AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND

PROPOSAL FOR SUPPLEMENTARY SUPPORT TO THE
PUBLIC FINANCIAL MANAGEMENT REFORM SUPPORT PROGRAMME
(PFMRSPP) I AND WAIVER OF A CONDITION IN RESPONSE TO
THE ECONOMIC IMPACT OF THE FINANCIAL CRISIS

REPUBLIC OF LIBERIA

OSGE/ORWB

MAY 2009
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### ACRONYMS

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<thead>
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<th>Acronym</th>
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<tr>
<td>CBL</td>
<td>Central Bank of Liberia</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
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<tr>
<td>FY</td>
<td>Fiscal year</td>
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<tr>
<td>HIPC</td>
<td>Highly Indebted Poor Countries</td>
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<tr>
<td>IFMIS</td>
<td>Integrated Financial Management Information System</td>
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<tr>
<td>MFU</td>
<td>Macro-fiscal unit</td>
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<tr>
<td>MTFF</td>
<td>Medium-Term Fiscal Framework</td>
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<tr>
<td>PFM</td>
<td>Public Financial Management</td>
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<td>PFMRSPP</td>
<td>Public Financial Management Reform Support Programme</td>
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<tr>
<td>PRGF</td>
<td>Poverty Reduction and Growth Facility</td>
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<tr>
<td>PRS</td>
<td>Poverty Reduction Strategy</td>
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</table>
CURRENCY EQUIVALENTS (April 2009)

Currency Unit:

1 UA = 97.93 LR$
1 US$ = 65.5 LR$
1 UA = 1.5 US$

WEIGHTS & MEASURES

Metric System

GOVERNMENT FINANCIAL YEAR

July 1 –June 30

PROGRAMME/SUPPLEMENT TIMEFRAME - MAIN STEPPING STONES (EXPECTED)

<table>
<thead>
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<td>Programme approval</td>
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<tr>
<td>Effectiveness</td>
<td>January 2009</td>
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<td>Proposal approval</td>
<td>May 2009</td>
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<td>Completion</td>
<td>December 2009</td>
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<td>Last repayment</td>
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**EXECUTIVE SUMMARY**

1. This Proposal sets out the context and justification for (i) Supplementary Support of £3.386 million to Liberia’s Public Financial Management Reform Support Programme (PFMRSP) I, and (ii) a waiver of one of the conditions for the disbursement of the second tranche under the PFMRSP I of £4 million.

2. The proposed supplementary assistance provides additional budget support to help the government cope with the extraordinary adverse conditions posed by the current international economic crisis: the 2009-10 growth outlook has plunged, and average real GDP is now projected to grow by 6 percent (compared with 12.8 percent in the 2008 PRS document). Lower international demand and prices, together with deferred foreign direct investment, have led to decelerating mining and timber production, and declining rubber production.

3. Furthermore, the expected shortfall in revenues will have a significant adverse impact on Liberia’s budget. The plunge in global demand and import prices is expected to generate revenue shortfalls for the second half of fiscal year 2008/09, especially in the final quarter. Revenues are expected to be US$14 million below the already pessimistic estimates in the PFMRSP I Appraisal Report. Liberia does not have the option of borrowing to cover any deficit, since, to qualify for interim HIPC debt relief and a PRGF, the government has committed itself to work under a cash based balanced budget, where expenditures are not committed until revenues are received by the Treasury. To avoid postponing PRS spending, aid flows are thus a crucial lifeline in Liberia’s current situation.

4. Reform implementation during the past year has been steadfast. An assessment of the ongoing PFMRSP I, which is aligned with the PRS, shows that most of the major institutional reforms and targeted actions have been attained. The additional financing needs have arisen through no fault of the government. Supplemental financial assistance will help the government counteract the impact of the ongoing international economic crisis and consolidate implementation of reforms that have been undertaken under the PFMRSP I.

