

**Document of  
The World Bank**

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Report 120476-LR

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

ON A PROPOSED DEVELOPMENT POLICY GRANTS

IN THE AMOUNT OF SDR 14.2 MILLION (US\$20 MILLION EQUIVALENT)

AND

IN THE AMOUNT OF US\$4.67 MILLION

FROM THE LIBERIA FOREST LANDSCAPE SINGLE DONOR TRUST FUND

TO THE REPUBLIC OF LIBERIA

FOR THE

FOURTH POVERTY REDUCTION SUPPORT DEVELOPMENT POLICY OPERATION (PRSDPO-IV)

December 12, 2017

Macroeconomics and Fiscal Management Global Practice - GMFDR  
Africa Region

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## Republic of Liberia - Government Fiscal Year

July 1 – June 30

### Currency Equivalents

Exchange Rate Effective as of November 30, 2017

Currency Unit	Liberian Dollar
US\$1.00	LR\$ 125.81
US\$1.00	SDR 0.71

### ABBREVIATION AND ACRONYMS

AD	Asset Disclosure
AfDB	African Development Bank
AfT	Agenda for Transformation
AML	Anti-Money Laundering
ASYCUDA	Automated System for Customs Data
BSWG	Budget Support Working Group
CAF	Common Assessment Framework
CAR	Capital Adequacy Ratio
CBL	Central Bank of Liberia
CBR	Correspondent Banking Relationship
CCR	Catastrophe Containment and Relief
CFT	Countering the Financing of Terrorism
CLSG	Cote d'Ivoire-Liberia-Sierra Leone-Guinea
CMR	Compliance Monitoring Reports
CPS	Country Partnership Strategy
CRW	Crisis Response Window
CSA	Civil Service Agency
CSM	Civil Service Management
CTR	Currency Transaction Report
CTRs	Currency Transactions Reports
DPF	Development Policy Financing
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
EPA	Environmental Protection Agency
ERRTF	Ebola Recovery and Reconstruction Trust Fund
ESBI	Energy Supply Board International
ESRP	Economic Stabilization and Recovery Plan
EU	European Union
EVD	Ebola Virus Disease
FDI	Foreign Direct Investment
FIBLL	First International Bank Liberia Limited
FIU	Financial Intelligence Unit
FMTP	Financial Management Training Program
FY	Fiscal Year

GAC	General Auditing Commission
GDP	Gross Domestic Product
GFS	Governance Finance Statistics
GIABA	Inter-Governmental Against Group Against Money Laundry in West Africa
GoL	Government of Liberia
GRS	Grievance Redress Service
GSM	Global System for Mobile Communication
GST	General Sales Taxes
HIES	Household Income and Expenditure Survey
HFO	Heavy Fuel Oil
HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
HRMIS	Human Resource Management Information System
ICT	Information and Communication Technology
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
IHP+	International Health Partnership and Related Initiatives
INDC	Intended Nationally Determined Contributions
IMF	International Monetary Fund
IPC	Infection Prevention Control
IPFMRP	Integrated Public Financial Management Reform Project
IPSAS	International Public Sector Accounting Standards
IPTP	Intensive Procurement Training Program
JFMA	Joint Financial Management Assessment
Kwh	Kilowatt Hour
JPCU	Joint Program Coordination Unit
LACC	Liberia Anti-Corruption Commission
LDA	Liberia Development Alliance
LDHS	Liberia Demographic and Health Survey
LEC	Liberia Electricity Corporation
LESEP	Liberia Electricity System Enhancement Project
LFO	Liquid Fuel Oil
LLA	Liberia Land Authority
LR\$	Liberian Dollar
LRA	Liberia Revenue Authority
M&A	Ministries and Agencies
M&E	Monitoring and Evaluation
MACs	Ministries Agencies, and Commissions
MFDP	Ministry of Finance and Development Planning
MoH	Ministry of Health
MTDS	Medium-Term Debt Strategy
MW	Mega Watts
NDRC	National Disaster Relief Commission
NEC	National Elections Commission
NPLs	Non-Performing Loans
OP	Operational Policy
PAC	Public Accounts Committee

PAN	Personnel Action Notice
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PPCC	Public Procurement and Concessions Commission
PRSC	Poverty Reduction Support Credit
PRSDPO	Poverty Reduction Support Development Policy Operation
PSMP	Public Sector Modernization Project
PTA	Parent-Teacher Association
PV	Present Value
REDISSE	Regional Disease Surveillance Systems Enhancement Phase
RREA	Rural and Renewable Energy Agency
ROE	Return on Equity
SDR	Special Drawing Rights
SOE	State-Owned Enterprise
STR	Suspicious Transaction Report
TA	Technical Assistance
THE	Total Health Expenditure
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNMIL	United Nations Mission in Liberia
WAPP	West Africa Power Pool
WBG	World Bank Group
WTO	World Trade Organization

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## REPUBLIC OF LIBERIA

### FOURTH POVERTY REDUCTION SUPPORT DEVELOPMENT POLICY OPERATION (PRSDPO-IV)

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## SUMMARY OF PROPOSED GRANT

### REPUBLIC OF LIBERIA

#### FOURTH POVERTY REDUCTION SUPPORT DEVELOPMENT POLICY OPERATION (PRSDPO-IV)

Borrower	Republic of Liberia		
Implementing Agency	Ministry of Finance and Development Planning		
Financing Data	Grant from International Development Association (IDA) Amount: US\$20 million equivalent. The grant will be on standard IDA terms. Grant from the Liberia Forest Landscape Single Donor Trust Fund TF072567 Amount: US\$4.67 million.		
Operation type	Programmatic DPF. The proposed single tranche operation is the fourth in a series of four operations.		
Pillars of the Operation and Program Development Objectives	The three main pillars of this operation are: (i) governance and civil service reforms; (ii) economic transformation; and (iii) human capital development. The objectives of the proposed operation are to: (i) strengthen governance with particular emphasis on transparency and accountability as well as budget execution and oversight; (ii) address key constraints to growth, including electricity; and (iii) improve human capital development particularly through improved access to education and health.		
Results indicators	<b>Indicators</b>	<b>Baseline (2012)</b>	<b>End program target (2018)</b>
	<i>Currency Transaction Reports and Suspicious Transaction Reports received by the FIU (number)</i>	0	>100,000 (CTR) >100 (STR)
	<i>Senior civil servants providing complete asset statement to LACC (%)</i>	56%	75%
	<i>Civil servants in grades 1-10 paid according to new pay structure (%)</i>	0%	100%
	<i>Ports where ASYCUDA is operational (%)</i>	41%	55%
	<i>Share of total Customs revenue captured by ports where ASYCUDA is operational (%)</i>	90%	95%
	<i>Civil servants paid through the IFMIS solution (%)</i>	0%	100%
	<i>Ministries and Agencies in which IFMIS is installed and operational (Number)</i>	7 (MoF and 6 other M&As)	50+ (MoF and All M&As)
	<i>Submission of Annual Financial Statements to GAC after end of fiscal year (months)</i>	<12 months	<4 months
	<i>Trained and certified procurement analyst appointed in the civil service (Number)</i>	None	120
	<i>Publication of annual Compliance Monitoring Report (CMR) by PPCC (Yes/No)</i>	No	Yes
	<i>Cost of electricity to end users/kwh</i>	US\$0.55	<US\$0.40
	<i>Urban access to electricity (number)</i>	12,742	60,000
	<i>Share of energy produced from high cost diesel (%)</i>	100%	<20%
	<i>Legacy deeds and new deeds digitized (Number)</i>	Legacy deeds: 0 New deeds: 0	Legacy deeds: 50,000 New deeds: 10,0000
	<i>Share of commercial bank credit to the agricultural sector (%)</i>	3.7%	5.5%
<i>Primary, junior secondary, and senior secondary net enrollment rates (%)</i>	Primary: Male 31.6% Female 33.3% Junior Secondary 7.1% Senior Secondary 5.4%	Primary: Male 45% Female 45% Junior Secondary 20% Senior Secondary 15.4%	
Overall risk rating	Substantial		
Climate and Disaster Risks (required for IDA countries)	There are no short and long term climate and disaster risks to the operation.		
Operation ID Number	P162111		

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

**I. INTRODUCTION AND COUNTRY CONTEXT**

**1.1 Since the return to democratic governance in 2006, Liberia has made notable economic and social progress, despite challenges.** Between 2006 and 2014, gross domestic product (GDP) growth averaged 7 percent with a strong boost from iron ore mining since 2010. The Government has maintained prudent fiscal and monetary policies, consequently inflation has been largely maintained in single digits. The relatively large current account deficits have been sustainably financed by foreign direct investment (FDI) and donor transfers. As a result, the exchange rate has been mostly stable. The incidence of poverty at the national level fell to 54.1 percent in 2014 from 64 percent in 2007 due mainly to the decline in rural poverty. The overall drop in poverty reflects economic growth, lower inflation and government's income support to the poor and vulnerable.

**1.2 A relatively peaceful election in 2011 provided a fresh mandate to President Ellen Johnson Sirleaf and in 2012, Liberia launched the Agenda for Transformation (AfT) as a first step towards its vision of achieving middle income country status by 2030.** Liberia was in the second year of the implementation of the AfT when the Ebola Virus Disease (EVD) struck in March 2014. The Ebola crisis has not only impaired the Government's capacity to deliver basic services including critical health services, but it has also brought about a sharp disruption of economic activities across all sectors and heightened social and political tensions. Even while the crisis has abated, the fiscal costs of health and other interventions are substantial, while fiscal revenues have fallen, leading to substantial fiscal deficits and a faster rate of accumulation of debt.

**1.3 Liberia's fledgling economy, already weakened by the adverse economic effects of the Ebola crisis, has been hard hit by severe exogenous shocks from the sustained slump in global commodity prices.** The sharp drop and sustained low prices for rubber, iron ore and palm oil and the ensuing crisis have exacerbated the already sharp economic downturn, with GDP estimated to have contracted by 1.6 percent in 2016. The twin shocks and the impact of withdrawal of United Nation Mission in Liberia (UNMIL) have exacerbated the already sharp economic downturn, with severe adverse consequences for employment and fiscal revenues. Additional budget pressures have come from the cost of 2017 presidential and general elections and security handover from UNMIL. The impact of the twin shocks of the EVD outbreak and the slump in commodity prices reversed the post-war trend of decreasing poverty: the poverty headcount increased from 54.1 percent in the first half of 2014 to 61.2 percent in the same period of 2016 nationally using as a base the 2014 poverty line.

**1.4 This operation is the fourth in a programmatic series of four Poverty Reduction Support Development Policy Operations (PRSDPO) to support the implementation of the government's medium-term poverty reduction strategy AfT and its long-term vision plan *Liberia Rising 2030*.** The aim of *Liberia Rising 2030* is to transform Liberia into a more prosperous and inclusive society and to achieve middle income country status by 2030. Liberia's primary development challenges relate to sustaining the peace, achieving economic transformation, human development and improving governance and public institutions. To support the Government of Liberia (GoL) in addressing these challenges, the programmatic series is built around three pillars: (i) governance and civil service reforms; (ii) economic transformation; and (iii) human capital development. Within these three pillars, the series selectively support reforms that directly or indirectly address the issues of fragility and conflict, namely improving transparency in key aspects of government operation; increasing accountability in the management of public assets and reducing opportunity for corruption; building capacity for equitable service delivery, and enhancing inclusive growth and employment opportunities. The first operation in the series – PRSDPO-I (US\$10

million equivalent) was approved by the World Bank Board on June 26, 2013. These programmatic series are consistent with the World Bank Group (WBG) Country Partnership Strategy (CPS).<sup>1</sup>

**1.5 Liberia has maintained a relatively good track record of prudent macroeconomic management, but the twin shocks from the Ebola crisis and sustained, low commodity prices have presented considerable challenges for the government.** The shocks have had considerable adverse economic impact, leading to the deterioration of some of the key macroeconomic indicators including the rate of GDP growth, the current account of the balance of payments, the level of non-performing loans (NPLs) in banks and the fiscal balance and consequently a faster accumulation of debt with a consequent increase in the risk of debt distress. Nevertheless, the government's commitment to sound macroeconomic policies and corrective measures to respond to the shocks has been unwavering. The Government has taken important fiscal policy actions in response to the shocks, including prioritizing and reducing overall expenditure in response to lower than projected revenue inflows whilst taking actions to boost revenues. The Government has received augmented funding from the International Monetary Fund (IMF), the African Development Bank (AfDB), the European Union (EU) and the World Bank to support its recovery from the twin shocks.

**1.6 The World Bank has been an active partner in supporting Liberia through the severe shocks from the Ebola crisis, a sustained slump in global commodity prices and the UNMIL withdrawal.** The World Bank provided some US\$230 million in emergency funding, including US\$150 million from the Crisis Response Window (CRW), to support the responses in Liberia, Sierra Leone and Guinea. The support aimed to contain the spread of Ebola infections, assist communities to cope with the economic impact of the crisis, and rebuild and strengthen essential public health systems and service delivery platforms in the region. The World Bank support to mitigate the fiscal and poverty impact of the twin shocks included the following: (i) the augmentation of the PRSDPO-II from US\$10 million credit equivalent to US\$20 million equivalent, including US\$10 million equivalent of grants from the IDA CRW to help mitigate the ongoing effects of the Ebola epidemic<sup>2</sup>; (ii) the supplemental financing to PRSDPO-II in amount US\$5 million equivalent on grants from the Ebola Recovery and Reconstruction Trust Fund (ERRTF)<sup>3</sup>; (iii) the augmentation of PRSDPO-III from US\$10 million grant equivalent to US\$39.1 million equivalent of grants, including US\$8 million from the IDA CRW<sup>4</sup>; (iv) a supplemental financing to PRSDPO-III in amount US\$16.3 million equivalent, consisting of US\$10.8 million of grants, including US\$4.3 million in grants from Liberia Forest Landscape Single Donor Trust Fund<sup>5</sup>, and US\$5.5 million equivalent of IDA credit<sup>6</sup>; and (v) the proposed PRSDPO-IV in amount US\$24.67 million equivalent, consisting of US\$20 million equivalent of IDA grants and US\$4.67 in grants from the Liberia Forest Landscape Single Donor Trust Fund.

**1.7 Overall, the programmatic series (PRSDPO1-IV) has yielded substantial results despite the multiple adverse shocks.** The energy sector provides a vivid example of how the reforms supported by

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<sup>1</sup>IDA, IFC and MIGA CPS for the Republic of Liberia for the period FY13-17. Report No.74618-LR. The CPS was discussed by the World Bank Board on July 1, 2013.

<sup>2</sup> Approved by the World Bank Board on November 12, 2014.

<sup>3</sup> Approved by the World Bank Board on February 19, 2016.

<sup>4</sup> Approved by the World Bank Board on November 21, 2016.

<sup>5</sup> The Single Donor for the Trust Fund is the Kingdom of Norway. The financing is to support the policy program under the current PRSDPO series, which does not include any policy actions in the forestry sector. Since Liberia has showed a very serious commitment to the Sustainable Forest Agenda and to Climate Change Mitigation and Adaptation, the Kingdom of Norway through its Forest Landscape Trust Fund, in addition to separate and unrelated investment operations and technical assistance in forestry area, decided to finance general budget support operations under the current PRSDPO series. The donor understands that the Government program supported under this PRSDPO series does not support any policy actions in the forestry sector.

<sup>6</sup> Approved by the World Bank Board on June 26, 2017.

the programmatic PRSDPO series and complemented by the investment financing and technical assistance (TA) has already brought tangible results, including a shift of electricity generation from high cost fossil fuel (diesel) to lower cost mostly renewable fuel (hydro) from 100 percent in 2012 to 17 percent in 2017, reduction in electricity tariffs from 55 US cents/kwh in 2012 to 35 cents/kwh in 2017 and increased access to electricity. Lower cost electricity is expected to spur private sector led growth, increasingly from manufacturing and services, resulting in increased employment. However, the twin shocks of Ebola epidemic outbreak and the sharp decline in commodity prices in 2014, slowed down the gains made under the program; robust economic recovery, steady progress in infrastructure development and improved delivery of education and health services. The GoL has since put in place measures aimed at maintaining macroeconomic stability and to regain its growth trajectory as envisaged under the AfT. The achievements under the program to date and expected results are described in Section IV and Annex 1 of this program document. The PRSDPO program has retained its triggers since 2013 in almost all action areas without amendment of key expected results, signifying the sustained direction of the reform process. In the wake of the Ebola crisis and lessons drawn the reform, a second area was added under the human development pillar focusing on the effectiveness of budget execution in the health sector. Going forward, maintaining the reform momentum would require sustained political leadership and public engagement for ensuring effective implementation of new legislations, building institutional capacity, and enhancing transparency and accountability.

**1.8 The 2017 legislative and presidential elections represent a watershed moment in Liberia's history.** The 2017 elections mark the first transfer of power from a living president. Twenty political parties had registered to compete in the legislative elections, and each party also had nominated a presidential candidate. The elections took place on October 10, 2017. On October 19, 2017, the National Elections Commission (NEC) of Liberia released the results of the Presidential Elections affirming a run-off election between Football Legend Senator George Weah (Coalition for Democratic Change) and Vice President Joseph Boakai (Unity Party). However, following the release of the election results, four political parties, led by the Liberty Party, petitioned the Supreme Court to halt the November 7, 2017 run-off elections until allegations against the NEC and irregularities of the first-round elections are addressed. On December 7, 2017, the Supreme Court has announced the final decision to proceed with run-off and a clear set of actions to be taken by the NEC to prepare for the run-off. Subsequently, the NEC has scheduled the run-off for December 26, 2017. Yet, the delays are possible and the uncertainties are high. Should Liberia fail to elect a new president by January 16, 2018—the end of the term of the sitting president, Ellen Johnson Sirleaf—by constitutional default Liberia would have to set up an interim government. Delays to court proceedings have created a real risk of prolonged political uncertainty, which could have knock-on effects on economic growth, with dented investor and consumer confidence, a major downside risk in 2018. Even if elected in time, the new President will likely have to contend with a legislature comprising numerous parties organized into ad hoc coalitions. A difficult economic environment will amplify political pressures, and partisan infighting could distract attention from the reform agenda.

## II. MACROECONOMIC POLICY FRAMEWORK

### A. Recent Economic Development

**2.1 The twin shocks of the Ebola crisis and the subsequent sharp fall in commodity prices have had a severe negative impact on the Liberian economy.** Real GDP growth declined from 8.7 percent in 2013 to 0.7 percent in 2014, and zero percent in 2015 (Table 1). Before the crises, growth was driven by the expansion in iron ore mining as well as increased activity in the construction sector. With the protracted decline in commodity prices, rubber production and exports as well as mining production slumped as iron ore concession companies either scaled down or closed their operations. Mining sector contracted by an

estimated 33 percent year on year (y/y) in 2016. The UNMIL withdrawal further added to the economic slowdown, as the services sector, which contributed 50 percent to total GDP growth in 2014-2016, slowed to an estimated 2.1 percent y/y in 2016 from 4.3 percent a year earlier. As a result, real GDP is estimated to have contracted by 1.6 percent in 2016. Inflationary pressures increased, with the inflation rate rising from an average of 7.7 percent in 2015 to 8.8 percent in 2016. This was largely the result of the relatively fast pace of the depreciation of the LR\$ against the U.S. dollar, and the subsequent rise in the cost of food, which is mostly imported.

