

ANNEX

of the Commission Decision on the individual measure in favour of Liberia
to be financed from the European Development Fund Bridging Facility

Action Document for '*State-building Contract Liberia*'

1. IDENTIFICATION

Title/Number	'State-building Contract Liberia' CRIS number: LR/FED/026-122		
Total cost	Total estimated cost: EUR 67 500 000 Total amount of EUR 45 000 000 EDF contribution of which EUR 34 000 000 is financed under the Bridging Facility and EUR 11 000 000 to be provided at a later stage, subject to an amendment to the current financing decision EUR 42 000 000 for budget support EUR 3 000 000 for complementary support This action is co-financed in parallel co-financing by: The World Bank, for an amount of USD 28 550 000 (representing approximately EUR 22 500 000)		
Budget support			
Aid method / Management mode and type of financing	Direct management State Building Contract		
Type of aid code	A01 – General Budget Support	Markers	BSAS
DAC-code	51010	Sector	General Budget Support
Complementary support			
Aid method / Management mode and type of financing	Indirect management with World Bank Direct management (procurement of services)		
DAC-code	15111 15110	Sector	Public finance management Public sector policy and administrative management

2. RATIONALE AND COUNTRY CONTEXT

2.1. Summary of the action and its objectives

By mid-August 2014, the Ebola epidemic in Liberia has developed from a health crisis into a complex emergency, impacting not only on the humanitarian conditions - health and food security, but now also threatening security and economic and social stability. While the evolution of the security situation is difficult to predict, certainly the Ebola outbreak threatens to reverse some of the economic and social progress Liberia has made over its decade of peace. The international community estimates that it will take between six and nine months to overcome the crisis.

The President's declaration of the state of emergency on 6 August 2014 meant that quarantine for entire communities and territories and restrictions on transportation and commerce have been enforced by the Liberian National Police and the Armed Forces of Liberia. Those forces have been criticised for heavy handedness and causing the death of a child from bullet wounds at the end of August, while the quarantine was insufficiently accompanied by humanitarian and food aid to the concerned communities. The withdrawal of expat workers, a slowdown of business and investment, and unrest amongst the population are exacerbating the situation. Around fifty senior officials allegedly left the country in fear of Ebola and those that did not return after the deadline set by the President were dismissed by the President. Containing the crisis rapidly will be critical to preserve the progress made, and to reduce risks to the short- and medium-term outlook.

The **health situation** is out of control as acknowledged by the Government and confirmed by the Centre for Disease Control and the World Health Organisation (WHO). On 10 September, 1,089 persons were reported killed by the Ebola virus - more than half of all deaths reported since March in this regional epidemic. The number of infections is increasing exponentially - much faster than the capacity to manage them in Ebola-specific treatment centres.

The Ebola crisis will impact on internal and external trade, especially the sectors of services and employment. The impact on agriculture sector will be severe. Indeed, the quarantine prevents working in the fields and therefore threatens the harvests and the transportation of goods. This will create food security problems and increase inflation: Moreover, the mining sector will also be affected as China Union stopped its operations, the expansion Arcelor Mittal's iron ore mine in Nimba is interrupted and the works on the Hydro Power Plant are on hold. As a result, the exports of mining and rubber will decrease.

On the **fiscal side**, the corporate revenues, export revenues and income revenues will shrink, creating a shortfall this year. Moreover, the additional indirect expenses linked to the Ebola crisis will increase the fiscal financing gap.

The International Monetary Fund (IMF) has launched a new Operation in Liberia. There was a USD 49 million "ad hoc augmentation" to be released 3 October 2014. From a macroeconomic perspective, the IMF assesses that the response by other major donors is slow and disorganised. This is understandable, giving the difficulty of estimating the total impact of the disaster in the very volatile present context.

It has to be underlined that this State Building Contract will take place in a context of one of most complex health emergencies we have seen over the last years. The measures taken by the Liberian Government have also an impact on their own ability

to function and are potentially strangling the economy and their own ability to move forward.

2.2. Country context

The entire country is affected by the Ebola crisis. The first and most urgent challenge is to win the fight against the Ebola epidemic. Nothing can be done in a medium or long term perspective as long as the situation has not returned to normal. The present proposal is a response to the Ebola crisis through an enhanced financial contribution for the first year of the programme but remains a programmatic three-year programme. The hypothesis is made that the situation will return to normal during the year 2015. The present action document falls within this context.

2.2.1. *Main challenges towards poverty reduction/inclusive and sustainable growth*

In addition to the on-going crisis due to the Ebola virus, Liberia remains one of the poorest countries in the world characterised by one of the lowest levels of human development (ranking 174 out of 186 countries), and weak state capacity. Ten years after the peace agreement was signed two presidential elections have been held and the Government has made significant progress in developing legal and policy frameworks while rehabilitating the utterly destroyed basic infrastructure, delivering a certain 'peace dividend' to the traumatised country.

Growth has averaged 7.6% over the past seven years and Liberia has attracted USD 16 billion in foreign direct investment commitments, in particular in the iron ore, forestry, rubber and oil palm sector.