5. Management supports the government’s requests for the Supplementary Support and waiver to disburse before the end of the fiscal year (June 2009). There is an urgent need for resources, and Management proposes that this Proposal be submitted to the Board on a lapse of time basis under the simplified Board procedures for operations under £10 million. Furthermore, an accelerated circulation period of 14 days is requested to ensure disbursing the resources in a timely manner, as foreseen in Resolution F/BD/2009/05 of 4 March 2009 on Bank Response to the Economic Impact of the Financial Crisis.
I. INTRODUCTION

1.1. Purpose of the Proposal

1.1.1. This Proposal sets out (i) the economic and technical context and justification for Supplementary Support to Liberia’s Public Finance Management Reform Support Programme (PFMRSP) I, and (ii) the context and justification for a waiver of one of the conditions for the disbursement of the second tranche under the PFMRSP I.¹

1.1.2. The Bank has received requests from the Government of Liberia for assistance in coping with the extraordinary adverse conditions posed by the current international economic crisis. The government has asked the Bank on 1st May 2009 to make available additional resources reallocated under ADF 11 as budget support, thereby smoothing revenue flows and aiding in the full execution of the current fiscal year budget. In addition, to allow for the timely disbursement of the second tranche, the government has asked on 4 April 2009 for a waiver of a remaining condition under the PFMRSP I.

1.1.3. The Bank Response to the Economic Impact of the Financial Crisis (ADB/BD/WP/2009/27) of 23 February 2009 calls on the Bank Group to allow for flexible and rapid response to offset the impact of the global economic downturn by increasing or channeling additional resources through fast-disbursing policy-based operations. Section IV on Actions to Support ADF Countries proposes a series of fast-tracked short-term actions in support of the Bank’s low-income concessional borrowers under “alternative or accelerated use of currently available concessional resources”, including for existing operations (4.2.1, 4.2.9, and 4.2.10).

1.1.4. In this regard, an accelerated circulation option is proposed to help disburse the supplementary resources and the second tranche before end-June 2009, so that Liberia can address the economic impact of the financial crisis during the current fiscal year (FY) 2008/09.² A delay would derail the government’s reform efforts under the PFMRSP I and cause great social distress, as urgently needed pro-poor and pro-growth expenditures, including in the context of the HIPC Initiative and PRS, would have to be severely cut.

1.2. The PFMRSP I ³

1.2.1. The PFMRSP I was approved on 22 December 2008 for an amount of UA 12 million, including a UA 9 million grant from the Fragile States Facility enhanced by a

¹ The disbursement trigger is to provide evidence of the network topology specification in the Ministry of Finance supplemented by a letter from the Deputy Minister of Finance, confirming that the network system is installed and ready for IFMIS application software deployment.
² For funds to be effectively used this fiscal year, disbursement has to occur by the first week of June, 2009.
UA 3 million grant allocated from the Surplus Account of the ADB to implement the African Food Crisis Response.

1.2.2 The overarching purpose of the PFMRSP I is to buttress four pillars: (i) strengthen public financial management (PFM) systems; (ii) modernize the revenue administration; (iii) reinforce procurement and audit systems; and (iv) support the government’s response to the global food crisis. Actions in these areas are aimed at reinforcing the central elements of the government’s macroeconomic strategy, which is to provide the foundation for rapid, inclusive, and sustainable growth.

1.2.3 The PFMRSP I is aligned with the PRS, under which the government has launched a medium-term PFM Reform Programme and a Revenue Administration Modernization Programme. The PFMRSP I is deepening these reforms, principally by improving the effectiveness of the budget through better preparation, execution, reporting, and auditing.

1.2.4 The proposed Supplementary Support to the PFMRSP I will make available, under the FSF Supplemental Support Window (Pillar I), UA 3.386 million in a single tranche as a grant.4 These resources would be disbursed together with the second tranche (UA 4 million) under the PFMRSP I. Within six months of that disbursement, a Project Completion Report will be prepared.

1.3. Background and Economic Impact of the Financial Crisis on Liberia

1.3.1. In 2008, the Liberian government cleared arrears with multilateral institutions, including the Bank; successfully negotiated a Poverty Reduction and Growth Facility (PRGF) with the IMF; reached the Highly Indebted Poor Countries (HIPC) Initiative decision point; and adopted a full PRS covering 2008-2011.