**Table 1: Selected Economic Indicators, 2013-2019**

	2013	2014	2015	2016	2017	2018	2019
	Act.	Act.	Act.	Est.	Proj.	Proj.	Proj.
(Annual percentage change unless otherwise indicated)							
<b>GDP and Price</b>							
Real GDP	8.7	0.7	0.0	-1.6	2.5	3.9	5.0
Real GDP excluding mining sector	7.6	0.3	2.6	2.5	0.2	1.1	3.7
Nominal non-mining per capita GDP (U.S. dollars)	404	438	452	463	441	429	443
Nominal GDP (millions of U.S. dollars)	1854	2012	2038	2101	2115	2125	2246
Consumer prices (annual average)	7.6	9.9	7.7	8.8	11.9	11.4	10.5
(Percent of GDP, fiscal year)							
<b>Central government operations<sup>1</sup></b>							
Total revenue and grants	29.9	27.4	32.4	31.4	29.3	29.5	27.4
Total revenue	27.2	19.2	22.4	21.8	22.3	22.8	24.3
Grants, including Ebola-related support	2.5	3.9	10.0	9.6	7.0	6.7	3.1
Total expenditure and net lending	31.5	29.3	42.2	35.6	36.8	35.4	32.4
Current expenditure	26.6	24.3	32.4	27.8	27.4	26.9	25.3
Capital expenditure	4.9	5.0	8.8	7.8	9.3	8.4	7.1
Overall fiscal balance, including grants	-1.6	-1.9	-9.8	-4.2	-7.4	-5.9	-5.0
Overall fiscal balance, excluding grants	-4.0	-5.8	-19.8	-13.8	-16.6	-12.6	-8.1
Public external debt	9.6	13.2	22.8	28.0	35.3	40.1	44.4
Central government domestic debt	16.7	15.1	15.1	13.0	15.4	15.4	12.4
(Percent, unless otherwise indicated)							
M2/GDP	34.8	34.6	34.8	32.2	31.0	31.3	31.5
Credit to private sector (percent of GDP)	18.3	18.8	20.1	20.3	22.4	24.6	25.9
Credit to private sector (annual percent change)	28.7	5.6	8.1	4.5	10.7	10.2	11.6
(Percent of GDP, unless otherwise indicated)							
<b>External sector</b>							
Current account balance							
including grants	-28.5	-32.5	-35.4	-24.6	-26.1	-30.1	-25.7
excluding grants	-77.5	-95.1	-85.5	-71.9	-66.9	-62.1	-53.5
Trade balance	-23.5	-37.0	-45.1	-31.2	-28.6	-26.1	-23.5
Exports	28.5	24.0	12.5	11.3	12.7	15.4	16.4
Imports	-52.0	-61.0	-57.6	-42.5	-41.3	-41.6	-40.0
Grants (donor transfers, net)	49.2	62.6	50.1	47.3	40.8	32.0	27.8
Gross official reserves (millions of U.S. dollars)	393.1	411	446	452	426	476	488
Months of imports of goods and services <sup>2</sup>	2.8	2.4	3.0	2.9	2.7	3.2	3.2
CBL's net foreign exchange position <sup>3</sup>	237	179	164	167	149	180	196
<i>Sources</i> : Liberian authorities; and IMF staff estimates and projections.							
<sup>1</sup> Including major off-budget items, such as Mt. Coffee project.							
<sup>2</sup> In months of next year's imports excluding imports related to UNMIL operations and FDI projects such as iron-core concessions.							
<sup>3</sup> Net foreign exchange position is evaluated at the program exchange rates, instead of the current market exchange rates, and therefore, valuation adjustments are shown separately.							

**2.2 The twin shocks eroded some of the important gains in reducing poverty and vulnerability.** Household incomes have suffered from the substantial loss of wage jobs and self-employment activities. The substantial slowdown in economic activity across all sectors led to lay-offs and reduced working hours, while the delays in investments in key sectors including mining and commercial agriculture (oil palm) have severely limited the level of job creation. Low international commodity prices for Liberia's main exports, including rubber, also limit income from cash crops. These losses are partially offset by an above-average harvest but overall the net effect is that poverty is estimated to have increased from 54.1 percent in the first half of 2014 to 61.2 percent in the same period of 2016 nationally using 2014 poverty line. While poverty was already much higher in rural areas, it rose significantly from 70 percent in 2014 to 82.4 percent in 2016, thus widening the urban-rural poverty divide.

**2.3 During the first nine months of 2017, performance of key sectors such as mining, agriculture and manufacturing showed sluggish recovery amid increasing inflationary pressures.** The mining sector grew by 9.8 percent y/y in January-September 2017; thanks to a more than doubling of gold production and the opening of a new iron ore site, leading to a marginal recovery in iron ore production. This was followed by agriculture and manufacturing sectors, which grew by 14.2 percent and zero percent y/y to September 2017, respectively. In the agricultural sector, increased output was driven by palm oil production, while rubber output increased marginally. The manufacturing sector as a whole remained stagnant, despite significant performance in cement production. The cement production, a proxy for the performance of the construction sector, showed an average real growth of 11.2 percent y/y in the first nine months of 2017.

**2.4 Inflationary pressures increased during 2017.** Headline inflation in September 2017 increased to 13.5 percent compared to 12.3 percent the previous month, and 7.9 percent the same month of 2016, driven by the depreciation of the Liberian-U.S. dollar exchange rate (more than 20 percent year on year in September 2017). Inflationary pressures have been exacerbated by a decline in net foreign exchange inflows compared to that of last year, arising in turn from the decline in exports, UNMIL drawdown, reduction in aid inflows and remittances.

**2.5 After significant deterioration during 2014-2015, Liberia's external performance shows signs of improvement starting from 2016 despite continued balance of payments pressures.** The current account deficit deteriorated from 28.5 percent of GDP in 2013 to 35.4 percent of GDP in 2015 on account of lower exports, higher food imports, and reduced international travel and cross-border commerce. However, in 2016, the current account position improved to 24.6 percent of GDP, largely on the back of improved trade balance. Exports fell by 7 percent in 2016 (much lower than the 46 percent drop in 2015) while imports dropped by an even larger magnitude of 24 percent, reflecting the major drawdown by UNMIL in June 2016, the departure of other relief agencies, and the reduction in grant-financed imports. Gross official reserves declined from 3.0 months of import cover in 2015 to 2.9 in 2016, reflecting the decline in net external financing inflows from both official and private sources (Table 1 and Table 3). The Government responded to the growing balance of payments pressures by the appropriate policy mix: through the adjustment in exchange rate (LR\$ depreciated against US\$ by 20 percent y/y during the first nine months of 2017), while maintaining relatively tight monetary and fiscal policies. However, as the underlying reasons for the persistently high current account deficit are structural imbalances, the effectiveness of the policies has been relatively limited.

**2.6 Monetary policy remained broadly focused on containing inflation through smoothing the volatility in the foreign exchange market.** Liberia maintains an exchange rate system that is free of

restrictions on payments for current and capital transfers.<sup>7</sup> Although the exchange rate against the US dollar is used as *de facto* anchor for monetary policy, there is no explicit inflation targeting. For the conduct of monetary policy, the Central Bank of Liberia (CBL) relies on: (i) limited interventions in the foreign exchange auction market to smooth volatility; (ii) the issuance of treasury bills; and (iii) reserve requirements. To counteract the declining trend in foreign exchange inflows and boost its foreign exchange reserves, in 2016, the CBL introduced a 25 percent surrender requirements on remittances. Treasury bills denominated in LR\$ have been used to mop up excess liquidity of the LR\$ in the banking sector, although the effectiveness of Liberia dollar instruments as monetary policy tools remains limited, given the high level of dollarization of the economy (the share of foreign currency deposits to total deposits is 80 percent while the share of foreign currency loans to total loans is 91 percent). With regard to reserve requirements, the CBL increased the reserve requirements on LR\$-denominated deposits while at the same time lowering the reserve requirements on U.S. dollar deposits, thus offsetting some of the tightening effects. The overall impact of the tight monetary policy on the broad money growth has been limited.

**2.7 Liberia’s financial sector remains vulnerable with high level of NPLs and low profitability.** The financial sector is dominated by banks, mostly privately owned. The second largest sub-sector is that of pensions, managed by a state agency for both the private and public sector. Following the contraction in the private sector credit of 2 percent in 2016, credit growth picked up strongly to 15 percent y/y to June 2017. U.S. dollar denominated credit growth picked up to 21.7 percent y/y to June 2017, partially due to the easing of reserve requirements on U.S. dollar deposits. Trade and construction benefitted the most from the credit growth. Despite the growth in lending, the NPLs remains high at 14.9 percent in September 2017, and profitability remains low, with return on equity (ROE) at 1.8 as of September 2017. At the same time, the capital adequacy ratio (CAR) for the banking system at 17.7 percent in September 2017, is well above the statutory requirement of 10 percent.

**2.8 The GoL and the CBL are implementing measures to contain the withdrawal of the correspondent banking relationships (CBR).** Despite progress in payment infrastructure and improvements in some areas of financial regulation and supervision, much remains to be done in strengthening the integrity and transparency of the country’s financial system. The lack of progress in improving legal and regulatory frameworks essential for responsible financial sector governance, coupled with weak implementation of existing financial laws/regulations, including those relating to Anti-Money Laundering (AML)/ Countering the Financing of Terrorism (CFT), has resulted in the loss of correspondent banking links to the global financial system due to “de-risking” by foreign banks. The latter has in turn posed serious challenges to trade finance, flow of remittances, and financial inclusion. In response, the CBL has established a dedicated AML/CFT unit and is working with other stakeholders, including the Financial Intelligence Unit (FIU), to mitigate the adverse impact. The new AML/CFT unit has thus far concluded a risk-based examination of all the nine commercial banks and a first follow up inspection of five banks, supported by TA from the US Treasury, the World Bank and the IMF. The recent efforts have born some fruit in moving Liberia closer to compliance with AML/CFT requirements: Liberia has been removed from the “enhanced screening category”.

**2.9 The government’s budget has been impacted adversely by the twin shocks.** Government domestic revenues declined by 1.1 percent of GDP y/y in FY2014/15 as a result of stagnant economic activity and lower tax compliance. Expenditures, largely driven by the health-related demands of the EVD crisis, expanded from 29.3 percent of GDP in FY2013/14 to 42.2 percent of GDP in FY2014/15 (Table 2). The lower revenues and expansion in expenditures have resulted in a substantial widening of the fiscal deficit

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<sup>7</sup> IMF (2017). Liberia: Seventh and Eighth Reviews Under the extended credit facility arrangement, and request for waiver of nonobservance of performance criteria – information Annex. November 1, 2017.

from only 1.6 percent of GDP in FY2012/13 – the year before the crisis – to 9.8 percent of GDP in FY2014/15. The GoL has requested urgent budgetary support from donors to help finance this abnormally large financing gap that have persisted into FY2015/16. This support – an equivalent to 10 percent of GDP, 2/3 out of which were Ebola-related grants – had been crucial to help maintain the delivery of key social services. In FY2015/16, reflecting stronger-than-expected impact of commodity shock, domestic revenues fell to below 22 percent of GDP. In response, the Government cut expenditures by about 10 percent as compared to FY2014/15, mostly through the reduction in spending on goods and services (by 20 percent) and on subsidies and transfers (by 34 percent). The under-execution of the budget allowed the Government to achieve an overall fiscal deficit of 4.2 percent of GDP.

**Table 2: Liberia-Key Fiscal Indicators (% of GDP), 2013 -2019**

	2013	2014	2015	2016	2017	2018	2019
	Act.	Act.	Act	Est	Proj.	Proj.	Proj.
<b>Total revenue and grants</b>	29.9	27.4	32.4	31.4	29.3	29.5	27.4
Total revenue	27.4	23.5	22.4	21.9	22.3	22.8	24.3
Tax Revenue	19.9	19.2	18.5	19.4	18.3	18.2	19.4
Non-Tax Revenue	7.5	4.3	3.9	2.5	4.0	4.6	4.9
<i>of which</i> : Iron ore related revenues	2.1	1.5	1.1	0.3	0.4	0.4	0.4
Grants	2.5	3.9	10.0	9.6	7.0	6.7	3.1
<b>Expenditures</b>	31.5	29.3	42.2	35.6	36.8	35.4	32.4
Current expenditure	26.6	24.3	32.4	27.8	27.4	26.9	25.3
Wages and salaries	11.4	10.0	12.8	13.4	14.0	13.5	12.9
Goods and services	8.7	8.1	13.0	10.3	9.8	9.6	7.4
Subsidies and Transfers	6.2	5.9	6.1	3.6	3.2	3.2	2.9
Interest	0.3	0.3	0.5	0.5	0.4	0.7	2.2
Capital Expenditure	4.9	5.0	8.8	7.8	9.3	8.4	7.1
<b>Overall surplus / deficit (incl. grants)</b>	-1.6	-1.9	-9.8	-4.2	-7.4	-5.9	-5.0
<b>Primary surplus/deficit (incl. grants)</b>	-1.2	-1.6	-9.3	-3.8	-7.0	-5.2	-2.9
<b>Identified Financing</b>	1.6	1.9	9.8	4.2	7.4	5.9	5.0
External	0.4	2.2	7.1	5.4	5.6	5.3	5.3
Domestic, including Central Bank	1.2	-0.2	2.7	-1.2	1.8	0.6	-0.3
<b>Financing gap</b>	0	0.0	0.0	0.0	0.0	0.0	0.0

*Source:* Liberian Authorities, IMF, and World Bank. *Note:* Liberia's 2017 fiscal year is from July 2016 to June 2017. The fiscal table includes some off budget activities.

**2.10 Fiscal pressures intensified in FY2016/17, with the fiscal deficit widening to 7.4 percent of GDP, due to declining domestic revenues and high non-discretionary expenditures.** Total revenues and grants were 2.1 percent of GDP lower than anticipated under the approved FY2016/17 budget due to the slowdown in economic activities from the UNMIL withdrawal, low commodity prices, and political uncertainty. While international trade taxes remained stagnant, direct tax and goods and services tax revenues fell by 4.1 and 30.1 percent respectively. Ore and ore related revenues dropped from 1.1 percent of GDP in FY2015/16 to an estimated 0.3 percent of GDP in FY2016/17. In response to the fiscal pressure, the GoL introduced new revenue measures such as: (i) increase in the General Sales Tax (GST) rate from 7 to 10 percent; (ii) additional excises on tobacco, alcohol and non-alcohol beverages, and introduction of an international outbound call excise and Global System for Mobile Communication (GSM) excise; (iii) increase in real estate tax; and (iv) an increase in petroleum storage surcharge by 30 US cents per gallon. The GoL also increased tax administration efforts, including through the greater enforcements. On the expenditure side, the Government cut the spending on goods and services, subsidies, transfers, and domestically-financed investment. A combination of these above-the-line fiscal consolidation measures

and an increase in budget support grants. Combined, these measures helped to contain the overall fiscal deficit to an estimated 7.4 percent of GDP in 2017. Additional financial support by the World Bank (including through the supplemental financing in June 2017) and the IMF helped the Government to close the financing gap, and limit domestic financing to 1.8 percent of GDP (Table 2).

**2.11 A major fiscal policy challenge for the GoL is the rising share of Liberia Dollars (LR\$) in revenue collection against the backdrop of broadly unchanged US dollar expenditure needs.** Liberia's budget is formulated in US dollars. Given the dual currency system, taxpayers may pay in either US\$ or LR\$ using an accounting exchange rate mandated by the MFDP (a previous month's eop exchange rate). The recent shortage of foreign exchange inflows (FX) and associated depreciation pressure, the practice of setting up the accounting exchange rate have created incentives to pay taxes in US\$. As a result, the US\$ share in total revenues fell sharply (to below 55 percent in total revenues and to 20 percent in international trade tax revenues), while the US\$ share of expenditure remained broadly unchanged (about one third of total expenditures). The GoL undertook the following measures to address the currency mismatch in revenues and expenditures: (i) drawing down US\$ deposits or temporary borrowing from the Central Bank; (ii) increasing the share of LR\$ in the payment of public sector wages from 54 percent to 80 percent; (iii) issuing administrative regulations requiring all importers of goods and services and petroleum products to pay not less than 50 and 25 percent of customs duties in US\$, respectively; and (iv) mandating the use of the daily weighted average exchange rate of the previous week rather than a monthly rate to create incentives for taxpayers for paying taxes in US\$.

**2.12 Elections and the security handover from UNMIL continue to weigh on the budget.** The total costs of elections, including its security, is estimated at US\$53 million (2.5 percent of GDP) of which about US\$18 million was spent in FY2016/17 and US\$20 million are budgeted for FY2017/18. The remaining costs were and would be funded by the donor community, including EU, United Nations Development Program (UNDP), USA, and International Foundation of Electoral System (IFES).

**2.13 On July 27, 2017, the Parliament approved a total budget of US\$563.6 million for FY2017/18, about US\$8 million more than the FY2016/17 budget outturn.** Total revenue is expected to increase by 0.5 percent of GDP relative to FY2016/17 while grants are expected to be lower by 0.3 percent of GDP. Tax revenue is budgeted at 7.1 percent lower than in FY2016/17 while non-tax revenue is projected to be higher by 2.4 percent compared to FY2016/17. On the expenditure side, major components in FY2017/18 include US\$19.8 million for the conduct of the October 2017 Presidential and Legislative elections, US\$31 million for debt services and US\$298 million for public sector wages payment, which together account for 62 percent of the total budget envelope (or 16 percent of the projected fiscal year nominal GDP).

**2.14 However, since the enactment of the FY17/18 budget, various fiscal risks have emerged, that have led the GoL to make some adjustments to the approved budget.** These risks included delays in some budget support by donors (US\$13 million, or 0.6 percent of GDP) and weaker performance in some sectors, such as forestry (US\$11 million, or 0.5 percent of GDP), which required expenditure cuts. The GoL plans to achieve the necessary US\$24 million (1.1 percent of GDP) reduction in expenditure through better prioritization and control, in particular with cuts targeted to goods and services, and transfers and subsidies, while protecting priority spending such as on security, health, and education. Beyond this core adjustment, the GoL also identified US\$23 million (or, 1.1 percent of GDP) as contingent revenues (matched by corresponding "contingent expenditures"), which will be delayed until the GoL is confident that the revenue target will be met. Table 2 reflects these policy changes and the revised targets/projections.

## B. Macroeconomic Outlook and Debt Sustainability

**2.15 Liberia’s medium term growth prospects remain positive, provided the GoL continues with prudent macroeconomic management and structural reforms.** GDP’s growth is projected to recover to 2.5 percent in 2017, rising slowly to 5.0 percent by 2019. The projected growth rates in the medium-term are still well below the historical pre-twin shocks averages. The recovery is expected to be driven by the growth in mining (gold and iron ore) and manufacturing (cement) in the near term. Excluding mining sector, real GDP growth is projected to be almost flat in 2017 and increase very gradually to 3.7 percent in 2019, supported by the improved performance of manufacturing, agriculture and services. Energy supply is expected to improve dramatically with the grid expansion program to benefit from the commissioning of generating plants fueled by cheaper fuels.<sup>8</sup> In the medium-to-longer term, access to the West Africa Power Pool (WAPP) through the Cote d’Ivoire-Liberia-Sierra-Leone – Guinea (CLSG) regional electricity transmission line (P113266)—financed by the World Bank and other donors—will allow Liberia to import cheaper electricity, especially during the dry season, thereby reducing the use of thermal-based generating plants. On the demand side, private consumption and FDI will continue to be the main drivers of the economy, while export earnings are expected to gradually increase as global commodity prices and the business environment improve. Additionally, domestic agriculture, supported by increased government investment is expected to make an increased contribution to growth and employment over the medium term. This positive trajectory will need to be supported by better macroeconomic management and structural reforms, including in agriculture, land management and energy.

