initiative in March 2008, Liberia arrived at a generous agreement with the Paris Club. In April 2009, the Government completed a buy-back of its commercial debt successfully retiring nearly 98 percent of its outstanding commercial obligations.

Despite progress, the economic and social challenges remain colossal. Basic infrastructure remains in a state of disrepair after years of sustained damage and neglect. Many roads are impassable, which seriously constrains commerce and economic activity while also undermining the effective delivery of basic health and education services. In July 2006, electricity and piped water returned to Monrovia for the first time in 15 years. Schools, hospitals, and clinics are still in a dilapidated state with 95 percent of hospitals and clinics and 70 percent of schools buildings partially or wholly destroyed during the war. Combined with this infrastructure deficit, Liberia

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also faces a real human capacity deficit. At the war's end there only about 50 Liberian physicians to cover the nation's public health needs – one for every 60,000 Liberians. Over half of Liberian children and youth are estimated to be out of school.

The decimation of the economy has led to very high levels of unemployment and underemployment. One of the most important challenges facing the government is to create opportunities for employment as quickly as possible for as many people as possible through a combination of the revitalization of agriculture, rebuilding of infrastructure, community-based revitalization projects, and the re-emergence of natural resource-based economic activities.

About half of the Liberian population lives in rural areas, and over 80 percent of those are subsistence farmers with little or no cash income. However, many of those farmers were displaced during the conflict, and are now returning after many years to situations of uncertain land tenure and a lack of seeds, fertilizers, and tools.

Based on data in the Core Welfare Indicator Questionnaire (CWIQ), 64% of the population remains below the poverty line and 48% is in extreme poverty. 55% of urban residents live in poverty compared to 68% of rural dwellers. The situation is similar in small and medium-sized towns that once relied on rubber and mining activities. In Monrovia the situation is slightly better, with about 50 percent of households living in poverty and 22 percent in severe poverty.

In summary, while we have made progress in the last four years, enormous challenges remain. Nevertheless, we remain optimistic that Liberia is set for a strong recovery. According to recent IMF forecasts, Liberia is expected to sustain the strongest average growth rates of the next five years of all the economies in sub-Saharan African economies. There are enormous opportunities for economic growth as infrastructure is rehabilitated and upgraded, as retail and service industries recover, and most importantly, as the rich resources of Liberia's agriculture, forestry and mining sectors are brought back into commercial use.

2. Our Vision for a New Liberia

The government's key objectives are to build a new Liberian nation that is peaceful, secure, and prosperous, in the words of President Sirleaf, so that "Every Liberian, no matter where they live, no matter who they are, should have the foundation and opportunity necessary to achieve their goals and live long productive lives." Achieving our goals will require policies aimed at both economic recovery and political stability that are mutually reinforcing and serve to ensure that our future growth does not recreate the pattern of the past, achieving greater distributional equity.

Development cannot proceed without basic peace and security. The drive to human development in the new Liberia must be based on the total elimination of insecurity, restoration of peace and the protection of human rights. Additionally, it will require the building of new security and police forces to maintain peace and stability while resting firmly under the democratic civilian control.

A key element to securing these goals is restoring and strengthening basic human rights. The new Liberia will do away with the divisions, marginalization and exclusion of the past. Political power will be decentralized and shifted to the counties and communities, to effectively participate in decision making and to take control of local issues and development process. We aim to establish an inclusive and participatory democracy in which people are engaged in the governance process; national resources are used for the benefit of the people; and effective institutions of governance are built. These will require human and institutional capacity building to ensure good governance, an effective state, and proper checks and balances among the three branches of government.

These goals are reflected in our Poverty Reduction Strategy (PRS) for 2008 to 2011. The PRS has four main pillars:

1. Expanding peace and security,
2. Revitalizing economic activity,
3. Strengthening governance and the rule of law, and
4. Rebuilding infrastructure and providing basic services.

Actions in each of the four pillars are mutually reinforcing. National security is a pre-requisite for real economic progress with substantial impact on poverty. At the same time, peace and national security will be severely threatened if chronic poverty continues to rise. Sustainable peace will largely depend upon the ability to deliver basic social services throughout the country. Similarly, without basic infrastructure the private investments needed to fuel growth will not be forthcoming. Governance and the rule of law provide the institutional base for strong economic performance and poverty alleviation, and the justice that is needed to ensure that grievances are settled through dialogue within the political system, as opposed to violence.

These four pillars are underpinned by a growth strategy with three basic prongs.

First, we must rebuild our infrastructure, giving priority to roads, power and the port. The PRS process revealed that across the country, Liberians' number one priority is better roads, which Liberians see as essential for creating jobs and new economic opportunities, revitalizing agriculture, reducing prices, strengthening local governance, facilitating access to health and education services, increasing the effectiveness of the police and other security forces, and helping to maintain peace.

Second, we must revive our traditional sources of economic growth – rubber, timber, mining and cash crops – and ensure that the benefits accrue to all Liberians in a sustainable manner. Concession contracts aim to balance the need to generate competitive returns for investors with the need for robust and transparent financial flows. The Government is working hard to revitalize agriculture as the bedrock of the economy, as it provides livelihoods for the majority of Liberians, and this has become even more important in the context of the global food crisis. A vibrant agricultural sector is central to reducing poverty, providing food security, and ensuring progress toward the Millennium Development Goals.

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Third, the Government is beginning to take steps to diversify the economy over the medium term into the competitive production of labor-intensive downstream products, manufactured goods, and services. It aims to create an open economy with a strong business environment with low tariff and non-tariff barriers, strong linkages to international markets, and minimal government intervention except where necessary to address market failure.

The private sector will be the main driver of growth. We are well aware that economic growth alone will not ensure poverty reduction. But taken together with actions across the pillars—creating a peaceful and secure environment, building strong institutions of governance, and delivering effective health and education services—these actions will provide the foundation for rapid, sustainable and equitable growth.

For the three-year period covering 2008 to 2011, the total estimated cost of implementing the PRS is estimated at US$1.6 billion. We expect to be able to finance about a third of this with our own resources, which leaves a financing gap of approximately US$1.1 billion, or about US$370 million per year. While the precise level of donor support is uncertain—improving data collection and strengthening aid management is one of our key priorities—present donor support, while extremely important, does not fill the funding gap, and is not always fully aligned with the PRS. In particular, our highest priority in the PRS, infrastructure, continues to need funding.

The Government has committed to aligning its public expenditure with PRS objectives. In 2009/10 approximately 60 percent of the budget was allocated to PRS expenditure. Consistent with the Government's focus on job creation, infrastructure rehabilitation and providing basic health and education services to the population, more than half of this spending falls under Pillar IV, the infrastructure and basic services pillar.

The remainder of this letter describes the key actions we have taken in each of these four areas and our policy plans for the coming year.

3. Key Actions to Date & Priorities for Future Action

Expanding Peace and Security

Enormous progress has been made in improving peace and security nationwide. While the United Nations Mission in Liberia (UNMIL) has been the principal entity responsible for maintaining peace and security, the gradual devolution of responsibilities to the national realm are underway. Nevertheless UNMIL forces will remain in the country at least through the 2011 elections.

There has been substantial progress in restructuring and reforming Liberia's security sector. The Armed Forces of Liberia (AFL) have completed the basic training of 2000 soldiers. As key pillar of the national security architecture, efforts are underway to build capacity of the Liberia National Police (LNP). However, progress has not been as significant as hoped with the police to population ratio at 1:880 compared to the target objective of 1:700 by 2011. Through the enactment of the Defense Act of 2008,

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the National Coast Guard has been reactivated with the mandate to ensure security of the Liberian coastline and control smuggling and illegal fishing. The Bureau of Immigration and Naturalization (BIN) is currently undergoing training and has established 10 border patrols to meet our target of 13 in 6 counties.

At the county level, the Government has made progress in building responsive county-based security mechanisms to coordinate and promote local management of peace and security successfully extending the coverage of law enforcement and regular policing outside of Monrovia.

A key objective of the current administration has been to promote gender equality and reduce gender-based violence in Liberia. A Sexual and Gender-Based Violence (SBGV) Crimes unit was established at the Ministry of Justice to prosecute rape and other SGBV offenses. The Government also established the Women and Children Protection (WACP) section at the LNP Central Headquarters in Monrovia and in each county capital. The expansion of WACP brings much-needed assistance to women and children who suffer various forms of abuse.

The voluntary repatriation of Liberian refugees has continued with 11,000 Liberian refugees estimated to have returned in 2009. Most of these refugees have settled in Monrovia and its environs. With the program of refugee returning assistance ended, most of the internally displaced persons have returned to their counties of origin or integrated into the community in which they settled. At the same time, UNHCR records show a total of 64,500 Liberian refugees still residing in the neighboring countries of Côte d'Ivoire, Benin, Burkina Faso, Ghana, Guinea, Nigeria and Sierra Leone.

Economic Revitalization

Our strategy for economic revitalization has three essential components: (i) rebuilding basic infrastructure; (ii) restoring production in the leading natural resources sectors, while ensuring that the benefits are widely shared; and (iii) reducing production costs to establish the foundation for diversification of the economy over time. The Government's short-term objectives have been to stabilize the economy, create jobs, and restore the Government's credibility in using the country's scarce resources efficiently and effectively.