Liberia made notable progress in the reduction of poverty thanks to economic growth between 2007 and 2013, but the overall incidence of poverty remains high - 56% of the population is poor compared to 64% in 2007. Liberia has historically been a country where power and income are concentrated in Monrovia. Despite this, the overall poverty reduction is mainly due to a significant decline in rural areas from 68% to 57%, whereas urban poverty actually showed a marginal increase from 55.1% to 55.5%. Liberia is ranked 143/148 countries on the 2012 UNDP *Gender Inequality Index*; women are not only discriminated in terms of access to education and opportunities, but gender-based violence remains a grave vestige from the war. While primary education enrolment has improved since the end of the war the quality remains poor and only a limited number of students have necessary skills to continue to higher level education. Teachers themselves are poorly trained and remunerated, and, particularly in rural areas, access to education remains precarious, exacerbating already existing regional discrepancies.

In spite of all the new policies and reforms, the Government of Liberia remains weak and dependent on international donors. There is not only a lack of revenue, but also low capacity and corruption, which means that the Government is still in a difficult position to address the root causes of the conflict and pursue structural economic and social transformation – from the traditional extractive enclave economy, that produced 'growth without development' before the war, towards an inclusive productive system that can finance a service-delivery state.

The presidential elections of 2017 are considered a benchmark for the transition, since President Sirleaf, who has played an important role in ensuring stability, will leave power against the backdrop of high competition and a reduced international security presence. The 2017 Presidential elections will result in the first Presidential shift and power reshuffle in Liberia since the end of the war. A new government will not only face challenges of legitimacy in case of a highly contested election, but will

also be under pressure to deliver on the ambitious goals of the Agenda for Transformation.

2.2.2. *Fundamental values*

There is a strong political will and commitment to enhance governance reform and maintain peace in Liberia. Liberia has shown regular progress since 2006 in governance indicators, the Ibrahim Index on African Governance (Mo Ibrahim Index of Participation and Human Rights which noted an improvement from a rank of 30th in 2006 to 22nd of 52 countries in 2012) and the World Governance Indicators. Liberia's ratings are above the African average for voice and accountability and political stability, but much remains to be done to improve the rule of law.

Two open, democratic presidential elections in 2005 and 2011 were generally considered free and fair by international observers, and despite challenges by the opposition, the results were generally accepted. Violence surrounding the second round of elections highlighted the continuing fragility of impressive progress since 2006 in the areas of political rights, civil liberties, and freedom of the press.

The President has taken bold commitments to fight corruption. Transparency International's 2012 (2011) Corruption Perception Index ranks Liberia 75 (91) out of the 176 (183) countries and territories assessed, with a score of 4.1 (3.2) on a 0 (highly corrupt) to 10 (very clean) scale. In 2005, the country was ranked 137 out of the 158 surveyed with a score of 2.2. At the same time Afrobarometer in 2013 reported a wide distrust on most public institutions. In Transparency International's Global Corruption Barometer 89% of people reported paying a bribe in 2011.

2.2.3. *Fragility and transition processes in case of a State Building Contract*

Besides the actual Ebola crisis that is affecting all efforts toward State building, Liberia has enjoyed relative peace and stability since 2003, the country remains fragile. The foreseen drawdown of the UN Mission to Liberia (UNMIL) represents an important milestone in the transition to peace, as it will expose the capacity of the Government of Liberia to deliver security service to the population, while the fragility will become more exposed due to the fact that many of the root causes that led to the war remain unaddressed.

UNMIL was established in 2003 - as the largest peace keeping mission in the world at the time - with 15,000 military troops and 1,115 police officers. Its current primary tasks include support to the Liberian Government's efforts to achieve a successful transition of complete security responsibility to the Liberia National Police, reform and restructuring of the justice sector; national reconciliation, constitutional reform and decentralization, security sector and rule of law reforms and addressing sexual and gender-based violence. In 2012, in response to the changing nature of security threats to the country, increasing the emphasis on human security and long-term national institutional capacity development, the Security Council decided to decrease UNMIL's military strength to about 4,200 personnel in three phases between August 2012 and July 2015 while increasing the number of UNMIL's police units by some 420 personnel for a new authorized ceiling of 1,795 personnel. The United Nations Security Council (UNSC) in September decided to extend the mandate of UNMIL until 31 December 2014; and expressed its intention to further extend the mandate of UNMIL to 30 September 2015.

It will be an enormous challenge for the Government to gradually take over the functions of UNMIL in such a way as to avoid major security gaps that could upset the fragile situation, and provide services in the area of justice and human security across the territory, notably in an election period. The budgetary needs of the Government to ensure the transition from UNMIL are estimated at USD 65 million until 2017. To this must be added the important challenges in building up efficient and accountable institutions that can deliver sustained growth to Liberians after the complete withdrawal of UNMIL.

As a 'pilot country' for the New Deal process on fragile states, Liberia finalised its own Fragility Assessment in September 2012. This assessment recognizes the need to address the conflict drivers which contributed to the protracted civil war. These factors include: (i) economic exclusion; (ii) a fragmented society; (iii) limited trust in the state; and (iv) continued security risks. Work is on-going towards the establishment of a New Deal compact.

With high levels of poverty and income inequality, there is a wide perception among many Liberians that a thin elite is benefitting from the economic growth since the end of the war. Concession agreements that are bringing in needed foreign investment have often been granted without following the law or consulting communities, whose livelihood depends on the same land, exacerbating the perception of injustice and increasing tensions. Land ownership, right to land and use of land remains a highly tense issue. Underemployment is a critical issue with 78% of the labour force holding only "vulnerable employment", including a large, urbanized youth population.