**2.16 The risks to the growth outlook are tilted to the downside, stemming from lower-than-projected commodity prices, a larger impact of UNMIL withdrawal, and uncertainties surrounding the political transition.** The rubber and iron ore prices could moderate or even fall over the medium term if the global economy slows. This could mean lower foreign exchange inflows and fiscal revenues for Liberia. The impact of UNMIL withdrawal may turn out to be larger than anticipated. Under a downside scenario, a potential risk of deterioration of security situation may have negative implications for investor sentiments. On the upside, a peaceful transition of power in January 2018 may help spur investments, providing a boost to GDP growth in 2018 and beyond.

**2.17 Despite election- and security-related expenditure pressures, the fiscal outlook is set to improve over the medium term.** The fiscal position is expected to improve over the medium term, with the overall deficit narrowing to 5.9 percent of GDP in FY2018/19 and 5 percent of GDP in FY2019/20. Efforts to enhance revenue mobilization, both through policy and administration reforms, including through the implementation of the amendments to the Revenue Act, coupled with recurrent expenditure reductions (wages, goods and services, subsidies and transfers) are expected to support the fiscal consolidation over the medium term. These reductions will be underpinned by the financing reforms in key sectors (e.g. health and education) and by the implementation of the recently renewed Public Financial Management (PFM) reform strategy and its action plan for 2017-2020. Policy-based financing from the AfDB, EU and the World Bank will support this fiscal consolidation path, including through technical and advisory support as well as bringing much needed external (concessional) financing that will reduce domestic financing.

**2.18 The current account deficit is projected to widen in 2017-2018 before narrowing to 25.7 percent of GDP in 2019.** The external outlook will be driven by commodity price developments for Liberia’s major exports and imports. The trade balance is expected to improve gradually on the back of moderate recovery of export of iron ore and rubber, increased exports of gold and palm oil, and lower imports, due to complete UNMIL drawdown and pick up in some import-substituting activities (e.g. food processing,

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<sup>8</sup> Mount Coffee Hydropower Plant (88 MW) and three HFO/LFO thermal generation plants.

furniture, construction materials) due to improved access to electricity and infrastructure. Net aid disbursements are projected to play an important but diminishing role in financing of the current account deficit, while the share of FDI is projected to grow. Gross reserves are projected to decline to 2.7 months of import cover in 2017, aggravated by a decline in foreign exchange inflows due to UNMIL drawdown, declines in both net remittances inflow and aid disbursements, and pre-election capital flight, but they projected to rebound to above three months import cover by end-2018 due to the projected pick up in export activities (gold and iron ore) and recently approved measures to ease pressure on reserves (see paragraph 2.11 above).

**Table 3: Balance of Payments Financing Requirements and Sources (Millions of U.S. dollars), 2013 -2019**

	2013	2014	2015	2016	2017	2018	2019
	Act	Act.	Act.	Est.	Proj.	Proj.	Proj.
Trade balance	-461	-638	-918	-655	-605	-555	-528
Services (net)	-743	-1,008	-878	-846	-750	-690	-579
Income (net)	-372	-347	-285	-248	-271	-303	-334
Current transfers	1022	1,451	1,360	1,232	1,074	910	864
Current account balance	-554	-541	-721	-516	-552	-639	-577
Capital and financial account (net)	543	503	663	484	506	692	604
Financial account (net)	479	386	605	424	446	630	541
Foreign direct investment (net)	432	276	257	230	239	297	354
Official financing (net)	27	91	113	97	123	119	116
Private financing (net)	20	20	234	96	81	214	71
<b>Financing</b>	11	38	58	33	46	-53	-27
Change in gross reserves (increase -)	-12	-18	-34	-6	26	-50	-12
Net use of IMF credit and loans	23	56	56	38	20	-3	-15
Exceptional Financing	0	0	36	0	0	0	0
<b>Financing gap</b>	0	0	0	0	0	0	0

Source: Liberian Authorities, IMF Staff estimates and projections.

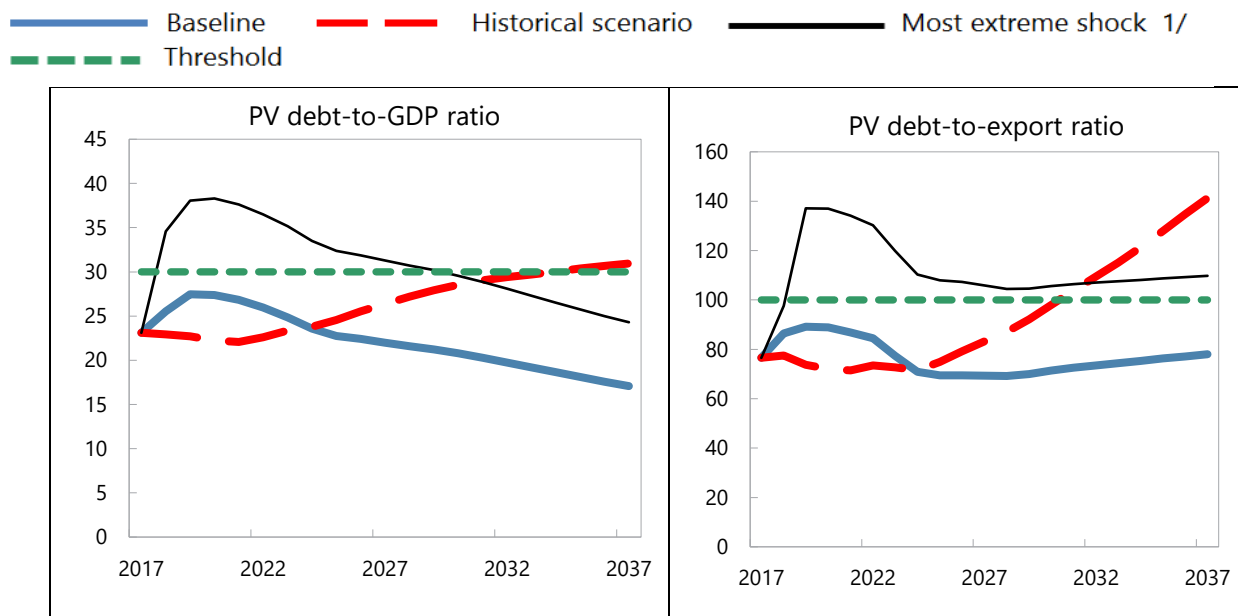
**2.19 The external debt stock has been increasing at a rapid pace, in part due to scaled-up infrastructure spending and multiple adverse shocks.** Although Liberia's debt stock remains low by regional standards, it has increased significantly in the last few years due to the considerable investment needs, including for the large-scale electrification and road projects to provide a foundation for economic growth. The public external debt level more than doubled from 13.2 percent in 2014 to 29 percent of GDP in 2016. In FY2016/17, more than 217.7 million of external loans have been ratified, and the debt accumulation is expected to continue. Over 93 percent of the current external debt stock is comprised by multilateral loans. The World Bank, IMF and AfDB are the largest creditors. In a relatively short period after the completion of the Heavily Indebted Poor Countries (HIPC) debt relief in 2010, Liberia's risk of debt distress moved from low to moderate in the 2015 debt sustainability assessment (DSA) as the contracting of new debt accelerated and the economic outlook worsened following the Ebola and commodity price shocks.

**2.20 The latest 2017 DSA Update<sup>9</sup> confirms the moderate risk of external debt distress but underscores Liberia's debt vulnerabilities.** There are no breaches of indicative threshold under the baseline scenario for any debt indicator. The present value (PV) of debt-to-GDP ratio has deteriorated slightly since the 2016 December DSA. On the other hand, the PV of debt-to-exports ratio—one of the key

<sup>9</sup> The previous DSA may be found in Country Report No. 16/392 December 2016 Staff Report prepared for Board Meeting. The last full DSA may be found in IMF Country Report No. 16/8, published on January 8, 2016.

indicators for the debt distress rating—has improved compared to the 2016 DSA, reflecting a moderate upturn in gold and iron ore exports. Still, under the most-extreme stress scenarios, including either one-time depreciation shock or an export shock, both the PV of debt-to-GDP and the PV of debt-to-exports breach their respective thresholds even as early as FY2018 and remain breached at least until FY2030. Under the historical scenario case, the PV of debt-to-GDP and the PV of debt-to-exports breach after FY2030 or later (Figure 1). These breaches confirm the Liberia’s vulnerability to external shocks.

**Figure 1: External Debt Sustainability Analysis**



Source: IMF and World Bank.

**2.21 The GoL has been implementing measures to strengthen debt management, improve performance of the current loan portfolio, and closely control new loan acquisition.** In consultation with the IMF and the World Bank, a medium-term debt strategy (MTDS) for 2017-2020 is being developed. The MTDS emphasizes that: (i) the new borrowing should be on concessional terms restricted to growth-enhancing investments (energy and infrastructure); (ii) priority should be given to the better implementation of existing loans over the signing of new commitments. The GoL/MFDP is also taking measures to strengthen capacity of the debt management unit; and has requested TA from the IMF and the World Bank.

**2.22 The macroeconomic policy framework is adequate for the proposed operation.** Liberia has maintained a relatively good track record of prudent macroeconomic management, in spite of the considerable challenges from the twin shocks from the Ebola crisis and the low commodity prices. The GoL is responding to the impact of the twin shocks and UNMIL withdrawal with an appropriate macroeconomic policy mix, allowing the bulk of the external adjustment to take place through the exchange rate, while maintaining relatively tight monetary and fiscal stance. As discussed above, Liberia’s medium term economic prospects are subject to substantial downside risks, which could further erode growth and undermine the fiscal consolidation efforts. However, the Government is committed to sound macroeconomic policies, through adopting corrective measures to respond to the shocks as well as adjusting to the country’s social and political situation and existing supply-side bottlenecks. In addition, the IMF and the World Bank continued policy dialogue around macroeconomic policy issues can help to mitigate the risks and support the country’s macroeconomic stabilization efforts, in the medium term.

### C. IMF Relations

**2.23** Since November 2012, the GoL has pursued an economic program under a second Extended Credit Facility (ECF) arrangement with the IMF with relative success, despite the intervening Ebola crisis and a subsequent slump in commodity prices. On November 13, 2017, the IMF Board approved the completion of the Seventh and Eighth reviews under the ECF, which enabled the disbursement of SDR 14.764 million (about US\$20.7 million), bringing total disbursement under the arrangement to SDR 111.664 million (about US\$156.7 million) (see, Annex 3). The program is designed to support the acceleration of broad-based growth and has three primary objectives: (i) creating fiscal space for higher capital spending; (ii) strengthening the financial sector and improving access to credit; and (iii) underpinning growth through structural reforms. These objectives are complementary to those being pursued by the World Bank under the programmatic series of development policy operations (DPOs), including this proposed operation. Collaboration between the IMF and the World Bank has been strong, including through joint missions as well as a joint work program plan, which include support for improving macroeconomic statistics. The second ECF was initially agreed for a total of SDR 51.68 million or approximately US\$71.6 million. In the wake of the Ebola outbreak, in September 2014, the IMF augmented its disbursement by SDR 32.3 million (about US\$44.7 million) under the current ECF Arrangement. In February 2015, the IMF Board also approved an SDR 32.3 million (about US\$44.7 million) disbursement under the Rapid Credit Facility (RCF) as well as debt relief under the Catastrophe Containment and Relief (CCR) Trust. The completion of the Fourth Review enabled the disbursement of SDR 7.38 million (about US\$10.2 million). In December 2016, the IMF completed Fifth and Sixth reviews SDR 27.69 million (about US\$37.1 million). The IMF concluded the most recent Article IV consultations on July 8, 2016.

### III. GOVERNMENT'S PROGRAM

**3.1** The government's Economic Stabilization and Recovery Plan (ESRP), prepared in the wake of the Ebola crisis, aims to stabilize and stimulate the economy and build resilience over the medium term. The primary aim of the ESRP is to get the economy back on track toward the primary goals of the country's medium and long-term development plans embodied in the AfT, which remains the government's overarching poverty reduction strategy. The AfT which was launched in 2012 is cast in the context of the government's long-term vision plan *Liberia Rising 2030*, which aims to transform Liberia into a more prosperous and inclusive society and to achieve middle income country status by 2030. The formulation of the national vision involved consultations with a wide range of stakeholders across the 15 counties. The AfT is built around five strategic pillars as summarized below.

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

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

employment and training; (iii) implementing a competition law to prevent monopolistic and restrictive trade practices; and (iv) establishing both a commercial code and a commercial court to enforce commercial contracts. To provide access to cheaper and reliable electricity services, the Government is rehabilitating the Mount Coffee Hydroelectric plant and expanding the distribution network and connecting Liberia with the regional electricity market of the West Africa Power Pool (WAPP). It is also fostering the provision of electricity in rural areas using decentralized mini-grids powered by domestic, renewable sources of electricity.

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

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

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

## IV. THE PROPOSED OPERATION

### A. Link to the Government Program and Operation Description

**4.1 Despite the interruption of its implementation by the Ebola crisis, the AfT and *Liberia Rising 2030* remain the central reference framework for the Government's medium term reform agenda.** The proposed operation focuses on three primary areas linked to the three out of five pillars of the AfT: (i) governance and civil service reforms (AfT Pillar IV); (ii) economic transformation (AfT Pillar II); and (iii) human capital development (AfT Pillar III). Within these three areas, the operation is selective of reforms which directly or indirectly address the issues of poverty, fragility and conflict. The Government's Letter of Development Policy describes key reforms under the three pillars of the programmatic PRSDPO series, outlines achievements to date and the further steps (see Annex 2). Additionally, in the wake of the Ebola crisis, special attention is paid to the rebuilding of more resilient health systems. Consequently, the operation is focused on reforms which are expected to contribute to: improving transparency and

integrity government operations; improving systems to enforce integrity, transparency and accountability in the management of public assets and reduce opportunity for corruption; building capacity for equitable service delivery; and enhancing inclusive growth and employment.

**4.2 The objectives of the proposed operation are to:** (i) strengthen governance with a particular emphasis on transparency and accountability as well as budget execution and oversight; (ii) address key constraints to growth, including electricity and land; and (iii) improve human capital development particularly through improved access to health. The objectives of the proposed operation remain relevant in the wake of the twin shocks as the proposed reforms are intended to build resilience to such shocks in the future.

**4.3 The design of the proposed operation draws on lessons from the implementations of five previous DPOs.** These lessons include: (i) *Ownership of reforms*—the importance of ensuring, from the outset, strong ownership of reforms to succeed. This proposed operation has adopted a similar approach, focusing on reforms from the government’s own program articulated in its Aft; (ii) *Sequencing*—the importance of carefully choosing prior actions that are likely to open the door for other important policy and institutional reforms; (iii) *Capacity for reform*—in Liberia, the lack of rule-of-law based governance undermines capacity of institutions. Thus, where capacity is weak, operations should be accompanied by a critical mass of TA as well as requisite improvements in legal and regulatory frameworks and implementation capacity to ensure the existence of sufficient government commitment and willingness to reform is available to ensure sustainability. (iv) *Selectivity*—the need to choose a few, manageable actions that have significant positive “knock-on” or leverage effects. The design of this proposed operation reflects these lessons.

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

## **B. Prior Actions, Results, and Analytical Underpinnings**

**4.5 The government’s Aft and Liberia Rising 2030 focus on achieving sustained growth and ensuring inclusiveness.** Achievement of the twin objectives will require, first, a deepening of the governance reforms focusing particularly on improving safeguards that ensure higher standards of integrity, transparency and accountability of officials. Reforms are also needed to not only improve the fiduciary systems but to also ensure that the civil service has the capacity to manage such systems. Second, to spur and maintain broad-based growth, reforms are needed to address the critical constraints to growth, such as low access to electricity and poor land management and insecure land tenure rights. Lastly, to assure growth is inclusive, i.e. ensure that Liberians are well positioned to take advantage of the job opportunities created through sustained growth, emphasis should be placed on human capital development, and, in particular, on improving access and quality of the basic health and education services.

### **Pillar 1: Governance and Civil Service Reforms**

**4.6 The twin shocks have brought to the fore underlying governance challenges that continue to affect Liberia, more than a decade after the end of conflict.** This includes increased perception of lack of trust in government, weak coordination, and poor preparation for crisis management. Despite significant investments in governance programs to support the development of institutions, the effectiveness of the public administration system and overall coordination of public sector management remain weak.

Progress has been made in creating the rules of the game, establishing the normative ethos of “good governance” as the defining principle of state-society relations in Liberia. Nevertheless, little progress has been made in the operational implementation of rule-of-law based systems and procedures to ensure basic standards of integrity, transparency and accountability to ensure effective coordination of intra-governmental units into an effective whole. This undermines efforts to improve development outcomes. Consequently, government decision-making is reactive and uncoordinated, sometimes with disastrous consequences as the onset and spread of the Ebola epidemic has shown.

#### *Transparency and Accountability*

**4.7 Strengthening integrity by which officials and public institutions operate to ensure that revenues and government assets are well managed and free from corruption; and increasing transparency and accountability remain key objectives of the government’s Aft.** The government’s emphasis on transparency and accountability to reduce corruption is important for a number of reasons. First, given that economic exclusion was one of the primary drivers of conflict in the past, reinforced by a lack of transparency, the Government is emphasizing transparency in all facets of its operation to ensure equality of opportunities for all Liberians. Second, since both FDI and development assistance flows will be critical for financing Liberia’s development agenda over the medium to long term, it is crucial for Liberia to become a reputable member of the global payment system to attract reliable legal capital flows. In addition, research<sup>10</sup> has shown that illicit financial flows related to the mining sector – which is largely due to corruption – not only prevents this sector from contributing productively to economic growth and jobs, but also perpetuates health risks through exposure to damaging chemicals, substantial revenue losses, and damages to the environment.

**4.8 The Government has made notable progress in improving the legal framework necessary to reduce corruption and to increase transparency and accountability.** It passed the Freedom of Information Act in 2010 and a new AML/CFT Law in 2013 (PRSDPO-I Prior Action 1). These laws, as well as the PFM Act of 2009 and the Public Procurement Act of 2010, are intended to improve transparency and tackle corruption. Further progress is needed to improve some of these laws, including correcting their defects that undermine this fundamental aim. Additionally, improved implementation is needed in respect of all such laws. The challenge is to ensure that these laws are supported by sufficient political will so that efforts to improve capacity for effective implementation are not undermined. The U.S. Treasury, World Bank and the IMF continue to provide technical support toward strengthening the AML/CFT system in Liberia.

**4.9 The AML/CFT laws were passed in 2012 to provide the legal basis for the identification, investigation and prosecution of money laundering, and related corruption and financial crime.** FIU was established in 2014 with the responsibility to receive, analyze, and transmit disclosures on suspicious transactions to the competent authorities, pursuant to the implementation of the AML laws (PRSDPO-II Prior Action 1). The next important steps to bolster the operational effectiveness of the FIU in coordinating an effective AML/CFT systems included (i) the adoption of enforceable regulations obligating reporting entities to file currency transactions reports (CTRs) and suspicious transaction reports (STRs) to the FIU (PRSDPO-III Prior Action 1); and (ii) the adoption by the CBL’s Board of Regulations supporting the FIU’s ability to comply with its AML/CFT obligations, and promoting a more efficient sanctions regime (PRSDPO-IV Prior Action 1).

