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IDA/R2017-0204/1

June 5, 2017

Closing Date: Monday, June 26, 2017 at 6 p.m.

FROM: Vice President and Corporate Secretary

Liberia - Third Poverty Reduction Support Development Policy Operation Supplemental Financing

Supplemental Financing Document

Attached is the Supplemental Financing Document regarding proposed grant and credit to Liberia for a Third Poverty Reduction Support Development Policy Operation (IDA/R2017-0204), which is being processed on an absence-of-objection basis.

Distribution:
- Executive Directors and Alternates
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The World Bank

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Report No. 114797-LR

INTERNATIONAL DEVELOPMENT ASSOCIATION PROGRAM DOCUMENT FOR A PROPOSED

SUPPLEMENTAL GRANT
IN THE AMOUNT OF SDR 4.8 MILLION (US$6.5 MILLION EQUIVALENT)

AND

SUPPLEMENTAL CREDIT
IN THE AMOUNT OF SDR 4.1 MILLION (US$5.5 MILLION EQUIVALENT)

AND

SUPPLEMENTAL GRANT
IN THE AMOUNT OF US$ 4,366,500
FROM THE LIBERIA FOREST LANDSCAPE SINGLE DONOR TRUST FUND

TO

REPUBLIC OF LIBERIA

FOR THE

THIRD POVERTY REDUCTION SUPPORT DEVELOPMENT POLICY OPERATION

May 30, 2017

Macroeconomics and Fiscal Management Global Practice
Western Africa Country Management Unit (AFCW1)
Africa Region

REPUBLIC OF LIBERIA- GOVERNMENT FISCAL YEAR

July 1 – June 30

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of April 30, 2017)

Currency Unit =	Liberian Dollar
US$1.00	LR$ 111.70
US$1.00	SDR 0.72938396

WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS AND ACRONYMS

AD	Asset Disclosure
AfT	Agenda for Transformation
AML	Anti-money Laundering
ASYCUDA	Automated System for Customs Data
BSWG	Budget Support Working Group
CBL	Central Bank of Liberia
CFT	Countering the Financing of Terrorism
CPS	Country Partnership Strategy
CTRs	Currency transactions reports
CRW	Crisis Response Window
CSA	Civil Service Agency
CTR	Currency Transaction Report
DPF	Development Policy Financing
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
EPA	Environmental Protection Agency
ERRTF	Ebola Recovery and Reconstruction Trust Fund
ESRP	Economic Stabilization and Recovery Plan
EVD	Ebola Virus Disease
FDI	Foreign Direct Investment
FIU	Financial Intelligence Unit
FY	Fiscal Year
GAC	General Auditing Commission
GDP	Gross Domestic Product
GFS	Governance Finance Statistics
GoL	Government of Liberia
HFO	Heavy Fuel Oil
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPC	Infection Prevention Control
IPSAS	International Public Sector Accounting Standards
LACC	Liberia Anti-Corruption Commission
LR$	Liberian Dollar

LRA	Liberia Revenue Authority
M&As	Ministries and Agencies
MFDP	Ministry of Finance and Development Planning
NDRC	National Disaster Relief Commission
OP	Operational Policy
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PPCC	Public Procurement and Concessions Commission
PRSDPO	Poverty Reduction Support Development Policy Operation
PSMP	Public Sector Modernization Project
PTA	Parent-Teacher Association
SOE	State-Owned Enterprise
STR	Suspicious Transaction Report
TA	Technical Assistance
TF	Trust Fund
UNMIL	United Nations Mission in Liberia
WHO	World Health Organization

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REPUBLIC OF LIBERIA

SUPPLEMENTAL FINANCING FOR THE THIRD POVERTY REDUCTION SUPPORT DEVELOPMENT POLICY OPERATION

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The Supplemental Financing for the Third Poverty Reduction Support Development Policy Operation was prepared by an IDA team led by Marina Bakanova (Senior Economist, GMF01) and Daniel Kwabena Boakye (Economist, GMF01), and comprising Errol George Graham (Program Leader, AFCW1), Cari Votava (Senior Financial Sector Specialist, GMF1B), Clemencia Torres de Mästle (Senior Energy Economist, GEE08), Peter Darvas (Senior Economist, GED13), Munirat Ogunlayi (Health Specialist, GHN13), Shunsuke Mabuchi (Senior Health Specialist, GHN13), Victoria Stanley (Senior Rural Development Specialist, GSULN), Smile Kwawukume (Senior Public Sector Specialist, GGO19), Saidu Dani Goje (Senior Financial Management Specialist,GMF1B), Donald Mphande (Lead Financial Management Specialist, GGO31), Nightingale Rukuba-Ngaiza (Senior Counsel, LEGAM), George Ferreira Da Silva (Finance Analyst, WFALA), Weneyam Hyppolyte Balima (Consultant, GMF01), Silvia Gulino (Operations Analyst, GMF01) and Claudia Rocio Manrique (Program Assistant, GMF01). The Peer Reviewers were Fernando Andres Blanco Cossio (Lead Economist, GMF04) and Raymond Muhula (Senior Public Sector Specialist, GGO15). The operation benefited from the guidance of Henry Kerali (Country Director, AFCW1), Larisa Leshchenko (Country Manager, AFCW1), Sergiy Kulyk (Country Program Coordinator, AFCW1), Seynabou Sakho (Practice Manager, GMF01) and Sona Varma (Lead Economist, GMF01).

SUMMARY OF THE PROPOSED PROGRAM

REPUBLIC OF LIBERIA

SUPPLEMENTAL FINANCING

FOR THE THIRD POVERTY REDUCTION SUPPORT DEVELOPMENT POLICY OPERATION (LR-PRSDPO-III)

Borrower	Republic of Liberia
Implementing Agency	Ministry of Finance and Development Planning (MFDP)
Financing Data	Grant from International Development Association (IDA) Amount: US$6.5 million The grant will be on standard IDA terms. Credit from International Development Association (IDA) Amount: US$5.5 million The credit will have a maturity of 38 years, including a grace period of six years. Grant from the Liberia Forest Landscape Single Donor Trust Fund TF072567 Amount: US$4,366,500.
Disbursements	The proposed Supplemental Financing will be disbursed in one tranche upon effectiveness.
Operation ID	P163164

SUPPLEMENTAL FINANCING DOCUMENT
FOR PROPOSED
THIRD POVERTY REDUCTION SUPPORT DEVELOPMENT POLICY OPERATION

I. BACKGROUND

1. **This program document proposes a supplemental financing to the Third Poverty Reduction Support Development Policy Operation (PRSDPO-III) to the Republic of Liberia in amount of SDR 4.8 million (US$6.5 million equivalent) in IDA grants and of SDR4.1 million (US$5.5 million equivalent) in IDA credits, and of US$4,366,500 in grants from the Liberia Forest Landscape Single Donor Trust Fund.**[1] PRSDPO-III, in the amount of US$39.1 million equivalent in grants was approved by the Board on November 17, 2016, to support the implementation of the Government's Agenda for Transformation (AfT), which remains Liberia's extant medium-term strategy even in the aftermath of the Ebola crisis. This single tranche operation is supplementing the third in a programmatic series of four Development Policy Operations (DPOs) undertaken by the World Bank and is consistent with the Country Partnership Strategy (CPS).[2]

2. **At the time the PRSDPO-III was negotiated in October 2016, 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 gross domestic product (GDP) expected to contract by 0.5 percent in 2016 as compared to 2.5 growth projected earlier. 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 are coming from the cost of upcoming October 2017 presidential elections and security handover from UNMIL. This led to increased poverty and created uncertainty around the possibility of accomplishing key objectives of the AfT, such as increasing per capita income and improving living standards for a large share of population. The Government of Liberia (GoL) responded to exogenous shocks by the Implementation of strong corrective actions, supported by the International Monetary Fund (IMF) Extended Credit Facility (ECF) program. In December 2016, the IMF has augmented the program and directed the installment of US$17.3 million to the Government budget. The IMF and the World Bank coordinated closely to provide an exceptional budget support, which was intended to fill the remaining anticipated financing gap in FY17 and to avoid unsustainable expenditure cuts.

3. **Economic and fiscal performance in 2016 and 2017 turned out to be worse than expected as downside risks, highlighted in the PRSDPO-III program document, have materialized.** A more complete picture about the impact of twin shocks and UNMIL withdrawal on economic performance in 2016 and 2017 is now available. Mining sector contraction was larger than projected due to the persistent commodity price shock. Services sector growth was adversely affected by the stronger-than-expected impact of UNMIL withdrawal on domestic demand. The GDP contraction is estimated at 1.6 percent in 2016, which in turn has lowered the revenue base. In response to the larger than anticipated financing gap, the GoL is undertaking further adjustment and seeking additional financial support to protect priority

[1] The Single Donor for the Trust Fund is the Kingdom of Norway.
[2] IDA, IFC and MIGA Country Partnership Strategy 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.

expenditures and to implement reform measures to put the economy on sound footing under a credible macroeconomic framework.