To guide its actions, the Government finalized and embarked on a Staff-Monitored Program (SMP) with the IMF in February 2006 in order to strengthen economic management. Following strong performance on this program, in March 2008 the Government entered into a Poverty Reduction and Growth Facility (PRGF), now renamed Extended Credit Facility (ECF), arrangement. In December 2009, the IMF completed its third review of Liberia's performance under the program, and found it satisfactory.

Since taking office, we have implemented a number of policies to support economic reconstruction and development. Supported by a recovery in rubber production, construction activities, and the impact of a large donor presence, real GDP growth is estimated to have risen from 2.6 percent in 2004 to about 9.5 percent in 2007, after having declined by over 30 percent in 2003. Growth dipped slightly to 7.1 percent in

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2008 and experienced a sharp decline to 4.6 percent in 2009 due to the financial crisis. Recovery is expected to be strong in 2010 with a projected 6.3 percent growth rate driven by major iron ore concessions commencing large scale production, the forestry sector and a rebound in the global demand for rubber.

As global commodity prices peaked in the first half of 2008, the rate of inflation in Liberia soared at 26.5 percent in August 2008. Since then, inflation has steadily declined as domestic food prices stabilized and imported fuel prices declined. Inflation is estimated to have been broadly stable through 2009 fluctuating between 6 and 9 percent. Over the course of the year, the Liberian dollar depreciated by roughly 12 percent. In order to curb this trend, the Government put in place short-term fiscal measures to promote the wider use of Liberian dollars. Measures include the payment of real estate taxes in Liberian dollars as well as certain customs duties. The Ministry of Finance also agreed to meet some domestic obligations in Liberian dollars.

The Central Bank of Liberia (CBL) continued to make progress in strengthening the financial system as well as its own internal finances. The Central Bank's international reserves now stand at approximately US$266 million.

In terms of stimulating a rebound in economic activity, our initial focus was on restoring natural resource-based industries including timber, mining, and minerals. One of President Sirleaf's first actions after her inauguration was to cancel all existing concession contracts, and initiate review of all contracts and concessions. The UN rightly imposed sanctions on timber and diamonds during the war, since these operations had been taken over by the warlords to finance the conflict. But abuse by the warlords and these resulting sanctions are estimated to have lowered GDP by 30%, and resulted in losses of 25,000 jobs in timber and 12,000 jobs in diamond mining. We have worked diligently to improve the management and oversight of the timber sector, and the UN has since removed those sanctions. We are implementing the Kimberly certification process and diamond exports have resumed. The process for the bidding and negotiation for the restart of mining, rubber, and oil palm plantations is at an advanced stage, and in some cases productive work has already begun. In particular we successfully concluded the renegotiation of a major new concession with Arcelor Mittal Steel for our largest ore mine, in which the company pledged to make new investments totaling upwards of US$1 billion. We have also: (1) signed a Concession Agreement between the Republic of Liberia and Buchanan Renewable Energies for power generation; 2) Amended and Restated a Concession Agreement between the Republic of Liberia and Sime Darby Plantation for the reactivation of the Guthrie Rubber Plantation; 3) signed a Mineral Development Agreement between the Government of Liberia and China Union Mining for the reactivation of Bong Mines; 4) Signed 7 Forestry Management Contracts.

We are taking steps to revitalize agriculture, which is critical for poverty reduction. The Government continues to promote domestic production through expanding agricultural land and crop diversification, increasing marketable surpluses through post-harvest interventions, and expanding smallholder production through the distribution of seeds, fertilizer and farm tools. An emphasis is being placed on food security and increasing exports for the remaining period of the PRS. The Government's "Back to the Soil" National Campaign was successful in increasing national food production especially of rice and cassava. Preliminary figures show a 30

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percent increase in rice production this year. We are also seeking to revitalize the coffee and cocoa industry by improving farming methods and eliminating licensing fees.

The PRSP confirms the private sector's role as the main engine for growth. Measures to support the private sector include maintaining macroeconomic stability, strengthening economic governance, and addressing impediments to private sector development. To integrate Liberia further into the world economy and promote economic efficiency, the Government has initiated a program of comprehensive tariff reform to adopt the ECOWAS common external tariff. We also are working to create an environment that is conducive to domestic trade and commerce. After being included in the IFC's Doing Business Survey for the first time in 2008, an inter-agency Business Reform Committee was established, which has taken decisive steps to improve the areas needing the biggest improvement.

Our reforms resulted in reaching a rank of 149th out of 181 countries in 2010 from 167th in 2008. While a modest achievement, it shows Liberia as the second fastest reformer in Africa after Rwanda.

Governance & Rule of Law

Poor governance was a root cause of the many crises that besieged the Liberian nation over the last quarter century from war, mismanagement, and human rights abuse to the deepening of poverty. The current government is undertaking a range of measures to strengthen key institutions to promote good governance and the rule of law.

Our ambitious public financial management reform agenda is reflected in the comprehensive PFM law that was passed in August 2009. PFM Regulations were issued in December 2009 and substantial progress has already been made in modernizing information systems, setting up a consolidate fund, budget preparation, fiscal reporting, and internal audit. We also adopted internationally recognized public sector accounting standards and a Chart of Accounts that will constitute the backbone of an Integrated Financial management and Information System (IFMIS) expected to go live in June 2011. IFMIS will automate budget preparation and execution and other financial transactions. These reforms will enable us to produce public financial statement for the first time in the history of our country.

Our efforts to improve our public financial management systems have already been recognized by donors, with the World Bank, African Development Bank and the European Union providing budget support. We believe budget support leads to more efficient allocation and coordination of resources and will strengthen government systems in the long term. Our goal is for the national budget to be the central instrument for coordination of donor assistance and PRS alignment. The next step to more effective expenditure planning is to promote activity-based planning on the part of Ministries and Agencies. This will enable Ministry of Finance to more effectively link policy priorities with the National Budget building on progress in aligning the Budget with the PRS. The Ministry of Finance expects to implement a Medium Term Expenditure Framework (MTEF) in the 2012/13 National Budget.

We have made significant improvements in fiscal management during the first four years of the government's term in office, reflected in both revenue increases and strengthened public expenditure management. On the revenue side, these included: (i) computerization of the tax payment (tax receipt) system; (ii) increasing the penalty for not undertaking pre-shipment inspection; (iii) strengthening customs administration and reducing exemptions; (iv) strengthening the Large Taxpayer Unit (LTU); (v) redefining the base for the goods and services tax on imports in line with the provisions of the Liberia Revenue Code (LRC); (vi) raising the rate of selective tax on services on restaurants from 3.5 to 7 percent; (vii) increasing the excise tax on beer and cigarettes, and eliminating the differentiation between imported and domestic products in the application of excise taxes; (viii) Implementation of ASYCUDA in the Monrovia Freeport. The Bureau of Internal Revenue, under its modernization plan, will automate its processes in 2010 by installing the Integrated Tax Administration System (ITAS).

A new revenue code was recently approved by the Legislature. Amendments to the Liberian Revenue Code (LRC) provide a transparent schedule of investment incentives for selected economic sectors. The amendments also contain fiscal regimes for natural resources and large agriculture projects that were developed with assistance from the IMF. We also expect to secure passage of revisions to the Investment Incentives Act in 2010 when the Legislature. Passage of this legislation, together with the formulation and publication of the related regulation, will complement changes made in the LRC and remove potential conflicts between the two pieces of legislation.

We have also made significant strides in our public procurement systems. The Public Procurement and Concessions Commission (PPCC) was established in 2005 to manage and supervise all public procurement and concessions contracts in accordance with the Public Procurement and Concessions Act of 2005. The Commission works to ensure that public procurement and concession contracts are carried out in a transparent and competitive manner. This year, the PPCC issued Public Procurement and Concessions Regulations and Manuals. The PPCC also publishes in a quarterly Procurement bulletin and on a monthly basis on their Website all signed procurement contracts over US$25,000 for goods, US$10,000 for consulting services, and US$50,000 for works and all signed-sole source procurement and concessions contracts.

The General Auditing Commission (GAC) has completed its second round of audit of the Ministry of Finance, and the other four key government Ministries (Education, Health, Public Work and Lands, Mines and Energy). The Ministry of Finance has also worked with GAC and the Civil Service Agency (CSA) to identify and eliminate ghost names from the government payroll. A key component of this policy is the introduction of direct deposit for civil servants. This direct deposit scheme is now in effect 9 out of 15 counties.

Our Civil Service Reform continues to focus on depoliticizing the civil service, capacity building and tying pay to performance for 30,000 men and women in the Civil Service. Pay and incentives for civil servants continued to increase this period, with special emphasis on teachers and healthcare workers. Certified teachers and

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healthcare workers now earn a minimum salary of US$100 per month, which is six times more than what they were earning in 2006. After a year of consultations, the Cabinet has approved a Medium-term Pay and Grading Strategy for the Civil Service that will enter into effect in the next fiscal year. The new pay and grading structure is designed to ensure that those in similar grades get equal pay for equal work. It also establishes a framework for civil servant promotion through a transparent performance appraisal system. In order to strengthen capacity across government we have recruited nearly 100 Senior Executive (SES) professionals and have deployed these skilled Liberians across Ministries and Agencies.

