

**REPUBLIC OF LIBERIA**

**Governance and Economic Management Assistance Program (GEMAP)**

**STATUS REPORT: YEAR 1**

**DECEMBER 2006**

## **Introduction**

The Governance and Economic Management Assistance Program (GEMAP) is a partnership between the Government of Liberia (GOL), and the international community to improve governance, enhance transparency and accountability, and lay a solid foundation for a sustainable peace. It is a direct response to the concerns of the GOL and international partners, (including the United Nations (UN), the European Union (EU), the Economic Community of West African States (ECOWAS), the African Union (AU) the United States (US), the International Monetary Fund (IMF) and the World Bank (WB)) about the mismanagement of public resources in the post-conflict transition and the threat it represented to the peace process. Following consultations between the National Transitional Government of Liberia (NTGL) and the International Contact Group for Liberia, GEMAP was signed on September 9, 2005.

The Security Council welcomed the assistance program in Resolution 1626 of September 19, 2005. The Economic Governance Steering Committee (EGSC) held its inaugural meeting on October 26, 2005 and oversees the implementation of GEMAP. The EGSC is constituted by the GOL, Liberia's international partners and civil society, and is chaired by the Head of State of Liberia. The EGSC's Technical Team (TT), which replicates the membership of the EGSC at the working level, provides technical assistance to the Steering Committee and implements GEMAP activities.

Governance and fiscal discipline has improved greatly under President Ellen Johnson-Sirleaf's government. The President endorsed GEMAP in her inaugural address on January 17, 2006 stressing the need to "*render GEMAP non-applicable in a reasonable period of time*". The President has continued to demonstrate her commitment to the practices of good governance, which Liberia's partners acknowledged at the July 2006 partnership meeting.

## **The GEMAP Components**

GEMAP has the following six components. Progress to date and next steps are described under each of these components:

1. Securing Liberia's Revenue Base – Protecting the funds flowing into the government accounts from key revenue-generating institutions, as well as customs charges, fees, and taxes, through the establishment of transparent and accountable financial systems and procedures, building capacity, and reinforcing transparency with internationally recruited technical assistance and oversight.
2. Improving Budgeting and Expenditure Management – Strengthening and clarifying the budget formulation and execution procedures well as the

financial management processes of Liberian government expenditure by building capacity, putting clear and robust procedures and systems in place, and making information on the budget and spending publicly available.

3. Improving Procurement Practices and Granting of Concessions – Ensuring that all government procurement, concessions, contracts, and licensing are undertaken openly, transparently, and according to international standards, so that the people of Liberia get the best value for their money.
4. Establishing Processes to Control Corruption – Putting mechanisms in place to detect and prevent corruption in both the public and private sector.
5. Supporting Key Institutions of Government – Strengthening of institutions that are key to promoting and sustaining accountable government and good financial management, such as the General Auditing Commission, the General Services Agency, the Governance Reform Commission, and the Public Procurement and Concessions Commission.
6. Capacity Building – Building capacity of Liberian institutions and professionals to make good governance reforms permanent and sustainable.

## **1. Securing Liberia's Revenue Base**

1.1 Transparency of revenues of the state-owned enterprises (SOEs): A Memorandum of Understanding (MOU) was signed on June 23, 2006 between the SOEs and the Commercial Banks currently operating in Liberia. The revenues and fees earned by the SOEs for all their services, activities and facilities provided to customers and users, are now openly monitored in a specified number of accounts, permitting controllers to ensure that these revenues are not abused or diverted as has occurred in the past.

1.2 Internationally Recruited Experts: Internationally recruited experts are working with Liberian leadership within key agencies and institutions to establish transparent financial management systems, train and build capacity of Liberian staff, and report openly on SOE operations, revenues, and spending. While these systems are being put in place, they will also continue to have co-signing authority so that no major transactions take place without being examined and approved by both a Liberian manager and an internationally recruited expert for conformance to approved guidelines and procedures. The progress to date to secure the revenue base and improve budgeting and expenditure management is as follows:

Revenue Collection: With technical advice from the IMF and other partners, the GOL has strengthened revenue collection, including: strengthening of the large taxpayers unit, stricter implementation of the pre-shipment inspections

of imports, implementation of a computerized bill payments system to protect revenues, and abolition of non-cash settlement of taxes due. Mainly due to the improvements in tax administration, revenues increased sharply in the second half of the Fiscal Year 2005/06, and this has continued through end-October 2006.