II. THE IMPACT OF THE CRISIS

4. **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 was 8.7 percent in 2013, 0.7 percent in 2014 (initially projected at 6 percent), and zero percent in 2015. The longer than expected terms of trade shocks, which have been exacerbated by the draw-down of the UNMIL peacekeeping forces, pushed the economy to a contraction in 2016 (Table 1). Before the crises, growth was driven by the expansion in iron ore mining as well as increased activity in the construction sector. Rubber production and exports were already slowing, reflecting protracted low international prices. Production in the mining sector which was more resilient to the Ebola crisis than initially expected slumped with the sustained reduction in iron ore prices, leading iron ore concession companies, to either scale down their operations or close down, leading to job losses and a decline in government revenue. The latest estimates (May 2017) suggest that mining sector contraction is 33 percent compared with the projected 24 percent decline. The adverse impact of the UNMIL withdrawal on the performance of services sector, which contributed 50 percent to total GDP growth in 2014-2016, turned out to be more substantial than initially projected, with services growth being estimated now at 2.1 percent as compared to the October projection of nearly 4 percent. Inflationary pressures increased, with the inflation rate moving 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 Liberian dollar against the U.S. dollar, and the subsequent rise in the cost of food, which is mostly imported. The resultant rise in the cost of living and limited employment opportunities continue to undermine the welfare of Liberians in both urban and rural areas.

Table 1: Estimated Impact of the twin shock on GDP Growth

	2014		2015		2016		
	Initial Projection (June 2014)	Actual Outturn	Initial Projection	Actual Outturn	Initial Projection	Revised Projection (Oct 2016)	Estimated Outturn (May 2017)
Real GDP growth	5.9	0.7	6.8	0.0	2.5	-0.5	-1.6
Agriculture and fisheries	3.5	-3.7	5.3	0.7	1.9	6.4	6.4
Forestry	2.0	2.2	6.5	2.0	2.0	-7.0	0.0
Mining and panning	4.4	3.3	4.8	-15.9	-11.5	-23.8	-33.0
Manufacturing	9.6	-0.7	10.1	-1.5	8.7	-4.9	-5.2
Services	8.1	2.3	7.7	4.3	5.4	3.9	2.1

Source: Liberian Authorities, World Bank and IMF Staff estimates and projections.

5. **The twin shocks eroded some of the important gains that Liberia made 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 increase to 57.6 percent in 2016.

6. **After significant deterioration during 2014-2015, Liberia's external performance improved in 2016 amid remaining balance of payments pressures.** Lower exports, higher food imports, and reduced international travel and cross-border commerce have placed a strain on the balance of payments, with the current account widening from 28.2 percent of GDP in 2013 to 32.5 percent of GDP in 2014 and further to 35.2 percent in 2015 (Table 2). Exports have fallen by a further 6.7 percent in 2016 following the 46 percent drop in 2015 despite the uptick in rubber and iron ore prices in the last quarter of 2016. However, a relatively faster decline in imports, arising from the drawdown by UNMIL and other relief agencies as well as the reduction in grant-financed imports, led to an improvement in the current account deficit in 2016. The gross official reserves are estimated to increase to US$462 million in 2016 from US$446 million in 2015.

Table 2: Liberia- Selected Economic and Financial Indicators, 2013-2019

Indicator	2013	2014	2015	2016	2017	2018	2019
	Act.	Act.	Act.	Est.	Proj.	Proj.	Proj.
Real GDP (% growth)	8.7	0.7	0.0	-1.6	2.6	4.0	5.0
Consumer prices (annual average % growth)	7.6	9.9	7.7	8.8	11.4	9.5	8.7
Consumer prices (end of period %)	8.5	7.7	8.0	12.5	10.5	9.1	8.3
Exchange rate (end of period L$/US$)	77.4	82.6	88.5	102.5	--	--	--
Exports, f.o.b (US$ Millions)	559	483	255	238	289	324	354
Imports, f.o.b (US$ Millions)	1,020	1,228	1,171	903	928	921	931
Current account balance incl. grants (% of GDP)	-28.2	-32.5	-35.2	-25.1	-27.9	-31.2	-25.1
Gross official reserves (US$ Millions)	393	411	446	462	443	474	522
Gross official reserves (months of imports)	2.4	2.4	3.0	2.8	2.7	3.1	3.4
Public Finance							
Revenues and Grants (% of GDP)	29.9	27.4	32.4	31.4	30.8	26.5	25.2
Expenditures (% of GDP)	31.5	29.3	40.8	35.6	38.2	32.4	30.4
Overall surplus / deficit (incl. grants)	-1.6	-1.9	-8.4	-4.2	-7.4	-5.9	-5.1
Financing							
External financing (net)	0.4	2.2	5.7	5.4	5.5	5.0	5.0
Loans	0.7	2.4	6.0	5.5	5.6	5.3	5.1
of which: Ebola related	0.0	0.0	2.4	1.3	0.0	0.0	0.0
Amortization	-0.3	-0.3	-0.2	-0.1	-0.1	-0.3	-0.1
Domestic financing (net)	1.2	-0.2	2.7	-1.2	1.9	0.9	0.2
Central Bank of Liberia	0.3	-1.5	2.0	0.4	-0.8	0.6	1.4
Use of deposits	1.0	-1.1	-2.7	0.4	-1.6	0.6	2.0
Gross borrowing	1.1	0.2	4.9	0.0	0.8	0.0	0.0
Amortization	-1.9	-0.6	-0.3	0.0	0.0	0.0	-0.6
Deposit money banks	0.7	0.9	0.7	-1.3	3.0	0.6	-1.3
Treasury bill purchases(net)	0.3	0.3	1.0	-1.0	2.0	0.0	-1.4

Other lending to government (net)	0.5	0.6	-0.3	-0.3	1.0	0.6	0.1
Other (including repayment of arrears)	0.1	0.4	0.0	-0.2	-0.3	-0.3	0.0
Public sector domestic debt (% of GDP)	16.7	15.1	14.6	12.9	16.8	16.3	13.4
Public sector external debt (incl. arrears US$ Millions)	195	265	456	602	753	882	988
Public sector external debt (% of GDP)	10.5	13.2	22.8	29.0	35.5	38.8	42.1
Nominal GDP (US$ Millions)	1,854	2,005	2,038	2,101	2,194	2,279	2,418

Source: Liberian Authorities, World Bank and IMF Staff estimates and projections.

7. **The economic slowdown from the twin shocks has put pressure on banks.** The level of non-performing loans (NPLs) has moderated to 14.8 percent in December 2016 from a peak of 19.3 percent in July 2015, but remains high. 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 these areas has resulted in the lost correspondent banking links to the global financial system due to "de-risking" by foreign banks, which poses serious challenges to trade finance, flow of remittances, and financial inclusion.

8. **The fiscal Impact of the twin shocks remains acute.** For FY16, total revenues and grants were 4 percent lower than forecast, reflecting stronger than expected impact of commodity price shock. The austerity measures taken by the Government have helped to contain the overall fiscal deficit to 4.2 percent of GDP in FY16. The fiscal pressures are higher in FY17 because of the sustained commodity price shock, additional fiscal costs related to elections and the security handover from UNMIL, in the face of a sharp drop (by more than 50 percent) in donor budget support because of the frontloading related to Ebola crisis. The GoL has requested additional budgetary support from development partners to help finance this abnormally large financing gap that could also persist into FY18. Such support will be crucial to maintain the delivery of key social services.

9. **Amidst lower fiscal revenues, Liberia's borrowing space has tightened.** The public external debt level more than doubled from 13.2 percent in 2014 to 29 percent of GDP in 2016, a combined effect of an increased external borrowing to close infrastructure gaps and GDP contraction. 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. With continued economic weakness, particularly in exports, the 2016 DSA shows that the current risk rating of debt distress remains moderate, but close to high because debt-to-export ratios are near the threshold.

III. THE GOVERNMENT'S RESPONSE TO THE CRISIS

10. **The Government is in the process of implementing the Economic Stabilization and Recovery Plan (ESRP), which focuses on providing additional resources to the health sector not only to prevent new cases of Ebola, but also to build more robust health systems.** The primary aim of the ESRP is to get the economy back on track toward the primary goals of the country's medium and long-term development plans embodied in the AfT, which remains the Government's overarching poverty reduction strategy. The AfT which was launched in 2012 is cast in the context of the Government's long-term vision plan, which aims to transform Liberia into a more prosperous and inclusive society and to achieve middle income country status by 2030. The formulation of the national vision involved consultations with a wide range of stakeholders across the 15 counties.