Governance, justice and public institutions remain weak. There is limited progress in the reform of the civil service, the decentralisation process has been delayed and, although there has been good progress on public financial management reform, much still needs to be achieved in the fight against corruption and to improve transparency and accountability, in particular in the management of natural resources.

While, during the war, violence was collective and politically motivated in nature, incidents of crime and violence today are largely committed for economic gain. There is widespread concern about violence against women. But access to the security forces and the justice system remains limited, particularly in rural areas. The judiciary remains inefficient, unable to process a high number of cases, resulting in unacceptably high levels and long pre-trial detention, and police are inefficient due to lack of resources and corruption. This leads to a general perception of widespread impunity and a general distrust of the authorities among common Liberians, who increasingly take the law into their own hands; in the last year mob violence has been on the increase, and there is a perception that high level corruption goes unpunished.

The Truth and Reconciliation Commission that was set up to look at the crimes during the war, presented a final report whose recommendations have largely been ignored, and crimes committed during the war remain unpunished. Among Liberians there is a very different level of understanding of what reconciliation means, but the fact that many of the wartime leaders are perceived to have benefitted from the war, has led to further distrust of the post-war justice.

In addition to the domestic conflict drivers, Liberia is also exposed to the fragility of its neighbours in the Mano River Union region as confirmed in the latest report to the United Nations Security Council the Panel of Experts on Liberia.

2.3. Eligibility for budget support

2.3.1. Public policy

The long-term national vision is expressed in the '*Liberia Rising 2030*' which aims for Liberia to reach middle income status by 2030. The national development plan, the *Agenda for Transformation*, aims to implement this vision in the period 2012-2017. Therefore, it is very much focused on economic growth but recognising that economic growth alone is insufficient to bring development to the country. The *Agenda for Transformation* has two key objectives: (1) to create wealth and (2) to increase inclusiveness for a more equal and just society. In order to achieve these two overarching objectives, the five-year plan sets key priorities under five pillars, which are consistent with identified current challenges for Liberia: (1) Peace, security and rule of law, (2) Infrastructure and economic transformation, (3) Human development, (4) Governance and Public Institutions, and (5) Cross-cutting issues.

The *Agenda for Transformation* is considered credible and relevant and supports the objectives of poverty reduction, sustainable and inclusive growth, and democratic governance. It establishes priorities and it is results oriented.

A draft of the first annual report for 2013 was presented to donors in July 2014, before the Ebola crisis intensified. In the first year of its implementation the credibility of the *Agenda for Transformation* has been affected by cash shortfalls in the FY 2012/13 and FY 2013/14 budgets and low implementation capacity leading to the low execution of the investment budget (65% in FY 2012/13 and 69% in FY 2013/14) and a reported overall 'completion rate' of interventions in the five sectors of 58%. The Government of Liberia needs to continue and is working on public financial management reforms, improve budget management, strengthen the coordination & monitoring mechanism, the Liberia Development Alliance, and reduce the number of indicators to ensure that the Agenda for Transformation's ambitious targets can be met.

2.3.2. Macroeconomic policy

A stability-oriented macroeconomic framework is in place and efforts are underway to address key imbalances.

Economic growth was strong in 2013, with 8.7%, led by a more than doubling of iron ore exports, construction and the services sector. Progress was made on beginning key investment projects, which will be necessary to enable broad based growth with increased value added. The structural challenges of lack of diversification, dependence on export of natural resource and import of all other commodities, low banking profitability and low access to finance remain the backdrop of vulnerability to external and internal shocks.

Structural imbalances are compounded by weakening of the Liberian Dollar – 20.7% depreciation since December 2012 - and inflationary pressures which have increased to 9.8% as of end-April (year-on-year), low central bank reserves, as well as issues with the credibility of the FY 2012/13 and FY 2013/14 budgets. Continuous dialogue with the Government of Liberia, under the leadership of the IMF, will focus on the maintenance of foreign exchange reserves and an effective monetary policy to address pressures on the Liberian Dollar and on the inflation rate, which particularly affects the urban poor.

Strengthening the planning and execution of the Government's investment budget and the coordination of investment projects with the private sector and donors will be the other key concern to be raised and followed-up.

2.3.3. *Public financial management*

Liberia is making satisfactory progress in improving its public financial management systems.

The relevance of the Government of Liberia's 2011 public financial management reform strategy in addressing systemic weaknesses was confirmed by the 2012 Public Expenditure and Financial Accountability Assessment (PEFA). In October 2013, a mid-term review of the public financial management reform strategy suggested a number of significant adaptations to the 2011 Strategy, meant to ensure that the reform programme continues to respond to key challenges in a sustainable way.

The credibility of the current public financial management reform strategy is also assessed positively, given that it serves as an important tool in bringing together Ministries and Agencies across Liberian institutions and harness and coordinate a significant amount of donor support for increasing accountability for public resources including to non-state actors. Recent momentum in civil service reform - in particular in cleaning-up the payroll and establishing an internal payroll control system - could catalyse improvement in public sector management. Also, the Government has established units to improve project management and oversight of state-owned enterprises and concessions.