Chief Administrator in the Central Bank of Liberia: Placed by the IMF in February 2006. The responsibility of the Chief Administrator covers binding co-signatory authority for operational and financial matters, with a special emphasis on banking operations, and ensuring that internal controls and audits are carried out according to established principles.

Financial Controllers for State Owned Enterprises (SOEs)s: Controllers have been placed through US funding at the National Port Authority (NPA), Roberts International Airport (RIA), the Forestry Development Authority (FDA), and the Liberia Petroleum Refining Corporation (LPRC). Work plans were presented to a GEMAP TT meeting and discussed. The Controllers work directly with the Managing Directors of the SOEs exercising binding co-signatory authority on all financial transactions entered into on behalf of the respective SOE.

The proposed Financial Controller for the Bureau of Maritime Affairs (BMA) is on hold as the BMA and the MoF have requested the EC to undertake a management study looking at the integration of the BMA into the Ministry of Finance. Any financial technical assistance will follow from the recommendations of the study. Draft legislation for the integration of the BMA into the MOF was submitted to the legislature on September 7, 2006.

The EC is recruiting (expected arrival November 2006) a Customs Operations Expert (COE) to work in the Bureau of Customs and Excise. The focus of the work will be: assisting in reviewing and updating customs and administrative regulations with emphasis on identifying conflicts and providing implementation guidance; harmonization of customs tariffs to ensure that they agree with those of the ECOWAS region and also are compatible with WTO expectations; and providing technical advice to future inspection regulations. The COE will help the Ministry of Finance evaluate the range of options available to it with respect to the current inspection contract, and serve as a resource person in the formulation of a new contract including with respect to the envisaged shift to destination inspection. The COE will also review the options for export inspection, assist in the development of a strategy to ensure that exemptions are minimized, making certain that duty free status is granted only on items related to the specific functions of the appropriate organizations, and assist in examining the possibilities for temporary outsourcing of the BCE customs and excise function. Further TA in the BCE will be provided in 2007 by the EC.

Concessions Expert: A Concessions Expert (CE) was placed in the Ministry of Lands, Mines and Energy (MLME) in May 2006 through US funding. The CE works directly with the senior management of the ministry and the Public

Procurement and Concessions Commission (PPCC) on the development of all new or amended contracts and concessions for exploration or mining of mineral and energy resources and helps to ensure that the contracts and concessions review process is conducted rapidly, transparently, and in conformity with internationally accepted best practice.

Port Operations Specialist: The US also placed a Port Operations Specialist (POS) in the NPA in order to speed reform efforts at this important economic engine.

**1.3 Management Contracts**: The NPA, with assistance from the World Bank and US, is undertaking a tender process for a company to manage its container terminal operations.

The Forestry Development Authority, with assistance from the US and the Liberia Forestry Initiative (LFI), is preparing a tender for a company to manage the timber chain of custody.

LPRC management implemented a rigorous rightsizing and management reform effort and has indicated that these initiatives eliminate the need for the initial GEMAP proposal of a management contract unless petroleum refining operations are later contemplated.

RIA operates under an ambiguous statutory authority and will require significant statutory and legal reform, as well as considerable infrastructure development, before an overall management contract is feasible. Initial infrastructure development at RIA is being planned for deployment through US and World Bank financed infrastructure projects.

Agency Reorganization: Long term technical assistance has been provided to the General Services Agency by the US to support institutional reorganization and reform.

## **2. Improving Budgetary and Expenditure Controls and Processes**

### Budget Reforms:

2.1 In line with commitments under an IMF Staff Monitored Program, the GOL has strengthened the role of the Cash Management Committee (CMCo), a crucial element of the interim commitment control system. This contributed to more prudent expenditure management in the second half of the 2005/06 fiscal year, and to the non-accumulation of domestic arrears. This has been aided by measures to ensure that the Bureau of the Budget (BOB) does not make allotments that exceed revenues and that line ministries do not make commitments that exceed their allotments. To be valid, all government purchase orders must be stamped with a special seal from the Bureau of General Accounting (BGA). The implementation of this measure was preceded by a public announcement. Continuous assistance from the IMF was provided to strengthen the interim commitment control system including the use of the BGA seal.