We have also continued to make progress on our large and onerous debt burden. After clearing our arrears with the World Bank and African Development Bank in late 2007, in March 2008 we returned to good standing with the IMF and reached Decision Point in the Heavily Indebted Poor Countries (HIPC) Initiative.

In April 2008, we met with the Paris Club, the group of official bilateral creditors, for the first time in over 25 years, successfully negotiating the most generous terms ever afforded by the Paris Club to a HIPC country at Decision Point. The agreement provided immediate forgiveness of over US$250 million in debt, and paves the way for 97% percent forgiveness of our bilateral debts at Completion Point, with several Paris Club creditors agreeing to go beyond this requirement. Up front 100 percent debt forgiveness has already been provided through full cancellation agreements already signed with the United States (US$425 million), Germany (US$410 million), Italy ($79 million) and Denmark (US$29 million), among others. In April 2009 we successfully concluded—after two years of negotiation—the buy-back of US$1.2 billion of outstanding government debt to commercial creditors. This buy-back was made possible through support from Germany, Norway, the United Kingdom and the United States. In addition, support was provided under the World Bank-administered Debt Reduction Facility. The Debt Management Unit (DMU) in the Ministry of Finance is responsible for routine t debt management and recording all information on external and domestic public and publicly guaranteed debt, including for state owned enterprises. The new debt management software which has been installed will enhance our ability to monitor and track debt and permit for timely and comprehensive reporting of domestic and external debt data, including the financial terms of loans. This software will support data interface between the CBL and the Ministry of Finance. The DMU has also issued a debt Management Strategy, approved by Cabinet, and has updated the strategy to reflect the post HIPC borrowing framework. The new strategy aims to ensure that all available resources will be effectively used to support growth and development while preventing the accumulation of unsustainable debt. The strategy aims to strengthen our institutional and technical capacity to monitor debt, and evaluate its sustainability and inherent risks.

We are resolutely committed to ensuring that the revenues from Liberia's extractive industries benefit all Liberians. Our active engagement in the Extractive Industries Transparency Initiative (EITI) contributes to ensuring that the wealth from these activities is handled transparently and responsibly. In October 2009, Liberia became the first country in Africa, and the second country in the world to be validated as EITI-compliant. In July 2009, we also passed legislation to increase transparency across the entire natural resource value chain in sectors including mining, forestry, agriculture, fisheries and petroleum sectors. We are now moving to implement this legislation in an ambitious EITI++ initiative, going beyond LEITI's sole focus on revenue transparency, taking an integrated approach of the management of extractive industries from the award of exploration and production rights, regulation and monitoring of operation, collection of taxes and royalties to revenue management.

For the first time in the history of our country, all officials in the Executive Branch are now required to declare their assets to the Liberia Anti-Corruption Commission. In our resolve to stamp out public sector corruption, we have also continued to support the work of the General Auditing Commission (GAC) which has now produced over 25 audit reports including the second round of HIPC of five key government ministries. The harmonization and regularization of the Ministry of Educations payroll has also been finalized and several ghost names have been removed.

The Biometric Identification System for all public sector employees is also making steady progress, and the CSA is on schedule to deliver a clean list of government employees. In our on-going effort to improve public financial management capacity across government our two-year Public Financial Management Program has trained over 50 new public servants.

To drive the land tenure reform, a Land Commission has been established. In the coming year we will work to define laws and regulations on public land acquisition and establish a framework for managing land distribution and disputes. The Environmental Protection Agency (EPA) was able to conclude environmental-quality standards and regulations for the main productive sections under which 44 permits were issued following environmental impact assessments. Through effort of the EPA, Liberia was declared compliant in respect of its obligation and contribution to conservation of the global environment.

Substantial progress has also been made in the justice system. The Ministry of Justice is coordinating with relevant partners to develop case management strategies to reduce the length of pre-trial detention and address the problem of overcrowded prisons. To make the justice systems more accessible and provide an opportunity for cases on the court docket to be disposed of at a much faster pace, a Roving Prosecution Unit has been put in place. A law reform commission has been established to review existing statutory and customary law and propose amendments to ensure consistency between these two sets of laws and ensure compliance with international treaty obligations.

An Independent Human Rights Commission has been established with the mandate to monitor Government's compliance with human rights standards, as well as to develop a framework for the implementation of the recommendations of the Truth and Reconciliation Commission.

Looking forward, we plan to progressively decentralize governance, devolving decision-making and implementation to local entities. The government is currently studying how best to implement a decentralization strategy and design local governance systems, and increasingly give financial control to entities outside

Monrovia as their capacity develops, beginning with the county development funds currently being implemented.

Infrastructure and Basic Services

The government inherited an infrastructure that was in state of disrepair as a result of the destruction of the war and years of neglect. Roads, telecommunications, the power system, water and sanitation, schools, and health care facilities were mostly destroyed. Presently, the Government is working to rehabilitate the infrastructure and social services in order to create the conditions needed to achieve broad-based growth and poverty reduction. In the area of infrastructure, roads, power and ports are priorities, with a special emphasis placed on the rehabilitation of major transport corridors. Health, education, and other services must have a particular focus on youth and women, who too often are marginalized in the access to such services. Health activities will need to continue to focus on malaria, HIV/AIDS, diarrhea, and other major diseases that kill so many Liberians. Increasing school enrollment, offering more and higher quality training opportunities will help improve the security situation, strengthen the foundation for growth and poverty reduction, and train Liberia's next generation of leaders.

Rebuilding the road network is central to achieving our goals of enhancing security and revitalizing the economy. Towards that end, we have built bridges and rehabilitated a number of roads, as well as the international airport. This infrastructure reconstruction will continue into the future with the help of the World Bank-administered Liberia Reconstruction Trust Fund, a multi-donor trust fund established in the last year. This year we rebuilt 107 miles of secondary roads, 650 miles of primary roads. Over the next few years we plan to construct and rehabilitate 1,187 miles of primary and secondary roads. We have established a National Transit Authority (NTA) to improve public transportation. With only 15 percent of communities benefiting from public transportation services, we aim to expand this system within Monrovia and between cities.

It is crucial that we improve facilities and processes at our ports to facilitate trade. This year the 'one-stop shop' at the Freeport of Monrovia became fully operational, which will expedite the payment of import duties and clearance of goods. Under the Port Sector Reform Program the NPA will enter a public private partnership agreement to modernize the Port, including the construction of a new marginal wharf, construction of terminals and the provision of adequate equipment and operational expertise.

The Liberian Water and Sewer Corporation (LWSC) continues to make progress in expanding water and sanitation services. Urban water supply coverage increased by 15 percent and rural coverage increased by 10 percent. Despite progress, coverage remains inadequate. We aim to increase access to safe drinking water, doubling the number of Liberians who have access to safe water to 50% in 2011 and increase access to sanitary human waste collection and disposal facilities from 15 to 40% in 2001.

The Liberia Electricity Corporation (LEC) made progress in its expansion of service. LEC has a current total generation installed capacity of 9.64 megawatts (MW). The rehabilitation of the Monrovia power grid is also under way and will connect a greater portion of Monrovia and its environs to the LEC power grid. The Government, through the LEC, contributes to the West African Power Pool (WAPP), which is coordinating projects to connect the various West African power grids that will subsequently allow power exchanges among countries. In the coming years, we will continue to explore our hydropower potential and we have already undertaken a feasibility study for the Mount Coffee hydroelectric dam, with US Trade Development Authority support.

A National Telecommunications Policy has been formulated and approved by the Cabinet to guide our effort to expand and improve telecommunications services. In 2007, a Telecommunications Act reconstituted the Liberia Telecommunications Corporation (LIBTELCO). LIBTELCO launched its services on May 1, 2009, to provide affordable and secure communication services. With Government subsidy of $2.3 million in this fiscal year, LIBTELCO expects to meet its 5,000 lines target by the end of the year. In 2010 LIBTELCO plans to extend its service, which at present covers only Greater Monrovia to four counties.

Education is central to our reconstruction and development program. The Government plans to improve educational access for as many children as possible, especially those from poor families, and to provide skills training for adolescents and adults. We will give special attention to implementing the new Girl's Education Policy and ensuring equal opportunities for girls. The government needs to increase access by providing new schools where none exist in population centers, reconstructing those damaged during the war and making available school materials to ensure that teachers do not levy unofficial fees from parents. Towards that end, we have started to rebuild schools. We are also in the process of reopening schools and strengthening school staff around the country. We have implemented free and compulsory basic primary education nationwide as a result enrollment has more than doubled over the past two years. Although a welcome development, this rapid increase poses the challenge of additional schools, teachers and instructional material. In response, a total of 56 primary schools are under construction nationwide, all of which should be ready for use in or before the next academic year. This year, our teacher training institutes have graduated the first class of over 500 teachers with continuing support from an increased level of Peace Corps volunteers. Another group of 525 trainees is currently enrolled at institutions. The issue of qualified teachers remains a challenge despite the progress cited. Some 5,052 volunteer teachers who did not meet the requisite qualifications were retired.