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<sup>10</sup> See for example, Illicit Financial Flows and the Extractive Industry in Ghana, Africa Centre for Energy Policy, February 2015 and Le Billon, Philippe “Extractive sectors and illicit financial flows: What role for revenue governance initiatives” Anti-Corruption Resource Centre. November 2011 No.13.

**4.10 Since January 2017, the FIU has taken steps toward becoming a member of The Egmont Group.<sup>11</sup>** Achieving full membership in the Egmont Group would serve as an objective indicator that the FIU is meeting the minimum standards in terms of fulfillment of the roles and functions expected of an FIU in accordance with international obligations. The steps taken by the FIU toward full Egmont membership include improving operational capacity of the FIU by requiring completion by all its staff of a training series<sup>12</sup> on strategic and tactical analysis that helps identify transaction patterns commonly used by organized criminals for money laundering or terrorist finance activities. The FIU has also been active in addressing gaps in AML/CFT laws and was instrumental in the Legislature’s passage of three anti-terrorism Acts in early 2017.<sup>13</sup> The FIU has also increased Liberia’s work with the Inter-Governmental Action Group Against Money Laundering in West Africa (GIABA) as evidenced by its completion of a Mutual Evaluation Report in May 2011, eight follow up reports, and regular participation in GIABA plenaries, including hosting the May 2017 plenary.

**4.11 The Government has taken measures to strengthen the legal and operational aspects of the Liberia Anti-Corruption Commission (LACC) to effectively pursue its mandate.** A new three-year strategy was approved (PRSDPO-II Prior Action 2), and is under implementation. The new strategy focuses on: (i) developing a system for reducing corruption risks; (ii) full and effective implementation of the new regulation to improve the Asset Disclosure (AD) system; (iii) harmonizing conflicting AD provisions in the LACC law and the Code of Conduct to eliminate direct legal conflicts that create corruption risks; and (iv) enhancing sanctions against public officials for corruption, misuse and abuse of public office and assets.

**4.12 Following the establishment of the the AD Unit and making it operational (Prior Action 2 for PRSDPO-III) the LACC has provided clear guidance and resources for public officers to comply (Prior Action 2 for PRSDPO-IV) with AD requirements.** Specifically, AD regulations were formulated by a multi stakeholder technical committee, approved by the President and published.<sup>14</sup> Thus, the AD regulations became legally binding and the LACC has started the collection of AD forms pursuant to mandatory regulations that provides for the imposition of sanctions to address non-compliance. LACC has conducted outreach and public notices and announcements on the filing deadline (July 28, 2017) and info on how to file, as well as training sessions on filing AD forms. LACC has also been working with the Government Ministries, Agencies, and Corporations/Commissions (MACs) to create a baseline of the national database to determine all positions for which declaration is required. Going forward it is important to ensure that the relevant procedures are put in place so that LACC has systematic access to the information. These actions are expected to result in improving compliance rate for officials with AD obligations, which is currently at a very low level.

**Prior Action #1:** The Recipient has through the Central Bank of Liberia, issued a regulation to improve the capacity of CBL to compel financial institutions to comply with their obligations on anti-money laundering and combat the financing of terrorism to promote a more efficient sanctions regime.

**Prior Action #2:** The Recipient has through the Liberia Anti-Corruption Commission, issued a regulation to facilitate civil servants’ declaration of their assets to promote integrity in the civil service.

<sup>11</sup> The international organization of FIUs.

<sup>12</sup> Offered by the International Centre for Asset Recovery, designed in collaboration with the Egmont Group on May 11, 2017.

<sup>13</sup> Anti-Terrorism Act; Targeted Financial Sanctions against Terrorist Acts; Special Criminal Procedures for Offenses Involving Terrorist Acts.

<sup>14</sup> Offered by the International Centre for Asset Recovery, designed in collaboration with the Egmont Group on May 11, 2017.

## *Civil Service Reform*

**4.13 The Government has begun the process of establishing an independent, accountable, merit-based and performance-oriented civil service through strategic reforms.** Formal processes for entry into the Civil Service and standard personnel management practices have been created. However, implementation of these formal processes such as entry and exit procedures, job descriptions and grades remains challenging. The current Civil Service remuneration structure is inequitable and comprises disparate and highly opaque wages. This has been worsened by the absence of a performance management system and a basis for career progression within the Civil Service. However, the Civil Service Agency (CSA) is currently piloting a new performance management system that, if successful, will be rolled-out across the entire civil service. The current compensation structure is mostly comprised of discretionary allowances that have been a source of tension in the civil service. In the short term, the focus will be on: (i) assigning job grades, career ladders and introducing a performance management system across the civil service; (ii) introducing a system for open and merit-based recruitment and promotion and (iii) establishing a system for manpower forecasting and control of the total civil service employment.

**4.14 Civil Service pay reform is one of the most important policy priorities in public sector management in the short to medium term.** To address this policy issue, the Government prepared and adopted a revised pay reform strategy merging allowances and base pay for civil service cadres, with a view to enhancing transparency and accountability of the public service. Following the completion of the merging of allowances and base pay for civil servants at levels 1-4 (Technical and Support staff (PRSDPO-III Prior Action 3), the GoL has completed the merging of allowances and base pay for civil servants for each of the grades covered under the levels 1-10 (PRSDPO-IV Prior Action 3). A joint task force between the MFDP and the CSA has been established to combine the base pay data from the CSA and allowances data from the MFDP for FY2016/17 and to generate a master file covering more 70,435 from more than 100 MACs that are either on the Civil Servant Management (CSM) system or paid through allowances. Following the completion of the task, the CSA has set up the consolidated pay scale.

**4.15 The merging of the allowances with the base pay specifically targets the discretionary allowances.** These discretionary allowances comprise a general allowance that is allocated to civil servants and a corresponding “special allowance” for mainly political appointees. The discretion in the allocation has led to a lack of uniformity across the civil service, thereby distorting the entire civil service remuneration structure. Therefore, merging discretionary allowances with base pay removes the distortion in civil servants’ salaries. It is now important that the CSM module of the Integrated Financial Management Information System (IFMIS) is configured to capture the new pay grade structure that includes the basic pay and allowances for civil servants in all grades (Grades 1-10). The MFDP has approved a phased approach to implement the new structure between now and the FY2018/19 budget. As an immediate action, the GoL has agreed to put in place measures to halt the continued rise in the wage bill, due to the discretionary use by heads of institutions general allowances to recruit public sector employees.

**Prior Action #3.** The Recipient has through its Civil Service Agency: (a) completed the merger of discretionary allowances and base pay for civil servants; and (b) set out the consolidated pay scale for grades 1-10 to remove distortions in civil servants’ salaries and enhance transparency and accountability in the public service.

## *Customs and Tax Administration*

**4.16 Efficient revenue administration is critical to mobilizing resources needed to finance priority investments for growth.** It is also vital for improving the business environment and encouraging private investment. Given Liberia's recent past of a long conflict, driven in part by economic exclusion, the revenue administration systems also need to be transparent and equitable with service providers and customers having a clear understanding of their respective responsibilities.

**4.17 The Government has made progress in strengthening revenue administration despite capacity challenges.** A one-stop shop has been established at the Freeport of Monrovia, which has resulted in a reduction of the processing time for customs clearance and enabled effective collection of trade and customs taxes. The Liberian Revenue Authority (LRA) became operational in July 2014. Its four strategic goals are: (i) carry out revenue administration in an effective, fair and transparent manner; (ii) maximize voluntary compliance; (iii) build an effective institution at all levels through excellence in leadership, accountability, technical and real infrastructure capacities; and (iv) transform revenue administration by utilizing effective Information and Communication technology (ICT).<sup>15</sup> The strategic plan includes, inter alia, Customer's Charter, which states LRA's core values - service delivery, commitment, integrity and team work – and contains the mutual expectations of the LRA and its clients. The LRA Annual Business Plan for FY2017/18 – the tool for achieving on an annual basis its strategic objectives – was validated and endorsed in June 2017.<sup>16</sup>

**4.18 The outbreak of Ebola severely disrupted the roll-out of ASYCUDA to border points as initially planned.** The Automated System for Customs Data (ASYCUDA) had been successfully rolled out to 9 of the 17 border points [until the Ebola outbreak], including Robert International Airport, Ministry of Land, Mines and Energy, and the Buchanan port. With the outbreak, United Nations Conference on Trade and Development (UNCTAD) support to the customs reform process was severely constrained, delaying the rollout. A subsequent assessment conducted by the customs department suggested that some infrastructure upgrade would now be required in most of the 8 border points before ASYCUDA could be rolled-out to them. In the meantime, the focus shifted to implementing the migration from ASYCUDA-World version 1 to the ASYCUDA-World version 3. As a result, the Indicative Trigger 4 has been dropped, and the roll out of ASYCUDA to the remaining eight ports will be deferred to the next programmatic series. The original target has accordingly been modified to reflect these changes.

**4.19 The Act to Amend the Revenue Code of Liberia has been drafted by LRA in cooperation with the MFDP, and was submitted by the President to the Legislature for the enactment.** The Act, which brings many improvements to the existing Customs Code is necessary to enable the development of modern customs processes, consistent with international best practices and standards. It aims to maximize the facilitation of legitimate international trade, support the proper collection of government revenues, provide greater transparency, fairness and accountability in Customs actions and decisions, and protect the people and industries of Liberia against threats to safety, security, and economic well-being. It will bring Liberia's customs laws into alignment with the World Trade Organization (WTO) principles and agreements and enable Liberia's closer integration into the world trading economy following Liberia's accession to the WTO. It will also encourage compliance with the customs laws of Liberia, while safeguarding the rights of persons who may be affected by Customs actions. Finally, it will define clearly the control and enforcement powers of customs officers, a system of effective and persuasive sanctions for violations, and fair procedures for penalty assessment and appeals, thereby facilitating a better

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<sup>15</sup> <http://lra.gov.lr/LRACSP.pdf>.

<sup>16</sup> [http://lra.gov.lr/Official\\_Files/reports/LRA\\_Annual\\_Business\\_Plan\\_FY2017-2018.pdf](http://lra.gov.lr/Official_Files/reports/LRA_Annual_Business_Plan_FY2017-2018.pdf)

understanding by importers, exporters and others who may be affected by border trade. In light of the above, the Indicative Trigger 5 to PRSDO-IV – the preparation and implementation of a Customs Customer Service Charter approved by the Cabinet-- was strengthened and replaced by the following.

**Prior Action # 4:** The Recipient has submitted to its parliament for enactment, a draft “*Modernized Customs Code of Liberia (2017)*” to strengthen customs and tax administration.

#### *Public Financial Management*

**4.20 Improvement of the PFM systems in general, and the roll-out of IFMIS to all ministries and agencies (M&A) in particular, remains an important government priority.** This is also an area where the Government has made substantial progress despite the Ebola crisis. The Integrated Public Financial Management Reform Unit has been able to negotiate an upgrade of the IFMIS software from version 6.5 to the web-enabled version 7 through funding from the government’s budget. Furthermore, the government has completed an impressive roll-out of the upgraded IFMIS to 50 M&As, up from the nineteen completed in November 2014 (PRSDPO-II Prior Action 5) and efforts are ongoing to extend this further. In addition, a further 30 donor projects have been included in the system adding to the initial five (5) pilot projects (PRSDPO-II Prior Action 5), making a total of 35 projects now included in the IFMIS. The completion of the installation of the CSM module (PRSDPO-II Prior Action 4) enables the Government to effectively manage the civil service employment cycle from recruitment to retirement. A new Personnel Action Notice (PAN) process has already reduced the arbitrary addition of staff to the payroll. The migration of the entire civil service payroll to IFMIS (PRSDPO-I Prior Action 3) and the recently completed work to have biometric records for the entire civil service strengthens payroll management. Going forward, the Government needs to sustain the notable PFM progress through completing the on-going work on biometric records and assuring its quality; and continuing to improve budget transparency through regular and timely publication of quarterly fiscal out-turns.

**4.21 The GoL remains committed to further progress PFM reforms.** The Public Finance Management Reform Strategy and its Action Plan, after several iterations with key donors, including the IMF and the World Bank, were finalized on July 25, 2017. In addition, on July 13, 2017 the GoL submitted amendments to the PFM Act to the National Legislature, which is inter alia aimed at achieving strengthened fiscal responsibilities, more efficient budget execution and financial management function, improving state-owned enterprises (SOE) governance, and improving internal controls, cash management, accountability and reporting, including sanctions for various breaches of the law.

**4.22 Despite the government’s commitment to budget transparency, including through embracing the open-budget initiative, more efforts are needed to remove impediments to transparent and accountable budget preparation, execution and oversight.** The submissions of the budget and approvals by the Legislature have not been timely. For example, although the FY2015/16 budget was submitted in May, 2015 in keeping with the PFM law, it was only approved on August 25, 2015. The FY2016/17 budget was similarly approved with delay on September 22, 2016, and the FY2017/18 budget was enacted on July 27, 2017 - one of the earliest approvals. Notable progress has been made on the quality and timeliness of financial statements, and the latter have since FY2010/11 been prepared in accordance with the cash basis International Public Sector Accounting Standards (IPSAS) requirements and submitted to the General Auditing Commission (GAC). The timeliness of the submission of the annual financial statements to GAC has improved – from more than 12-months delay for FY2010/11 to less than six-months delay for FY2015/16 – but still above the requirements of the PFM Act (less than four months). Since August 2013, the joint Public Accounts and Audit Committee (PAC) of the Legislature has started public hearings on the outstanding audit reports issued by the GAC, but progress on audit follow ups has been slow.

**4.23 Progress on public financial management reforms continues in key areas.** The completion of employee validation through biometric authentication, coupled with the linking of the human resource management information system (HRMIS) to the payroll system (Prior Action 4 for PRSDPO-III), has improved civil service payroll management. Biometric records have been maintained and kept up-to-date since then. Following the preparation and publication of Governance Finance Statistics (GFS)-compliant fiscal operational quarterly and annual reports for FY2013/14 and FY2014/15 on the MFDP website (Prior Action 5 for PRSDPO-III), the FY2015/16 annual fiscal outturn report was made publicly available. Reports on the fiscal outturn for the first three quarters of FY2016/17 and *FY2016/17 Annual Financial Statement of the Consolidated Fund Account* have also been published at the MFDP website<sup>17</sup> (Prior Action 5 (a) for PRSDPO-IV). In addition, on November 17, 2017, the GoL/MFDP submitted an IPSAS-compliant financial statement for FY2016/17 to the GAC for audit, a month earlier than the submission of the financial statement for FY2015/16 (Prior Action 5 (b) for PRSDPO-IV).

**Prior Action #5:** The Recipient has through its Ministry of Finance and Development Planning: (a) published on its website quarterly comprehensive GFS-compliant fiscal operations reports for Liberia for FY2015/16 and FY2016/17 to promote budget transparency; and (b) submitted the IPSAS compliant financial statements for FY2015/16 and FY2016/17 to the GAC to improve internal budget controls.

#### *Public Procurement*

**4.24 Noteworthy progress has been made in re-establishing the legal and regulatory framework for public procurement, increasing the number of skilled practitioners, and enhancing institutions.** However, weaknesses remain in entrenching efficient practices, as procurement remains a major constraint to effective budget execution and in particular with regard to the capital budget. Public procurement reform began in September 2005 and in October 2010, an Amended and Restated Public Procurement and Concession Act was approved. Despite the steps taken to date to sensitize and train public procurement practitioners, the overall efficiency of public procurement management in Liberia has shown only marginal improvements although the pace of progress has accelerated recently.

**4.25 To improve efficiency and effectiveness of public procurement, the Government adopted an aggressive approach to procurement reforms focused on two pillars:** First, building the capacity of procurement personnel in order to have functioning procurement structures in procuring entities—including having a career track for procurement specialists (PRSDPO-II Prior Action 7), establishment of minimum standards and procurement accreditation system to certify procurement practitioners (PRSDPO-III Prior Action 7) and, the entrenchment of procurement training (PRSDPO-IV Prior Action 6). Second, strengthening the Public Procurement and Concessions Commission (PPCC) to adequately perform its regulatory functions stipulated in the PPC Act. In pursuit of this, the government completed a technical review of the draft implementing regulations, which led to adoption of updated regulations with a view to strengthening the procurement systems (PRSDPO-II Prior Action 8). The PPCC also launched in October 2014, a clear roadmap for PPCC reform encompassing capacity building for compliance monitoring; capacity building of procurement officers; establishment of a career track for procurement officers; development of a procurement accreditation system to certify procurement practitioners; and consolidation of the existing procurement training programs into a sustainable program in partnership with the University of Liberia.

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<sup>17</sup> <https://www.mfdp.gov.lr/>

**Prior Action #6:** The Recipient through the Minister of Finance and Development Planning, has approved the transfer of the Financial Management Training School to the University of Liberia to enhance the professionalization of financial management and procurement specialists, and started the transfer process.

**4.26 Results:** Taken together, the above actions under the *governance and civil service reform* pillar, if implemented effectively and sustainably, will help achieve a more transparent, accountable and responsive public sector that contributes to economic and social development.

- The establishment of the new FIU can increase transparency in financial transactions through the use of more effective tools to identify and detect financial crime and corruption. During 2016, the FIU received 143,491 CTRs and 47 STRs.
- A more effective AD system can support greater transparency and accountability in government. To date, 439 government officials and senior civil servants have declared their assets in line with the new Regulations during May-August 2017 as compared to 144 a year earlier (pre-AD National Launch).
- The pay reform, by merging the base pay and allowances, can reduce pay distortions and reinforce accountability and transparency in the civil service. The fact that today 98 percent of the civil servants are paid through the IFMIS solution has already strengthened pay and employment control in the civil service. The implementation of the pay reform is expected to strengthen accountability.
- The rollout of IFMIS to M&As is expected to facilitate accurate and timely preparation of IPSAS-compliant financial statements to be audited by GAC, which are then reviewed by the Legislature, completing the cycle of budget accountability. The number of M&As with IFMIS solution installed and operational increased from 7 in 2012 to 50 in 2017 (as compared to the target for end-2017 of more than 20), allowing for the reduction in the time of submission of Annual Financial Statements to GAC after end of fiscal year from more than 12 months in 2012 to less than 5 months in 2017 (although this is still longer than the four months required by the PFM Act). A regular and timely publication of quarterly fiscal out-turn reports could also provide fiscal policy signals to the private sector and civil society alike, further facilitating investment decisions and government transparency.
- Procurement reforms are expected to result in better trained procurement specialists in the civil service who will then help improve efficiency in procurement and budget execution. The Intensive Procurement Training Program (IPTP) trained about 112 graduates in Public Procurement to the level of Post Graduate Diploma (*vis-à-vis* the target of at least 100 by 2017) and the transfer of the procurement training function to the University of Liberia can put such training and capacity building on a sustainable path.
- The publication of annual compliance monitoring reports (CMR) by the PPCC, the first of which is expected to be published in December 2018, can enhance government transparency and accountability.

## **Pillar 2: Economic Transformation**

### *Infrastructure: Energy*

**4.27** Over the past five years, Liberia has made a significant progress in closing the energy deficit, one of the major constraints to rapid and inclusive growth, and to economic transformation. Total installed capacity has increased from 22 to 126 Mega Watts (MW), thanks to the completion of the rehabilitation of the Mount Coffee Hydropower Plant (88 MW) and three HFO (Heavy Fuel Oil)/ Liquid

Fuel oil (LFO) thermal generation plants (38 MW). The Rural and Renewable Energy Agency (RREA) has also launched its strategy to expand electricity services using mainly renewable sources. Liberia's Intended Nationally Determined Contributions (INDC) lay out national adaptation and mitigation targets, including those related to the energy sector as one of the key sectors to facilitate the Liberia's INDC.<sup>18</sup> The mitigation targets include improving energy efficiency by at least 20 percent by 2030 and raising share of renewable energy to at least 30 percent of electricity production and 10 percent of overall energy consumption by 2030. This is expected to be achieved, *inter alia*, through the strengthening of institutional capacity in renewable resource management. With adequate generation capacity now available, the Liberia Electricity Corporation (LEC) can afford to accelerate the grid expansion program to increase access to electricity. Overall access to electricity is currently very low. The 2016 Household Income and Expenditure Survey (HIES) suggests that only one out of every six households had access to electricity from a generator or from the LEC. Nearly all these households are in urban area and less than 2 percent of rural households had access to electricity.