1.3.2. During 2008, real GDP grew near the expected rate of 7 percent (9.5 percent in 2007), although activity weakened in the fourth quarter with a decline in rubber production—Liberia's main export product. Consumer price inflation fell to 7 percent in February 2009 (year on year), as food and fuel prices retreated from their historic highs. Gross official reserves remained very low near the equivalent of 0.5 months of imports.

1.3.3. There has been significant progress in finalizing debt restructuring: a donor-financed commercial debt buyback operation of US$1.2 billion was completed in April 2009 at a discount consistent with HIPC treatment, with nearly all creditors participating. Virtually all bilateral and multilateral rescheduling agreements have been finalized or signed (with the exception of four creditors); several bilateral creditors have offered 90-100 percent debt stock reduction at signature.

1.3.4. The 2009-10 growth outlook has plunged, with average real GDP projected to grow by 6 percent, compared to 12.8 percent in the 2008 PRS document (see Annex I). Lower international demand and prices, together with deferred foreign direct investment

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4 This amount was previously allocated to the pipeline Monrovia and Three County Capitals Extension project, which will instead benefit from ADF 11 resources. These ADF 11 resources come from an increase in the indicative ADF 11 allocation for 2009 of UA 1.91 million, as well as from resources previously earmarked for regional programmes.
(FDI), have decelerated mining and timber production and reduced rubber production.\(^5\) External balances are weaker due to weaker outlook for FDI and exports, as well as lower remittances. These effects are thwarting the government’s efforts to jump start the economy, which had been primed with a view to enhancing governance. With FY 2008/09 a new era should have begun, with timber and diamond export bans lifted and new concessions ratified in important areas of production, after all natural resource contracts granted by previous regimes had been cancelled.

1.3.5. Employment opportunities have shrunk significantly. A 60 percent fall in rubber prices has led rubber growers to cut their labour force,\(^6\) while in the palm oil industry some 10,000 jobs were lost as an important project was cancelled. Employment opportunities will also be lost as UN forces begin their withdrawal and NGOs wind down activities, when Liberia is beginning the transition from emergency to development interventions.

1.3.6. Nevertheless, fiscal performance through end-2008 was solid, but is deteriorating rapidly in 2009. With a programmed rapid pace of expenditures under the PRS, the resulting deficit is being financed, as envisaged in the budget, by drawing down the accumulated cash surplus of previous years.\(^7\) Given reduced cash balances, the authorities have improved the cash management framework by designating prioritized expenditure categories.

1.3.7. The shortfall in fiscal resources is occurring because of the plunge in global demand and import prices in the second half of FY 2008/09, especially in the final quarter.\(^8\) Revenues are expected to be US$14 million below the already pessimistic estimates in the PFMRSP I Appraisal Report.\(^9\) Although expenditures are some US$11 million above earlier projections, mainly addressing social concerns, this has been covered by using an additional US$10 million carryover from FY 2007/08. The financing gap is therefore estimated at US$15 million.

1.3.8. Liberia has limited fiscal policy tools to respond to the crisis. Having committed itself to operating under a cash management system so as to qualify for interim HIPC debt relief and a PRGF, the government is prohibited from borrowing to cover any deficit. To avoid postponing PRS spending, aid flows are thus a crucial lifeline in Liberia’s current situation.

1.3.9. On the positive side, Liberia’s financial sector has, up to now, not been directly affected by the global financial crisis, and bank liquidity remains high. Agricultural production continues to grow; lower prices, including for imports of food and fuel, mean

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\(^{5}\) A US$1.6 billion Arcelor Mittal investment in iron ore has stalled, while less than half of the over 50 new exploration licenses bestowed in 2008 for different minerals (such as iron ore, gold, diamonds, and uranium) have actually been claimed.

\(^{6}\) The rubber sector is the second largest employer after government.

\(^{7}\) Domestic revenue in terms of GDP increased to almost 26 percent in 2007/08 (22 percent in 2006/07), while total expenditure amounted to 25 percent (18 percent).