Yet, challenges in 2013 related predominately to budget execution, in particular late passage of the budget, inadequate control of multi-year commitments and a cumbersome multi-stage and multi-institutional approval process leading to dysfunctional procurement processes. During FY 2013/14 it became apparent that the Ministry of Public Works had committed to a number of road contracts with vendors with there being the necessary budgetary allocations. These could concern 43 contracts to a tune of USD 121.8 million, dated between 2010 and 2013, with an estimated amount of USD 73.9 million of outstanding payments. The Government is responding with short and medium-term measures agreed with the IMF: officials were dismissed and the President established an investigative committee; the Ministry of Finance published a press release highlighting the legal provisions on procurement and the fact that the Government will not be committed by any contract that does not comply with these provisions; technical audits to be submitted to the Senate's Public Works Committee to establish if the works have been completed to acceptable quality; post-award audits of all contracts in question by the General Auditing Commission to clarify the extent and nature of the problem; and finally a review of procurement processes in the five largest spending ministries.

Other challenges include cash management and increased use of the Liberian dollar, delays in important reforms and insufficient linkages to natural resource management issues. Regarding the latter, capacity constraints in managing concessions were highlighted by a Liberia Extractive Industries Transparency Initiative (LEITI) report showing that the majority of concession agreements signed between 2009 and 2011 were not compliant with regulations.

2.3.4. Budget transparency and oversight of the budget

Eligibility is given as the executive's budget proposal was published on the Government's specific budget webpage¹ just after it had been submitted to the legislature on 30 May 2014 – with a one month delay.

However, it is of serious concern that the National Budget Law FY 2013/14 was published with a six-month delay - in the middle of the fiscal year - in December 2013. (The National Budget Law for FY 2012/13 was published in November 2012, with 4.5 months delay.)

The latest published Open Budget Index shows only slight improvement from 40 to 43 points from 2010 to 2012 assessment, after spectacular improvement from 3 points in 2008 to 40 points in 2010.

A review of the Medium Term Expenditure Framework – first an internal review, then an IMF-led mission - took place in late 2013 that highlighted the need to focus on improving the credibility of the annual budget, mainly by strengthening the budget calendar and ensuring better and early preparation of the investment projects, before paying more attention to multi-annual or programme budgeting. The Government of Liberia has expressed its agreement with the recommendations made, yet the acute cash shortfall in the FY 2013/14 budget did not allow sufficient energy and time to preparations of the FY 2014/15 budget.

There has been some improvement in the timeliness and comprehensiveness of fiscal reporting, in particular the timely production of financial statements and submission to the Auditor General in November 2013 for FY 2012/13 and the publication of the quarterly fiscal outturn with less delay after the quarter. The General Auditing Commission published its first audit report of the Government's consolidated fund financial statements for FY 2010/11 and FY 2011/12 in February 2014.

2.4. Lessons learnt

Liberia has been benefitting from EU general budget support (BS) since 2009, totalling EUR 53 million, and a EUR 42 million sector budget support programme for the health sector was signed in 2012, to be disbursed over four years (average disbursement per year EUR 10 million). Lessons learnt include:

- i) There is a need to further discuss the functioning of budget support and mutual responsibilities. 'The functioning of BS operations is not immediately understood or acknowledged by the relevant stakeholders, namely sector ministries. This justifies particular attention being given to discussing and explaining the functioning of BS and partners' mutual responsibilities. This can be complemented with training activities targeting public officials.'
- ii) The policy dialogue needs to go into the sector level. 'Sector dialogue is mainly focused on the ministries responsible for the macro-policies (Ministries of Finance and Planning and Economic Affairs), overlooking the sector ministries. However, structured and focused dialogue needs to be set when specific sectors (such education and health) are considered in general budget support.'
- iii) Realistic expectation regarding the speed of public financial management reforms implementation. 'Expectations on the achievement of the public financial

¹ <https://sites.google.com/a/mopea.gov.lr/mtef-budget/home>, under this link:
<https://docs.google.com/a/mopea.gov.lr/viewer?a=v&pid=sites&srcid=bW9wZWZ292LmxyfG10ZWYtYnVkZ2V0fGd4OjVjNGU0NGZkNTY2NDVjMQ>

management reform objectives are usually high, but they have to be confronted with real political commitment and absorptive capacity.'

2.5. Complementary actions

A summary overview of relevant complementary actions includes the EU's contribution to a 3-year public financial management reform project implemented by the IMF, and co-funded by SIDA, 10th EDF RIP support to Liberia through AFRITAC and two on-going EU projects supporting the General Auditing Commission (GAC), namely one long-term Technical Assistance project and one DCI-NSA project to strengthen linkages between GAC, civil society and media. Complementarity with the EU/UNDP support to the decentralization process in Liberia will also need to be ensured. Under the 11th EDF governance sector in the NIP, further support to the GAC, to elections and to civil society is programmed.

An important complementary action is the *Integrated Public Finance Management Reform Programme*, funded by a multi-donor trust fund for USD 28.55 million (World Bank managed), to which it is proposed to channel additional funds (see 4.4.1).; Also the USAID *Governance and Economic Management* project is supporting the implementation of public financial management reforms across Ministries and Agencies.

SIDA supports civil society organisations (CSOs) with view to strengthening demand for accountability at the legislature for EUR 7 million, while the USAID multi-annual support project to the legislature, including the Legislative Budget Office, was phased out in 2012 due to a perceived lack of willingness to reform and to make use of technical advice offered. Many other projects are active to support CSOs and media in demanding accountability in different sectors.

In the security and rule of law sector, the main coordination, dialogue and support mechanism is the Joint Programme for Justice and Security, and the linked multi-donor trust fund for USD 56 million, to which over a dozen donors contributed including the UN Peace-building Fund, Ireland and SIDA, covering the Ministry of Justice including police and immigration, and the Judiciary. Liberia also benefits from a global Rule of Law Programme of UNDP.