Table 3: Liberia-Key Fiscal Indicators (Millions of U.S. dollars), 2013 -2019

	2016	2017			2018	2019
	Est.	Approved	Adj. Oct 2016	Proj. May 2017	Proj.	Proj.
Total revenue and grants	**652**	**560**	**695**	**653**	**601**	**593**
Tax Revenue	402	432	402	364	395	437
Income and profit	163	154	145	137	145	165
Goods and services	47	55	60	45	54	61
International trade	185	208	192	178	187	202
Non-Tax Revenue	51	98	96	85	84	93
Grants	199	30	197	204	123	63
Expenditures	739	600	860	810	736	713
Current expenditure	576	520	631	577	574	561
Wages and salaries	277	272	258	281	289	284
Goods and services	214	112	244	221	203	173
Interest	9	13	13	13	14	37
Capital Expenditure	162	80	227	234	162	153
Overall surplus / deficit	**-87**	**-40**	**-165**	**-157**	**-134**	**-121**
Overall surplus/deficit (% of GDP)	**-4.2**	**-6.8**	**-7.6**	**-7.4**	**-5.9**	**-5.1**
Primary surplus/deficit	**-78**	**-27**	**-152**	**-144**	**-120**	**-84**
Identified Financing	-87	-40	-165	-157	-134	-121
External	112	38	113	117	114	117
Domestic including Central Bank	-25	2	52	41	20	4
Financing gap	**0**	**0**	**0**	**0**	**0**	**0**
Nominal GDP	**2,101**	**2,289**	**2,224**	**2,194**	**2,279**	**2,418**
Resource envelope	571	600	576	533	516	**…**

Source: Liberian Authorities, IMF and World Bank Staff estimates and projections.

11. **The Government responded to the adverse fiscal impact of the twin shocks by a combination of expenditure prioritization and revenue mobilization measures**. In September 2016, the Legislature approved an FY17 budget of US$600 million, with US$432 million in tax revenues, US$98 million in non-tax revenues, and US$30 million in external budget support grants (Table 3). However, the reduction in economic activities[3] has resulted in much lower than planned fiscal revenues in the face of fairly rigid non-discretionary expenditure obligations. In October 2016, the projected revenues for FY17 were adjusted downwards US$588.5 million, reflecting an eight percentage points reduction in taxes on international trade and 2.6 percentage points reduction in domestic tax revenues. On the revenue side, the Government responded by introducing 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 GSM excise; (iii) increase in real estate tax;

[3] A downward revision of economic growth in 2016–17 from 2.5 percent growth to 0.5 contraction. See Table 1.

and (iv) an increase in petroleum storage surcharge by 30 US cents per gallon. On the expenditure side, the

12. GoL cut total spending by about two percent through reductions in goods and services, subsidy and transfers, and capital spending. These measures combined with augmented financial support from the World Bank (US$20 million) and the US$17.3 million budget support by the IMF in December 2016 were expected to contain central government budget deficit to 7.6 percent of GDP and ensure that the anticipated gap will be closed. The estimates include contingent budget support from Norway's TF in amount of US$ 5 million.

13. **However, an unanticipated financing gap emerged in FY17 as downside risks to macroeconomic outlook has materialized.** Table 4 compares the relevant fiscal projections for FY17, in October 2016 (preparation of the IMF ECF 5th and 6th Review and the WB PRSDPO-III) and in May 2017 (basis for the proposed supplemental financing and the IMF ECF 7th Review). The data show that the gap arose as a result of shortfall in revenues, relative to what had been projected in October 2016. Domestic revenues are estimated to contract by a further 10 percent equivalent to about US$50 million (including US$5 million unrealized revenues from the excise on domestic mobile calls which turned out to be politically unenforceable). The financing gap is expected to be filled through a combination of above-the-line adjustments in terms of expenditure reduction and an increase in budget support grants and through below-the-line adjustments to financing the deficit.

14. **In the face of the substantial fiscal challenges, the GoL has remained committed to prudent fiscal policy.** In response to larger than anticipated revenue shortfall, it introduced additional austerity measures while trying to maintain the quality of basic public services, already limited by the relatively small budget

Table 4: Liberia - Fiscal Financing Gap, FY17

	FY17 projections	
US$ million	Oct-16	May-17
Macro-framework data		
Total Revenue and Grants	695	653
Domestic Revenue	499	449
Grants	197	204
Budget Support	70	74
o/w:		
-- European Union	12.3	11.4
--World Bank - IDA	40	45.6
--Norway TF	5	4.3
Total Expenditure&Net lending	860	810
Deficit (incl. grants)	-165	-157
Financing	165	157
External Financing (net)	113	117
o/w:		
--IMF ECF augmentation	17.3	17.3
--World Bank-IDA credit		5.5
Domestic Financing (net)	52	41
Estimation of Unanticipated Financing Gap in FY17		
A. Original gap to be financed (as of Nov-16)	165	
B. Unanticipated revenue decline	50	
New gap (A+B)	**215**	
Financed by:		
Above the line adjustments		
Adjustments to expenditures	50	
Additional grants	7	
Budget support	4	
o/w:		
--European Union	-0.9	
--World Bank	5.6	
--Norway TF	-0.7	
Below the line financing:		
Foreign financing	117	
o/w:		
--IMF ECF augmentation	17.3	
--World Bank-IDA credit	5.5	
Domestic financing	41	
Total	**215**	

Source: IMF and World Bank Staff estimates, May 2017.

envelope. Current expenditures were cut by a further 5.1 percent, and capital expenditures were reduced by an additional 2.3 percent. The GoL also increased tax administration efforts, including through the greater enforcements. Notwithstanding the efforts, the fiscal gap of US$16.3 million remains.[4] The GoL requested an additional financial support from the World Bank to close the remaining gap.

IV. THE WORLD BANK'S RESPONSE AND STRATEGY

15. **The World Bank has been an active partner in supporting Liberia through the twin crises.** 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 also provided an additional budgetary support through the augmentation of the Second Poverty Reduction Support Development Policy Operation (PRSDPO-II) (P146619) from US$10 million credit equivalent to US$20 million equivalent, including US$10 million equivalent of grants from the IDA Crisis Response Window to help mitigate the ongoing effects of the Ebola epidemic; and (ii) the supplemental financing to PRSDPO-II in amount US$5 million equivalent on grants from the Ebola Recovery and Reconstruction Trust Fund (ERRTF) (TF0A1815).

16. **The World Bank continued its support to Liberia, when its economy - already weakened by the adverse impact of the Ebola crisis - has been hard hit by severe exogenous shocks from the sustained slump in global commodity prices and the UNMIL withdrawal.** The World Bank support to mitigate the fiscal and poverty impact of the twin shocks includes the following: (i) an increase in the financing for the Third Poverty Reduction Support Development Policy Operation (PRSDPO-III) (P151502) from US$10 million grant equivalent to US$20 million equivalent; (ii) an augmentation of PRSDPO-III by US$19.1 million equivalent of grants, including from the IDA CRW; and (iii) the proposed supplemental financing to PRSDPO-III in amount US$16.3 million equivalent, consisting of US$10.8 million of grants, including US$4.3 million equivalent of grants from Liberia Forest Landscape Single Donor Trust Fund (TF0A4949), and US$ 5.5 million equivalent of IDA credit.

16. **The twin shocks have highlighted elements of fragility, identified in the formulation of the World Bank's Country Partnership Strategy (CPS) and validated the need to maintain the broad thrust of the CPS**, the overarching objective of which is to support the Government's strategy 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 and quality of basic social services and reduce vulnerability. The CPS also mainstreams the themes of capacity development and gender equity.

V. THE REFORM PROGRAM SUPPORTED THROUGH THE THIRD POVERTY REDUCTION SUPPORT DEVELOPMENT POLICY OPERATION: AN UPDATE

17. **The objectives of the PRSDPO-III are to sustain and deepen government-owned reform efforts in the context of the implementation of the AfT.** Specifically, the objectives of the PRSDPO-III are: (i) strengthening governance with particular emphasis on transparency and accountability as well as budget

[4] The total estimate includes US$4.3 million grant from Liberia Forest Landscape Single Donor Trust Fund.

execution and oversight; (ii) addressing key constraints to growth, including electricity; and (iii) improving human capital development particularly through improved access to education and health. The objectives of the proposed supplemental operation remain relevant in the wake of the Ebola and commodity price crises and its proposed reforms are intended to build resilience to such shocks in the future.

18. **Despite the interruption of its implementation by the twin shocks, the AfT remains the central reference framework for the Government's medium term reforms agenda.** The PRSDPO-III focuses on three primary areas: (i) governance and civil service reforms (AfT Pillar IV); (ii) economic transformation (AfT Pillar II); and (iii) human capital development (AfT Pillar III). Within these three areas, the operation is selective of reforms which directly or indirectly address the issues of poverty, fragility and conflict. Additionally, in the wake of the twin shocks, special attention is paid to the rebuilding of more resilient health systems and diversifying the economy. Consequently, the operation is focused on reforms which are expected to contribute to: (i) improving transparency in key aspects of Government's operation; (ii) increasing accountability in the management of public assets and reducing opportunity for corruption; (iii) building capacity for equitable service delivery; and (iv) enhancing broad-based growth and employment.