\(^{8}\) The shortfall in resources is largely due to losses in import tax collections and delays in nontax revenues (related to iron-ore and forestry investments), as well as the non-disbursement of the Bank’s second tranche under the PFMRSP I.

\(^{9}\) The original FY 2008/09 budget was US$270 million (excluding a US$27.9 million contingent budget); the Appraisal Report had projected a more realistic execution of only US$238 million.
lower cost of basic goods; and new large-scale foreign investments are being readied in agriculture, forestry, energy, and mining,\textsuperscript{10} where medium- and long-term prospects remain favourable.

II. JUSTIFICATION FOR SUPPLEMENTARY SUPPORT AND FOR A WAIVER OF A CONDITION FOR THE SECOND DISBURSEMENT UNDER THE PFMRSP I

2.1. Performance under the PFMRSP I

2.1.1 Annex III provides an update of the continued strong performance under the PFMRSP I as envisaged in its results-based logical framework. The principal goals and achievements to date are:

- \textit{Improve fiscal policy design, notably for budget preparation and execution}: The Macro-fiscal unit (MFU) has been significantly bolstered by incorporating five additional professional staff. The timely preparation of a fully financed budget for 2009/10 is on track, and the government has informed the Bank that the draft budget was submitted to the President at end-April 2009.

- \textit{Enhance capacity for sustainable tax revenue generation, by implementing a medium-term fiscal framework (MTFF)}: The MFU has prepared a three-year MTFF for 2009/10-2011/12 that allows planning revenue and other fiscal measures.

- \textit{Make operational the one-stop service facility in customs (first second tranche disbursement trigger)}: the one-stop facility became functional in early May 2009.

- \textit{Strengthen the procurement and audit activities of the government}: A revision of the 2005 Public Procurement and Concessions Act (PPCA), harmonized with the petroleum and mining laws, is before Cabinet. Procurement regulations and a manual, already prepared, will supplement the PPCA as soon as it is approved by the Legislature. The implementation of audits by the General Audit Commission, with the assistance of auditors from neighbouring countries, has progressed significantly since the PFMRSP I appraisal mission in August 2008.\textsuperscript{11}

- \textit{Support the government’s measures to limit the financial and social impact of higher global food prices}: The suspension of the rice import tax and tariffs on agricultural equipment and supplies was extended until virtually end-2009.

2.1.2 In response to the international economic crisis, the authorities have taken additional measures to honour their commitment to align expenditures with available resources. They have reduced expenditures by 9 percent across the board and identified specific areas where further savings will be made. The biggest impact will fall on the Legislature and education, health, and public works sectors. The authorities are cognizant of the undesirable impact on PRS-linked expenditures, but have no other tools at their disposal to face the exogenous crisis.

\textsuperscript{10} A new iron ore investment agreement with China Union committing US$2.7 billion of new investment has been ratified by the legislature.

\textsuperscript{11} Audits have been completed of several line ministries and agencies, including the Ministries of Finance, Health, Education, Public Works, as well as Lands, Mines, and Energy.
2.1.3 Development partners actively support the government’s efforts, sympathizing with Liberia’s plight under the current adverse economic conditions. The World Bank has confirmed that it will gradually increase its budget support in future years from the US$4 million foreseen for the last quarter of FY 2008/09, and the EC has committed to provide substantive budget support linked to PFM reforms in FY 2009/10-2011/12. The IMF Board, in its statement following the completion of the second review under the PRGF on 6 May 2009, also commended the authorities for “their solid economic and financial policy performance under increasing adverse global conditions, including adherence to the balanced budget principle” (see Annex II).

2.1.4 As described above, PFMRSP I implementation has attained all but one—the installation of the Integrated Financial Management Information System (IFMIS) network—of the major institutional reforms and targeted actions. Considering that Liberia is a fragile state, the success of the post-conflict recovery is impressive: in spite of its weak capacity, the government has demonstrated sustained commitment and the ability to forge ahead.