**4.28 The Government is actively pursuing its objectives of expanding access, increasing the quality and reliability of power, and reducing the price of electricity.** With the support of international donors, including the World Bank, the country has embarked on an expansion of the national grid in Monrovia and along key economic corridors while promoting the use of decentralized systems in remote areas of the country. With World Bank support, LEC has already gained momentum in making new connections to the grid. The total number of active connections reported by LEC is about 52,300<sup>19</sup> as of end of October 2017 (against the target of 50,000 by end-2017). Following the introduction of lower cost electricity from the Mount Coffee Hydropower Plant, electricity tariffs were reduced from 49-52 US cents/kwh to 39 US cents/kwh in March 2017 and further to 35 US cents/kwh in October 2017 (against the target of less than 40 US cents/kwh).<sup>20</sup> High cost thermal generation are now needed only during the dry season (December to March).

**4.29 Electricity generation costs are expected to be further reduced by switching from high-cost diesel to relatively lower cost HFO to meet the dry season needs.** With World Bank support, there is now adequate HFO storage capacity developed for transitioning to HFO from diesel. LEC needs to ensure that all the thermal generation plants run on HFO instead of diesel during the next dry season. LEC also needs to complete the construction of the HFO connection point with the port so that the storage tanks can be adequately replenished with new supply when the existing inventory of fuel is exhausted. In an effort to ensure competitive procurement of HFO for lowering the costs of fuel (PRSDPO-III Prior Action 8), the Government granted LEC an import license of HFO for its own generated thermal electricity, and requested LEC's Board to adopt a resolution that all HFO be procured through an international competitive bidding process. The share of diesel as a percentage of total generation during January to June 2017 period was 17 percent against the target of less than 20 percent. To adequately capture the efficiency gains in the use of the thermal plants, it is important to reduce the share of diesel generation in total *thermal* generation, currently at almost 100 percent, to no more than 20 percent.

**4.30 Government's objectives of increasing access to quality, reliable, and affordable electricity as well as meeting the INDC targets cannot materialize without significantly improving the operation and management of LEC.** Towards that goal, the LEC Board signed a management contract with a competitively selected firm - Energy Supply Board International Engineering & Facility Management Limited (ESBI) on November 8, 2017, which is expected to take over the LEC management from December

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<sup>18</sup><http://www4.unfccc.int/Submissions/INDC/Published%20Documents/Liberia/1/INDC%20Final%20Submission%20Sept%2030%202015.002.pdf>

<sup>19</sup> This are the number of customers that are vending. The actual number of connections are higher.

<sup>20</sup> With a 10 percent general sales tax, the effective tariff currently is 38.5 US cents/kwh.

1, 2017 with full transfer of fiduciary responsibilities by January 7, 2018 (PRSDPO-IV Prior Action 7). The new operator will assume the full responsibility for managing all aspects of LEC's business. The main objectives of the contract are to: (i) create an operationally efficient and profitable utility that is financially viable; (ii) increase capabilities of local staff; (iii) improve quality and reliability of electricity supply and customer service; and (iv) increase the customer base. The new operator will be providing Environmental, Health and Social impact services and will be instrumental for the implementation of the Rural and Renewable Energy Strategy, increasing energy efficiency, reducing technical and operational losses, and, thus, contributing to the emission reduction.

**Prior Action #7:** The Recipient has through the Liberia Electricity Corporation, signed the contract between LEC and ESBI, a competitively selected firm, to enable ESBI to take over and improve the management of LEC.

#### *Agriculture and Land Reform*

**4.31 The Government has also made notable progress on land reform.** First, the Land Commission was established in August 2009 with a mandate to propose, advocate and coordinate reforms of land policy, laws and programs in Liberia. Second, in May 2013, the Government adopted a Policy Framework for Land Tenure Reform which clarifies land rights related to public land, government land, customary land and private land (PRSDPO-I Prior Action 5). Following that, it moved on to draft the Land Rights Act, which after validation by a broad cross-section of stakeholders in June 2014, was submitted to the Legislature for approval. In the meantime, the Government also completed and validated a Land Administration Policy in 2015. In September 2016, the Legislature passed the Land Authority Act to establish the Liberia Land Authority (LLA), which will have responsibility for land governance and administration, through the appointment of commissioners and the provision of budgetary resources for its operation in keeping with the Act (PRSDPO-IV Prior Action 10). To date, the Chairman and the three commissioners (Land Policy and Planning, Land Use and Management, Land Administration) out of the five have been appointed by the President. This is the quorum, required for the LLA to become operational. The approved draft FY2017/18 budget envisages about US\$1.5 million for the operations of the LLA. The World Bank Land Administration Project (US\$7 million equivalent), which was approved by the Board on September 28, 2017, will support the LLA in strengthening its institutional capacity and establish a land administration system.

**Prior Action #8:** The Recipient has pursuant to the Liberia Land Authority Act, made the Liberia Land Authority operational to improve land governance including land administration and management, as evidenced by the: (a) Ministry of Finance and Development Planning allocation of budgetary resources for the LLA in its National Budget FY 2017/2018; and (b) President's appointment of at least 4 out of the 5 Commissioners.

**4.32 Results:** Taken together, the actions under the *economic transformation* pillar, are expected to address the most binding constraints to growth and poverty reduction. Expanded access to, and lower cost of, electricity is expected to spur growth, increasingly from manufacturing and services, resulting in increased jobs in Liberia. Improving access to finance as well as land tenure through the establishment of a comprehensive land administration system is expected to expand the rural economy providing more jobs.

- The government's least cost power development plan, the tariff strategy and regulations for the electricity sector, are together expected to result in a shift of electricity generation from high cost diesel to lower cost fuels (eventually to hydro); and reduced cost and increased access to electricity.

This shift is already taking place: the share of diesel in total generation was 17 percent in September 2017 (as compared to the expected target of less than 20 percent by 2017). Following the introduction of lower cost electricity from the Mount Coffee Hydropower Plant, electricity tariffs were reduced from 49-52 US cents/kwh to 39 US cents/kwh in March 2017 and further to 35 US cents/kwh in October 2017 (against the target of less than US 40 cents/kwh). The total number of active connections reported by LEC is about 52,300<sup>21</sup> as of end of October 2017 (against the target of 50,000 by end-2017).

- Since the establishment of the Collateral Registry in June 2014 (prior action for PRSDPO-II), the share of commercial bank's credit to the agricultural sector increased from 3.7 percent in December 2012 to 7.04 percent in December 2015 (thus, surpassing the 2017 target of 5.5 percent) but dropped to 4.4 percent in December 2016.
- In light of the recognition that more time is needed for the newly established LLA to achieve the expected results, the results indicator is being modified from the original indicator "complete recording of more than 100 land parcels with use and ownership rights under new policy during the first year of its operation" to a new indicator "the number of legacy deeds and new deeds digitalized (both equal to zero in 2012)" which places more attention on progress being made recording of rights within the new land administration system. By 2015, the number of digitized legacy deeds was 63,219 (above the target of 50,000); by August 2017, the number of new deeds digitized was 11,361 (above the end-2017 target of 10,000).

### **Pillar 3: Human Capital Development**

**4.33 The government's human development goal under the AfT is to improve the quality of life by investing in more accessible and higher quality education as well as healthcare.** While the Government is making some strides with the provision of basic health services, the Ebola crisis was a poignant wake-up call that the overall health system is not sufficiently robust to withstand such shocks. Progress continues to lag in the education sector too, a situation made worse by the extended closure of all schools due to the EVD epidemic.

#### *Health*

**4.34 Liberia's health outcomes have been generally improving since the end of the civil war in 2003, although the results have been uneven.** Under-five mortality rate fell to 94 per 1,000 live births in 2013 from 241/1,000 in 1990. On the other hand, according to the 2013 Liberia Demographic and Health Survey (LDHS), maternal mortality ratio (1,072) was higher than in 2007 LDHS (994) - already one of the highest in the world. The EVD outbreak eroded a number of previous gains, and in effect, weakened an already fragile health system. Deliveries by skilled birth attendants, for example, declined by 7 percent from 2013 to 2014; and antenatal care 4th visits dropped by 8 percent, measles coverage declined by 21 percent, and health-facility utilization rates from an average of 5.5 visits per capita in 2013 to an average of 3.3 in 2014.

**4.35 Inadequate health financing is considered one of the critical factors underlying the poor performance of the health sector in Liberia.** GoL budget allocation to health has consistently increased over the last decade, shifting from 8.9 percent of total budget in FY 2007/2008 to 14.6 percent in FY2017/2018, which is close to the Abuja target of 15 percent. Budget execution is on an upward trend from a low of 66 percent in FY2009/2010 to almost 88 percent in FY2015/2016. However, the health sector

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<sup>21</sup> This are the number of customers that are vending. The actual number of connections are higher.

remains heavily dependent on donor funding, which rose from 72 percent to 80 percent of total institutional health expenditures between FY2009/10 and FY2015/16, but about 75 percent of the donor funding is off-budget, which suggests significant opportunities to improve allocative efficiency. The health financing challenges are two-fold : (i) Weak absorptive capacity of the Ministry of Health (MoH), which affects the execution rate of funds from the appropriated budget, utilization rate of allotted funds, efficient allocation of funds across counties and among different units within the health sector; and (ii) The low share of government funding to Total Health Expenditure (THE), which affects the implementation of the free health care policy and the investment in the health services delivery capacity. The GoL needs to address two major challenges: move donor funding on budget to get a clearer picture of the resources available to the sector; and improve the execution rate of the allocated budget.

**4.36** With the support of the World Bank and other donors, the GoL started addressing these major challenges as follows:

- (i) The MoH conducted a half-year budget execution review for FY16, with a view to improving budget execution (PRSDPO-III Prior Action 10). In February 2017, the Ministry followed-up the half-year review with a full-year review of the execution of the FY2015/2016 budget allocation, to further assess the issues and constraints to budget execution and draw lessons for improvement. A review of the health sector expenditures in FY2015/16, shows that the utilization rate of allotted funds from the Ministry of Finance and Development Planning (MFDP) has improved significantly, rising to 98 percent, although the budget execution rate and intra-sectoral allocation of funds continued to pose some challenges.
- (ii) Following the completion of a joint financial management assessment (JFMA) in April 2016, a Task Force consisting of staff from the Ministries of Health, and Finance and Development Planning, and development partners was commissioned to study the JFMA recommendations and to draft a JFMA costed action plan.
- (iii) The MoH developed and signed the International Health Partnership and Related Initiatives (IHP+) compact with donors in August 2017, a compact that will help put the international principles for aid effectiveness and development cooperation into practice in the health sector by encouraging wide support for a single national health strategy or plan, a single monitoring and evaluation framework, and a strong emphasis on mutual partner accountability.

**4.37** The implementation of the Compact will foster transparency, and efficiency of use of external and domestic resources through implementation of the JFMA costed plan and the setup of the Joint Program Coordination Unit (JPCU) within the MoH. Harmonizing, and ultimately aligning development partners' financial management systems will help achieve better outcomes for health interventions through bringing aid on budget; enhancing budget execution; reducing transaction costs; increasing fiscal transparency and oversight over the use of aid funds; and ensure coordinated support for strengthening countries' capacity.

**Prior Action #9:** The Recipient's through its Ministry of Health, has approved the *Joint Financial Management Assessment Costed Plan 2017* to improve efficiency in the use of domestic and external resources for the health sector.

**4.38 Results:** The overall outcomes expected under the human capital development pillar are more accessible and higher quality of education and effective execution of the health sector's budget leading to a more robust health system with better access and health outcomes. Improvements in education and health systems will allow more Liberians including those in the rural areas, to take better advantage of the employment opportunities that are created by the economic transformation discussed above.

- A comprehensive implementation plan for teacher recruitment, training and deployment across all levels of the education system (prior action 10 for PRSDPO-II) as well as a framework for the more equitable allocation of resources (prior action 9 for PRSDPO-III) are expected to result in higher school enrollments and better education outcomes. In 2017, primary net enrollment rates increased to 47.7 percent and 48.1 percent for male and female respectively (above the target of 45 percent for both sexes). Junior and higher secondary enrollment rates have also improved as compared to the baseline – to 13 percent and 12 percent correspondingly – but remained below the targets (20 percent for junior secondary and 15.4 percent for higher secondary education).
- A more transparent and increased financing of health care, including through better transparency of donor funding and improved execution of government’s own budget, could result in a reversal of health sector erosions from the Ebola crisis as well as a more resilient healthcare system.

**4.39 The proposed operation supports nine prior actions.** These prior actions were identified in close coordination with the authorities, and are based on a range of analytical work completed in Liberia in recent years (Table 4).

**Table 4: PRSDPO-IV Prior Actions and Analytical Underpinnings**

Prior actions	Analytical Reports	Key Findings and Recommendations
<b>1. Governance and Civil Service Reform</b>		
Prior action #1	US State Department’s 2013 Money Laundering Report	The relative openness of Liberia’s economy coupled with its desire for foreign investment makes the country vulnerable to some degree of illegal business activities.
Prior action #2	Transparency International (2012) Liberia Systematic Country Diagnostic (2017)	Liberia is perceived as having progressed in the fight against corruption over the last few years. Accord. However, corruption remains endemic and permeates most sectors of the society
Prior action #3	Public Expenditure Review (2013)	Implement the medium-term wage reform strategy to improve transparency and ensure medium-term sustainability of wage bill. Complete biometric registration for all civil servants.
Prior action#4	Liberia DTIS Update (2016)	The new Code is critical for the overall customs modernization program, especially in clarifying the role and mandates of public agencies at the ports and border facilities and streamlining the risk management approach.
Prior action #5	PEFA (2016)	All quarterly reports for FY 2014/2015 have been posted on the MFDP website, but 2-5 months after the end of the period covered. The availability of in-year reports has improved compared to the 2012 Assessment, when one quarter was not posted, but not by enough to meet the benchmark.
Prior action#6	Annual Report of the PPCC (2014)	Priority should be given to long-term procurement capacity- building programs for PPCC staff, geared towards enhancing their skills in the public procurement and concessions award processes.
<b>2. Economic Transformation</b>		
Prior action #7	Liberia: Inclusive Growth Diagnostics (2012) Liberia: Systematic Country Diagnostic (2017)	High cost/lack of access to electricity reduces competitiveness of otherwise potentially attractive value-added sectors.
Prior action #8	Liberia: Inclusive Growth Diagnostics (2012) Liberia: Systematic Country Diagnostic (2017)	Weak governance of land resources increases the risk of instability in the future, particularly when large new concession areas are granted without proper verification of land ownership.

Prior actions	Analytical Reports	Key Findings and Recommendations
<b>3. Human Capital Development</b>		
Prior action #9	Liberia: Public Expenditure Review Human Development (2012) Joint Financial Management Assessment (2016)	Budget execution by the MoH has been less than optimal and needs to be urgently addressed. Looking for the reasons behind the observed less than optimal budget execution is another key challenge that both the MoH and MFDP need to tackle. This would help to convince partners that the GoL is serious about efficiently spending what is currently available to it, and help to justify any calls to increase funding.

**4.40** The program for PRSDPO-IV is broadly unchanged from that set out at the time of board approval of PRSDO-III and of the supplemental financing to PRSDPO-III. Some prior actions for the fourth operation in the series have been revised from the indicative triggers presented at the time of board approval of the third operation. These revisions are summarized in Table 5 below.

**Table 5: Summary of Triggers, Prior Actions and Status of Implementation for PRSDPO-IV**

Triggers from PRSDPO-III	Prior Actions for PRSDPO-IV	Reason(s) for Change	Status
<b>Pillar 1: Governance and Civil Service Reform</b>			
<i>Transparency and Accountability</i>			
The Central Bank of Liberia Board has adopted policies and procedures to conduct AML/CFT compliance inspections to assess compliance of financial institutions with AML/CFT obligations set forth in laws related to international AML/CFT obligation pursuant to membership in the Egmont Group of FIUs.	#1. The Recipient has through the Central Bank of Liberia, issued a regulation to improve the capacity of CBL to compel financial institutions to comply with their obligations on anti-money laundering and combat the financing of terrorism to promote a more efficient sanctions regime.	No Change (editorial)	Completed
Legal and regulatory policies for Asset Disclosure issued by the LACC to provide clear guidance and resources for public officers to comply.	#2. The Recipient has through the Liberia Anti-Corruption Commission, issued a regulation to facilitate civil servants' declaration of their assets to promote integrity in the civil service.	No Change (editorial)	Completed
<i>Civil Service Reform</i>			
Complete merging of discretionary allowances and base pay for civil servants at levels 5-10.	#3 The Recipient has through its Civil Service Agency: (a) completed the merger of discretionary allowances and base pay for civil servants; and (b) set out the consolidated pay scale for grades 1-10 to remove distortions in civil servants' salaries and enhance transparency and accountability in the public service.	No Change (editorial)	Completed
<i>Tax and Customs Administration</i>			

Triggers from PRSDPO-III	Prior Actions for PRSDPO-IV	Reason(s) for Change	Status
Roll-out of ASYCUDA to remaining eight border points.		Roll-out affected by Ebola and decision taken to upgrade infrastructure at remaining border points.	Dropped /deferred to the next series
The preparation and implementation of a Customs Customer Service Charter approved by Cabinet following consultations with stakeholders.	#4. The Recipient has submitted to its parliament for enactment, a draft <i>"Modernized Customs Code of Liberia (2017)"</i> to strengthen customs and tax administration.	Material change to strengthen the prior action/policy area. The LRA's 1 <sup>st</sup> Corporate Strategic Plan, approved in 2016, includes Customers Service Charter.	Completed
<i>Public Financial Management</i>			
Prepare and publish quarterly comprehensive GFS-compliant fiscal operations report for Liberia for FY 2015/16 and first 2 quarters of FY2016/17.	#5. The Recipient has through its Ministry of Finance and Development Planning: (a) published on its website quarterly comprehensive GFS-compliant fiscal operations reports for Liberia for FY2015/16 and FY2016/17 to promote budget transparency; and (b) submitted the IPSAS compliant financial statements for FY2015/16 and FY2016/17 to the GAC to improve internal budget controls.	No Change (editorial to reflect revised timeline for PRSDPO-IV and consolidate two inter-linked indicative triggers)	Completed
Submit IPSAS compliant financial statements of the GoL for FY2015/16 to the GAC for audit.			
<i>Procurement</i>			
Cabinet has approved the transition order for the Procurement Training School to be moved to the University of Liberia and the PPCC has provided a detailed plan, including the timeline for the transition, with a view to entrenching procurement training and enhancing professionalization of procurement specialists.	#6. The Recipient through the Minister of Finance and Development Planning, has approved the transfer of the Financial Management Training School to the University of Liberia to enhance the professionalization of financial management and procurement specialists, and started the transfer process.	No Change (editorial)	Completed
<b>Pillar 2: Economic Transformation</b>			
<i>Infrastructure: Energy</i>			

Triggers from PRSDPO-III	Prior Actions for PRSDPO-IV	Reason(s) for Change	Status
To ensure an efficient delivery of electricity services to users, the contract between the LEC Board and a competitively selected firm for the management of LEC has been signed and the new management contractor has taken over the management of the Utility.	#7. The Recipient has through the Liberia Electricity Corporation, signed the contract between LEC and ESBI, a competitively selected firm, to enable ESBI to take over and improve the management of LEC.	No change	Completed
<i>Agriculture and Land</i>			
The Government has established the Liberia Land Authority through the appointment of commissioners and the provision of budgetary resources for its operation in keeping with the 2016 Act.	#8. The Recipient has pursuant to the Liberia Land Authority Act, made the Liberia Land Authority operational to improve land governance including land administration and management, as evidenced by the; (a) Ministry of Finance and Development Planning allocation of budgetary resources for the LLA in its National Budget FY 2017/2018; and (b) President's appointment of at least 4 out of the 5 Commissioners.	No change	Completed.
<b>Pillar 3: Human Capital development</b>			
<i>Health</i>			
Conduct a full-year budget execution review with a view to ensuring improved budget execution.	#9. The Recipient's through its Ministry of Health, has approved the <i>Joint Financial Management Assessment Costed Plan 2017</i> to improve efficiency in the use of domestic and external resources for the health sector.	Material change: following recommendations of CN meeting, the prior action has been strengthened.	Completed

### C. Link to the CPS and other Partners' Operations

**4.41 The entire programmatic series, including the proposed operation, is fully aligned with the World Bank's CPS (FY13-17)<sup>22</sup> for Liberia, which is fully consistent with the government's AfT—which remains the Government's overarching strategy.** The principal objective of the CPS is to support the government's AfT to contribute to sustained growth, poverty reduction and shared prosperity while exiting fragility and building resilience. The CPS Pillars are aligned to the following pillars of the AfT: (i) *Governance and Public Sector Institutions* to improve public sector and natural resource governance. (ii) *Economic Transformation* to reduce constraints to rapid, broad-based and sustained economic growth to create employment; and (iii) *Human Development* to increase access to quality basic social services and reduce vulnerability.