The provision of basic health and nutrition services is a major priority for the Government. We aim to reduce maternal mortality by 10 percent and child mortality by 15 percent over the next two years. Towards this end, the Basic Package of Health Services is currently being implemented in 47 percent of all public health facilities. We have also made appreciable progress in the construction of health facilities. Two antenatal care clinics were built this year and the construction of 21 new primary health clinics commenced nationwide. Other achievements included: a nationwide program in which we immunized 90 percent of the population against Yellow Fever; we maintained a program of 92 percent immunization coverage for polio; we increased Anti-Retroviral Treatment (ART) service delivery by 27 percent; conducted successful operation of 187 fistula survivors and rehabilitated 64 survivors. Despite tremendous progress, a significant portion of our population still lacks access to basic healthcare. This is due to the lack of roads, clinics and health workers, particularly in the remote areas of the country.

Liberia has a long way to go to recover from the violence and mismanagement of the past quarter century. After four years of the present administration, we have taken the first, and perhaps most difficult steps. Although many challenges remain, we continue to make every effort to show the people of Liberia tangible dividends of peace. We will continue on our reform process and ensure that our gains are consolidated on an irreversible road to development. We are very grateful for the significant support that the World Bank has provided, and we look forward to the next phase of our collaboration, including this development policy operation, as we work to implement the Poverty Reduction Strategy.

Please accept the assurances of my esteem.

Sincerely yours,

Augustine K. Ngafuan
MINISTER

Annex 3: Government of Liberia Policy Matrix

GOVERNMENT REFORM PROGRAM PRIORITY ACTIONS AND OUTCOMES

(Prior actions for RRSP III are highlighted in bold)[11]

Liberia: Proposed Program of Policy and Institutional reforms (2010/11 – 2011/12)

Governance	Reform Issue	Prior Actions for RRSP III (In Bold)	Program Triggers (in bold) for RRSP IV (2010/11)	Related HIPC Completion Point Triggers	End of Program Outcome Indicators (2011/12)	Donors harmonized in policy areas
Procurement and concessions	The implementation of procurement transactions and the oversight role of the PPCC are not currently resourced to sufficient degree for economic and transparent transactions. In addition, as the procurement capacity within government is weak and inefficient this poses a major constraint to budget execution and particularly the pace of implementation of key development projects.		**The preparation of a needs assessment and strategy for training of procurement staff in the five key ministries [Ministry of Finance, Ministry of Education, Ministry of Health, Ministry of Public Works and the Ministry of Lands, Mines and Energy] followed by the establishment of procurement committees and procurement units in these ministries and the preparation and publication of procurement plans by these ministries in accordance with the PPCC Act and Regulations.**		Improvement of public procurement in line with international standards as evidence by: • a modern regulatory framework and full disclosure of procurement activities • Percentage of public procurements that used direct contracting and or other less competitive methods without proper justification is less than 30 percent of the value of total procurement compared with its current baseline value of 30 percent.	WB/AfDBEU
			Prepare a strategy for strengthening the technical skills at the PPCC, targets for procurement monitoring to 2012/13 and a strategy for a career stream for procurement specialist in the public sector and related agencies.			
			Quarterly Publication in the Procurement bulletin and monthly publication in the Website of all signed procurement contracts over US$25,000 for goods, US$10,000 for consulting services, and US$50,000 for works. In addition, all signed sole-source procurement contracts and concessions agreement reported to the PPCC in the context of their role of compliance monitoring of procurement activities.	***Quarterly Publication in the Procurement bulletin and monthly publication in the Website of all signed procurement contracts over US$25,000 for goods, US$10,000 for consulting services, and US$50,000 for works and all signed sole-sourced procurement and concessions contracts which have been identified by the PPCC as a result of the PPCC's compliance monitoring activities for at least 6 months leading up to completion point.***		

[11] Anticipated results for RRSP II are detailed in Section D.

Governance	Reform Issue	Prior Actions for RRSP III (In Bold)	Program Triggers (in bold) for RRSP IV (2010/11)	Related HIPC Completion Point Triggers	End of program outcome Indicators (2011/12)	Donors harmonized in policy areas
Public Financial Management	Budget formulation and timelines of passage has improved but budget execution remains weak and system lapses create opportunities for corruption.	**A multi-year budgeting strategy has been prepared by the Ministry of Finance and approved by the Cabinet.**	Submit to Cabinet/MoF a guideline for MTEF implementation Guideline on participatory budgeting and public reporting on budget and expenditure developed and approved by Cabinet/Ministry of Finance to promote greater inclusiveness and transparency of planning and prioritization processes.	***Implement the new PFM law and supporting financial regulations for at least 12 months leading up to completion point.***	Forward looking multi-year, comprehensive program budget in line with the requirement of the 2009 PFM Act as evidenced by forecast of fiscal aggregates being prepared for at least three years.	
			Tax and Custom strategic plan prepared by the Ministry of Finance and approved by the Cabinet and training need assessment and staff training plan for tax and customs prepared and approved by the Ministry of Finance. In addition; (i) new Customs legislation submitted to Cabinet, (ii) ASYCUDA++ rolled out to the international airport (RIA) and two more border points, and (iii) ITAS is operational in the Bureau of internal revenue and the tax payer identification system is modernized with linkage to other government registration systems[12].	***Implement a revised investment incentive code to ban granting tax exemptions outside the Liberia Revenue Code.***	Overall improvement in the efficiency, effectiveness and transparency of revenue administration as evidenced by increased in the average tax compliance rate from 51 percent in 2010/11 to 80 percent in 2011/12.	WB/AfDB/EU
			Prepare governance framework for all SOEs receiving subsidy/subvention from the budget and have approved by Cabinet.		Improve span of control and oversight of the public sector and control risk of fiscal contingent liability as evidenced by all SOEs receiving subsidy/subvention from the budget submitting annual fiscal report.	
		Adopt International Public Sector Accounting Standards (IPSAS-cash basis) and adopt Public Financial Management enabling regulations and manuals on the basis of the new PFM law.	**Internal Audit Units established and well resourced in terms of staffing (a least two professional audit staff) and operational budget in 5 high risk M+As using GAC risk profile and producing quarterly internal audit reports for the Internal Audit Governance Board.** Maintain annual external audits of five key government ministries (Health, Education, Public Works, Finance and Lands, Mines and Energy)	***Complete successive annual external audits of five key government ministries (Health, Education, Public Works, Finance and Lands, Mines and Energy) prepared under the authority of the General Auditing Commission, submitted to the Parliament and disclosed publicly.***	Financial accounting and audits in line with international standards.	WB/EU/AfDB
			Produce first full report on external debt from the debt reporting system.	***Develop a debt management strategy in consultation with partners and establish a debt management unit recording all information on external and domestic public and publicly guaranteed debt, including for state owned enterprises, and ensure it is operational for at least 12 months leading up to the completion point.*** ***Publish on a quarterly basis and on a government website, data on external and domestic public and publicly guaranteed debt, including debt stocks and terms and conditions of new loan agreements for at least 6 months leading up to the completion point.***	A comprehensive debt management system that records, analyses and reports on debt on a timely basis as evidenced by the publication of quarterly data on external and domestic debt on the Ministry of Finance website.	

[12] TIN is most effective if linked with other government registration systems that involve elements of taxable turnover and assets (e.g. issue of business licenses and opening of bank accounts)

Governance	Reform Issue	Prior Actions for RRSP III (In Bold)	Program Triggers (in bold) for RRSP IV (2010/11)	Related HIPC Completion Point Triggers	End of program outcome Indicators (2011/12)	Donors harmonized in policy areas
Extractive industry governance (including EITI and EITI++)	Mismanagement, misuse, and illegal exploitation of natural resources have been at the heart of conflict in Liberia. EITI compliance is a positive step in improving overall governance of the sector. However, there is now a need to broaden and deepen the governance of the sector along the links of the value chain.		EITI reconciliation report for fiscal year (09/10) published before end of the calendar year (2010).	***Regular public reporting of payments to, and revenues received by, the government for the extractive industries (mining and minerals) in a participatory manner in line with EITI criteria during at least the year leading up to the completion point.***	Continued EITI compliance.	
			Completion and approval by Cabinet of a strategy to move to the EITI ++ framework.			
Judicial reform	The formal justice system in Liberia lacks infrastructure and materials and qualified personnel. The judiciary is weak the courts are overworked with dispute resolution entail delays and lack of predictability. Despite this, arbitration proceedings outside the court system are not well-developed. Consequently it is difficult and costly to convey property or enforce contractual obligations or hold both public and private actors accountable.		Establishment and adequate resourcing of one commercial court, including training for a cadre of specialized court personnel.		Improve access to Justice as evidenced by the reduction in the number of case file from a 2010 baseline to be established in sample courts.	
Civil Service Reform (Including pay reform)	Lack of capacity in the civil service limits the ability of the Government to implement policies which will benefit development and the delivery of basic services. Civil servants are poorly prepared and inadequately compensated. Generally weak Human Resource Management systems have been affected by years of civil wars and neglect.		Approve new pay and grading structure to strengthen management systems and mainstream generic job descriptions developed in the context of the grading exercise. Complete "one employee/one file/one salary/one job for all of the civil service and the pension's authority (including biometric information). Populate HRM module of IFMIS with new "clean data". Define data capture requirements for new entrants and applicants.		A smaller, better paid and more effective civil service.	WB/USAID