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

A. ECONOMIC PERFORMANCE SINCE THE APPROVAL OF PRSDPO-III

20. **The economic contraction in 2016 was deeper than projected due to the sustained effect of commodity price shock and stronger-than-expected impact of the UNMIL withdrawal.** The original growth projection for 2016 was 2.5 percent. This was revised in October 2016 to a contraction of 0.5 percent for 2016 and a growth of 3.2 percent for 2017. However, the economy is estimated to have contracted by 1.6 percent in 2016 and growth for 2017 is projected at 2.6 percent. This is largely a result of the persistent adverse impact of commodity price shock and the UNMIL withdrawal on Liberia's economy.[5]

21. **Monetary policy is implemented to control inflation through the indirect management of the rate of depreciation of the local currency compared to the US dollar.** The Central Bank of Liberia (CBL) focuses on ensuring low inflation by indirectly managing the rate of depreciation of the local currency through (i) periodic interventions in the foreign exchange auction market and (ii) the issuance of treasury bills. The average depreciation of the local currency in the first quarter of 2017 was 15.4 percent compared to 7.5 percent during the same period in 2016. In tandem with relatively fast depreciation of the Liberian dollar, inflationary pressures have increased to an average 12.9 percent during the first quarter of 2017 compared with 7.1 percent over the period in 2016. To address the declining trend in foreign exchange inflows, CBL has put in place a 25 percent surrender requirements on remittances to boost the foreign exchange reserves of the CBL. The Liberian dollar-denominated treasury bills have been effective in helping to mop up excess liquidity of local Liberian dollars in the banking sector. However, the

[5] See Section III above.

effectiveness of Liberia dollar instruments as monetary policy tools remains limited, given the high level of dollarization of the economy.

22. **The GoL is committed to maintain prudent fiscal management in the medium-term, despite increased expenditure pressures on financing elections and national security services.** Total revenues are expected to decline from 30.8 percent of GDP in 2017 to 25.2 percent of GDP in 2019. Expenditures are also expected to moderate from 38.2 percent of GDP in 2017 to 30.4 percent of GDP in 2019. Despite additional spending pressures coming from elections (US$20 million in FY18) and from taking full responsibility for peace and security after UNMIL drawdown, which is estimated to cost US$8 million annually.

23. **The latest DSA update (December 2016) shows that Liberia's risk of debt distress is still at a moderate level but debt vulnerabilities has risen.** The twin shocks combined with the UNMIL withdrawal worsened the growth prospects for the economy and the export industries in particular, deteriorating the debt-to-GDP and debt-to-export ratios compared to the previous DSA. The DSA underscores the need to continue pursuing a prudent borrowing strategy while focusing on prioritizing more pro-growth projects, and diversifying the economy to make it more resilient to external shocks.

24. **Notwithstanding the substantial slowdown in growth in 2014-2015 and contraction in 2016, Liberia's medium term economic prospects remain positive although subject to substantial downside risks.** GDP's growth is projected to recover to about 2.6 percent in 2017 and rise to 5.0 percent by 2019. The recovery is expected to be driven by the recovery in mining and manufacturing, as well as improved performance of the services sector. However, the risks are tilted to the downside. Despite the brief rally towards the end of 2016, the prices for rubber and iron ore could moderate or even fall over the medium terms if the global economy slows. This could mean lower foreign exchange inflows and fiscal revenues for Liberia.

25. **In summary, despite the significant economic challenges precipitated by the twin shocks and withdrawal of UNMIL, the GoL has maintained prudent macroeconomic management.** The current macroeconomic framework is adequate for the proposed operation. It is also supported by the Extended Credit Facility (ECF) program with the International Monetary Fund (IMF). The 5th and 6th Review was concluded in December 2016 (see, attached Fund Relations Note). The IMF ECF program is largely on track and the Board date for the 7th Review is scheduled for July 10, 2017.

Table 5: Balance of Payments Financing Requirements and Sources (Millions of U.S. dollars), 2013 - 2019

	2013	2014	2015	2016	2017	2018	2019
	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.
Trade balance	-461	-638	-915	-666	-638	-597	-577
Services (net)	-743	-1,008	-877	-847	-771	-695	-563
Income (net)	-372	-347	-285	-248	-309	-329	-334
Current transfers	1,022	1,451	1,360	1,232	1,107	911	866
Current account balance	-554	-541	-718	-528	-612	-710	-608
Capital and financial account (net)	543	503	660	506	573	744	670
Financial account (net)	479	386	602	446	512	683	608
Foreign direct investment (net)	432	276	257	230	239	298	355
Official financing (net)	27	91	113	99	122	118	116
Private financing (net)	20	20	231	117	152	266	137
Financing	11	38	58	22	39	-34	-62
Change in gross reserves (increase -)	-12	-18	-34	-16	19	-31	-48
Net use of IMF credit and loans	23	56	56	38	20	-3	-14
Exceptional Financing	0	0	36	0	0	0	0
Financing gap	0	0	0	0	0	0	0

Source: Liberian Authorities, IMF Staff estimates and projections.

B. REFORM PROGRESS SINCE THE APPROVAL OF PRSDPO-III

26. **Notwithstanding the substantial challenges posed by the twin shocks, UNMIL withdrawal and upcoming elections the program supported under the series of PRSDPO remains broadly on track.** Importantly, there has been no reversal of prior actions in the time since the approval of the PRSDPO-III in November, 2016, and notable progress has been made on most of the triggers for the next and final operation in the series. This reflects to a large extent, the Government's ownership and commitment to the reforms supported by the series. This section details progress under the three pillars of the program since the approval of PRSDPO-III. [6]

PILLAR 1: GOVERNANCE AND CIVIL SERVICE REFORM

1. Transparency and Accountability

27. **Since the adoption of regulations for currency transactions reports (CTRs) and suspicious transaction reports (STRs),[7] the GoL took further steps to facilitate the effective operation of the Financial Intelligence Unit (FIU).** Since January 2017, the FIU has taken effective steps toward becoming a member of The Egmont Group (the international organization of FIUs). Achieving full membership in Egmont Group would serve as an objective indicator that the FIU is meeting the minimum standards in

[6] See Annex 2 for Policy and Results Matrix as approved in the PRSDPO-III.
[7] Prior action 1 for PRSDPO-III.

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 FIU staff of a training series[8] on strategic and tactical analysis that helps FIUs identify transaction patterns commonly used by organized criminals for money laundering or terrorist finance activities. This has increased the capacity of the FIU to analyze the STRs and CTRs received to provide higher quality financial intelligence reports to law enforcement regarding suspicious transactions flowing through the financial sector. The enhancement of the FIUs ability to provide law enforcement with better quality information on potential financial crime activities increases transparency of the financial sector because it provides law enforcement officials with transaction details on possible financial crime proceeds to which law enforcement would not have access because of financial confidentiality provisions applicable to the financial sector.

28. **The CBL has made significant progress towards the adoption of policies and procedures for the conduct Anti-money Laundering (AML)/Countering the Financing of Terrorism (CFT) compliance inspections to assess compliance of financial institutions with AML/CFT obligations** (Indicative Trigger 1 for PRSDPO-IV). This improves financial transparency by ensuring that financial institutions are more effectively complying with obligations to identify and report suspicious transactions to the FIU for analysis. In particular, the CBL completed the AML/CFT Examination Manual for financial institutions and trained examiners on the use of the Examination Manual. On May 5th 2017, the CBL has also amended the AML/CFT Regulation which improves the CBL's ability to compel compliance by financial institutions with AML/CFT obligations, including STR & CTR reporting obligations, and more effectively sanction non-compliance. This regulation has been sent to the Ministry of Foreign Affairs for official publication. Once published, the Regulation becomes legally effective, and remedies the legal issues regarding STR/CTR reporting in a way that meets international AML/CFT obligations. A 27th Technical Commission/Plenary Meeting of the West Africa Inter-Governmental Group Against Money Laundering (GIABA/ECOWAS) was held in Monrovia in May 8-12, 2017.

29. **The Government of Liberia has made further progress in strengthening the legal and operational aspects of the Liberia Anti-Corruption Commission (LACC) to effectively pursue its mandate.** Following the establishment of the the Asset Disclosure Unit and making it operational (Prior Action 2 for PRSDPO-III) the LACC has been working to provide clear guidance and resources for public officers to comply (Indicative Trigger 2 for PRSDPO-IV) with AD requirements. Specifically, AD regulations were formulated by a multi stakeholder technical committee, approved by the President and published[9]. Thus, the AD regulations became legally effective and the LACC will commence collection of AD forms pursuant to mandatory regulations that provide for imposition of sanctions to address non-compliance. To date, the LACC has collected, processed and archived 784 notarized AD forms (since 2009, mostly from Presidential appointees) which have been submitted on the basis of voluntary compliance since the basis for sanctioning non-compliance does not yet legally exist.