2.1.5 Supplementary Support to the PFMRSP I would create immediate fiscal space in this dire situation. First and foremost, it would help counteract the impact of the ongoing international economic crisis, which was not anticipated when the PFMRSP I was designed in 2008. Secondly, it would help strengthen and consolidate implementation of reforms that have been undertaken since 2008 under the government’s reform programmes. And thirdly, given that the Bank has taken the lead within the small group of development partners providing budget support to Liberia, the Supplementary Support would allow the Bank to demonstrate again to the donor community its proactive stance in assisting the authorities during the current crisis.

2.2. Justification for a Waiver of a Condition for the Second Disbursement under the PFMRSP I

2.2.1. The PFMRSP I disbursements are subject to the government observing the conditions in Box 1. The two triggers for first tranche release were met shortly after Board approval. The first disbursement trigger for second tranche release, relating to customs administration, was met in May 2009.

2.2.2. To allow the timely disbursement of the second tranche, the Bank has received from the Government of Liberia, dated 4 April 2009, a request for a waiver of the remaining condition under the PFMRSP I, relating to the implementation of IFMIS.

2.2.3. The PFMRSP I was negotiated in the second half of 2008. At that time, the government was finalizing its strategy for the implementation of IFMIS, which included, importantly, the strengthening of procurement processes. The PFMRSP I supports the further codification of budget operations that will allow the transition to IFMIS, which will raise the government’s budget system to internationally accepted standards.

2.2.4. The process of moving toward IFMIS implementation remains on schedule: the Steering Committee has been formed, Project Management Unit made operational, and project bidding documents finalized and submitted to the World Bank for no-objection before publication. At that late stage, the World Bank delayed the no-objection to the bidding documents and advised the Ministry of Finance to procure a comprehensive
network that would cover the more extensive system needs of the Ministry of Finance, beyond IFMIS.\textsuperscript{12} The World Bank argued that this would be more effective and efficient in the long run, optimizing the government’s scarce resources. However, this suggestion, accepted by the Ministry of Finance, involved redrafting the bidding documents, which has caused a slight delay.

Box 1. Summary Conditions of the PFMRSP I

<table>
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<tr>
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<th>Measures/Description</th>
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<tr>
<td><strong>A. TRANCHE I CONDITIONS: Triggers for disbursement of the ADF (FSF) grant</strong></td>
<td></td>
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<tr>
<td><strong>Pillar 1, Objective 1:</strong> Strengthened PFM systems</td>
<td>The first disbursement trigger for first tranche release is the submission of the draft PFM law to Parliament. Evidence: Letter of transmittal acknowledged by Parliament. Rationale: This condition will reward past performance and enable quick disbursement of the first tranche.</td>
</tr>
<tr>
<td><strong>Pillar 1, Objective 2:</strong> Merge Bureau of the Budget (BoB) into MoF</td>
<td>This is the second disbursement trigger for first tranche release. The merger aims at streamlining economic policy and rationalizing the manpower used in budget preparation, by combining two main elements of budget preparation (projecting revenues and paring the needs of line ministries) under one leadership. Evidence: Legislation approved by Parliament and new organizational structure published by the MoF. Rationale: The merger is crucial to improving efficiency in the budget process.</td>
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<tr>
<td><strong>B. TRANCHE II CONDITIONS: Triggers for disbursement of the ADF (FSF) grant</strong></td>
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<td><strong>Pillar 2, Objective 4:</strong> Customs administration</td>
<td>Making effective the one-stop service facility in customs is the first disbursement trigger for second tranche release. The office space for the various institutions \textsuperscript{13} is ready and the intranet link with the Central Bank of Liberia (CBL) has been established to make the facility effective. Evidence: Copy of CBL records showing transactions for the first week. Rationale: The one-stop service facility will reduce the cost of doing business, stimulating trade and investment in Liberia.</td>
</tr>
<tr>
<td><strong>Pillar 3, Objective 1:</strong> Implement IFMIS</td>
<td>This is the second disbursement trigger for second tranche release. Procurement has been weak owing to the collapse of internal controls after the war. The government is aware of the need for an action plan to speed up procurement processes, including by adopting appropriate software. The PFMRSP I is supporting the further codification of budget operations that will allow the transition to IFMIS. Evidence: Network topology specification supplemented by letter from Deputy Minister of Finance, which will confirm that the network is installed and ready for IFMIS application software deployment. Rationale: Improvement in codification will allow raising the government’s budget system to internationally accepted standards.</td>
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2.2.5. Because of this delay to procurement and thereby the timely installation of the network for IFMIS implementation as agreed under the PFMRSP I, the government is requesting the Bank to temporarily waive the second tranche condition under the PFMRSP I relating to IFMIS. The no-objection by the World Bank is expected on 20 May 2009, and the procurement process will begin promptly. It is expected that the network installation would be completed by end-September 2009, which would not delay