There is a proliferation of bi-lateral technical support to institutions in the security and justice sectors, seemingly concentrating on the Liberia National Police - a mapping of which is on-going. Also UNMIL has been providing a short-term TA team for better public financial management at the police. It will be key to ensure complementarity with increasing efforts to strengthen management including public financial management and accountability at the Liberia National Police and the Judiciary, for example by projects under formulation by the US state department and SIDA, respectively.

2.6. Risk management framework

The Risk Assessment as updated by the EU Delegation in September 2014 considers the average risk for Liberia as 'substantial' (see annex Liberia Risk Management Framework). The highest risk is identified as 'developmental' – the risk of failure to jump start a transformational developmental process after a successful post-war recovery due to low implementation, execution and enforcement capacities, coupled with the instances of corruption, in particular in the public sector. 'Substantial risk' level has hence also been assigned to the categories of public finance and corruption. Meanwhile the political and the macroeconomic risks are considered as moderate. The political risk has seen a slight improvement in terms of score, reflecting the adoption of the National Human Rights Action Plan in 2013.

Regarding the provision of budget support linked to results areas in the security and justice sector a number of key risks and mitigation measures have been identified:

Key risks	Mitigation measures proposed
<p>Overall <u>developmental risk</u> as the Government is struggling to align its resources and focus its energies to its priorities in the context of scarce resources and multiple priorities.</p>	<p>Policy dialogue:</p> <ul style="list-style-type: none"> • The EU Delegation will increase its profile in peace and security (in the framework of the Peace-building Commission meetings (Schedule of Mutual Commitments)) and other dialogue platforms; • Inclusion of specific condition on financial commitment of the Government of Liberia to the security and justice sector.
<p><u>Fiduciary risks</u> as the budget envelops for the health and the justice and security sectors needs to increase in the context of weak public financial management in the respective Government institutions as well as in the judiciary – whereas the weak capacity to prepare a realistic budget aligned to priorities, together with operational procurement and cash plans is at the root of many of the subsequent challenges in the execution of the budget.</p>	<p>Institutional support component (see 4.4.1 below):</p> <ul style="list-style-type: none"> • Support to the implementation of public financial management reforms in the institutions of the security and justice sector, the judiciary and key ministries (including Ministry of Public Works), with particular emphasis on the budget process and its transparency; • Support to non-state actors in monitoring the budget process and implementation. <p>Complementary measures:</p> <ul style="list-style-type: none"> • Continued support to the General Auditing Commission under 10th and 11th EDF programmes; • Support to non-state actors in monitoring the budget process and implementation programmed under the 11th EDF. <p>Policy dialogue:</p> <ul style="list-style-type: none"> • Specific condition relating to budget execution in the health sector and to transparency and accountability especially on Ebola-related spending; • Specific condition relating to procurement planning in the security and justice sector and the judiciary; • Specific condition relating to fiscal deconcentration and the preparation of fiscal decentralisation;
<p><u>Developmental risks/ effectiveness</u> and <u>human rights risks</u> as deployment of personnel and deconcentration of health and security services advance in the context of weak internal accountability and management controls – an important element at the source of weak accountability being a pervasive lack of transparency (lack of data, reporting to the public, M&E).</p>	<p>Institutional support component:</p> <ul style="list-style-type: none"> • Support the Government in strengthening country-owned M&E systems; • External mid-term review examining human rights and governance aspects of reforms. <p>Complementary measures:</p> <ul style="list-style-type: none"> • Support the Ministry of Health in strengthening the national health system including public finance management, human resource and payroll management funded under the technical assistance under the sector budget support programme (FED/2012/ 023-313); • Support to civil society foreseen under EDF11 will be formulated in a complementary way to the state-building contract with a view to promoting civil society oversight/monitoring of the sector, in particular in remote areas; • Support to decentralized accountability mechanisms will be considered under the on-going decentralization support programme under the 10th EDF. <p>Policy dialogue:</p> <ul style="list-style-type: none"> • Specific condition on strengthening accountability at the Liberia National Police.

<p><u>Political and security risks</u> as the security and justice sector is strengthened in the absence/ dis-functionality of national external/ civilian oversight mechanisms which should guard independence and integrity.</p>	<p>Reinforced political and policy dialogue:</p> <ul style="list-style-type: none"> Engage the legislature and specialised civil society on its oversight role (see section 4.9 Communication and Visibility); Engage General Auditing Commission on importance of audit of the security and justice sector and the judiciary.
<p><u>Reputational risk</u> as lack of understanding of the concept of general budget support leads to tensions between Ministers regarding the 'distribution' of EU funds.</p>	<p>Dialogue and communication:</p> <ul style="list-style-type: none"> Support to training on budget support and possibly study tour to Sierra Leone to key Government of Liberia counterparts in MoF and security and justice sectors (under NAO support projects); Reinforced regular policy dialogue at technical and ministerial level to avoid wrong expectations and miscommunication.

3. DETAILED DESCRIPTION OF THE BUDGET SUPPORT CONTRACT

3.1. Objectives

General Objectives: Contribution to the general objectives of the Agenda for Transformation, of wealth creation and inclusive growth, in particular as formulated under Pillar I 'Peace and Security' and Pillar IV 'Governance and Public Institutions'.