2. Civil service reform

30. **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

[8] Offered by the International Centre for Asset Recovery, designed in collaboration with the Egmont Group on May 11, 2017.

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 (TAS) staff (PRSDPO-III Prior Action 3), the GoL has been working towards the completion of the merging of allowances and base pay for civil servants at levels 5-10 (PRSDPO-IV Indicative Trigger 3). The merging of the allowances with the base pay specifically targets the discretionary allowances. These discretionary allowances comprise a general allowance that is allocated to civil servants and a corresponding "special allowance" for mainly political appointees. The discretion in the allocation has led to a lack of uniformity across the civil service, thereby distorting the entire civil service remuneration structure. Therefore, merging discretionary allowances with base pay will remove the distortion in civil servants' salaries. Notwithstanding the GoL commitment to the reform, the progress is slower than expected.

3. Customs Administration

31. **The Government has made progress in strengthening customs administration despite capacity challenges.** The Automated System for Customs Data (ASYCUDA) has been successfully rolled out to 9 of the 17 border points, covering about 96 percent of total trade. Despite notable progress in customs administration there are some remaining essential policy and institutional actions for effective administration and improved service delivery including: (i) the timely roll-out of ASYCUDA to the remaining eight border points to ensure effective coverage of all border points (PRSDPO-IV Indicative Trigger 4); and (ii) the preparation and implementation of a Customs Customer Service Charter approved by Cabinet following consultations with stakeholders (PRSDPO-IV Indicative Trigger 5). A Customs Customer Service Chapter has been drafted and is currently the subject of consultations with key stakeholders. In addition, with support from the IFC, a new Customs Code has been drafted. With regard to the roll-out of ASYCUDA, the GoL's focus has shifted to the upgrade of existing border points and to securing financing for the remaining eight border points.

4. Public Financial Management

32. **Progress on public financial management reforms continues in key areas, which reflect the Government's commitment to building a culture of accountability.** Completion of the validation of all employees through biometric authentication and linking 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 preparation and publishing of Government Finance Statistics (GFS)-compliant fiscal operational quarterly and annual reports for FY13-14 and FY14-15 on the MFDP website (Prior Action 5 for PRSDPO-III), the FY15-16 annual fiscal outturn report became publicly available. Reports on the fiscal outturn for the two first quarters on FY16-17 (Indicative Trigger 6 for PRSDPO-IV) have also been published, although with a significant delay. In addition, on December 14, 2016, the GoL/MFDP submitted International Public Sector Accounting Standards (IPSAS) compliant financial statement for FY15-16 to the General Auditing Commission (GAC) for audit (Indicative Trigger 7 for PRSDPO-IV).

5. Procurement

33. **Progress in building the capacity of procurement personnel in order to have functioning procurement structures in procuring entities is on track.** Following the establishment of minimum standards and procurement accreditation system to certify procurement practitioners (PRSDPO-III Prior

Action 7), the GoL is working on the entrenchment of procurement training, including the move of the Procurement Training School to the University of Liberia (PRSDPO-IV Indicative Trigger 8). The University of Liberia (UL) Cabinet has in principle endorsed the plan to move the international procurement training program (IPTP) to the UL pending a capacity assessment of the UL and a transitional strategy that is expected to be completed by the end of FY17. The outcome of this assessment would inform all stakeholders on any constraints and/or impediment to move IPTP to UL and recommendations for mitigation.

PILLAR 2: ECONOMIC TRANSFORMATION

1. Infrastructure: Energy and Power

34. **The Government is actively pursuing its objectives of expanding access, increasing the quality and reliability of services, 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 and to use decentralized systems in remote areas of the country. Peak demand in the national grid increased from four megawatts (MW) in 2010 to 19.6 MW in February 2017, and 74 MW of generation capacity is in place in as of December 2016 (14 MW diesel, 38 MW heavy fuel oil, 22 MW hydro). While significant progress has been made, Liberia still has one of the lowest electrification rates in Africa, with 4.9 percent coverage nationally and 20 percent in Monrovia. Following the introduction of lower cost electricity from the Mount Coffee Hydropower Plant and HFO-based plants Liberia electricity tariffs were reduced from 49-52 US cents/kwh to 39 US cents/kwh effective from February 1, 2017. The Government created the conditions for having an open and competitive procurement process for the supply of fuel used in electricity generation by LEC to ensure the lowest Cost Insurance and Freight (CIF) of the fuel (PRSDPO-III Prior Action 8), by granting an import license of HFO to LEC for its own generated thermal electricity, and by having LEC's Board adopt a resolution that all HFO to be procured would have to be purchase through an international competitive bidding process. Presently, because of the entry into function of the hydroelectric generation plant of Mount-Coffee, there are still stocks of HFO in storage, and there has been no need to launch a new purchase. The most critical action now is for LEC to complete the construction of the HFO storage and transport facilities before the beginning of next dry season, and to ensure that all the HFO generation plants are effectively running on HFO, to realize the potential savings from using HFO instead of Diesel. It is also important to ensure efficient delivery of electricity services and in this regard a signed contract between the LEC Board and a competitively selected firm for the management of LEC is critical (PRSDPO-IV Indicative Trigger 9). This competitive selection process is expected to be completed by early August.

2. Agriculture and Land Reform

35. **The Government has also made notable progress on land reform.** First, with the establishment of the Land Commission in August 2009 with a mandate to propose, advocate and coordinate reforms of land policy, laws and programs in Liberia. Second, in May 2013, the Government adopted a Policy Framework for Land Tenure Reform which clarifies land rights related to public land, government land, customary land and private land (PRSDPO-I Prior Action 5). Since then, it has moved to draft the Land Rights Act, which after validation by a broad cross-section of stakeholders in June 2014 was submitted to the Legislature for approval. In the meantime, the Government also completed and validated a Land Administration Policy in 2015. In September 2016, the Legislature passed the Land Authority Act 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 Indicative Trigger 10). As of May 6, 2017, two commissioners (the Chairman and the Commissioner for Land Policy and Planning) of the five have been confirmed by the Senate and subsequently issued letters of appointment by the President. The confirmation for the other 3 commissioners (land use and management; vice chairman, and land administration) is expected to be completed in 2017. The draft FY18 budget envisages US$US0.7 million for LLA.

PILLAR 3: HUMAN CAPITAL DEVELOPMENT

1. Education

36. **Over the short to medium term, the Government intends to focus on assuring equitable access to high quality basic education and developing skills among youth to better capitalize on the demographic dividend.** The Government has already taken an important action through the adoption of a comprehensive implementation plan for teacher recruitment, training and deployment across all levels of the education system with a view to improving incentives for attendance (PRSDPO-II Prior Action 10). However, the Ebola crisis has adversely affected the implementation of the plan. The Government has also adopted a framework to ensure that the resources for the education sector are equitable deployed by region and pupils' socioeconomic status (PRSDPO-III Prior Action 9). It also developed a program for 2017-2021 to address widespread and persistent challenges with regard to access, equity and learning outcomes in basic education in Liberia. The World Bank supports the implementation of the program with a project aimed at improving equitable access to early childhood education (ECE) and teacher quality in ECE and in primary education in targeted disadvantaged counties, and to strengthen national school accountability systems. One of the key components of the project is financing school improvement grants for all public schools that are targeted to disadvantaged counties to be identified on combined poverty and education deprivation indices.

2. Health

37. **Pre-Ebola, the GoL's budgetary allocation to health reached about 12 percent of total expenditure, with external assistance estimated to account for roughly three times this amount.** Budget execution is on an upward trend from a low of 66 percent in FY10, to 78 percent in FY11. The health sector remains heavily dependent on donor funding, which rose from 72 percent to 82 percent of total institutional health expenditures between FY08 and FY10, but about 75 percent of the donor funding is off-budget, which suggests significant opportunities to improve allocative efficiency. The GoL therefore needs to address two major challenges: (i) move donor funding on budget to get a clearer picture of the resources available to the sector; and (ii) improve the rates of execution of the allocated budget. To help facilitate the move towards a higher rate of budget execution, the Ministry of Health (MoH) 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 FY16 budget allocation (PRSDPO-IV Indicative Trigger 11), to further assess the issues and constraints to budget execution and draw lessons for improvement.

C. POVERTY AND SOCIAL IMPACT ANALYSIS

38. **The poverty and social impact analysis conducted for the PRSDPO-III remains valid.** The poverty and social impact analysis for the PRSDPO-III, described in the Program Document which was approved by the Board on November 26, 2016, concluded that the reforms supported by the operation would have overall positive direct and indirect effects on poverty and social welfare. This assessment remains valid.