Governance	Reform Issue	Prior Actions for RRSP III (In Bold)	Program Triggers (in bold) for RRSP IV (2010/11)	Related HIPC Completion Point Triggers	End of program outcome Indicators (2011/12)	Donors harmonized in policy areas
Anti –corruption	There is need for a clear definition of the separate but connected role and responsibilities of the LACC, the GAC, the PPCC and the Ministry of Justice and the Judiciary. This is important to avoid duplication and waste of resource as well as to prevent unnecessary delays in the prosecution of cases of corruption.		Submit to cabinet a revised framework for LACC in light of recommendations made in recent review.	***Establish an independent Anti-Corruption Commission consistent with the Anti-Corruption Act, and ensure it is operational for at least 12 months leading up to the completion point.***	Maintaining an independent, credible and efficient commission with increasing capability in its mandate for investigating, prosecuting and preventing corruption.	
Decentralization	Political power is largely concentrated in Monrovia and primarily at the level of the Presidency. Most infrastructure and basic services are also concentrated in Monrovia a few other cities.		Develop and have approved by the Cabinet a properly resourced plan for de-concentration of central government institutions.		Increased decentralization of fiscal responsibility as evidenced by increased devolution of fiscal expenditure to Counties.	
Pro-Poor Growth	**Reform Issue**		**Program Triggers (in bold) for RRSP IV (2010/11)**	**Related HIPC Completion Point Triggers**	**End of program outcome Indicators (2011/12)**	**Donors harmonized in policy areas**
Land reform	There is no national land policy in Liberia and the institutional framework for land administration and management is improperly designed, uncoordinated and ineffective. In addition, there is no cadastre and no effective and reliable land information system. As a result, security of tenure is virtually non-existent in Liberia. Land issues are a regular source of intense conflict.	**Establish and adequately resource a Land Commission to identify, guide and facilitate reforms in land policy, law and program.**	**Completion of assessment of the legal framework for land (both statutory and customary law) to determine amendment required to existing land laws.**		Consolidation of land deeds in the National Archive as evidenced by at least 95 percent of land deeds in National Archives. Increased efficiency in the registration of property as evidence by: (i) a reduction in the number of procedures (2010 baseline-10) and (ii) a reduction in the number of days to register property (2010 baseline-50 days).	WB/USAID
Port reform	The war severely disrupted port operations in Liberia and port management has for years been riddled with problems The physical infrastructure of the main port in Monrovia is in a deplorable state, with the marginal wharf and oil jetty needing replacement. The physical layout of the port and available equipment is unsuitable for modern port operation.	Complete the requisite legal and institutional reforms and award concession in port of Monrovia of container terminal, break-bulk operations and marine services.	Submission of a new Port Act to Parliament, formal conversion of the Port Authority to Landlord status and handover of concession in the port of Monrovia.		Progress towards the establishment of a modern, efficient port privately operated as evidenced by the full privatization of the management of the port.	

Pro-Poor Growth	**Reform Issue**	**Prior Actions for RRSP III (In Bold)**	**Program Triggers (in bold) for RRSP IV (2010/11)**	**Related HIPC Completion Point Triggers**	**Medium-Term Outcome Indicators**	**Donors harmonized in policy areas**
Telecommunication reform	Liberia's telecommunications sector is characterized by an outdated fixed network and policy legal and regulatory vacuum. Despite this, a vibrant private sector that perceived attractive commercial opportunities as early entrants in the market is emerging. However, the sector's potential to improve competitiveness of Liberia's economy, facilitate economic growth and social reconstruction and ensure fuller integration of the country in the global economy is constrained by the limited infrastructure and inadequate capacity to sustain the reform program.		Development and implementation of an interconnection framework by the Liberia Telecommunication Authority including regulation and cost model.		Establish a legal and regulatory environment that promotes investment, relies on competition and market forces to foster the growth of the telecommunication sector and encourage wider access of telecom services to the Liberian population.	WB
Education and training	Quality and management of education are poor. Learning achievements are out of sync with the demands of the labor market.		Approval of the National Education Sector Policy by Cabinet.	*Complete a harmonized and regularized Ministry of Education payroll.*	Improved quality and access to school particularly at the primary level as evidence by: • An increase in the Gross Enrollment Rate (GER) from 94.6 percent in 2010 to 95.2 percent in 2012. • An increase in the primary completion rate from 68 percent in 2010 to 75 percent in 2012.	WB/EU
			Abolish testing of children to determine their eligibility to enter 1st grade in order to free up spaces in pre-primary for younger children.			
			Put in place a school management committee in 70 percent of primary schools.			
			Develop an effective HR database with data for all public sector employees from the MoE with link to payroll database.			
			Production of a TVET policy and its approval by Cabinet and the establishment of a fully functioning sector coordination team in the Ministry of Education.			

Annex 4: Anticipated RRSPII Results and Actual Outcomes

Anticipated Results	Actual Outcome
Average difference between out-turn and legislated budget for each Ministry, as measured by PEFA indicator PI-2. *Baseline: 19% (2007)* *Target: 15% (FY09/10)*	The better reporting and consequently management of the budget has led to a reduction in the variance between the legislated budget and the actual budget from 19 percent in 2007 to 16 percent for the FY07/08 budget.
% of value of non-competitive procurement without justification. *Baseline: 80% (2008)* *Target: No more than 20% (June 2010)*	The approval by Parliament of the new Public Finance Management Act and supporting regulations as well as the provision of implementing regulations and manuals and instructions for the Public Procurement and Concessions Act have resulted in some improvement in the procurement process. The percentage of value of non-competitive procurement has been substantially reduced from around 80 percent in 2008 to less than 30 percent as of December 2009.
Percentage of civil servants captured in the Biometrics System, based on the one staff, one file principle. *Baseline: 0 percent (2008)* *Target: 100 percent (June 2010)*	On the civil service reform, the government has focused on building a smaller more effective service. A key first step in this regard was the implementation of a biometric identification system based on the one-staff, one-file principle. A key result achieved to date is that 60 percent of the Monrovia-based civil servants have been captured in the system.
Audit reports for five high risks M&A completed by the GAC and submitted to the Parliament. *Baseline: no external audit reports submitted (2008)* *Target: External audit of the central government's accounts submitted to the Parliament within nine months of year end for FY08/09*	On audits, the GAC completed 22 audits including transactional audits for key ministries including Finance, Education, Health, Public Works and Lands, Mines and Energy as well as the audit for the FY07/08 central government accounts. These audits and their publication are likely to have a positive impact on accountability within the public sector.
Automaticity in the approval of investment incentives for investments not requiring the approval of the Parliament. *Baseline: No automaticity in investment incentives approval (2008)* *Target: 100% automaticity in investment incentives* (Measured as a share of the total number of incentives) *(June 2010)*	The passage of a new Revenue Code by the Parliament in August 2009 and the passage of the new Investment Code in April 2010 have led to the elimination of discretions in the granting of fiscal incentives.

Annex 5: IMF Relations Note

LIBERIA—ASSESSMENT LETTER FOR THE WORLD BANK

May, 2010

Liberia is making good progress in implementing its economic program supported by the Extended Credit Facility (ECF) arrangement. While economic growth was adversely affected by the global economic downturn in 2009, some signs of a moderate rebound in the real economy are evident in early 2010. All quantitative performance criteria for December 2009 were observed. Structural reform implementation under the program is also on track and the actions required for reaching the HIPC completion point are close to completion. The IMF Executive Board is expected to consider the fourth review under the ECF arrangement and the HIPC Completion Point document in mid-2010.

- **The global recession weakened macroeconomic performance in 2009, but tentative signs of a turnaround have emerged.** GDP growth slowed to an estimated 4½ percent in 2009. During 2009, the weakness in the external accounts translated into nominal exchange rate depreciation against the U.S. dollar which also raised traded goods inflation and maintained a broadly stable real effective exchange rate. The reserve position has strengthened to 3.1 months of import coverage in 2009 largely resulting from the recent SDR allocation.

- **Economic activity should accelerate somewhat in 2010, boosted by private and public investment and an improvement in the external terms of trade**. Medium- to long-term prospects remain favorable based on iron ore, timber and rubber production. Growth in the non-enclave sectors (non-commercial agriculture, services, and manufacturing), which account for the bulk of employment, depends critically on improving Liberia's infrastructure, notably roads, ports, and the power supply.

- **Performance under the ECF-supported program has been good.** In December 2009 the IMF Executive Board completed the third review under the ECF arrangement (formerly Poverty Reduction and Growth Facility, PRGF) for Liberia.

IMF staff conducted the fourth ECF program review mission during April 5–19, 2010. The review covers program performance through end-March 2010 and discussions also focused on the quantitative framework and structural reform program through the end of the ECF arrangement in 2011. On preliminary data, all performance criteria for end-December 2009 were observed. The structural reform program continues to advance, with all structural benchmarks through end-March 2010 expected to be completed by the time of the program review. Limited implementation capacity accounts for some minor implementation delays. The mission reached agreement, ad referendum, on policies that would allow for completion of the fourth review.

- **Implementation of the FY2010 budget (ending in June 2010) has been hampered by revenue shortfalls, notably in non-tax revenues**. The authorities are implementing a risk management plan that scales back non-essential spending while protecting spending in support of their Poverty Reduction Strategy objectives.

- **The fiscal program for FY2011 does not envisage new borrowing**. The budget framework devotes an increased share of spending to support poverty reduction strategy objectives, and has an overall surplus of nearly ½ percent of GDP. However, the authorities intend to seek concessional financing for additional strategic infrastructure projects after the HIPC completion point, in a manner consistent with their updated debt management strategy. Legislative approval of the draft budget is scheduled for end-June 2010.