The specific objectives are to contribute to

(1) Improved economic governance by strengthening public institutions to ensure that public funds are better managed, in particular regarding the effectiveness of budget execution as well as the credibility, transparency and accountability of budget processes.

(2) Improve financial capability of Government to ensure macro-economic stability, especially in 2015 in the context of Ebola crisis.

(3) Improve efficiency and accountability in the provision of vital state functions and services notably the area of health – in terms of Ebola response and non-Ebola basic health care -, justice and security - including equitable access to justice -, particularly for remote or marginalized populations & on the maintenance of a secure and safe environment to enable sustainable socio-economic growth and development during the process of and after UNMIL withdrawal.

As cross-cutting issues the state-building contract aims to promote in particular gender equality and external oversight in the justice and security sector.

3.2. Expected results

(1) Improved budget execution, in particular in the health sector, and management of the investment budget;

(2) Improved budget transparency and accountability, in particular in the health sector and on Ebola-related spending

(3) Improved treasury management at county level - fiscal de-concentration - and preparation of fiscal decentralisation;

(4) Improved security of the population through strengthened capacity, professionalism and accountability of the police;

(5) Improved access to justice through reinforced efficiency, integrity and transparency of the justice institutions.

Specific results under the capacity development are:

- 1) Strengthened public financial management processes and systems at the Ministry of Justice, Liberia National Police, Bureau of Naturalisation and Immigration and the judiciary, and strengthened demand side of accountability;
- 2) Strengthened accountability and transparency of the implementation of the Agenda for Transformation and the budget through support to development of the national monitoring and evaluation system.

3.3. Rationale for the amounts allocated for budget support

The total amount allocated to the good governance sector under the National Indicative Programme is EUR 100 million of which 45% is to be delivered under the present budget support programme. This amount is based on the following considerations:

Continuity of EU budget support to a fragile country: It is important to keep the EU's average annual contribution to Liberia's National Budget relatively stable to support expanding state functions and service delivery in the context of a significant funding gap in the planning for the implementation of Liberia's national development strategy, the Agenda for Transformation.

The average disbursement under this programme has been EUR 10 million annually. The final disbursement under the currently on-going EU general budget support will be made in 2014 (FED/2009/21455).

The first disbursement has been substantially increased in order to respond to the macroeconomic impact and financial need due to the Ebola crisis.

The commitment to allocate national budget in line with development strategy and objectives and to follow standard national budget procedures is strong but capacity is weak and needs greatly exceed the scarce resources.

3.4. Main activities

3.4.1. Budget Support

Budget support comprises engagement in dialogue around conditions and government reform priorities, the verification of conditions and the payment of budget support.

Policy dialogue on budget support will build on progress made in 2013: Quarterly meetings of the Budget Support Working Group – comprising the three donors currently providing budget support to Liberia, namely the African Development Bank, the EU and the World Bank, chaired by the Minister of Finance - were agreed and initiated, a Government focal point serving also as Secretariat for the BSWG was instituted, a Technical Working Group to prepare the high-level meetings was established and met four times, a first joint performance assessment took place, Terms of Reference for the Group, a Memorandum of Understanding and a Common Performance Assessment (CPA) Framework are being elaborated jointly. In addition, the public financial management reforms Steering Committee chaired by the Minister of Finance invites donors twice a year to its quarterly meetings.

Policy dialogue on health is for the moment dominated by the Ebola crisis and takes place in the new Ebola outbreak response coordination structure as depicted in the National Ebola Response Plan. There are also efforts on-going to safeguard - or

rather re-establish - basic non-Ebola related healthcare although the great majority of resources have been directed towards containing the spread of Ebola.

The Liberian Government's own mechanism for coordinating stakeholders in support of the implementation of its development strategy, the Agenda for Transformation, is the so-called 'Liberia Development Alliance' located in the Ministry of Finance, also tasked with Monitoring & Evaluation and reporting on the progress in the five pillars of the Agenda for Transformation.

The main forum for coordination, review of progress and dialogue on security and justice issues are the Pillar I meetings under the Liberia Development Alliance, which are inclusive, co-chaired by the Minister of Justice and UNMIL, and held quarterly. Once a year, the EU is also invited to attend the review of the Statement of Mutual Commitments on peacebuilding in Liberia – adopted on 16 November 2010 by the Government of Liberia and the Liberia Configuration of the United Nations Peacebuilding Commission (PBC) - which is conducted by the Liberia Country Specific Configuration of the PBC and the Joint Steering Committee of the Peacebuilding Fund (PBF) in Liberia. Further, the Steering Committee of the Joint Programme for Security and Justice – to be reorganised this year – is an important dialogue forum which the EU has recently joined, yet discussions are centred on the implementation of the programme's activities. Also, political dialogue under article 8 of the CPA could provide additional space for a bilateral engagement. 'Access to justice' and 'security sector reform' were already on the agenda of the scheduled article 8 meeting for May 2014.

In terms of the substance of the dialogue, emphasis will be placed on the institutionalization and deepening of policy dialogue to leverage reforms that target improvements in service delivery, including in the health and justice and security sectors, also with respect to reduced geographical and gender disparities in access and quality of the services provided.

Developing internal accountability measures and external oversight mechanisms will receive further emphasis in the dialogue.

Another priority topic for dialogue shall be transparency and reporting on results, concerning the budget and its execution as well as the implementation of sector strategies.