D. ENVIRONMENTAL ISSUES

39. **The possible environmental effects discussed in the Program Document for PRSDPO-III remain valid for this supplemental grant.** That is, with the exception of reforms related to infrastructure (energy and power), reforms are not expected to have any significant negative direct environmental effects. The reforms supporting least cost power development and access by the Liberia Electricity Corporation to fuel at a lower cost, is complementary to the project support being financed by the World Bank under the Liberia Accelerated Electricity Expansion Project (LACEEP) (P133445) , which involves the construction of facilities for offloading, transport and storage, of fuel in support of the least-cost procurement of the fuel under which specific measures to mitigate any adverse environmental effects have been outlined in the Oil Spill Response Plan (OSRP)[10].

VI. RATIONALE FOR PROPOSED SUPPLEMENTAL FINANCING

40. **Unanticipated financing gap.** The request for a supplemental financing is consistent with OP 8.6. The twin shocks have resulted in a sharp economic down turn which has been further exacerbated by the impact of the UNMIL withdrawal. Overall, the shocks continue to adversely affect GDP growth, inflation, and budgets, with an unanticipated fiscal financing gap in FY17 that could jeopardize the reform program on which progress has been hitherto satisfactory. Although the Government is committed to maintain spending in critical social sectors, including health and education, it is hard pressed to do so, in a context where the pre-shock budget was already inadequate to meet the needs of these sectors. The IMF and World Bank have evaluated the policy response by the GoL to the external shocks and consider it adequate.

41. **The program remains broadly on track and the Government commitment is firm.** Notwithstanding the substantial challenges imposed by the twin shocks, the UNMIL withdrawal and upcoming elections, the GoL remains committed to the program of reforms supported by development policy financing (DPF) program series as demonstrated through the progress that has been made in implementing various aspects of the program as described in section B above, despite the shocks and the imminent elections. The GoL has also maintained an adequate macroeconomic framework. To date, the GoL remains in compliance with all the covenants embedded in the Legal Agreement for the financing of the PRSDPO-III.

42. **Liberia is currently unable to access sufficient funds from other sources on reasonable terms or in reasonable time, absent the proposed Supplemental DPF.** The country currently has no access to the international bond market and with ceilings on both domestic and external borrowing, there is little flexibility in financing the gap. Liberia has very little fiscal head-room to service non-concessional debt. Furthermore, the analysis from the updated Debt Sustainability Analysis (DSA) for December 2016

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

indicates that Liberia's risk of debt distress remains moderate but debt vulnerabilities have risen. Access to more grant resources could help mitigate risks of further deterioration in its debt sustainability classification, but many of Liberia's development partners have already front-loaded support at the start of the crisis and hence little additional financing grant is expected.

43. **The time available is too short to process the next operation in the series (PRSPDO-IV).** Notwithstanding the progress achieved in meeting of indicative triggers for PRSDPO-IV, completion of all prior actions will take another three-six months as many of the actions (e.g. civil service reform) are of an institutional nature. The GoL FY17 will end on June 30, 2017. The World Bank's support needs to be rapid to be timely. Thus, the supplemental financing with the expedited procedures is proposed to respond quickly to the urgent needs of the country generated by the exogenous shocks. This will not only support the economic recovery and provide jobs, but will also be critical for building resilience to future shocks.

VII. IMPLEMENTATION ARRANGEMENTS

A. TERMS OF THE SUPPLEMENTAL FINANCING

44. The proposed operation includes a grant of SDR 4.8 million equivalent from IDA, a credit of SDR 4.1 million equivalent from IDA, and a grant of US$4,366,500 from the Liberia Forest Landscape Single Donor Trust Fund.

45. The closing date for the Supplemental Development Financing is December 31, 2017.

B. FUNDS FLOW AND AUDITING REQUIREMENTS FOR THE SUPPLEMENTAL FINANCING

46. **Notwithstanding notable improvements in economic governance, the fiduciary risk related to the PRSDPO-III and the proposed supplemental financing 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 Government of Liberia to improve public financial management since the 2012 PEFA assessment. These actions reflect the continued strong political commitment to the Public Financial Management (PFM) reform strategy and the determined implementation of reforms despite capacity constraints. Key reforms undertaken include implementation of the IFMIS and its subsequent roll-out to 50 Ministries and Agencies, establishment of the of the Liberia Revenue Authority (LRA) for revenue administration, Legislative scrutiny of annual budgets, establishment of processes that enable public access to key budget information, undertaking debt management reforms, anchoring procurement reforms into foundational electronic aspects, internal audit improvements and coverage, consistent accounts reconciliation, personnel and payroll data linked through the Civil Service Management (CSM) module and budget classification systems continue to be the main areas where recorded improvements have been noted. The Government's annual budgets are published and accounting and financial reporting have also improved, but are not yet at an adequate standard.

47. **Liberia maintains an exchange rate system that is free of restrictions on payments for current and capital transfers.** The IMF November 2015 update CBL's safeguards assessment noted slow progress in implementing recommendations from the 2011 and 2013 assessments contributed to heightened safeguards risks at the CBL. The assessment recommended strengthening independent oversight by the CBL Board of Governors and its Audit Committee, and aligning the investment guidelines with best international practice to shield the CBL from counterparty risks. The assessment also noted the need for

a strategy to address the imbalances between operating revenues and expenditures to improve the CBL's financial position.[11] The implementation of these recommendations will be monitored under the IMF's program.

48. **Overall fiduciary environment***:* Continued engagement by the development partners in the PFM area has resulted in an enhanced fiduciary environment in Liberia. The World Bank's lead role through the Public Sector Modernization project, and the Integrated Public Financial Management Reform project (IPFMRP) under implementation, continues to provide the thrust for further strengthening of the PFM platform. The consolidated gains of the PFM reforms over the years have given rise to the need for the amendment of the PFM Act 2009. 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.

49. **Recipient and Financing Agreement:** The proceeds of the proposed Operation, consisting of US$16,366,500 would be made available to the GoL, represented by the Ministry of Finance and Development Planning, in a single tranche upon effectiveness.

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

51. **Assurance Requirements***:* Based on the level of fiduciary risk associated with this operation, IDA shall require an independent audit of the designated account as an additional fiduciary arrangement safeguard mechanism. The audit will provide assurances that: (a) the funds have indeed been received and deposited into the account; (b) the funds received in the designated account were, within five working days of receipt, transferred to the consolidated fund account (Treasury Account) of the Government of Liberia to finance budgetary expenditures; and (c) the amounts so received have been appropriately accounted for in the financial management system of the Government. The audit report shall be made available to IDA within six months from the date of receipt of the funds in the designated account. As part of the immediate additional fiduciary arrangement, the GoL, through the Ministry of Finance and Development Planning shall, within 30 days after the Grant has been disbursed by IDA to the designated account of the Central Bank of Liberia, provide a written confirmation to IDA that the local currency

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

equivalent of the Grant have been credited into the Consolidated Fund of the Government of Liberia to finance budgetary expenditures. The audited financial statements submitted to the Legislature will be published.

52. **Supervision and Monitoring:** Whilst the GoL will implement the 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 loan proceeds, 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. The team will also receive supervision funds from the Liberia Forest Landscape Single Donor TF in order to monitor implementation progress.

VIII. BENEFITS AND RISKS

A. BENEFITS

53. **The potential benefits of this supplemental financing to Liberia are considerable.** First, the quick and direct injection of the supplemental financing into the Government's Consolidated Fund will help to provide the fiscal space and the cash flow to help in the Government's response to priority needs not only related to the welfare and service delivery and economic recovery from the twin shocks abut also to the additional security and peace enormously needed as a result of the shocks. The delivery of these services are important for maintaining social peace through this stressful period for the country, especially in the context of upcoming elections and UNMIL withdrawal. Second, this action by the World Bank will reduce the need for borrowing and help to reduce the rate of debt accumulation. Third, additional budgetary resources will help to ensure the maintenance of the reform program to which the Government remains committed. Finally, this support will help to reduce budget deficit to 7.4 percent of GDP as compared to 7.6 percent of GDP, projected in November 2016.

B. RISKS

54. **The overall risk assessment completed for the PRSDPO-III remains valid for this supplemental financing.** However, political and governance risk and macroeconomic risk are being re-assessed from substantial to high (discussed below). Liberia's transition from conflict to long-term development has been set back by the twin shocks and the country remains fragile with weak state capacity and vulnerable to economic shocks as demonstrated by the impact of the sustained commodity price shock. The country and fiduciary risks and mitigation measures are summarized below.