**4.42 Under the three pillars of the CPS, the WBG is pursuing a broad mix of TA operations, which are complementary to the PRSDPO-IV.**

- On economic governance and civil service reform, these include: (i) the Integrated Public Financial Management Reform Project (P127319), approved in 2011 (US\$28.5 million, including US\$5 million IDA), which provides support to enhance budget planning systems including the IFMIS and TA to

<sup>22</sup> The CPS (Report number 74618) was discussed by the Board in July, 2013.

improve laws and systems to support prevention and detection of money laundering and corruption; (ii) the Public Sector Modernization Project (PSMP) (P143064), approved in 2014 (US\$2 million), which provides support to improve pay and performance management in participating ministries, and strengthen payroll management in the Civil Service in Liberia.

- On economic transformation, the Liberia Electricity System Enhancement Project (P120660) (LESEP, US\$32 million), the WAPP CLSLG Power Interconnection Project, approved in May 2012 (US\$144.5 million), and the Liberia Renewable Energy Access Project (P149683), approved in January 2016 (US\$ 27 million, including a US\$25.0 million grant from the Scaling Up Renewable Energy Program in Low Income Countries), all aim to reduce cost and expand access to electricity in Liberia. In addition, the Liberia Land Administration Project (P162893), approved in 2017 (US\$7 million), supports strengthening the institutional capacity of the LLA and establishment a land administration system; and the MSME and Rural Finance Post-Ebola Project (P157797), approved in 2016 (US\$4.8 million), aims to enhance the capacity of local private sector financial institutions to lend profitably to MSMEs.
- On human resource development, the World Bank was serving as the grant agency for the Global Partnership for Education Grant for a Basic Education Project (GPE BEP US\$40 million) to improve management and accountability and for the construction of schools in rural areas. The GPE BEP project closed in 2016 and achieved most of its planned outcomes. In 2017, the Government submitted an application for a second GPE grant with a value of US\$ 11.3 million and this grant was also approved by GPE. The World Bank is serving as a grant agency for this second grant. On health, the World Bank is implementing a Health System Strengthening Projects (US\$15 million) aimed at improving the quality of maternal and child health and reducing infectious diseases.

#### **D. Consultations and Collaboration with Development Partners**

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

### **V. OTHER DESIGN AND APPRAISAL ISSUES**

#### **A. Poverty and Social Impacts**

**5.1 The prior actions under this operation could have both direct and indirect positive poverty and social effects.** First, the resources under this operation will allow the Government to increase public resources to finance AfT priorities and help mitigate the impact of the twin shocks. With the substantial slowdown in economic activity and the sustained low prices for rubber and iron ore, the government’s fiscal resources from tax and non-tax revenues are well below the levels prior to the crisis and inadequate to maintain effective service delivery. Second, the reforms intended to enhance political and economic governance, support economic transformation, and improve education and health, will foster transparency and accountability and inclusive growth and poverty reduction. Annex 4 summarizes the Poverty and Social impacts of the reforms under this operation.

**5.2 The focus on public procurement and AD will help curb corruption and improve public service delivery.** A more transparent procurement system and a strengthened AD system are expected to improve oversight of public resource management, improve efficiency of public resource management, increase value for money, and reduce opportunities for corruption.

**5.3 Land issues are both a drag on investment and leading causes of intense conflict among Liberians.** 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.<sup>23</sup> Access to land rights in the urban areas is also important for the development of the small and medium enterprise sector. The reforms focused on improving the legal framework for land and improved management and administration are therefore expected to have positive poverty and social impact.

## **B. Environmental Aspects**

**5.4 The reforms proposed under this operation are focused largely on economic governance, economic transformation, and human capital development.** These reforms, summarized in Annex 4, are not expected to have any significant negative direct environmental effects. The improvement in land management could potentially have positive environmental effect. The improved management of energy sector could potentially have indirect positive environmental effects. The implementation of measures to strengthen the management of public finances and improve accountability in the public sector are expected to have no direct effect on the environment. However, there are linkages between environment degradation and weak macroeconomic management and governance. Hence, it is likely that there will be some positive indirect effects on the environment associated with improved macroeconomic management and policy and institutional reforms supported under the program.

## **C. PFM, Auditing, and Disbursement Aspects**

**5.5 Notwithstanding notable improvements in economic governance, the fiduciary risk related to the proposed operation is considered to be high.** The findings from the 2016 Public Expenditure and Financial Accountability (PEFA) reveal a marginal improvement over the 2012 PEFA, despite the efforts by the GoL to improve PFM since the 2012 PEFA assessment. Capacity constraints are substantial. Still, the government has continued to show strong political commitment to the PFM reform strategy and its implementation. Key reforms where some progress has been achieved recently include: implementation of the IFMIS and its subsequent roll-out to 50 M&As, establishment of the Liberia Revenue Authority (LRA) for revenue administration, legislative scrutiny of annual budgets, establishment of processes that allow for public access to key budget information, internal audit improvements and coverage, consistent and timely accounts reconciliation and reporting, personnel and payroll data linked through the CSM module, and debt management and procurement reforms. The Government's annual budgets are published and accounting and financial reporting have also improved, but are not yet at an adequate standard. The audit report on the PRSDPO-III has revealed a number of internal control issues that need to be addressed.

**5.6 Liberia maintains an exchange rate system that is free of restrictions on payments for current and capital transfers.** The IMF update of the CBL's safeguards assessment in November 2015 noted a slow progress in implementing recommendations from the 2011 and 2013 assessments, which had highlighted safeguards risks at the CBL. The assessment recommended strengthening independent oversight by the

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<sup>23</sup> World Bank (2017). Liberia: From Growth to Development: Priorities for Sustainable Poverty Reduction and Achieving Middle-Income Status by 2030. Systematic Country Diagnostic. Report No. 113720-LR (force coming).

CBL Board of Governors and its Audit Committee, and aligning the investment guidelines with best international practices to shield the CBL from counterparty risks. The assessment also noted the need for a strategy to address the imbalances between operating revenues and expenditures to improve the CBL's financial position.<sup>24</sup> The CBL is implementing the recommendations of the recent safeguards assessment through the (i) implementation of its three-year financial plan; (2) establishment of an asset and liability committee in April 2017 to oversee issues of risk management, balance sheet, and financial performance; (iii) keeping up to date the published version of the CBL act to reflect the most recent amendments; (iv) completion of an external quality assurance review of the internal audit function; (v) review of commercial banks audit repost against their prudential returns; (vi) proper documentation of any deviations noted during Regulation and Supervision Department reviews and taking actions against banks involved; and (vii) enhancement of its governance structure by reviewing a Board Charter with more detailed operational rules and guidance for the Board and its committees.

**5.7 Overall fiduciary environment:** Continued engagement by the development partners in the PFM area has resulted in an enhanced fiduciary environment in Liberia. The World Bank's lead role through the PSMP, and the IPFMRP under implementation, continues to provide the thrust for further strengthening of the PFM platform. The consolidated gains of the PFM reforms over the years have given rise to the need for the amendment of the PFM Act 2009. The Amendments to the Act have been submitted to the National Legislature. The GAC is also implementing rigorous assurance standards across line ministries to safeguard public funds. The GAC Act (2014) provides the GAC with the administrative and financial autonomy needed to enhance the Commission's oversight responsibilities for transparency and accountability. Nevertheless, the fiduciary risk remains high.

**5.8 Recipient and Financing Agreement:** The proceeds of the proposed operation totaling US\$24.67 million equivalent, consisting of a proposed IDA grant in the amount of SDR 14.2 million (US\$20 million equivalent) and a proposed grant of US\$4.67 million from the Liberia Forest Landscape Single Donor Trust Fund, would be made available to the GoL, represented by the Ministry of Finance and Development Planning, in a single tranche upon effectiveness.

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

**5.10 Assurance Requirements: Based on the level of fiduciary risk associated with this operation, IDA may shall require an independent audit of the dedicated account as an additional fiduciary arrangement safeguard mechanism.** The audit, may cover the transactions in the Dedicated Account, which will be conducted in accordance with International Standards on Auditing (ISA) as published by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC), with special reference to ISA 800 (Auditor's Report on Special Purpose Audit Engagements)]. The audit will

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<sup>24</sup> IMF Staff Report: Fourth Review Under the ECF Arrangement, IMF Country Report No. 16/8.

cover the following aspects to be outlined in the terms of reference to be developed. Such an audit will provide assurances that: (a) the funds have indeed been received and deposited into the dedicated account; (b) the funds received in the dedicated account were, within five to seven working days of receipt, transferred to the consolidated fund account (Treasury Account) of the GoL to finance budgetary expenditures; and (c) the amounts so received have been appropriately accounted for in the financial management system of the Government. The audit report shall be made available to IDA within six months from the date of receipt of the funds in the designated account. The audit report of the previous operation (Poverty Reduction Support Credit (P151502) - PRSC-III) was received by the World Bank on August 8, 2017. The audit report is acceptable to the World Bank. The MFDP has been working on addressing the internal control issues, highlighted in the report.<sup>25</sup> As part of the immediate additional fiduciary arrangement, the GoL, through the MFDP shall, within 30 days after the Grant has been disbursed by IDA to the designated account of the CBL, provide a written confirmation to IDA that the local currency equivalent of the Grant have been credited into the Consolidated Fund of the GoL to finance budgetary expenditures. The audited financial statements submitted to the Legislature will be published.

**5.11 Supervision and Monitoring:** Whilst the GoL will implement the development policy financing (DPF), the World Bank's staff will review implementation progress to verify that Government has fulfilled program conditions and complied with requisite legal covenants, and to validate monitoring and evaluation findings. The team will monitor that World Bank grant proceeds as well as the agreed funds flow arrangements are complied with and the required confirmation is received from the Government. The team will also monitor and ensure that additional safeguard mechanisms have been complied with as annotated and undertake a review of the dedicated account audit report. Overall, the team will also review the implementation of the agreed PFM actions within the operation.

**5.12** The expected closing date of the operation is December 31, 2018.

#### **D. Monitoring, Evaluation and Accountability**

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

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<sup>25</sup> Letter of the Minister of Finance and Development Planning to the World Bank, dated November 16, 2017.

results indicators will be collected on a gender disaggregated basis to monitor progress, including on school enrollment rates.

**5.14 Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank DPO may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB noncompliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank’s attention, and World Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

## VI. SUMMARY OF RISKS AND MITIGATION

**6.1 The overall risk rating for the operation is ‘substantial’.** Liberia’s transition from conflict to long-term development has been set back by the twin shocks of Ebola and low commodity prices. The country remains fragile with weak state capacity and high vulnerability to economic shocks. There are five main sources of risk - political and governance, macroeconomic, institutional capacity for implementation and sustainability, fiduciary and Ebola - that could potentially jeopardize the expected outcomes and benefits of this operation. The country and fiduciary risks and mitigation measures are summarized below ( Table 6). The potential benefits of the proposed operation, however, outweigh the residual risks and warrant IDA’s assistance to support the implementation of critical policy reforms and provide much needed financial support at this difficult time for Liberia’s economic recovery and transition.

**Table 6: Summary of Risks**

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

\* H – high; S – substantial; M – moderate; L – low.

**6.2 Political and governance:** Political and governance risks are *high*. The current security situation in Liberia remains fragile, but stable. Given the extremely limited fiscal space, the Government is facing challenges in expanding its security apparatus as it takes over the management of security from the UNMIL. The political situation is currently stable but needs to be monitored closely. Legislative and

Presidential elections took place in October 2017 with none of the candidates receiving the majority votes. The run-off, originally scheduled on November 7, 2017 was later postponed by the courts as allegations of election irregularity are being investigated. A new run-off date has been set for December 26, 2017, and peaceful transition is expected. Political risk to the program emanate from uncertainty about the ownership of reforms by the new Administration. The operation includes reforms which are likely to reduce opportunities for corruption and rent-seeking, which may face resistance political resistance from vested interests who could be losing from such reforms. **Mitigation:** A peacebuilding plan has been developed to provide a coherent framework for the support of UN agencies and international partners including the World Bank to the GoL in the wake of two transitions; first the election of a new government in October 2017 and second the end of UNMIL’s mandate on March 30, 2018.<sup>26</sup> To help mitigate the security risks, UNMIL and other donors are providing support to expand the training of more local police force to strengthen their presence in key areas. To help mitigate the political and governance risks, the World Bank continues to engage with Liberia in the policy dialogue, including during the preparation of PRSDPO-IV, in coordination with the IMF and other donors. Political and governance risks are also mitigated by: the program’s alignment with AfT and Liberia Rising 2030 priorities that benefit from wide popular support; and active dialogue with civil society and the private sector to ensure demand side pressure for reforms. The Government, following broad consultations in Spring 2017, has drafted the AfT successor framework for the new administration to ensure the sustainability and continuity of reforms, launched under the AfT 1.

**6.3 Macroeconomic:** Macroeconomic risks are *high*. Liberia is an open economy, heavily dependent on foreign aid, FDIs and primary exports, for fiscal revenues, foreign exchange earnings and employment. It is also dependent on imported fuel and food, including the primary staple—rice. These dependencies amplify the country’s vulnerability to risks of external shocks with both fiscal and balance of payments implications. Weaker-than-expected market conditions for commodities could undermine government revenues and force the Government to cut expenditures to unsustainable levels, which could crowd out priority social spending. This could also delay the implementation of important reforms, supported by the program, such as the provision of necessary budgetary resources to support an efficient functioning of fiduciary institutions (e.g. FIU, LACC, GAC) and LLA. Aid inflows could also fall short of projections, particularly if development partners perceive a weaker Government commitment to reforms. **Mitigation:** The government has shown its commitment to adjusting macroeconomic policies as situations warrant. An example is the introduction of austerity measures in the FY2016/17 budget as revenues fell below the forecast to keep fiscal policy on track. Continued engagement and policy dialogue with the new Administration, in particular in the context of a new programmatic development policy operations series, as well as a new Country Partnership Framework (FY18-22), in close coordination with the International Monetary Fund (IMF), could help mitigate some of these risks. Other ongoing efforts, including through the proposed operation (to broaden the base of the economy through improved access to electricity and the improvement of the business environment as well as improved efficiency and equity of expenditures in health) could support macroeconomic stability and growth.

**6.4 Institutional capacity for implementation and sustainability:** Institutional capacity for implementation and sustainability risks are *substantial*. Every effort has been made to keep the design of this operation relatively simple. Nevertheless, implementation and maintenance of the reforms will require collaboration and coordination amongst state agencies. The already generally weak capacity of the state and the weight of the implementation of the many critical, priority projects under the AfT poses substantial risks of implementation delays as well as of sustainability of some of the reforms. **Mitigation:** Many of these implementation risks are difficult to mitigate. However, the World Bank has consistently

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<sup>26</sup> Sustaining Peace and Security. Liberia Peacebuilding Plan. Final Draft, March 28, 2017.

ensured the provision of training and TA for state building as crucial complementary activities to the DPO series, including under this proposed operation. As outlined above (under ‘links to other operations’), there are a number of complementary TA projects and supporting activities being pursued by the World Bank and other donors that would mitigate the implementation and sustainability risks.

**6.5 Fiduciary:** Fiduciary risks are *high*. The continued engagement of the development partners in the PFM area has resulted in an enhanced fiduciary environment in Liberia including improved capacity. The CBL is addressing gaps in its supervisory and regulatory framework exposed by the failure of the First International Bank Liberia Limited (FIBLL). The MFDP is addressing the concerns raised in the audit for the PRSDPO-III. However, despite the notable progress made in improving the fiduciary system, there are still weaknesses that present opportunities for misappropriation of funds. **Mitigation:** On the CBL side, with TA from IMF, the CBL is strengthening the regulatory environment through: (i) an emergency liquidity assistance framework; (ii) a special bank resolution regime; and (iii) a deposit insurance scheme. With respect to the broader PFM risks, the Government is continuing its roll-out of the IFMIS to key M&As and to expand its coverage to donor resources including projects. This proposed operation will also support public sector transparency and accountability, improved financial reporting, and strengthening of procurement capacity in the M&As as well as at the PPCC to enhance oversight.

**6.6 Other risks: The Ebola epidemic.** This risk is *substantial*. Liberia was declared Ebola free by the World Health Organization (WHO) in January 2016, but there have been subsequent outbreaks. In addition, recent research suggests that the Ebola virus has been detected in “recovered” males for up to 18 months after and that those recovering from Ebola are likely to have long-term health issues.<sup>27</sup> Given the evidence of the economy wide effects, a new Ebola crisis could have adverse effects on the political, economic and social domains as well as on the implementation of reforms under the program. **Mitigation:** Continued efforts to fight the disease, including through community engagement and strengthening of health and social protection systems is critical. The World Bank (P159040) (REDISSE2) Project, which was approved on March 1 2017, will help build regional disease surveillance and response capacity. The Liberia Social Safety Net Project, which was approved on April 28, 2016, will support building a basic national safety net delivery system and provide income support to households who are both extremely poor and food insecure. The budget support provided through the proposed operation will also contribute to mitigating the risk both financially and through the health sector financing reform.