\textsuperscript{12} The extensive network would, beyond IFMIS, provide some of the IT networking necessary for the ITAS and ASYCUDA systems.

\textsuperscript{13} The Customs, BIWAC, CBL, and NPA staff are now all housed in one building, and tellers attending the public have increased from four to six.
the overarching objective of IFMIS implementation, still expected by 1\textsuperscript{st} July 2010, as originally scheduled.\textsuperscript{14}

2.2.6. The request for a waiver should be viewed in the context of the government’s otherwise very strong record of performance under the PFMRSP I. It is made with an appeal for the urgent release of the second tranche disbursement so as to mitigate the impact of the disruption in resources, resulting from the international economic crisis. This would allow smoothing revenue flows, thus aiding in the full execution of the current fiscal year budget maintaining the government’s reform efforts.

2.2.7. To further hasten the disbursement of the second tranche, the government will submit all evidence as to the fully satisfactory performance under the PFMRSP I.

III. RISKS AND MITIGATION MEASURES

3.1. Liberia is a post-conflict country rebuilding its institutions. As such, it is subject to political and socio-economic risks, related to the perception of politicians and the general public as to the progress achieved. To mitigate these risks, the government is making a special effort to keep social distress low, including by extending the suspension of the tax on rice imports and tariffs on agricultural inputs.

3.2. Limited technical capacity, enhanced by the potential for corruption, constitutes an important internal risk. This risk would be mitigated by the government’s capacity building programmes that are supported by the Bank and other development partners, complemented by technical assistance under Window III of the FSF following approval of the PFMRSP I in December 2008.\textsuperscript{15}

3.3. Regional fragility, the international economic crisis, and volatile global food and fuel prices pose prime external risks that could destabilize political and macroeconomic recovery. The expected revenue shortfall could accentuate, requiring the government to further cut back on urgent pro-poor expenditure. To mitigate these risks, the government has to continue its assiduous policy implementation. Additional financial support from development partners would provide crucial fiscal space for the government.

IV. CONDITIONS PRECEDENT TO THE DISBURSEMENT OF THE PROPOSED SUPPLEMENTARY SUPPORT TO THE PFMRSP I

4.1. Entry into force of the Supplement to the Grant Agreement for the PFMRSP I shall be subject to signature of the pertinent legal documentation by all parties. The disbursement of the Supplementary Support (UA 3.386 million) will be made once the government has presented evidence to the Bank of having fulfilled the first disbursement trigger for second tranche release (one-stop service facility at Customs).

4.2. The disbursement of the second tranche (UA 4 million) under the PFMRSP I will also be made once the government has presented evidence to the Bank of having fulfilled the first disbursement trigger for second tranche release.

\textsuperscript{14} Installation of the network, as per the revised timeline, will be assessed in the forthcoming Project Completion Report, to be produced within six months after the second tranche disbursement.

\textsuperscript{15} The FSF has already responded to five requests from the Ministry of Finance and is currently financing an auditor, accountant, MFU advisor, debt advisor, and a study for developing a Revenue Authority.
4.3. The disbursements will be made into the same account where the first tranche disbursement was deposited.