The GOL also submitted a balanced cash-based budget for 2006/07 to the Legislature prior to the end of the Fiscal Year 2005/06. Following unprecedented and extensive public debate, the new budget was passed by the Legislature on August 22, 2006. Ministries and agencies have prepared and submitted cash plans, and on the basis of these the CMCo Secretariat prepared a consolidated cash plan that serves as a guide for the allotments issued by the BoB.

Currently, there are no laws restricting the power of the executive to effect budget transfers. However, the Government has submitted legislation that would prevent the executive from making changes to budget allocations exceeding 30 percent of a ministry's or agency's approved budget without the approval of the legislature.

- 2.2 Advisor to the Bureau of the Budget: In April 2006, the US placed a co-signing Advisor in the Bureau of the Budget. The Advisor to the Cash Management Committee exercises co-signatory authority on expenditure transactions.
- 2.3 The recast budget, the draft 2006-2007 Budget, and the approved budget were posted on the Ministry of Finance website. There has been significant public debate on the proposed budget for the first time in recent history. The GOL produced an Annual Fiscal report for 2005-2006 that was sent to legislature and widely published in local papers in addition to being posted in MoF website. MoF has also published quarterly reports which are also published.

#### Expenditure Reforms:

- 2.4 Advisors to the Cash Management Committee (CMCo): The World Bank has placed advisors in three positions to assist the Cash Management Committee. The GEMAP document states that the CMCo should publish its minutes. However, the EGSC determined this to be administratively burdensome with little concurrent value, and the Ministry of Finance has agreed instead to publish summarized reports of expenditures so the public can know the timing and content of government spending.
- 2.5 Guidelines on Foreign Travel: One of the first steps of the new government was to implement new guidelines on foreign travel and travel accounting through a Travel Ordinance of April 1, 2006.
- 2.6 Integrated Financial Management Information System (IFMIS): The Ministry of Finance has reached agreement with the World Bank on the scope and phasing of the IFMIS system and the Resource Management Unit (RMU). The IFMIS implementation will be adapted to the capacities and specific needs of Liberia.

The US will fund enhancements to the BPS/Flag receipt system for insuring customs revenue collection and will expand the system to the Port of Monrovia and Roberts International Airport.

**2.7 Resource Management Unit:** The Ministry of Finance and the World Bank agreed to place ten technical experts in phases. A senior advisor assists the Minister. Two additional experts have been provided to the CMCo, which should allow the lead expert already in place to be more strategic and focused on capacity building, and less on transactions. Experts will also be deployed to provide support to MoF work in the areas of: revenue administration (combined with the lead to be provided by IMF peripatetic missions); public financial management related institutional changes; contracts and concessions reviews; financial information management; change management (in conjunction with a local expert); and legal advice.

### **3. Improving Procurement Practices and the Granting of Concessions**

Activities undertaken in support of improving the procurement and concessions system in Liberia include:

- (a) the launch of the Public Procurement and Concessions Commission created during the NTGL period to implement the Public Procurement and Concessions Act that came into effect on January 1;
- (b) review and nullification of all forestry concessions, with a view to re-awarding through transparent competition; and
- (c) an independent review of contracts and concessions signed during the NTGL. The GOL seeks rapid resolution of this review in order to reassure potential foreign investors of the primacy of the rule of law in supporting contracts.

Following the declaration of a container park management contract as null and void due to procedural violations, the EGSC responded publicly to the thwarted bidder's lobbying of the US Congress with accusations that Liberia violates the rule of law.

Support to the PPCC is primarily from the World Bank and the EC. The PPCC came to life in a context where the "old" practices of rushed procurement and sole sourcing were still in evidence. The PPCC was overwhelmed with a deluge of last minute requests and justifications for sole sourcing at the end of the fiscal year. For example, (1) published tenders have specified the make and model of vehicles to be procured and gave three days for the response; and (2) the Legislature advertised that "given the immediate and emergency need to equip the House with proper furniture and equipment, sole sourcing has been determined as being applicable in this case." However thanks to strong action by the PPCC and the President, there is now strict enforcement of the PPCA as of July 1, 2006. One difficulty in achieving faster progress appears to have been the lack of knowledge about the new rules and regulations, so PPCC conducted a series of sensitization and training workshops in June and July 2006. The first workshop was opened and attended by the President, whose keynote address emphasized that the way forward required: (i) improvement of national capacity in procurement; (ii) domestic margins of preference; (iii) anti-corruption; (iv) immediate disbarment

of firms from competing for GOL issued contracts who are in currently in arrears on tax obligations and remittances to government; and (v) toughness in ensuring compliance with the PPCA. Considerable support to line Ministries and Agencies is still needed from the PPCC as many are having difficulty with the new procedures and some have not generated their procurement plans correctly.