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<sup>27</sup> <http://www.who.int/mediacentre/news/releases/2016/ebola-zero-liberia/en/>

## ANNEX 1: POLICY AND RESULTS MATRIX

Medium Term Objectives	Prior Actions under PRSDPO-I (PRSCI)	Prior Actions under PRSDPO-II	Prior Actions under PRSDPO-III	Prior Actions under PRSDPO-IV	Results Indicators by 2017	Baseline (2012)	Expected Targets (2018)
<b>Pillar 1: Governance and Civil Service Reform</b> AfT Goal: <i>In partnership with citizens, create transparent, accountable and responsive public institutions that contribute to economic and social development as well as inclusive and participatory governance systems.</i>							
<b>1A. Transparency and Accountability</b>							
Improve transparency by adopting & implementing AML/CFT Law in accordance with international obligations.	<b>Prior Action 1:</b> Prepared and submit draft Anti-Money Laundering and Countering the Financing of Terrorism Law to the Legislature	<b>Prior Action 1:</b> The Recipient has established a financial intelligence unit whose vocation is to help increase transparency in the Recipient's financial transactions.	<b>Prior Action 1:</b> The Recipient has facilitated the effective operation of its Financial Intelligence Unit through issuing: (a) <i>Regulation on Currency Transaction Reporting for Financial Institutions</i> (FIU/CBL/SR1A-CTR/02/2016); (b) <i>Regulation on Suspicious Transaction Reporting for Financial Institutions</i> (FIU/CBL/SR2A-STR/02/2016); (c) <i>Regulation for Further Distribution and Action on the UN List of Terrorists and Terrorist Groups</i> (FIU/OR1A-ER/02/2016); and (d) <i>Regulation Dealing with CrossBorder Transportation of Currency and Bearer Negotiable Instruments</i> (LRA/FIU/OR1-TCN/02/2016).	<b>Prior Acton 1:</b> The Central Bank of Liberia has issued a regulation to improve the capacity of CBL to compel financial institutions to comply with their obligations on anti-money laundering and combat the financing of terrorism to promote a more efficient sanctions regime.	<i>Currency Transaction Reports and Suspicious Transaction Reports issues by the FIU (Number)</i>	None	>100,000 (CTR) > 100 (STR)  <i>Current Status (2016)</i> 143,491 CTRs 47 STRs

Medium Term Objectives	Prior Actions under PRSDPO-I (PRSCI)	Prior Actions under PRSDPO-II	Prior Actions under PRSDPO-III	Prior Actions under PRSDPO-IV	Results Indicators by 2017	Baseline (2012)	Expected Targets (2018)
Strengthen the Liberia Anti-corruption Commission and improve legal framework for Asset Disclosure system.		<b>Prior Action 2:</b> The Recipient has completed the preparation of a three-year strategy, whose substance is acceptable to the Association, for the Liberia Anti-Corruption Commission.	<b>Prior Action 2:</b> The Asset Disclosure Unit within the Recipient's Liberia Anti-Corruption Commission (LACC) has become operational as evidenced by the employment of an asset verification officer pursuant to an employment contract dated November 2, 2015.	<b>Prior Action 2:</b> The Liberia Anti-Corruption Commission has issued a regulation to facilitate civil servants' declaration of their assets to promote integrity in the civil service.	<i>Senior Civil servants (Directors and above) providing complete asset statement to LACC (%)</i>	56%	75%  <i>Current status (2017)</i> 439 AD (percentage n/a)
<b>1B: Civil Service Reform</b>							
Rationalize civil service pay scale		<b>Prior Action 3:</b> The Recipient has prepared and adopted a revised pay reform strategy merging allowances and base pay for civil service cadres, with a view to enhancing transparency and accountability of the Recipient's public service.	<b>Prior Action 3:</b> The Recipient has completed merging of discretionary allowances and base pay for civil servants at levels 1-4 as evidenced by a Personnel Action Notice from the Recipient's Civil Service Agency to the Ministry of Finance and Development Planning, dated April 12, 2016 setting out the consolidated pay scale for each of the grades covered under levels 1-4.	<b>Prior Action 3:</b> The Civil Service Agency has issued a Personnel Action Letter to the Ministry of Finance and Development Planning to: (a) complete the merging of discretionary allowances and base pay for civil servants; and (b) set out the consolidated pay scale for grades 1-10 to remove distortions in civil servants' salaries and enhance transparency and accountability in the public service.	<i>Civil servants in grades 1-10 paid according to new pay structure (%)</i>	0%	100%  <i>Current status (2017)</i> 0%

Medium Term Objectives	Prior Actions under PRSDPO-I (PRSCI)	Prior Actions under PRSDPO-II	Prior Actions under PRSDPO-III	Prior Actions under PRSDPO-IV	Results Indicators by 2017	Baseline (2012)	Expected Targets 2018)
<b>1C: Customs Administration</b>							
Strengthen tax and customs administration including expanding customs coverage	<b>Prior Action 2:</b> Rolled-out the Custom administration system (ASYCUDA) to two additional ports of Bo-Waterside and Ganta			<b>Prior Action 4:</b> The Recipient has submitted to its parliament for enactment, a draft "Modernized Customs Code of Liberia (2017)" to strengthen customs and tax administration.	<i>Ports where ASYCUDA is operational (%)</i> <i>Share of total Customs captured by ports where ASYCUDA is operational (%)</i>	41%	55% <i>Current status (2017)</i> 50%
						90%	95% <i>Current status (2017)</i> 93%
<b>1D: Public Financial Management</b>							
Improved credibility, effectiveness, efficiency, and comprehensiveness in public resource management systems and practices.	<b>Prior Action 3:</b> Migrated payroll processing from the Legacy system to the IFMIS solution.	<b>Prior Action 4:</b> The Recipient has completed the installation of the civil service management module of the integrated financial management information systems (IFMIS), with a view to strengthening fiscal discipline and budget transparency.	<b>Prior Action 4:</b> The Recipient has, through its Civil Service Agency, improved civil service payroll management by: (a) completing the validation of all employees through biometric authentication; and (b) linking the human resource management information system (HRMIS) to the payroll system as evidenced by a letter and interim reports from the Civil Service Agency to the Ministry of Finance and Development Planning dated May 2, 2016		<i>Civil servants paid through the IFMIS solution (%)</i>	0%	100%  <i>Current status (2017)</i> 98%

Medium Term Objectives	Prior Actions under PRSDPO-I (PRSCI)	Prior Actions under PRSDPO-II	Prior Actions under PRSDPO-III	Prior Actions under PRSDPO-IV	Results Indicators by 2017	Baseline (2012)	Expected Targets (2018)
		<p><b>Prior Action 5:</b> The Recipient has completed the roll-out of the IFMIS to eleven (11) additional ministries and agencies, for a total of nineteen (19) and brought five (5) donor financed projects onto pilot tested mode in IFMIS, with a view to facilitating management of public systems.</p>	<p><b>Prior Action 5:</b> The Recipient has prepared and published quarterly comprehensive government finance statistics as set forth in the <i>Annual Fiscal Outturn Report for FY 2013/2014</i> and the <i>Annual Fiscal Outturn Report for FY 2014/2015</i>.</p>	<p><b>Prior Action 5:</b> The Ministry of Finance and Development Planning has: (a) published on its website quarterly comprehensive GFS-compliant fiscal operations reports for Liberia for FY2015/16 and FY2016/17 to promote budget transparency; and (b) submitted the IPSAS compliant financial statements for FY2015/16 and FY2016/17 to the GAC to improve internal budget controls.</p>	<p><i>Ministries and Agencies in which IFMIS is installed and operational (Number)</i></p>	7 (MoF and 6 other M&As)	<p>50+ (MoF and All M&amp;As)</p> <p><i>Current status (2017)</i> 50</p>
	<p><b>Prior Action 4:</b> Submitted IPSAS-based financial statements of the GoL for FY 2010/2011) and for FY 2011/2012) to the GAC.</p>	<p><b>Prior Action 6:</b> The Recipient has submitted its IPSAS-based financial statements for FY 2012/2013 to its General Auditing Commission for audit, with a view to improving internal budget controls.</p>	<p><b>Prior Action 6:</b> The Recipient has submitted to the General Auditing Commission its report on the <i>Annual Consolidated Fund for FY 2014/2015</i> for audit, with a view to improving internal budget controls.</p>		<p><i>Submission of Annual Financial Statements to GAC after end of fiscal year (months)</i></p>	> 12 months	<p>&lt; 4 months</p> <p><i>Current status (2017)</i> &lt;5 months</p>

Medium Term Objectives	Prior Actions under PRSDPO-I (PRSCI)	Prior Actions under PRSDPO-II	Prior Actions under PRSDPO-III	Prior Actions under PRSDPO-IV	Results Indicators by 2017	Baseline (2012)	Expected Targets (2018)
<b>1E: Procurement</b>							
Strengthen and professionalize the Procurement capacity of the civil service		<b>Prior Action 7:</b> The Recipient has structured, within its civil service, a career track for procurement specialists, with a view to improving budget execution.	<b>Prior Action 7:</b> The Recipient's PPCC has approved and published minimum standards and a procurement accreditation system entitled <i>Design of a Procurement Professionalization System for Liberia</i> dated <i>May 25, 2016</i> to certify procurement practitioners with a view to professionalizing public procurement.	<b>Prior Action 6:</b> The Ministry of Finance and Development Planning has approved the transfer of the Financial Management Training School to the University of Liberia to enhance the professionalization of financial management and procurement specialists, and started the transfer process.	<i>Trained and certified procurement analyst appointed in the civil service (Number)</i>	None	120  <i>Current status (2017)</i> 112
Strengthen oversight and regulation of procurement system		<b>Prior Action 8:</b> The Recipient has completed the technical review of draft implementing regulations, adopted by the Board of Commissioners of the Recipient's Public Procurement and Concession Commission, with a view to strengthening the Recipient's procurement systems.			<i>Publication of annual Compliance Monitoring Report (CMR) by PPCC (Yes/No)</i>	No	Yes  <i>Current status (2017)</i> No

Medium Term Objectives	Prior Actions under PRSDPO-I (PRSCI)	Prior Actions under PRSDPO-II	Prior Actions under PRSDPO-III	Prior Actions under PRSDPO-IV	Results Indicators by 2017	Baseline (2012)	Expected Targets (2018)
<b>Pillar 2: Economic Transformation</b> <b>AfT Goal: To transform the economy so that it meets the demands of Liberians through development of the domestic private sector—using resources leveraged from FDI in mining and plantations; providing employment for a youthful population; investing in infrastructure for economic growth; addressing fiscal and monetary issues for macroeconomic stability; and improving agriculture and forestry to expand the economy for rural participation and food security.</b>							
<b>2A. Infrastructure: Energy and Power</b>							
Provide affordable electricity to industry, MSMEs and households in urban areas and improve access to alternate generation methods elsewhere.			<b>Prior Action 8:</b> The Recipient has: (a) issued a Petroleum Import License dated August 23, 2016 to LEC to import HFO to generate electricity for public service with its own generating plants; and (b) introduced an open and competitive procurement process for the importation of HFO for LEC's own generating plants, through LEC's Board Policy Resolution dated July 4, 2016, mandating all procurement of fuels for LEC's generation of electricity to be done through an international competitive bidding process.	<b>Prior Action 7:</b> The Liberia Electricity Corporation has signed the contract between LEC and ESBI, a competitively selected firm, to enable ESBI to take over and improve the management of LEC.	<i>Cost of Electricity to end users/kwh</i>  <i>Urban access to electricity (number)</i>  <i>Share of energy produced from high cost diesel (%)</i>	US\$0.55  12,742  100%	<US\$0.40 <i>Current status (2017)</i> US\$35 60,000 <i>Current status (2017)</i> 52,300  <20% <i>Current status (2017)</i> 17%

Medium Term Objectives	Prior Actions under PRSDPO-I (PRSCI)	Prior Actions under PRSDPO-II	Prior Actions under PRSDPO-III	Prior Actions under PRSDPO-IV	Results Indicators by 2017	Baseline (2012)	Expected Targets (2018)
<b>2B. Agriculture and Land Reform</b>							
Develop comprehensive national land tenure and land use system that will provide security of tenure	<b>Prior Action 5:</b> Adopted a Policy Framework for Land Tenure Reform which clarifies land rights related to public land, government land, customary land and private land.			<b>Prior Action 8:</b> The Recipient has pursuant to the Liberia Land Authority Act, made the Liberia Land Authority operational to improve land governance including land administration and management, as evidenced by (a) the allocation of budgetary resources for the LLA in its National Budget FY 2017/2018; and (b) President's appointment of at least 4 out of the 5 Commissioners.	<i>Legacy deeds and new deeds digitized (Number)</i>	Legacy deeds: 0 New deeds: 0	Legacy deeds: 50,000 New deeds: 10,000 <i>Current status (2017)</i> Legacy deeds: 63,219 New deeds: 11,361
Improve access to credit for the agricultural sector including for small farmers and rural MSMEs		<b>Prior Action 9:</b> The Recipient has established a collateral registry with a view to improving credit and expanding the rural economy.			<i>Share of commercial bank credit to the agriculture sector (%)</i>	3.7%	5.5% <i>Current status (2016)</i> 4.4%
<b>Pillar 3: Human Capital Development</b>							
<b>AfT Goal: To improve quality of life by investing in more accessible and higher quality education; affordable and accessible quality healthcare; social protection for vulnerable citizens; and expanded access to healthy and environmentally-friendly water and sanitation services.</b>							
<b>3A. Education</b>							
Ensure equal access to basic education and a variety of post basic education and training opportunities that lead to improved livelihood		<b>Prior Action 10:</b> The Recipient has adopted a comprehensive, fully costed implementation plan for teacher recruitment, training and deployment across all levels of the	<b>Prior Action 9:</b> The Recipient's Ministry of Education has adopted a framework for equitable resource allocation by region and pupil's poverty status, particularly with		<i>Primary, junior secondary, and senior secondary net enrollment rates (%)</i>	Primary: Male 31.6% Female 33.3  Junior Secondary 7.1%	Primary: Male 45% Female 45%  Junior Secondary 20.0%

Medium Term Objectives	Prior Actions under PRSDPO-I (PRSCI)	Prior Actions under PRSDPO-II	Prior Actions under PRSDPO-III	Prior Actions under PRSDPO-IV	Results Indicators by 2017	Baseline (2012)	Expected Targets (2018)
		education system with a view to improving incentives for school attendance.	respect to the school grant scheme as evidenced in its briefing paper to cabinet entitled <i>Revision of the Framework for Equitable Allocation by Region and Pupil's Poverty Status with Respect to School Grant Scheme</i> dated May 6, 2016.			Senior Secondary 5.4%	Senior Secondary 15.4%  <i>Current status (2017)</i> Primary: Male 47.7% Female 48.1% Junior Secondary 13.0% Senior Secondary 12%
<b>3B. Health</b>							
			<b>Prior Action 10:</b> The Recipient's Ministry of Health has conducted a half-year budget execution review for FY2016 as evidenced in its report on <i>Absorptive Capacity of Funds at Ministry of Health</i> dated May 5, 2016 with a view to improving budget execution.	<b>Prior Action 9:</b> The Ministry of Health has approved the <i>Joint Financial Management Assessment Costed Plan 2017</i> to improve efficiency in the use of domestic and external resources for the health sector.	<i>Health budget recurrent execution rate (%)</i>  <i>Health budget execution rate capital (%)</i>	(FY13) 96.0%  (FY13) 74.9%	>96.0%  >74.9%  <i>Current status (FY16)</i> 98%

## ANNEX 2: LETTER OF DEVELOPMENT POLICY



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



**OFFICE OF THE MINISTER**

GOL/MFDP/2-1/BSK/ymj/10265/'17

December 8, 2017

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

### Letter of Development Policy

Dear Dr. Kim:

On behalf of the Government of Liberia, I express my gratitude for the World Bank's partnership with President Ellen Johnson Sirleaf's administration and for your critical efforts to support our *Agenda for Transformation (AfT)*. We have in recent years cooperated closely with the World Bank in building Liberia's physical and human capital, to generate inclusive income growth, in addressing infrastructure constraints in roads and energy, enhancing macroeconomic and public financial management, making agriculture and fisheries more productive, and protecting Liberia's land and forestry resources, among others. In short, we have worked together to create more opportunities for Liberians to participate in the growth process, and experience a better quality of life.

#### 1. Introduction

This Letter of Development Policy serves to provide you with an update on the state of Liberia's economy and recent economic, political and policy developments. On behalf of the Government of Liberia, I would like to request the World Bank's support for a policy-based financing through the Fourth Poverty Reduction Support Development Policy Operation (PRSDPO-IV) for USD 24.67 million equivalent, including USD 4,670,000 in grants from the Liberia Forest Landscape Single Donor Trust Fund.

The current Government is now approaching the last two months of its second and final term in office. Despite the adverse impact of the Ebola Virus Disease epidemic, the sharp decline in the global prices of Liberia's primary exports of rubber and iron ore, and, most recently, the additional pressures from the UNMIL drawdown and the uncertainty ahead of General and Presidential Elections in October and November 2017, we remain focused on our core reform agenda: improving the ability of the State to deliver, grow and transform the economy to generate employment, and enhance our economy's resilience to crises and shocks like the Ebola Virus Disease and the adverse impact of the fall in commodity prices.

## 2. Macroeconomic situation and policy response

The post-Ebola macroeconomic environment has been very challenging, as low or negative growth rates have persisted for the past three years. Prior to the Ebola outbreak, Liberia was growing at an average of 7 percent per year. Since the crisis, the economy has stagnated around an average annual growth rate of zero or below. Recovery from the twin shocks of the Ebola Virus Disease and the decline in commodity prices has led to some productive gains, but the pace of that recovery has been slow. Amidst the depreciation in the local currency and the increase in inflationary pressures, the fiscal budget has been cut by nearly 15 percent. The budget for FY2017/18 has been at US\$564 million, about US\$8 million more than the FY2016/17 budget outturn, but significant revenue shortfalls at mid-year (coupled with election related investment uncertainties) could mean further cuts to expenditures, which could impact service delivery.

In 2017, the economy is expected to grow at 2.5 percent, against the contraction of 1.6 percent experienced in 2016. The expected growth is likely to be driven by gold production and increased activities in the agriculture sector, followed by improvements in the services sector. Though there has been an uptick in the prices of rubber and iron ore since the last quarter of 2016, the supply response to the price change within Liberia has remained subdued.

Revenue shortfalls have been particularly sharp in the pre-election period, even as election-related spending needs have been higher. In FY 2016/17 and FY 2017/18, the Government spent over US\$25 million for elections, including ensuring election security. This extraordinary fiscal pressure was concurrent with the rising spending needs for the health and education workforces as well as for social protection to mitigate the impact of the ongoing slowdown. In both FY 2016/17 and FY 2017/18, the Government has also initiated fiscal consolidation and significant austerity measures (capping growth of the civil service payroll, reducing foreign travel and allowances, limiting goods and services to the essentials, and implementation of stringent fiscal rules). While the Liberia Revenue Authority (LRA) has continued its efforts to tighten tax administration and enforcement, and enhance domestic revenue mobilization, at the close of the first quarter of FY 2017/18, the Government anticipates a financing gap of at least US\$20 million, to be bridged with the support of the proposed World Bank operation.

Monetary policy will continue to focus on limiting inflation by containing excess volatility in the foreign exchange market. The primary stance for monetary policy for 2017 remains focused on low inflation, as Government strives to ensure a stable macroeconomic environment through exchange rate stability. However, the Liberian dollar exchange rate relative to the U.S dollar on average continues to depreciate, due to a high transaction demand for foreign currency. As of the end of October 2017, the Liberian dollar has depreciated more than 20 percent on a year-on-year basis. Annual average inflation is projected to be about 11.4 per cent at the end of 2017, mainly due to the depreciation of the Liberian dollar.