- **The Liberian authorities aim to reach the HIPC completion point in mid-2010 with continued strong efforts on the remaining policy triggers.** In the view of the staffs of the World Bank and Fund, implementation of the required floating completion point triggers is close to completion. Board consideration of the HIPC completion point will be based on the joint recommendation of Fund and Bank staffs. Creditors accounting for over 90 percent of the total HIPC eligible debt stock have given satisfactory assurances of their participation. The authorities continue to make best efforts to finalize debt restructuring with the remaining creditors that have not signed debt restructuring agreements and good faith efforts to negotiate with external private creditors.

- **After the HIPC completion point, external debt vulnerabilities would be significantly reduced.** A preliminary debt sustainability analysis indicates a low risk of debt distress, assuming full delivery of debt relief under the HIPC Initiative, MDRI, additional bilateral relief, and new external borrowing on concessional terms. Modifications to the quantitative program after the completion point, notably for external financing of the public sector on highly concessional terms, have been discussed with the authorities. These modifications are consistent with maintaining low debt vulnerabilities. Macroeconomic stability and sustained growth would also require continued commitment by the authorities to public financial management reforms, including strong debt management.

Table 1. Liberia: Selected Economic and Financial Indicators, 2008–12

	2008	2009 Prel.	2010 Proj.	2011 Proj.	2012 Proj.
	(Annual percentage change, unless otherwise indicated)				
National account and prices					
GDP at constant prices	7.1	4.6	6.3	8.5	8.3
GDP deflator (US dollars)	6.4	-1.1	1.1	0.6	1.9
GDP at market prices (millions of US dollars)	849.6	874.1	951.2	1,032.2	1,138.9
Nominal GDP per capita (US dollars)	215.5	238.3	248.7	260.3	278.2
Consumer prices (average)	17.5	7.4	7.4	4.1	5.0
Consumer prices (end of period)	9.4	9.7	4.8	4.7	5.0
Consumer prices (US dollar denominated)	5.1	0.3	0.3	2.0	2.1
External sector					
Exports, f.o.b.	22.2	-39.7	62.3	25.5	36.1
Imports, f.o.b	42.2	-20.6	22.6	39.5	10.2
Terms of trade (deterioration -)	-12.0	2.3	41.6	-22.2	-10.4
Average exchange rate (local currency per U.S. dollar)	63.2	68.3	…	…	…
Import coverage of reserves without UNMIL imports (months)	0.7	3.1	2.6	2.3	2.3
Gross official reserves (millions of US dollars)	86.2	312.2	334.2	351.5	361.9
Central government budget [2/]					
Total revenue and grants	39.5	13.5	23.8	17.7	9.5
Of which: total revenue	36.7	5.2	31.5	2.0	17.9
Total expenditure and net lending	60.2	26.3	15.6	17.6	22.6
Of which: current expenditure	62.9	24.2	10.4	10.0	11.2
capital expenditure	43.4	41.5	48.8	53.6	61.3
	(Annual percentage change; beginning period stock of broad money, unless otherwise indicated)				
Money and credit					
Net foreign assets	2.7	-21.8	253.9	5.9	5.9
Net domestic assets	38.7	65.0	-228.5	-2.5	6.2
Net claims on central government	10.5	40.6	-251.7	-0.4	-0.5
Claims on nongovernment	16.8	25.2	1.2	4.6	5.4
Other items (net)	11.4	-0.8	9.6	4.5	1.3
Broad money (M2) [2/]	41.4	43.1	12.4	10.4	11.5
Reserve money (annual percentage change)	13.1	12.4	24.3	16.1	14.3
Velocity (GDP-to-M2)	3.2	2.5	2.5	2.5	2.6
Money multiplier (M2/M0)	4.2	5.1	4.6	4.4	4.3
	(Percent of GDP)				
External sector					
Current account balance					
(including official grants)	-57.4	-33.3	-39.9	-55.8	-54.7
(excluding official grants)	-185.3	-148.2	-152.0	-149.3	-131.5
Trade balance	-53.5	-46.8	-46.4	-63.0	-55.8
Exports, f.o.b.	29.9	17.5	26.2	30.3	37.3
Imports, f.o.b	-83.4	-64.4	-72.6	-93.3	-93.2
Central government budget [1/]					
Total revenue and grants	25.9	27.3	31.9	34.5	34.5
Of which: total revenue	25.2	24.5	31.0	28.6	30.8
Total expenditure and net lending	24.7	28.9	31.5	34.1	38.2
Of which: current expenditure	21.7	25.0	26.0	26.3	26.8
capital expenditure	3.0	3.9	5.5	7.8	11.5
Overall fiscal balance (including grants)	1.2	-1.6	0.4	0.4	-3.7
Overall fiscal balance (excluding grants)	0.5	-4.4	-1.1	-5.6	-7.5
Basic balance [3/]	4.2	2.3	5.9	8.2	0.7

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

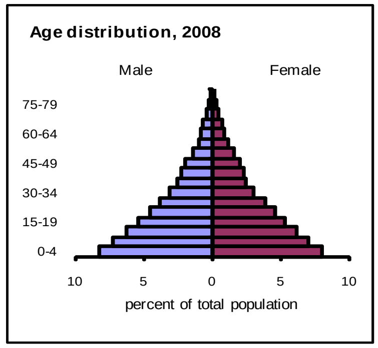
1. Fiscal year ending in June on a cash basis (debt service payments shown after all debt relief).
2. Defined as Liberian currency outside banks plus demand, time, and savings deposits in Liberian and US dollars.
3. Basic balance is defined as (total revenue and grants minus project grants) minus (total expenditure minus foreign and domestically financed investment spending).

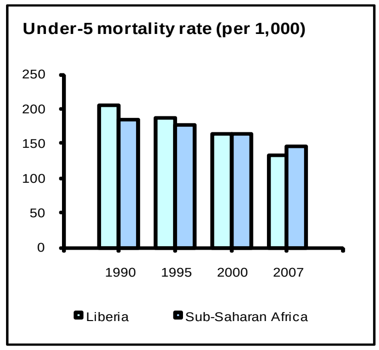
Annex 6: Country at a Glance

Liberia at a glance

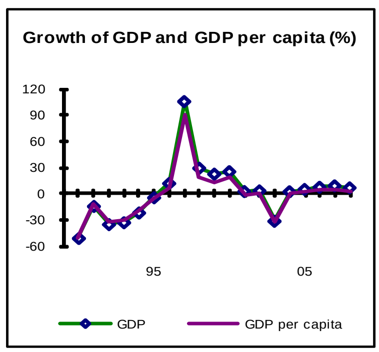
2/25/10

Key Development Indicators	Liberia	Sub-Saharan Africa	Low income
(2008)			
Population, mid-year (millions)	3.8	818	973
Surface area (thousand sq. km)	111	24,242	19,310
Population growth (%)	4.6	2.5	2.1
Urban population (% of total population)	60	36	29
GNI (Atlas method, US$ billions)	0.6	885	510
GNI per capita (Atlas method, US$)	170	1,082	524
GNI per capita (PPP, international $)	300	1,991	1,407
GDP growth (%)	7.1	5.0	6.4
GDP per capita growth (%)	2.4	2.5	4.2
(most recent estimate, 2003–2008)			
Poverty headcount ratio at $1.25 a day (PPP, %)	84	51	..
Poverty headcount ratio at $2.00 a day (PPP, %)	95	73	..
Life expectancy at birth (years)	58	52	59
Infant mortality (per 1,000 live births)	93	89	78
Child malnutrition (% of children under 5)	20	27	28
Adult literacy, male (% of ages 15 and older)	60	71	72
Adult literacy, female (% of ages 15 and older)	51	54	55
Gross primary enrollment, male (% of age group)	88	103	102
Gross primary enrollment, female (% of age group)	79	93	95
Access to an improved water source (% of population)	64	58	67
Access to improved sanitation facilities (% of population)	32	31	38





Net Aid Flows	**1980**	**1990**	**2000**	**2008** [a]
(US$ millions)				
Net ODA and official aid	97	114	67	696
Top 3 donors (in 2007):				
United States	32	19	16	103
European Commission	4	8	13	39
Norway	0	0	0	28
Aid (% of GNI)	10.4	*10.2*	17.4	124.3
Aid per capita (US$)	51	52	24	192



Long-Term Economic Trends							
Consumer prices (annual % change)	14.7	*9.1*	*12.1*	*11.7*			
GDP implicit deflator (annual % change)	9.1	-0.2	-1.3	10.4			
Exchange rate (annual average, local per US$)	1.0	1.0	41.0	63.2			
Terms of trade index (2000 = 100)	..	..	..	..			
					1980–90	**1990–2000**	**2000–08**
					(average annual growth %)		
Population, mid-year (millions)	1.9	2.2	2.8	3.8	1.3	2.7	3.7
GDP (US$ millions)	954	384	561	843	-7.0	4.1	-1.1
		(% of GDP)					
Agriculture	35.9	54.4	72.0	61.3	..	..	..
Industry	28.1	16.8	11.6	16.8	..	..	..
Manufacturing	7.7	..	9.5	12.7	..	..	..
Services	36.0	28.8	16.4	21.9	..	..	..
Household final consumption expenditure	66.1	..	89.1	202.3	..	..	..
General gov't final consumption expenditure	19.1	..	14.4	19.3	..	..	..
Gross capital formation	..	..	4.9	20.0	..	..	..
Exports of goods and services	64.3	..	21.5	31.1	..	..	..
Imports of goods and services	64.4	..	26.0	172.6	..	..	..
Gross savings	..	..	..	*-126.8*			

Note: Figures in italics are for years other than those specified. 2008 data are preliminary. .. indicates data are not available.
a. Aid data are for 2007.