55. **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 management of security under the UNMIL transition. The political situation is currently stable and being closely monitored as the 2017 elections approach. Legislative and Presidential elections will take place in October 2017 and the Government anticipates a free, fair, and peaceful transition. Political risk to the program may arise due to uncertainty about whether a new Administration will embrace the reforms. The operation includes reforms which are likely to reduce opportunities for corruption and rent-seeking. It may therefore be difficult to secure

political commitments from perceived "losers" to ensure effective implementation of such reforms. Policy slippages near the elections are possible, particularly loss of fiscal control. ***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 30 March 2018.[12] To help mitigate the security risks, UNMIL and other donors are providing support to expand the training of more local police force to strengthen their presence in key areas. To help mitigate the political risk the World Bank will continue to engage with Liberia in the policy dialogue, including in the course of the preparation of the next operation in the series, in coordination with the IMF and other donors. Based on the track record of reform of the current Administration it is anticipated that commitment to the program will be sustained.

56. **Macroeconomic:** Macroeconomic risks are high. Liberia is an open economy, heavily dependent on foreign direct investments and primary exports, for fiscal revenues, foreign exchange and decent jobs. It is also dependent on imported fuel and food, including the primary staple—rice. These dependencies amplify the country's vulnerability to risks of external shocks with both fiscal and balance of payments implications. 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 timely roll-out of ASYCUDA and provision of necessary budgetary resources to support an efficient functioning of fiduciary institutions (e.g. FIU, LACC, GAC) and Liberia Land Authority. ***Mitigation:*** The maintenance of prudent macroeconomic management as demonstrated for example by the introduction of austerity measures in the FY17 budget as revenues fell below forecast. Furthermore, the current IMF ECF program, which is on track, provides an anchor for prudent macroeconomic policies and helps to mitigate the macroeconomic risks. There are also ongoing efforts, including through the proposed operation, to broaden the base of the economy through improved access to electricity and the improvement of the business environment as well as improve efficiency and equity of expenditures in health and education.

57. **Institutional capacity for the 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 ensured the provision of training and technical assistance for state building as crucial complementary activities to the DPO series, including under this proposed operation. Furthermore, there are a number of complementary technical assistance projects and supporting activities being pursued by the World Bank and other donors to mitigate the implementation and sustainability risks.

58. **Fiduciary:** Fiduciary risks are high. The continued engagement of the development partners in the PFM area has resulted in an enhanced fiduciary environment in Liberia including effective capacity. The CBL is addressing gaps in its supervisory and regulatory framework exposed by the failure of the First International Bank Liberia Limited (FIBLL). However, despite the notable progress made in improving the

[12] Sustaining Peace and Security. Liberia Peacebuilding Plan. Final Draft, March 28, 2017.

fiduciary system, there are still weaknesses that present opportunities for misappropriation of funds. ***Mitigation:*** To help mitigate the fiduciary risks of this operation, the Government is continuing its roll-out of the IFMIS to key ministries and agencies and to expand its coverage to donor resources including projects. This proposed operation will also support strengthening of procurement capacity in the Ministries and Agencies as well as at the PPCC to enhance oversight. After closing FIBLL, a forensic audit covering the transactions of the bank from 2006 through the closure of FIBLL on June 4, 2016 has been commissioned to KPMG to determine the root causes of the failure. The authorities committed to sharing the final report of the audit with IMF and transmit the results to the relevant judicial authorities consistent with Liberia's laws, and also to publishing the audit's findings. The CBL is conducting special monitoring of the successor GN Bank and is sharing detailed data with Fund staff. With technical assistance 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.

59. **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.[13] Given the evidence of the economy wide effects, a new Ebola crisis could have adverse effects on the political, economic and social domains as well as on the implementation of reforms under the program. ***Mitigation:*** To help mitigate risks of a new Ebola epidemic, many businesses and government agencies are maintaining the hand-washing protocol. In addition, the Government is working with multilateral and bilateral partners to build more resilient health systems. The World Bank Regional Disease Surveillance Systems Enhancement Phase II (REDISSE2) project, which was approved on March 1 2017, will help building regional disease surveillance and response capacity. The budget support provided through the proposed operation will also help to mitigate the risk.

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
Overall	S

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

ANNEX 1: FUND RELATIONS NOTE[14]

IMF Executive Board Completes Fifth and Sixth ECF Reviews for Liberia, Increases Access, Extends the Arrangement, and Approves US$37.1 million Disbursement

Press Release No. 16/565
December 16, 2016

The Executive Board of the International Monetary Fund (IMF) today completed the fifth and sixth reviews of Liberia's economic performance under the program supported by the Extended Credit Facility (ECF)[1] arrangement. Completion of these reviews enables the immediate disbursement of SDR 27.69 million (about US$37.1 million). This brings total disbursements under the arrangement to SDR 96.9 million (about US$129.9 million).

The Executive Board also approved the authorities' request to waive the non-observance of performance criteria. The waivers pertain to the end-December 2015 floors on total revenue collection of the central government and the net foreign exchange position of the Central Bank of Liberia and to the end-June 2016 performance criteria on 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. It also approved the authorities' requests to augment access under the program by SDR 27.69 million (about US$37.1 million), of which SDR 12.9 million (about US$17.3 million) would be directed to the budget, and to extend the program until November 18, 2017.

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:

After the end of the Ebola epidemic, a weak global commodity price environment has delayed Liberia's economic recovery. Low prices for iron ore and rubber have led to significant cutbacks in output and investment. In addition, the withdrawal of UNMIL peacekeepers has reduced demand for local services.

"The authorities have managed to maintain macroeconomic stability in a difficult economic situation, and remain committed to strong program implementation. However, program performance has been mixed on account of the challenging economic situation as well as policy choices, including open bank assistance by the central bank. The pace of structural reform has been slow reflecting limited capacity and weak prioritization, due in part to the transition of the economic management teams at the ministry of finance and central bank.

[14] The IMF ECF program is on track. The 7th Review mission worked in Monrovia during May 1-14, 2017. The World Bank team worked closely and collaborated with the IMF team. The Board meeting for the 7th Review is scheduled for July 10, 2017.

“Fiscal policy has appropriately responded to the commodity price shock, thanks to new revenue measures accompanied by increased spending discipline. In the coming years, fiscal prudence is needed, including through the introduction of the VAT and the rationalization of the wage bill. Progress on public financial management reforms, especially the Treasury Single Account, investment management, and financial control of state-owned enterprises, will be important to support fiscal consolidation efforts.

“Borrowing policies should remain prudent. The authorities’ success so far in respecting the debt limits under the new debt limit policy is commendable. In addition, preserving debt sustainability will require prioritizing concessional loans and carefully contracting new borrowing through sound project appraisal.

“Rebuilding external buffers will require a rigorous implementation of the central bank’s three-year financial plan and limiting foreign exchange intervention to smoothing volatility. Good liquidity management should be relied upon to anchor inflation. The closure of the First International Bank of Liberia Limited (FIBLL) is welcome, and the forensic audit launched by the central bank enhances its credibility and transparency. Lessons from this experience point to the importance of strengthening frameworks for emergency liquidity assistance, bank resolution, and deposit insurance.”

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[1] The ECF has replaced the Poverty Reduction and Growth Facility as the Fund’s main tool for medium-term financial support to low-income countries. Financing under the ECF currently carries a zero interest rate, with a grace period of 5½ years, and a final maturity of 10 years. The Fund reviews the level of interest rates for all concessional facilities every two years. (see http://www.imf.org/external/np/exr/facts/ecf.htm).

ANNEX 2: POLICY AND REDULTS MATRIX[15]

Medium Term Objectives	Prior Actions under PRSDPO-I (PRSCI)	Prior Actions under PRSDPO-II	Prior Actions under PRSDPO-III	Indicative Triggers for PRSDPO-IV	Results Indicators by 2017	Baseline (2012)	Expected Targets (2017)
Pillar 1: Governance and Civil Service Reform AfT Goal: ***In partnership with citizens, create transparent, accountable and responsive public institutions that contribute to economic and social development as well as inclusive and participatory governance systems.***							
1A. Transparency and Accountability							
Improve transparency by adopting & implementing AML/CFT Law in accordance with international obligations.	**Prior Action 1:** Prepared and submit draft Anti-Money Laundering and Countering the Financing of Terrorism Law to the Legislature	**Prior Action 1**: The Recipient has established a financial intelligence unit whose vocation is to help increase transparency in the Recipient's financial transactions.	**Prior Action 1:** The Recipient has facilitated the effective operation of its Financial Intelligence Unit through issuing: (a) *Regulation on Currency Transaction Reporting for Financial Institutions* (FIU/CBL/SR1A-CTR/02/2016); (b) *Regulation on Suspicious Transaction Reporting for Financial Institutions* (FIU/CBL/SR2A-STR/02/2016); (c) *Regulation for Further Distribution and Action on the UN List of Terrorists and Terrorist Groups* (FIU/OR1A-ER/02/2016); and (d) *Regulation Dealing with CrossBorder Transportation of Currency and Bearer Negotiable Instruments* (LRA/FIU/OR1-TCN/02/2016).	**Indicative Trigger 1:** The Central Bank of Liberia Board has adopted policies and procedures to conduct AML/CFT compliance inspections to assess compliance of financial institutions with AML/CFT obligations set forth in laws related to international AML/CFT obligation pursuant to membership in the Egmont Group of FIUs	*Currency Transaction Reports and Suspicious Transaction Reports issues by the FIU (Number)*	None	>50(CTR) >10(STR)

[15] PRSDPO-III program document. Report No.105163-LR, pp.30-34.