The Government is reviewing all contracts and concessions signed under the NTGL period (14<sup>th</sup> October 2003 to January 16<sup>th</sup> 2006) to ascertain if each was signed in the interests of the People of Liberia. The PPCC is responsible for the overall coordination of this process. A Contracts and Concessions Review Committee (CCRC) was established specifically to undertake this review. The CCRC is supported by a Technical Secretariat, headed by an Internationally Recruited Contracts and Concession Review Expert (IRCCE) recruited by the EC. These contracts and concessions are being reviewed against four major principles to establish whether or not they are in the economic interest of the People of Liberia. These are: (a) method of procurement and contract award; (b) contract technical considerations, i.e. are they appropriate; (c) contract technical performance, i.e. are they performing; and (d) economic value for money. There are a substantial number of contracts (approximately 90) to be reviewed and many of these contracts are currently underway. The review has provided valuable inputs to GOL in supporting its renegotiation of the Mittal iron ore mining concession agreement. A short-term expert in petroleum law provided by the US has advised the GOL that the three oil exploration contracts that were sent to the Legislature for ratification had more than twenty deviations from the existing petroleum law. The President intends to withdraw these contracts when the legislature returns from recess in January 2007. An International Legal Expert has been provided by the WB and a Mineral Marketing Commodity Specialist will be provided by the EC to assist with the review. As this review continues, additional reports will be provided to the EGSC and GOL.

Procurement Actions:

- 3.1 The Public Procurement and Concessions Act is in effect.
- 3.2 The e-procurement tool has not yet been implemented.
- 3.3 PPCC is preparing a report on public procurement.
- 3.4 PPCC has been providing support and training to line Ministries.
- 3.5 (see 2.7 above.)
- 3.6 The US funded a management study of the General Services Agency (GSA) which is driving the long-term TA engagement with the GSA. Long term technical assistance has been provided to the General Services Agency by the US to support institutional reorganization and reform.
- 3.7 The new administration, through Executive Order No. 1, signed February 2, 2006 declared null and void all existing forestry concessions, following the recommendation of the Forest Concessions Review Committee.

- 3.8 The US is providing technical assistance to the Ministry of Lands, Mines and Energy for the Kimberly Process implementation. Liberia confirmed its intention to join the Extractive Industries Transparency Initiative (EITI) at the recent Oslo meeting. GOL will request technical assistance from the EITI Secretariat to do the preparatory work required.

#### **4. Establishing Processes to Control Corruption**

Since the signature of GEMAP in September 2005, partners have supported the Governance Reform Commission (GRC) in the establishment of a national anti-corruption strategy together with the relevant institutional framework. The UK Department for International Development (DFID), the EC and the UNDP provided key support to the process. In June 2006 the GRC submitted a draft policy paper on a national anti-corruption strategy to the President and Cabinet, and to the donor community for comments. This paper outlines the need for the systemic changes required in order to develop a national integrity system, underpinned by “Pillars of Integrity.” These Pillars constitute the core institutions through which corruption should be fought, together with the establishment of an accountable and effective institutional arrangement through which reports of corruption are investigated and prosecuted. This paper was approved by the President and Cabinet in August 2006 and endorsed by the donor community. The President has requested that, as next steps, an anti-corruption strategy be formulated and legislation for the creation of an independent anti-corruption agency be prepared by the GRC. Work on these is ongoing. In addition, the Legislature has ratified the UN and AU conventions on corruption.

Although Rule of Law reform in general does not fall directly under GEMAP, without reform in Liberia’s ability to detect, investigate, prosecute and convict for corruption, good economic governance cannot be firmly established and GEMAP cannot succeed. To that end, the US has provided legal experts, two focusing on prosecution, two on defense, and one on court administration. UNMIL continues to coordinate overall Rule of Law programs. The Governance and Rule of Law pillar of the Liberia Reconstruction and Development Committee meets, but only irregularly. Considering the importance of Rule of Law reform to the success of GEMAP, the technical team shall attempt to build links to Rule of Law and anti-corruption efforts to improve coordination, enhance information sharing, and present a unified response to corruption.