V. RECOMMENDATIONS

5.1. Management recommends that the Board of Directors (i) approve the proposed Supplementary Support grant to the PFMRSP I of UA 3.386 million to the Republic of Liberia; (ii) waive the second condition for the second disbursement under the PFMRSP I for the purposes, and subject to the conditions, stipulated in this Proposal; and (iii) accept to consider this Proposal on a lapse of time basis under the 14 day circulation option, as foreseen in Resolution F/BD/2009/05 of 4 March 2009 on Bank Response to the Economic Impact of the Financial Crisis and the simplified Board procedures for operations under UA 10 million (ADB/BD/WP/2006/109/rev.3).
ANNEX I. MACROECONOMIC DATA
ANNEX II. IMF STATEMENT

IMF Executive Board Completes Second Review Under PRGF for Liberia and Approves US$10.5 Million Disbursement


The Executive Board of the International Monetary Fund (IMF) today completed the second review of Liberia's economic performance under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The decision will enable Liberia to draw immediately an amount equivalent to SDR 7 million (equivalent to about US$10.5 million), bringing total disbursements under the arrangement to SDR 221.26 million (about US$332.2 million).

The Executive Board also granted Liberia waivers for the non-observance of performance criteria relating to the ceiling on expenses of the Central Bank, the establishment of a functioning anti-corruption Commission and the ceiling on new domestic arrears. The Executive Board also approved the modification of the performance criterion on the ceiling of new external borrowing, and completed the financing assurances review for Liberia.

The three-year PRGF Arrangement amounting to 239.02 million (about US$358.8 million) was approved on March 14, 2008 (see Press Release No 08/52).

Following the Executive Board discussion, Mr. John Lipsky, First Deputy Managing Director and Acting Chair, said:

“The Liberian authorities are to be commended for their solid economic and financial policy performance under increasing adverse global conditions, including adherence to the balanced budget principle and the realization of fiscal revenue targets. In the period ahead, as the global financial crisis is expected to have an adverse impact on economic growth, continued sound policy implementation will be needed to strengthen the foundations for economic growth and contribute to poverty reduction.

“Encouraging progress has been made in advancing legislative reforms. The Amendments to the Liberia Revenue Code are an important step towards establishing best practice in the granting of investment incentives, and the Public Financial Management Law will provide a sound legal foundation for improving the effectiveness, transparency, and accountability of government operations. In addition, a number of welcome institutional advances have been realized, including the merger of the Bureau of the Budget into the Ministry of Finance and the development of a macro-fiscal framework.

“The Liberian authorities’ commitment to a balanced cash-based budget provides an important anchor for fiscal policy. Challenges for the period ahead include broadening the revenue base through tax reforms, strengthening public financial management to raise expenditure efficiency and expanding budget support.

“Progress has been also been made in enhancing economic and financial governance, including through the establishment of an operational anti-corruption commission. Continued improvements in this area will be of critical importance for sustained economic progress.

“Liberia’s buyback of nearly all outstanding external commercial debt at a discounted rate is an encouraging development. In the period ahead, the update of the authorities’ debt strategy will provide an opportunity to establish principles that ensure the maintenance of debt sustainability,” Mr. Lipsky said.
### ANNEX III. STATUS OF MATRIX OF PFMRSP I