Medium Term Objectives	**Prior Actions under PRSDPO-I (PRSCI)**	**Prior Actions under PRSDPO-II**	**Prior Actions under PRSDPO-III**	**Indicative Triggers for PRSDPO-IV**	**Results Indicators by 2017**	**Baseline (2012)**	**Expected Targets (2017)**
Strengthen the Liberia Anti-corruption Commission and improve legal framework for Asset Disclosure system.		**Prior Action 2:** The Recipient has completed the preparation of a three year strategy, whose substance is acceptable to the Association, for the Liberia Anti-Corruption Commission.	**Prior Action 2:** The Asset Disclosure Unit within the Recipient's Liberia Anti-Corruption Commission (LACC) has become operational as evidenced by the employment of an asset verification officer pursuant to an employment contract dated November 2, 2015.	**Indicative Trigger 2:** Legal and regulatory policies for Asset Disclosure issued by the LACC to provide clear guidance and resources for public officers to comply.	*Senior Civil servants (Directors and above) providing complete asset statement to LACC (%)*	56%	75%
1B: Civil Service Reform							
Rationalize civil service pay scale		**Prior Action 3:** The Recipient has prepared and adopted a revised pay reform strategy merging allowances and base pay for civil service cadres, with a view to enhancing transparency and accountability of the Recipient's public service.	**Prior Action 3**: The Recipient has completed merging of discretionary allowances and base pay for civil servants at levels 1-4 as evidenced by a Personnel Action Notice from the Recipient's Civil Service Agency to the Ministry of Finance and Development Planning, dated April 12, 2016 setting out the consolidated pay scale for each of the grades covered under levels 1-4.	**Indicative Trigger 3:** Complete merging of discretionary allowances and base pay for civil servants at levels 5-10.	*Civil servants in grades 1-10 paid according to new pay structure (%)*	0%	100%

Medium Term Objectives	Prior Actions under PRSDPO-I (PRSCI)	Prior Actions under PRSDPO- II	Prior Actions under PRSDPO- III	Indicative Triggers for PRSDPO- IV	Results Indicators by 2017	Baseline (2012)	Expected Targets (2017)
1C: Customs Administration							
Strengthen tax and customs administration including expanding customs coverage	**Prior Action 2:** Rolled-out the Custom administration system (ASYCUDA) to two additional ports of Bo-Waterside and Ganta			**Indicative Trigger 4:** Roll-out of ASYCUDA to remaining eight border points. **Indicative Trigger 5**: The preparation and implementation of a Customs Customer Service Charter approved by Cabinet following consultations with stakeholders.	*Ports where ASYCUDA is operational (%)* *Share of total Customs revenue captured by ports where ASYCUDA is operational (%)*	41% 90%	80% 100%
1D: Public Financial Management							
Improved credibility, effectiveness, efficiency, and comprehensiveness in public resource management systems and practices.	**Prior Action 3:** Migrated payroll processing from the Legacy system to the IFMIS solution.	**Prior Action 4:** The Recipient has completed the installation of the civil service management module of the integrated financial management information systems (IFMIS), with a view to strengthening fiscal discipline and budget transparency.	**Prior Action 4:** The Recipient has, through its Civil Service Agency, improved civil service payroll management by: (a) completing the validation of all employees through biometric authentication; and (b) linking the human resource management information system (HRMIS) to the payroll system as evidenced by a letter and interim reports from the Civil Service Agency to the		*Civil servants paid through the IFMIS solution (%)*	0%	100%

Medium Term Objectives	Prior Actions under PRSDPO-I (PRSCI)	Prior Actions under PRSDPO-II	Prior Actions under PRSDPO-III	Indicative Triggers for PRSDPO-IV	Results Indicators by 2017	Baseline (2012)	Expected Targets (2017)
			Ministry of Finance and Development Planning dated May 2, 2016.				
		Prior Action 5: The Recipient has completed the roll-out of the IFMIS to eleven (11) additional ministries and agencies, for a total of nineteen (19) and brought five (5) donorfinanced projects onto pilot tested mode in IFMIS, with a view to facilitating management of public systems.	**Prior Action 5:** The Recipient has prepared and published quarterly comprehensive government finance statistics as set forth in the *Annual Fiscal Outturn Report for FY 2013/2014* and the *Annual Fiscal Outturn Report for FY 2014/2015*.	**Indicative Trigger 6:** Prepare and publish quarterly comprehensive GFS-compliant fiscal operations report for Liberia for FY 2015/16 and first 2 quarters of FY2016/17	*Ministries and Agencies in which IFMIS is installed and operational (Number)*	7 (MoF and 6 other M&As)	20+(MoF and All M&As)
	Prior Action 4: Submitted IPSASbased financial statements of the GoL for FY 2010/2011) and for FY 2011/2012) to the GAC.	**Prior Action 6:** The Recipient has submitted its IPSAS-based financial statements for FY 2012/2013 to its General Auditing Commission for audit, with a view to improving internal budget controls.	**Prior Action 6:** The Recipient has submitted to the General Auditing Commission its report on the *Annual Consolidated Fund for FY 2014/2015* for audit, with a view to improving internal budget controls.	**Indicative Trigger 7:** Submit IPSAS compliant financial statements of the GoL for FY2015/16 to the GAC for audit.	*Submission of Annual Financial Statements to GAC after end of fiscal year(months)*	> 12 months	< 3 months

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

Medium Term Objectives	Prior Actions under PRSDPO-I (PRSCI)	Prior Actions under PRSDPO-II	Prior Actions under PRSDPO-III	Indicative Triggers for PRSDPO-IV	Results Indicators by 2017	Baseline (2012)	Expected Targets (2017)
Pillar 2: Economic Transformation **AfT Goal:** ***To transform the economy so that it meets the demands of Liberians through development of the domestic private sector—using resources leveraged from FDI in mining and plantations; providing employment for a youthful population; investing in infrastructure for economic growth; addressing fiscal and monetary issues for macroeconomic stability; and improving agriculture and forestry to expand the economy for rural participation and food security.***							
2A. Infrastructure: Energy and Power							
Provide affordable electricity to industry, MSMEs and households in urban areas and improve access to alternate generation methods elsewhere.			**Prior Action 8:** The Recipient has: (a) issued a Petroleum Import License dated August 23, 2016 to LEC to import HFO to generate electricity for public service with its own generating plants; and (b) introduced an open and competitive procurement process for the importation of HFO for LEC's own generating plants, through LEC's Board Policy Resolution dated July 4, 2016, mandating all procurement of fuels for LEC's generation of electricity to be done through an international	**Indicative Trigger 9:** To ensure an efficient delivery of electricity services to users, the contract between the LEC Board and a competitively selected firm for the management of LEC has been signed and the new management contractor has taken over the management of the Utility.	*Cost of Electricity to end users/KWH* *Urban access to electricity (number)* *Share of energy produced from high cost diesel (%)*	$0.55 12,742 100%	<$0.40 50,000 <20%

Medium Term Objectives	Prior Actions under PRSDPO-I (PRSCI)	Prior Actions under PRSDPO-II	Prior Actions under PRSDPO-III	Indicative Triggers for PRSDPO-IV	Results Indicators by 2017	Baseline (2012)	Expected Targets (2017)
			competitive bidding process.				
2B. Agriculture and Land Reform							
Develop comprehensive national land tenure and land use system that will provide security of tenure	**Prior Action 5:** Adopted a Policy Framework for Land Tenure Reform which clarifies land rights related to public land, government land, customary land and private land.			**Indicative Trigger 10:** The Government has established the Liberia Land Authority through the appointment of commissioners and the provision of budgetary resources for its operation in keeping with the 2016 Act.	*Land parcels with use and ownership rights recorded under new policy (Number)*	None	>100
Improve access to credit for the agricultural sector including for small farmers and rural MSMEs		**Prior Action 9:** The Recipient has established a collateral registry with a view to improving credit and expanding the rural economy.			*Share of commercial bank credit to the agriculture sector (%)*	3.7%	5.5%

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

3B. Health							
			Prior Action 10: The Recipient's Ministry of Health has conducted a half-year budget execution review for FY2016 as evidenced in its report on *Absorptive Capacity of Funds at Ministry of Health* dated May 5, 2016 with a view to improving budget execution.	**Indicative Trigger 11:** Conduct a full-year budget execution review with a view to ensuring improved budget execution.	*Health budget execution rate recurrent (%)* *Health budget execution rate capital (%)*	(FY13) 96.0% (FY13) 74.9%	>96.0% >90.0%