3.4.2. *Complementary support*

Complementary support to public financial management reforms will primarily be targeting capacity development across Government to implement public financial management reforms and for civil society to enhance transparency and accountability in the management of public resources (see 4.4.1).

Complementary support to the implementation of the State-building Contract shall include technical assistance to the Liberia Development Alliance in the development of the national Monitoring and Evaluation system, with particular attention to ensuring transparent monitoring and reporting systems in the security and justice sector, and technical assistance to the EUD on performance assessment and verification of indicators (see 4.4.2).

3.5. Donor coordination

Donor coordination on budget support relies on informal ad-hoc preparation of the above mentioned Budget Support Working Group and Technical Working Group meetings, as well as the donor working group on public financial management

reforms, co-chaired by SIDA and the EU, which meets quarterly. It also includes both IMF and World Bank, which manage significant support to the public financial management reform programme. While the IMF is focusing on higher-level strategic and technical advice and the World Bank is managing the USD 35 million trust fund covering public financial management stakeholders from the legislator to the General Auditing Commission and inputs from automation (IFMIS (Integrated Financial Management Information System)) to furniture and actions from study trips to short-term technical assistance to ongoing training.

The EU, represented by the Delegation and since recently, an ECHO staff in Monrovia, is participating in the Ebola response coordination framework led by the President, and the Delegation is observer in the health sector pool fund Steering Committee.

The Justice and Security donor coordination group, chaired by the UN, meets on a monthly basis and the EU takes part in this group.

3.6. Stakeholders

The main stakeholders are the Ministry of Finance, the Ministry of Health, and, in the security and justice sector, the Ministry of Justice and under it the Liberia National Police, the Bureau of Immigration and Naturalisation, the Drug Enforcement Agency and the Judiciary.

In addition to the dialogue in the budget support working group and donor coordination as described above, the EU Delegation will engage with the civil society monitoring group on Security Sector Reform, chaired at this point by Search for Common Ground. Further, policy dialogue with the General Auditing Commission will continue, highlighting the need for auditing the judiciary as well as the Ministry of Justice, Liberia National Police, the Bureau of Immigration and Naturalization on an annual basis, in particular in the context of budgetary expansion. Also, the EU will engage the legislature on budget support in general and more particularly, on Government of Liberia response to UNMIL drawdown including financial commitment to security and rule of law sector.

3.7. Conclusion on the balance between risks (2.6.) and expected benefits/results (3.2.)

Providing budget support to a fragile country implies the acceptance of working in a risky environment, due to the limited capacity, insufficient structures, persistence of unaccountable economic and natural resources governance systems and political constraints to implement difficult decisions. However, the risk of non-intervention is also high, as the Ebola crisis is threatening to undermine and even reverse developmental progress, and as the country may not be prepared for the end of the 'grace period' provided by the presence of a large peace keeping force (UNMIL), if structural reforms and capacity development are neglected at the expense of quick fix approaches.

4. IMPLEMENTATION ISSUES

4.1. Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 17 of Annex IV to the Cotonou Agreement.

An amendment to the current financing decision will be signed at a later stage in order to top up the amount to a total of EUR 45 000 000.

4.2. Indicative operational implementation period

The indicative operational implementation period of this action, during which the activities described in sections 3.4. and 4.4. will be carried out, is 36 months, subject to modifications to be agreed by the responsible authorising officer in the relevant agreements.

4.3. Criteria and indicative schedule of disbursement of budget support

The general conditions for disbursement of all tranches are as follows:

For the first year:

1. A note by the Government on action taken in response of the Ebola crisis;
2. Implementation of a credible stability-oriented macroeconomic policy;
3. Satisfactory progress in the implementation of Public Finance Management Reform Strategy and Action Plan as revised in 2014;
4. Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.

For the second year:

1. Satisfactory progress in the implementation of the Agenda for Transformation and continued credibility and relevance thereof;
2. Implementation of a credible stability-oriented macroeconomic policy;
3. Satisfactory progress in the implementation of Public Finance Management Reform Strategy and Action Plan as revised in 2014;
4. Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.

In case of a significant deterioration of fundamental values, budget support disbursements may be formally suspended in line with Article 27.1 of the General Conditions of the Financing Agreement, or temporarily suspended or reduced.

The dialogue focal areas for the first year and specific conditions for the remaining years will refer to:

- 1) public financial management reform and economic governance, including measures to improve budget execution, especially in the health sector, and management of public investment through improved efficiency and integrity in public procurement, as well as treasury management at county level (fiscal de-concentration and preparation of fiscal decentralisation);
- 2) budget transparency and public accountability, in particular in the health sector and regarding Ebola-related spending, and
- 3) to increasing security and access to justice, in particular for women, including through measures to increase oversight and accountability in the sector as well as effectiveness/reach out in access to justice.

Indicative schedule of disbursements (all figures in EUR millions)

Country fiscal year	FY 2014/15				FY 2015/16				
Type of tranche	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Total
Base tranche			28			5			33
Variable tranche			3			6			9
Total			31			11			42

4.4. Details on complementary support

4.4.1. Indirect management with the World Bank

A part of this action with the objective of strengthening the implementation of public financial management reforms in the security and justice sector may be implemented in indirect management with the World Bank in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation is justified because it facilitates coordination, alignment and harmonization in the sector.