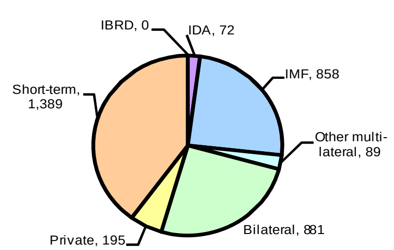
Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade	**2000**	**2008**
(US$ millions)		
Total merchandise exports (fob)	120	0
Total merchandise imports (cif)	182	0
Net trade in goods and services	-25	0
Current account balance	-131	0
as a % of GDP	-23.3	0.0
Workers' remittances and compensation of employees (receipts)	..	69
Reserves, including gold	*2*	*0*

Central Government Finance		
(% of GDP)		
Current revenue (including grants)	12.8	0.0
Tax revenue	*0.0*	0.0
Current expenditure	7.5	0.0
Overall surplus/deficit	-0.7	0.0
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	..

External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	2,820	3,484
Total debt service	1	910
Debt relief (HIPC, MDRI)	2,845	..
Total debt (% of GDP)	502.8	413.5
Total debt service (% of exports)	0.5	5,228.7
Foreign direct investment (net inflows)	21	144
Portfolio equity (net inflows)	0	0

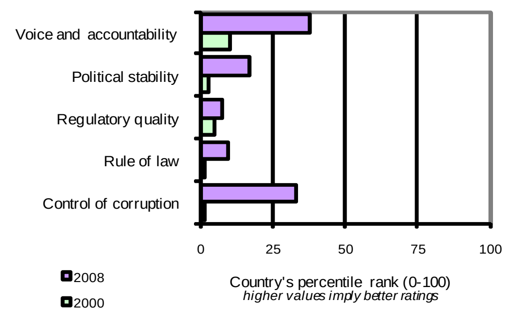
Composition of total external debt, 2008



US$ millions

Private Sector Development	**2000**	**2008**
Time required to start a business (days)	–	31
Cost to start a business (% of GNI per capita)	–	61.6
Time required to register property (days)	–	50
Ranked as a major constraint to business (% of managers surveyed who agreed)	**2000**	**2008**
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	..	..

Governance indicators, 2000 and 2008



Source: Kaufmann-Kraay-Mastruzzi, World Bank

Technology and Infrastructure	**2000**	**2008**
Paved roads (% of total)	6.2	..
Fixed line and mobile phone subscribers (per 100 people)	0	*16*
High technology exports (% of manufactured exports)	..	..

Environment		
Agricultural land (% of land area)	27	*27*
Forest area (% of land area)	35.9	*32.7*
Nationally protected areas (% of land area)	..	*15.8*
Freshwater resources per capita (cu. meters)	*65,427*	*55,138*
Freshwater withdrawal (billion cubic meters)	0.1	..
CO2 emissions per capita (mt)	0.15	*0.14*
GDP per unit of energy use (2005 PPP $ per kg of oil equivalent)	..	..
Energy use per capita (kg of oil equivalent)	..	..

World Bank Group portfolio	**2000**	**2008**
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	130	0
Disbursements	0	0
Principal repayments	0	0
Interest payments	0	0
IDA		
Total debt outstanding and disbursed	100	72
Disbursements	0	0
Total debt service	0	5
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	4	0
of which IFC own account	4	0
Disbursements for IFC own account	4	0
Portfolio sales, prepayments and repayments for IFC own account	0	0
MIGA		
Gross exposure	–	–
New guarantees	–	–

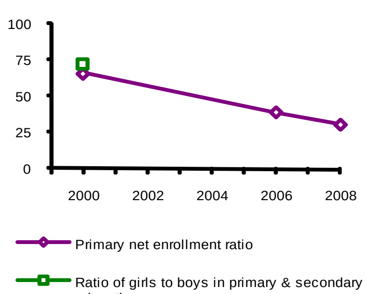
Note: Figures in italics are for years other than those specified. 2008 data are preliminary. 2/25/10
.. indicates data are not available. – indicates observation is not applicable.

Development Economics, Development Data Group (DECDG).

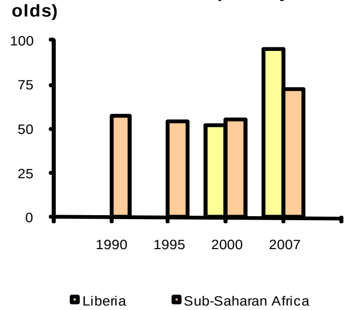
With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Liberia			
Goal 1: halve the rates for extreme poverty and malnutrition	**1990**	**1995**	**2000**	**2008**
Poverty headcount ratio at $1.25 a day (PPP, % of population)	..	..	..	*83.7*
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..
Share of income or consumption to the poorest qunitile (%)	..	..	..	*6.4*
Prevalence of malnutrition (% of children under 5)	..	..	22.8	*20.4*
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	..	..	66	31
Primary completion rate (% of relevant age group)	..	..	..	55
Secondary school enrollment (gross, %)	..	..	32	..
Youth literacy rate (% of people ages 15-24)	..	*51*	..	*72*
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	..	..	73	..
Women employed in the nonagricultural sector (% of nonagricultural employment)	..	..	*11*	..
Proportion of seats held by women in national parliament (%)	..	*6*	*8*	13
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	205	187	164	*133*
Infant mortality rate (per 1,000 live births)	138	126	113	*93*
Measles immunization (proportion of one-year olds immunized, %)	..	..	52	*95*
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	*1,200*
Births attended by skilled health staff (% of total)	..	..	51	*46*
Contraceptive prevalence (% of women ages 15-49)	..	..	10	*11*
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	0.4	1.2	1.4	*1.7*
Incidence of tuberculosis (per 100,000 people)	199	219	242	*277*
Tuberculosis cases detected under DOTS (%)	..	*30*	32	*69*
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	57	61	63	*64*
Access to improved sanitation facilities (% of population)	40	36	32	*32*
Forest area (% of total land area)	42.1	39.0	35.9	*32.7*
Nationally protected areas (% of total land area)	..	..	..	*15.8*
CO2 emissions (metric tons per capita)	0.2	0.2	0.2	*0.1*
GDP per unit of energy use (constant 2005 PPP $ per kg of oil equivalent)	..	..	..	..
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	0.4	0.2	0.2	*0.1*
Mobile phone subscribers (per 100 people)	0.0	0.0	0.1	19.3
Internet users (per 100 people)	0.0	*0.0*	0.0	*0.6*
Personal computers (per 100 people)	..	..	..	..

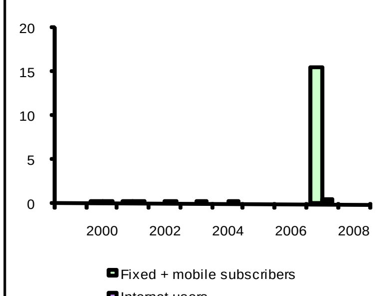
Education indicators (%)



Measles immunization (% of 1-year olds)



ICT indicators (per 100 people)



Note: Figures in italics are for years other than those specified. .. indicates data are not available. 2/25/10

Development Economics, Development Data Group (DECDG).