The current account balance is projected to deteriorate, as declines in current transfers and income payments exceed gains in the trade and services balance. The resulting sharp decline in net foreign currency inflows has put pressure on the exchange rate and inflation. Declining imports will support Liberia's trade balance, while increases in exports, mainly due to better

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earnings from rubber and iron ore and increased gold production, have somewhat eased the pressures on reserves, although much more is needed to promote exports.

Notwithstanding these challenges, we see better prospects for the economy. We project medium-term economic growth at above 5.0 percent on average, as recovery in mining, agriculture, light manufacturing, and improvements in infrastructure – mostly energy and roads—take hold. The country’s fiscal position is also expected to improve as we strengthen domestic revenue mobilization and contain public spending.

We are working in partnership with the IMF. The ECF arrangement for Liberia was approved by the Board on November 19, 2012. On November 13, 2017, the Executive Board of the International Monetary Fund (IMF) completed the seventh and eighth (final) reviews of Liberia’s economic performance under the program supported by the Extended Credit Facility (ECF) arrangement. The review concluded that good progress has been made on structural reforms and that overall, Government has implemented an appropriate macroeconomic policy mix. Government has matched its fiscal policy to a tight revenue envelope, and undertaken measures to strengthen the economy, showing its willingness to adjust policies to economic circumstances. The Executive Board also approved our request to waive the non-observance of the performance criteria. The completion of these reviews resulted in total disbursements under the arrangement of SDR 111.664 million (about US\$ 156.7 million). The seventh review marks five years of a successful IMF program in Liberia, reiterating the Government’s commitment to live within our means.

Liberia is currently at a critical juncture in its peace building and development process, as it grapples with the ripples of additional fiscal challenges, partly related to elections financing. Looking further ahead, we anticipate a rebound in the economy in the post-election period as investors release demand pent-up by risk aversion, and there is some repatriation of risk capital.

### 3. The Government’s Program

Economic and financial policies for the past three years have been anchored in the Government’s medium-term development program, the *Agenda for Transformation*, and by the *Economic Stabilization & Recovery Plan* developed in 2015 after the Ebola crisis. The Government’s priorities remain to ensure a smooth and efficient democratic transition, maintain security and macroeconomic stability, develop a more resilient health system, enhance quality in the primary education system, and create an enabling environment for private sector development. Going forward, it will be crucial to ensure that growth is not reliant only on extractives and is mainly driven by the private sector. It is anticipated that the next government will maintain a level of continuity, focusing on diversification of the economy and job creation. As the *Agenda for Transformation* concludes, the Government of Liberia remains committed to the series of policy reforms underway. We thank the World Bank for its engagement, and close cooperation with the Government to incrementally develop and support, through the DPO series, program of reforms centred on improved governance and civil service reform, economic transformation, and human capital development.

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## Pillar 1: Governance and Civil Service Reform

The Government has continued to enhance transparency and improve its institutional systems so that citizens can demand more from the public sector. In this regard, in May 2017, the Government strengthened and revised the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Regulations for Financial Institutions in Liberia, which will improve the Central Bank of Liberia's ability to compel compliance by financial institutions with AML/CFT obligations and to sanction non-compliance (*Prior Action 1*). In May 2017, the Liberia Anti-Corruption Commission (LACC) issued regulations for asset declaration for public officials, under the National Code of Conduct. By the end-July 2017, more than 500 Government officials and senior civil servants had filed their official asset declaration, and as of August 22, 2017, 583 had submitted (*Prior Action 2*).

We are also working to modernize Liberia's civil service and address persistent bottlenecks to comprehensive civil service reform. With World Bank's assistance, through the *Civil Service Modernization Project*, the Government is striving towards an independent, accountable, merit-based, and performance-driven civil service. Strategic reforms are well underway, despite delays during the Ebola crisis and in the face of wage pressures. Through our engagement with the World Bank, formal processes and standard personnel management have been created; biometric authentication has been instituted; and a pay reform strategy has been developed. Government has undertaken a harmonized pay structure to remove distortions in civil servants' salaries and enhance transparency and accountability in the public service. On December 5, 2017, the Civil Service Agency (CSA) completed the merger of discretionary allowances and base pay for civil servants; and set out the consolidated pay scale for grades 1-10 (*Prior Action 3*). Implementation and roll out of the pay reform by the CSA and the MFDP will take place over the medium term and will require technical support, and concerted efforts by all the spending entities. In the short term, the Government of Liberia has agreed to put in place measures to halt the continued rise in the wage bill by limiting the discretionary use of general allowance funds by heads of institutions to recruit public sector employees. The following specific actions will be phased out over the period between now and the implementation of the next budget (FY2018/19):

- Further review and validation of the current payroll database to remove potential duplicated records and or wrongly classified employees. This will be additional work for the current technical team but largely with the support of the CSA;
- Complete the classification of employees that have not been classified in the current database and accurately assign the proposed pay scale. This will allow an accurate analysis of the impact of the pay reform on the public budget;
- Set up a high-level inter-agency taskforce comprising the CSA and MFDP to implement the verification and integration of the merged payroll database into the Integrated Financial Management Information System (IFMIS). This will activate the utilization of payroll related features within IFMIS that will automatically help store and manage the payroll. Subsequently, all public-sector employees will be paid directly through the IFMIS pay module;
- Suspend increases in salaries and allowances for all existing employees under each of the MACs unless such decisions are co-signed by the designated authorities from CSA and MFDP. In addition, the recruitment of new employees, except for Presidential Appointees, will require written approval of CSA and MFDP which will help to control employment using the general allowance budget line; and

- Enact the Civil Service Commission law to empower the CSA to better manage the public sector pay reforms.

The Government has also endeavoured to strengthen key public financial management functions: revenue administration, financial reporting, internal controls, and procurement. With respect to *customs and tax administration*, the Liberia Revenue Authority (LRA) adopted a Corporate Strategic Plan, approved in 2016, which sets out the basis for a Customs Customer Service Charter (*Prior Action 4*). Further to this, in June 2017, the Modernized Customs Code (2017) was submitted by the President to the Legislature. The Code is expected to be enacted before the end of 2017. The Act is intended to develop modern customs processes and boost Liberia's benefits from legitimate international trade, while at the same time protecting tax payers. The Government has published GFS-compliant fiscal outturns and submitted IPSAS-compliant financial statements for FY 2016/17 (*Prior Actions 5*). To build more responsive public institutions, the Procurement Training School will be moved to the University of Liberia, to institutionalize high-quality procurement training, increase the number of procurement professionals in the civil service (*Prior Action 6*), and build procurement capacity in a sustainable manner.

#### Pillar 2: Economic Transformation

Energy remains a critical constraint to businesses and households alike. With the Mount Coffee hydropower plant fully operational this year, the Government has achieved a major milestone and has moved to gradually reduce the electricity tariff, even while significant gains are still needed in transmission and generation. The Government is increasing its use of hydropower and low-cost thermal energy (heavy fuel oil), with a commensurate reduction in diesel. To drive forward reforms that continue to improve the efficiency and financial viability of the Liberia Electricity Commission (LEC), and with the support of the World Bank, the Government has competitively selected an international firm to serve as management contractor for LEC. The contract was signed on November 8, 2017 and the firm will be in place from mid-November 2017 (*Prior Action 7*).

To promote investment and productivity in agriculture – critical to diversifying the economy's base and creating sustainable livelihoods for Liberians – the Government has established and resourced the Liberia Land Authority (LLA). The LLA was established October 6, 2016, by an Act of the National Legislature. The Authority has a comprehensive mandate for land policy, land administration, and oversight of land management regulation and use functions. It is governed by a Commission, comprised of five (5) Commissioners, including the Chairman. In the National Budget for 2017/18, the LLA's first-ever budget was included at US\$1,500,000 (*Prior Action 8*).

Access to credit remains a binding constraint to growth in Liberia. In particular, recognizing the importance of agricultural diversification and access to finance for farmers and agribusiness, the Government has made efforts to address the binding constraints of land and finance for key agriculture value chains. One indication of the result of this effort is that after a year of virtually no growth in private sector credit in 2016, growth in credit has picked up in 2017. Since 2015, credit to the private sector has grown to more than 22 percent of GDP, a 10 percent increase from

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last year. Liberia's ratio of domestic bank lending to the private sector relative to GDP is above the average for sub-Saharan African countries.

### Pillar 3: Human Capital Development

Recognizing that human capital is critical to our nation, Liberia's education system has continued to undergo a trajectory of important reforms. While the post-primary access rate increased from 52 percent in 2010 to 89 percent in 2015, a significant number of individuals only complete primary or basic education and remain without the technical skills to contribute to Liberia's development. The Government has continued the policy reforms laid out in the *Education Sector Plan*. In 2016, the Ministry of Education launched a reform program to transform the education system and dramatically improve learning outcomes. These reforms were developed based on an in-depth analysis of our education sector, with assistance from the Global Partnership for Education and the World Bank. As a result, payroll vetting is ongoing, and to date, more than 1900 "ghost workers" have been removed from the payroll. This resulted in an annual cost saving of \$2.5 million that can be reinvested in education — either in training our existing teachers or hiring energetic new, qualified graduates.

In the health sector, even though the Ebola crisis is behind us, access and quality of healthcare remains an uphill endeavour. With support from the World Bank (*Ebola Emergency Recovery Project*, *Health Systems Strengthening AF*, and *Regional Disease Surveillance Systems Enhancement*), the Government is rebuilding a resilient health system, training and deploying health workers, and creating systems to rapidly identify and buttress efforts against a future cross-border epidemic like Ebola. At the same time, the Government is carefully managing its domestic and external resources for post-Ebola investment in the health sector. In light of this, the Ministry of Health has approved the Joint Costed Health Sector Financing Plan in November 2017 (*Prior Action 9*). Furthermore, recognizing the very real need that persists in Liberia's health sector, the Government has been working to better understand and minimize the persistent gap between the Ministry of Health's budget and actual execution, and to ensure that external donor resources are aligned to the highest-priorities. In support of this, over FY 2016/17 the Ministry of Health; (i) conducted a budget execution review for FY2015/16 to identify bottlenecks, and (ii) signed a IHP+ compact in August 2017 to coordinate financing and interventions with donors.

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#### 4. Conclusion

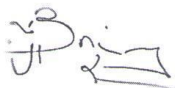
This proposed operation is the last in the current programmatic series of Poverty Reduction Development Policy Financing Operations, and the last one to be implemented by the outgoing Administration. We therefore wish to take the opportunity to reflect upon and express our gratitude for the significant contributions the World Bank has made to improving the lives of Liberians.

But there is more work to be done. Based on the lessons and achievements of the *Agenda for Transformation*, the Government has developed a successor plan to guide Liberia's development over the next five years. The Ministry of Finance and Development Planning led consultations with sectors and a wide range of stakeholders. As a result of this framework, we have developed a successor framework examining the potential development pathways for Liberia, which the President will hand over to her successor as she leaves office. The Government's (draft) goal for the next five years is: economic transformation, inclusive, accelerated and sustained economic growth. Many of these areas reflect the work undertaken jointly with the World Bank, and we hope that the World Bank will continue to support these aspirations in the years ahead.

Over the past several years, in the face of macroeconomic, currency, and inflationary pressures, the Ministry of Finance and Development Planning, together with the Central Bank of Liberia, have strived to put the right macroeconomic policy mix in place to ensure near-term macroeconomic stability, while keeping the momentum of monetary and fiscal adjustments in the medium-term. This effort has been supported by both the IMF and the World Bank. Even though the current IMF program expired on November 18, 2017, the Government nonetheless remains committed to pursuing macroeconomic and structural reforms, including implementing the policies and undertakings laid out in the Memorandum of Economic and Financial Policies (MEFP) with the IMF and, crucially, in protecting priority investments under the *Agenda for Transformation* and our long-term strategy, *Liberia Rising 2030*.

The Government and people of Liberia count on your continued partnership in the years to come. Please accept the assurances of my highest esteem.

Sincerely,



Boima S. Kamara  
**MINISTER**

## ANNEX 3: IMF RELATIONS ANNEX



INTERNATIONAL MONETARY FUND



Press Release No.17/437  
FOR IMMEDIATE RELEASE  
November 13, 2017

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Executive Board Completes Seventh and Eighth ECF Reviews for Liberia And Approves US\$20.7 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the seventh and eighth (final) reviews of Liberia’s economic performance under the program supported by the Extended Credit Facility (ECF) arrangement. Completion of these reviews enables the immediate disbursement of SDR 14.764 million (about US\$20.7 million). This brings total disbursements under the arrangement to SDR 111.664 million (about US\$ 156.7 million).

The Executive Board also approved the authorities’ request to waive the non-observance of performance criteria. The waivers pertain to the end-December 2016 floors on total revenue collection of the central government and ceiling on the present value of gross external borrowing by public sector, and to end-June 2017 floors on total revenue collection of the central government, net foreign exchange position of the Central Bank of Liberia, and the ceiling on the Central Bank of Liberia’s gross direct credit to the central government.

The ECF arrangement for Liberia was approved by the Board on November 19, 2012 (see [Press Release No. 12/449](#)) for SDR 51.68 million (about US\$69.3 million or 40 percent of quota as of that date). In September 2014, as part of the response in the fight against Ebola, the Board approved an augmentation of access of SDR 32.3 million (about US\$ 43.3 million or 25 percent of quota as of that date) under the ECF arrangement for Liberia.

Following the Board’s discussion on Liberia, Mr. Tao Zhang, Deputy Managing Director and Acting Chair issued the following statement:

“Liberia’s economic recovery has suffered some delay due to the lingering effects of the Ebola epidemic, low global commodity prices, and the impact of the withdrawal of the United Nations peacekeeping mission. The resulting sharp decline in net foreign currency inflows has put pressure on the exchange rate and inflation, and led to a mixed program performance.

“The authorities responded to these shocks with an appropriate macroeconomic policy mix. Combined with exchange rate adjustment, a relatively tight fiscal and monetary policy stance prevented exchange rate overshooting and contained second round inflationary dynamics.

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“Going forward, maintaining macroeconomic stability is critical. In fiscal policy, adherence to rules governing the release of contingent expenditure will be crucial to avoid unintended financing gaps, while protecting high-priority social spending. The monetary policy stance needs to remain tight in the face of inflationary and exchange rate pressures. Staying within the spending limits set in the central bank’s three-year financial plan will be essential to regaining adequate reserve cover.

“Recourse to external borrowing should remain restrained as the risk of debt distress is already elevated. New borrowing should be on concessional terms and, to the extent possible, replaced with enhanced utilization of already signed and ratified loans.

“The publication of the executive summary of the forensic audit report of the circumstances leading up to the closure of First International Bank Liberia Limited and a significant financial loss by the central bank was an important first step in ensuring transparency. The publication of an action plan to improve central bank governance and supervisory capacity is also welcome. Sustained efforts will be needed for successful implementation.

“Good progress has been made on structural reforms, and it would be important that this momentum is maintained beyond the expiration of the Fund-supported program. Resolving the current political uncertainty in a timely manner consistent with the democratic process would be important to minimize the economic and social costs of delay.”

**ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE**

Proposed Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
<b>Pillar 1: Governance and Civil Service Reform</b>		
<p><b>Prior Action #1:</b> The Central Bank of Liberia has issued a regulation to improve the capacity of CBL to compel financial institutions to comply with their obligations on anti-money laundering and combat the financing of terrorism to promote a more efficient sanctions regime.</p>	<p><b>Positive.</b> AML/CFT actions could lead to a reduction of illicit financial inflows which the research shows are often associated with the extractive industry including illegal mining that the research has shown could have adverse effects on the environment, including the rainforest.</p>	<p><b>Positive:</b> Could help to: (i) promote inflows of FDI for growth and employment creation; (ii) reduce the misallocation of public resources both of which are expected to have positive impacts on poverty over the medium to long term; and (iii) enhance transparency and accountability by public officials.</p>
<p><b>Prior Action #2:</b> The Liberia Anti-Corruption Commission has issued a regulation to facilitate civil servants' declaration of their assets to promote integrity in the civil service.</p>		
<p><b>Prior Action #3:</b> The Civil Service Agency has issued a Personnel Action Letter to the Ministry of Finance and Development Planning to: (a) complete the merging of discretionary allowances and base pay for civil servants; and (b) set out the consolidated pay scale for grades 1-10 to remove distortions in civil servants' salaries and enhance transparency and accountability in the public service.</p>	<p><b>Neutral:</b> This action is not expected to have any environmental effects.</p>	<p><b>Positive:</b> Better and more transparent wages to civil servant is expected to improve the delivery of social services, however the impact is only expected to be at the margin and not significant.</p>
<p><b>Prior Action #4:</b> The Recipient has submitted to its parliament for enactment, a draft "<i>Modernized Customs Code of Liberia (2017)</i>" to strengthen customs and tax administration.</p>	<p><b>Neutral:</b> This action is not expected to have any environmental effects.</p>	<p><b>Positive:</b> Expected to improve efficiency of customs and tax administration, reduce red-tape and opportunities for corruption and thereby increasing revenue collection and further on service delivery.</p>
<p><b>Prior Action #5:</b> The Ministry of Finance and Development Planning has: (a) published on its website quarterly comprehensive GFS-compliant fiscal operations reports for Liberia for FY2015/16 and FY2016/17 to promote budget transparency; and (b) submitted the IPSAS compliant financial statements for FY2015/16 and FY2016/17 to the GAC to improve internal budget controls.</p>	<p><b>Neutral:</b> These fiduciary actions are not expected to have any environmental effects.</p>	<p><b>Neutral:</b> Expected to improve efficiency of public resource management and reduce opportunities for corruption.</p>

Proposed Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
<p><b>Prior Action #6:</b> The Ministry of Finance and Development Planning has approved the transfer of the Financial Management Training School to the University of Liberia to enhance the professionalization of financial management and procurement specialists, and started the transfer process.</p>	<p><b>Neutral:</b> These actions are not expected to have any environmental effects.</p>	<p><b>Neutral:</b> Expected to improve oversight of public resource management and human capital.</p>
<b>Pillar 2: Economic Transformation</b>		
<p><b>Prior Action #7:</b> The Liberia Electricity Corporation has signed the contract between LEC and ESBI, a competitively selected firm, to enable ESBI to take over and improve the management of LEC.</p>	<p><b>Positive:</b> Improved management of energy sector is expected to have indirect positive environmental effect.</p>	<p><b>Positive:</b> Improved management will lead to reduction of losses in the system and increasing efficiency of supply of energy, thus contributing to availability and affordability of energy and increase access particularly to those in lower income distributions and to all Liberians.</p>
<p><b>Prior Action #8:</b> The Recipient has pursuant to the Liberia Land Authority Act, made the Liberia Land Authority operational to improve land governance including land administration and management, as evidenced by (a) the allocation of budgetary resources for the LLA in its National Budget FY 2017/2018; and (b) President’s appointment of at least 4 out of the 5 Commissioners.</p>	<p><b>Positive:</b> Better land management is expected to have positive environmental effect.</p>	<p><b>Positive:</b> Implementation of land reform by LLA will help to address one of the most binding constraints to inclusive growth and increase parcels of land own use and ownership rights among those in agriculture.</p>
<b>Pillar 3: Human Capital Development</b>		
<p><b>Prior Action #9:</b> The Ministry of Health has approved the <i>Joint Financial Management Assessment Costed Plan 2017</i> to improve efficiency in the use of domestic and external resources for the health sector.</p>	<p><b>Neutral:</b> These actions are not expected to have any environmental effects.</p>	<p><b>Positive:</b> Expected to lead to better healthcare delivery, increased access to better health care, resulting in lower maternal and infant mortality.</p>