The entrusted entity intends to sub-delegate the complementary support – disbursed as a contribution to the multi-donor trust fund sourcing the *Integrated Public Financial Management Reform Programme* (IPFMRP) – to the Ministry of Finance and Development Planning, which implements the Government of Liberia's Public Financial Management Reform Strategy and Action Plan, adopted in 2011 and revised in 2014. Appropriate provisions will be included in the delegation agreement.

The EU's contribution will be used as additional financing to leverage the pooled funds arrangement under the IPFMRP, with specific emphasis given to the following intervention areas:

- support to the agencies under the Ministry of Justice and the Judiciary in capacity development efforts relating to the budget planning, execution and reporting processes, the transition towards the MTEF and preparation of investment projects for submission to Ministry of Finance, the planning of procurement and the monitoring and reporting on outcomes and results;
- support to the existing civil society and social accountability component under the IPFMRP programme aiming at strengthening the demand for domestic accountability, i.e. by facilitating the access of the public to information and analysis on the use of public funds, and help selected groups to develop their capacity to make use of such information in the democratic process.

If negotiations with the above-mentioned entrusted entity (World Bank) fail, a part of this action may be implemented in indirect management with the International Monetary Fund. The implementation by this alternative entrusted entity would be justified because the IMF's Fiscal Affairs Department as well as the West Africa AFRITAC are already providing assistance to the Ministry of Finance on public financial management reform. The alternative entrusted entity would be entrusted with the same activities as described above.

The World Bank is currently undergoing the ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012 applicable by virtue of Article 17 of the Annex to Regulation (EU) No 567/2014]. The responsible authorising officer of the Commission deems that, based on the compliance with the

ex-ante assessment based on Regulation (EU, Euratom) No 1605/2002 and long-lasting problem-free cooperation, the entity can be entrusted with budget-implementation tasks under indirect management.

Brief description of project implementation arrangements in the light of the Aid Effectiveness agenda:

The IPFMRP project relies to a great extent on country systems (see annex Technical Cooperation Quality Grid), in particular the Ministry of Finance under the leadership of the Minister and supported by the public financial management Reforms Coordination Unit (RCU) will be responsible for the overall coordination and oversight of the project. Consistent with the Government's public financial management operations manual, the public financial management Steering Committee shall be the main structure responsible for strategic oversight over the overall reform programme. The already established Project Financial Management Unit hosted in the Ministry of Finance and which serves as the fiduciary agent for a large part of the World Bank project portfolio is the main unit for financial management under the project. This Project Financial Management Unit is a Ministry of Finance entity, and will be mainstreamed into the Comptroller and Accountant General's Office under the Accounting Services Unit of the Department – a process which is itself being supported under the IPFMRP project.

4.4.2. Procurement (direct management)

Subject in generic terms, if possible	Type (works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
Support to the implementation of the State-building contract, possibly including: <ul style="list-style-type: none"> • Support to the Liberia Development Alliance in the development of the national M&E system, with particular attention to the security and justice sector • Support to the EU Delegation on performance assessment and verification of indicators, policy dialogue • Activities related to communication and visibility 	Services	1 or 2	Q1 2015

4.4.3. Scope of geographical eligibility for procurement

N/A

4.5. Indicative budget

Module	Amount (EUR)	Third party contribution (EUR) (indicative, where known)
3.3. – Budget support [State Building Contract]	42 000 000	N.A.
4.4.1. – Indirect management with the World Bank	2 690 000	22 550 000
4.4.2 – Procurement of services (direct management)	300 000	N.A.
4.9. – Communication and visibility	10 000	N.A.
Contingencies	0	N.A.
Totals	45 000 000	N.A.

As detailed in chapter 4.1, an amendment to the financing decision will be signed at a later stage for an amount of EUR 11 000 000, bringing the total project cost to EUR 45 000 000.

4.6. Performance monitoring

Performance will be monitored in the framework of the Budget Support Working Group and its preparatory Technical Working Group, in particular through 6-monthly joint assessment missions with the other budget support donors – the African Development Bank and the World Bank – in line with best practice and aid effectiveness principles, in particular under the New Deal. These meetings are documented in minutes and the joint assessments are documented in aide memoires signed by all parties.

In addition, through the participation in the dialogue fora mentioned under 3.4.1 and 3.5, the Delegation will gather information and data on progress on public financial management reforms and in reform agenda under the security and rule of law pillar.

4.7. Evaluation and audit

Liberia benefitted from a Results Oriented Monitoring (ROM) mission for the predecessor general budget support and this would be regarded as beneficial also for the state-building contract.

Given the complexities and risks of supporting the reforms under the security and justice sector, in particular scaling up of the police deployment, an external mid-term review is envisaged, to particularly take stock of the human rights aspects of reforms, of internal and external oversight mechanisms – particularly for the police and the judiciary, and of the status of public financial management reforms under the pillar I and make recommendations for the dialogue as well as for a possible revision of second year results, indicators and targets.

The complementary support activities will be audited through the respective larger programmes. The audit and evaluation of the *Integrated Public Financial Management Reforms Programme* will be commissioned by the World Bank.

4.8. Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated before the start of implementation and supported with the budget indicated in section 4.6 above.

The measures shall be implemented either (a) by the Commission, and/or (b) by the partner country, contractors, grant beneficiaries and entrusted entities. Appropriate contractual obligations shall be included in, respectively, financing agreements, procurement and grant contracts, and delegation agreements.

The measures outlined in the Communication and Visibility Plan shall then be implemented by the NAO.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

The Communication and Visibility Plan will indicatively be contracted in the first quarter of 2015.