Annex 7: Key Economic Indicators

Liberia: Selected Economic and Financial Indicators, 2008–12

	2008	2009		2010		2011		2012
		3rd Review 1/	Prel.	3rd Review 1/	Proj.	3rd Review 1/	Proj.	Proj.
	(Percent, unless otherwise indicated)							
National account and prices								
GDP at constant prices	7.1	4.6	4.6	7.7	6.3	10.0	8.5	8.3
GDP deflator (US dollars)	6.4	-1.0	-1.1	-1.2	0.9	0.4	0.7	1.9
Nominal GDP (millions of US dollars)	849.6	879.6	874.1	935.9	949.8	1,033.3	1,032.2	1,138.9
Nominal GDP per capita (US dollars)	215.5	212.8	238.3	217.1	248.3	231.2	260.3	278.2
Consumer prices (average)	17.5	7.6	7.4	4.7	7.2	5.0	4.3	5.0
Consumer prices (end of period)	9.4	10.5	9.7	4.5	4.8	5.0	4.7	5.0
Consumer prices (US dollar denominated, year-on-year)	5.1	..	0.3	..	0.3	..	2.0	2.1
External sector								
Exports, f.o.b.	22.2	-37.0	-39.7	31.0	62.3	78.4	25.5	36.1
Imports, f.o.b	42.2	-23.4	-20.6	33.2	28.6	38.2	32.4	10.3
Terms of trade (deterioration -) 2/	-15.5	-15.7	5.2	-3.7	38.6	5.9	-22.1	-10.4
Average exchange rate (local currency per U.S. dollar)	63.2	68.0	68.3	…	…	…	…	…
Nominal effective exchange rate change (depreciation -)	-7.7	…	-2.1	…	…	…	…	…
Real effective exchange rate (depreciation -)	3.5	…	4.3	…	…	…	…	…
Import coverage of reserves (months)	0.5	2.1	2.2	2.0	1.9	1.8	1.9	1.9
Import coverage of reserves without UNMIL imports (months)	0.7	3.0	3.1	2.6	2.5	2.2	2.4	2.3
Gross official reserves (millions of US dollars)	86.2	305.4	312.2	329.7	334.2	346.4	351.5	361.9
Central government budget 3/								
Total revenue and grants	39.5	13.5	13.5	31.7	23.8	6.9	20.6	6.5
Of which: total revenue	36.7	5.2	5.2	34.3	31.5	5.0	-0.2	20.1
Total expenditure and net lending	60.2	26.3	26.3	20.9	14.7	12.0	30.5	13.2
Of which: current expenditure	62.9	24.2	24.2	10.4	10.4	11.2	10.2	11.4
capital expenditure	43.4	41.5	41.5	88.4	42.3	15.3	130.8	17.2
	(Annual percentage change; beginning period stock of broad money, unless otherwise indicated)							
Money and credit								
Net foreign assets	2.7	-28.7	-21.8	282.0	253.8	7.2	6.0	5.9
Net domestic assets	38.7	59.4	65.0	-271.5	-228.5	6.1	-2.4	6.2
Net claims on central government	10.5	43.3	40.6	-273.9	-251.7	2.1	-0.4	-0.5
Claims on nongovernment	16.8	11.2	25.2	3.8	1.1	5.5	4.7	5.4
Other items (net)	11.4	4.9	-0.8	-1.4	9.5	-1.5	4.5	1.3
Broad money (M2) 4/	41.4	30.6	43.1	9.6	12.3	12.4	10.5	11.5
Reserve money (annual percentage change)	13.1	8.3	12.4	20.7	24.3	17.8	16.1	14.3
Velocity (GDP-to-M2)	3.2	2.7	2.5	2.8	2.5	2.9	2.5	2.6
Money multiplier (M2/M0)	4.2	5.3	5.1	4.7	4.6	4.5	4.4	4.3
	(Percent of GDP)							
External sector								
Current account balance								
(including official grants)	-57.8	-32.6	-32.4	-47.5	-44.6	-53.8	-53.1	-53.0
(excluding official grants)	-185.7	-153.1	-147.3	-166.4	-156.9	-157.8	-146.6	-129.8
Trade balance	-53.5	-43.5	-46.8	-54.9	-50.0	-60.5	-62.6	-55.5
Exports, f.o.b.	29.9	18.2	17.5	22.4	26.2	36.2	30.3	37.3
Imports, f.o.b	-83.4	-61.7	-64.4	-77.3	-76.2	-96.7	-92.8	-92.8
Central government budget 3/								
Total revenue and grants	25.9	27.2	27.3	34.1	31.9	33.6	35.4	34.4
Of which: total revenue 5/	25.2	24.4	24.5	31.3	31.0	30.3	28.0	30.7
Total expenditure and net lending	24.7	28.8	28.9	33.2	31.3	34.3	37.6	38.8
Of which: current expenditure	21.7	24.9	25.0	26.2	26.0	26.8	26.4	26.9
capital expenditure	3.0	3.9	3.9	7.0	5.3	7.5	11.2	12.0
Overall fiscal balance (including grants)	1.2	-1.6	-1.6	0.9	0.6	-0.7	-2.2	-4.4
Overall fiscal balance (excluding grants)	0.5	-4.4	-4.4	-1.9	-0.8	-4.0	-8.1	-8.2
Basic balance 6/	4.2	2.3	2.3	7.9	5.9	6.8	9.0	0.7

#REF!

1/ EBS/09/194, December 3, 2009.
2/ The base year is updated from 1997 to 2005 (2005 = 100).
3/ Fiscal year ending in June on a cash basis (debt service payments shown after all debt relief).
4/ Defined as Liberian currency outside banks plus demand, time, and savings deposits in Liberian and US dollars.
5/ Excluding additional tax revenue measures to close fiscal gaps for FY2011.
6/ Basic balance is defined as (total revenue and grants minus project grants) minus (total expenditure minus foreign and domestically financed investment spending).

Annex 8: Status of HIPC Completion Point Triggers

Triggers	Status
PRSP	
• Prepare a full PRSP through a participatory process and implement satisfactorily its recommended actions for at least one year, as evidenced by an Annual Progress Report submitted by the government to the staffs of IDA and the IMF.	**Implemented.** Full PRSP was finalized in March 2008. The first annual progress report was submitted to the IDA and IMF in April 2010. The PRS implementation has been slower than expected but nevertheless satisfactory, given the ambition and scope of PRS objectives and the challenging external economic situation during the first year of implementation.
Macroeconomic stability	
• Maintain macroeconomic stability, as evidenced by satisfactory performance under a PRGF/EFF-supported program.	**Implemented.** Macroeconomic developments have been satisfactory and ECF/EFF has remained on track. The 3rd review was completed in December 2009. The 4th ECF review is expected to be completed by June 2010**.**
Public financial management	
• Quarterly Publication in the Procurement bulletin and monthly publication in the Website of all signed procurement contracts over US$25,000 for goods, US$10,000 for consulting services, and US$50,000 for works and all signed-sole source procurement and concessions contracts which have been identified by the PPCC as a result of the PPCC's compliance monitoring activities for at least 6 months leading up to the completion point.	**Implemented.** First publication was issued in June 2009, covering the period from January to March 2009 and the second publication was issued in November 2009 covering the period from April to June 2009. The third publication, covering the period through end-2009 was published in April 2010. All reports are posted at www.ppcc.gov.lr.
• Complete successive annual external audits of five key government ministries (Health, Education, Public Works, Finance and Lands, Mines and Energy), prepared under the authority of the General Auditing Commission, submitted to the legislature and disclosed publicly.	**Implemented.** First round of audits for 2006/07 completed, submitted to the legislature and published in March 2009. Second round of audits has been completed and submitted to the legislature and published in April 2010.
• Implement the new PFM law and supporting financial regulations for at least 12 months leading up to the completion point.	**Substantially implemented.** PFM law was into law September 2, 2009 and the implementing regulations were approved in November 2009. In accordance with the PFM act and regulations: (i) the budget for FY 2011 was prepared; (ii) IPSAS accounting standards and a new chart of accounts were adopted; (iii) the accounting function at Ministry of Finance was unified; and (iv) Debt Management Committee was appointed in April 2010.

Status of HIPC Completion Point Triggers (contd.)

Triggers	Status
Social sectors	
• Complete a harmonized and regularized Ministry of Education (MoE) payroll.[13]	**Implemented.** The payroll harmonization completed in March 2010. Following an audit completed by the GAC in April 2010, some 3,247 unverified personnel including 2,138 "ghosts" were removed from the MoE payroll. Salary arrears accrued before March 2008 have been cleared and MoE personnel are now paid on a regular monthly cycle, mostly through direct deposits but a few in the remote counties through checks.
• Ensure that the Basic Package of Health Services is delivered in at least 40 percent of all health facilities nationwide.	**Implemented.** A nationwide survey found 47 percent coverage in August 2009.
Debt management	
• Develop a debt management strategy in consultation with partners and establish a debt management unit recording all information on external and domestic public and publicly guaranteed debt, including for state owned enterprises, and ensure it is operational for at least 12 months leading up to the completion point.	**Implemented.** A comprehensive debt management strategy was approved in June 2010, which updates the previous strategies adopted in June 2008 and July 2009. A debt management committee was appointed in April 2010 that will authorize all government and state enterprise borrowing. A Debt Management Unit (DMU) is fully staffed and operational since 2008. The DMU records all external and domestic debt statistics by creditor.
• Publish, on a quarterly basis and on a government website, data on external and domestic public and publicly guaranteed debt, including debt stocks and terms and conditions of new loan agreements for at least 6 months leading up to the completion point.	**Implemented.** First quarterly data report for end-December 2008 was posted on the internet in February, 2009. Quarterly publications have been regularly published.
Governance	
• Implement a revised investment incentive code to ban granting tax exemptions outside the Liberia Revenue Code (LRC).	**Implemented.** The Investment Incentives Act was repealed and replaced by the Investment Act approved in April 2010. Fiscal incentives are applicable as specified in the revised LRC adopted in 2009.

[13] "Harmonized" means that teachers are paid according to coherent payroll regulations. "Regularized" means that they are paid with fixed periodicity and through an established and effective mechanism.

Box 1. Status of HIPC Completion Point Triggers (concluded)

Triggers	Status
• Regular public reporting of payments to, and revenues received by, the government for the extractive industries (mining and minerals) in a participatory manner in line with EITI criteria during at least the year leading up to the completion point.	**Implemented.** The EITI published its first annual report in February 2009, covering the period July 2007–June 2008. The report was validated by the EITI Board in October 2009. The 2nd EITI Report covering the period July 2008–June 2009 and involving 71 companies and 5 agencies of Government was published in February 2010.
• Establish an independent Anti-Corruption Commission consistent with the Anti-Corruption Act, and ensure it is operational for at least 12 months leading up to the completion point.	**Implemented.** Anti-Corruption Commission was established in September 2008 and operational from December 2008.

MAP SECTION

IBRD 33435R2

JULY 2007