**Updated PFMRSP I Results-Based Logical Framework**

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<td><strong>Inputs and policy measures:</strong></td>
<td><strong>Short-term results and Immediate Outputs of the project:</strong></td>
<td><strong>Beneficiaries:</strong></td>
<td><strong>Output of Medium-Term Outcomes Indicators:</strong></td>
<td><strong>Bank’s Indicative Targets:</strong></td>
<td><strong>(i)</strong> Done.</td>
</tr>
<tr>
<td><strong>a. PFM systems:</strong></td>
<td>(i) Implementation by the government of PFM law</td>
<td>Public sector entities</td>
<td>(i) Implementation of the PFM law will clarify the functions of the Executive, Legislature, Auditor General, and other key stakeholders in the budget cycle</td>
<td>(i) Submit draft PFM law by November 2008</td>
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<td></td>
<td>(ii) Improve efficiency in budget preparation</td>
<td>Private sector in Liberia</td>
<td>(ii) Director of Budget reports to Minister of Finance instead of to President</td>
<td>(ii) Merger of BoB with MoF has taken effect</td>
<td>(ii) Done.</td>
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<td></td>
<td>(iii) Strengthen the Macro-Fiscal Unit (MFU)</td>
<td>Population of Liberia</td>
<td>(iii) MFU takes the lead in preparing the budget, including presenting policy implications of budget measures</td>
<td>(iii) MFU will hire a total of five qualified staff by December 2008 to produce high quality projections and will present an MTFF by end-March 2009</td>
<td>(iii) Done.</td>
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<td></td>
<td>(iv)Track aid flows</td>
<td></td>
<td>(iv) Information on aid allows better projection of amount and type of capital expenditures</td>
<td>(iv) Information on total aid flows being provided on a monthly basis by September 2009</td>
<td>(iv) Done ahead of deadline, but quarterly.</td>
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<td><strong>b. Revenue Administration:</strong></td>
<td></td>
<td>(v) IT department managing R&amp;D, current software, and clear automation implementation plan</td>
<td>(v) IT department in place, fully staffed and functioning with clear terms of reference and standard operating procedures.</td>
<td>(v) In process.</td>
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<td>(v) Automation</td>
<td></td>
<td>(vi) Implementation of the ITAS andASYCUDA projects defined and supported by project teams, along with necessary logistics and work plan</td>
<td>(vi) Actual implementation of ITAS and ASYCUDA underway; evidence of an IT system support model balancing vendor dependency, local support capacity, and functional project teams. Risk management and compliance section focused on revenue systems and processes</td>
<td>(vi) ASYCUDA underway; ITAS awaiting WB no objection.</td>
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<td>(vi) Implementation issues</td>
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<td>(vii) Tax administration</td>
<td>(vii) Risk management systems implemented and post audit systems enhanced</td>
<td>(vii) Develop a risk-based approach to audit selection; implement a auditor up-skilling programme; and implement an internal audit function focused on systems and procedures within the revenue administration</td>
<td>(vii) Risk management systems in place and operational with competent staffing.</td>
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<td>(viii) Customs administration</td>
<td>(viii) Operationalize the one-stop service facility and develop a PSI exit strategy</td>
<td>(viii) Broaden the scope of risk management</td>
<td>(viii) Functioning one-stop service facility by end-March 2009; PSI exit strategy in existence within six months from date of PSI contract and improved revenues through better selection based upon risk management</td>
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<td>(ix) Implement IMFIS</td>
<td>(ix) IFMIS starts being used in all relevant MoF departments</td>
<td>(ix) IFMIS produces information that allows increased efficiency in financial management</td>
<td>(ix) Computer network installed by March 2009 in preparation for transition to IMFIS</td>
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<td>(x) Strengthen capacity of Auditor General</td>
<td>(x) Regional experts help produce successive external audits of five ministries</td>
<td>(x) Auditor General produces audits of the five ministries</td>
<td>(x) The five audits are submitted to Parliament by end-June 2009</td>
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<td>(xi) Develop internal audit strategy to strengthen budget</td>
<td>(xi) Internal audits being applied in key ministries</td>
<td>(xi) Internal audits produced in key ministries</td>
<td>(xi) Internal audits are produced for three key ministries by end-June 2009</td>
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<td>(xii) Government response to the global food crisis</td>
<td>(xii) A reduction in the import tax on rice and tariffs for agricultural inputs</td>
<td>(xii) Suspending, for 2008/09, tariffs on agricultural equipment and supplies as well as the $2.10 consumer tax on a 100 pound bag of imported rice</td>
<td>(xii) The impact of higher prices of imported rice is mitigated for the population, and the agricultural sector is partially compensated for higher costs of equipment and supplies.</td>
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<td>(xii) Cushioning the negative effects of rising prices of food for consumers and of inputs for producers</td>
<td>(xii) Done in May, 2009.</td>
<td>(xii) Done ahead of deadline.</td>
<td>(xii) Done.</td>
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</tbody>
</table>

- **e. Procurement and Audit Systems:**

- **Public sector entities**
- **Private sector in Liberia**
- **Population of Liberia**
- **Agricultural producers**

- **Compiled database necessary for analysing risk; staff recruitment underway**