#### **5. Supporting Key Institutions of Government**

Following a management study and review of the Civil Service Agency (CSA) and the Liberian Institute of Public Administration (LIPA) by DFID, a long term institutional support and capacity building program for the CSA and LIPA are slated to start in December 2006 with DFID funding. The donor community is considering modalities of future support to key institutions of Government, including the means of implementing the Senior Executive Service (SES,) which

has been endorsed by the GOL. A consultative process is underway within GOL and between GOL and key partners for the design and implementation of the SES scheme. UNDP provided TA in the form of a Team that visited Liberia in early October 2006. The Team held consultations with GOL and donors, and developed technical work with view to drafting the program.

Other institutional Support:

- 5.1 The IMF provided a Chief Administrator to the Central Bank in February 2006 as previously mentioned. This support has contributed to significant strengthening of financial management at the CBL.
- 5.2 The EC will mobilize a long term technical assistance program designed to support institutional development and capacity building to the General Auditing Commission (GAC.) This is expected to begin in November/December 2006. A short term selection study (rightsizing), identifying those individuals within the GAC who would most benefit from the long term programme was carried out in February/March 2006 with funding from the EC. Following a direct request from the President of Liberia, the EC has agreed to fund the position of Auditor General for a specific 24 month period and the selection and recruitment process is currently underway. Follow up audits of LPRC, CBL and RIA have been approved for funding by the EC and are currently being mobilized. A financial audit of the FDA (funded by the EC) for the period 14<sup>th</sup> October 2003 to 16<sup>th</sup> January 2006 has been finalized with the GOL.
- 5.3 The EC funded a management study looking at the role of a future body, agency or institution to promote good governance initiatives in Liberia and the final report was submitted to the GRC and other stakeholders in May 2006. The report made a series of recommendations about the structure and mandate, staffing, activities and areas of coverage for a new suggested body. The final report also included a draft Act to for any such future body.

## **6. Capacity Building**

GEMAP was intended as a temporary measure to assure efficiency, transparency and responsiveness of government procedures. Given the breakdown of functional systems, the disregard of past governments for international standards, protocols, modern techniques and processes, and the devastating effect that the civil unrest had upon the population of technocrats that remained, significant attention needs to be paid to training and knowledge building techniques. Previous breakdowns in governance led to considerable focus being placed on the ‘co-signatory’ aspects of GEMAP. Considering the progress and positive changes that have taken place in the leadership of the country, GOL has encouraged partners to focus on the development of attitudes, systems and procedures that can promote and sustain integrity, rather than on a transient policing role. Liberia’s partners will strive to rebuild the implementation capacity of Liberian technocrats and GEMAP

provides the framework under which able, qualified, and concerned Liberians can help make a difference and support the reconstruction of Liberia.

Currently, GEMAP experts provide capacity building in three ways. Most prominently, they are rebuilding the financial systems and processes of the institutions they work in. GEMAP experts also provide informal capacity building through day-to day mentoring of staff, and formal capacity building through structured training sessions. A capacity building status report has also been published on the [www.gemapliberia.org](http://www.gemapliberia.org) website.

The Government of Liberia has emphasized that capacity building must be addressed and planned for in such a fashion that the eventual departure of the international experts does not negatively impact the functioning of the organization they support. GOL has expressed a desire for planning and benchmarks to determine if capacity building needs are being met, and the President has tasked the Ministry of Planning and Economic Affairs with coordinating this effort.

### **Key GEMAP Accomplishments**

During the past year, GEMAP has made contributions to better economic governance and management in Liberia. There have been improvements in financial management and accountability, budgeting and expenditure management, procurement and concessions practices, control of corruption, capacity development, and donor coordination. Among other things, government revenues have increased due to tax administration reforms; State Owned Enterprises now have better and continuously improving financial controls and practices; there is better coordination between the Bureau of the Budget and the Ministry of Finance; there is progress in the development of an anti-corruption policy, capacity building programs and plans are being put in place by the international experts; and public procurement and concessions are increasingly being scrutinized and conducted according to current laws.

GEMAP's goal was to help the government ensure that all revenues due to the government are collected, and those revenues are spent according to a budget. On the former, there is some indication of success, as the projected revenue for 2006-2007 is US\$129 million, which is 52% higher than 2005-2006 revenue of US\$84.5 million. The credit for these accomplishments belongs to a variety of government efforts, and it demonstrates that considerable additional revenue can be found through governance reform efforts. On the expenditure side, the government is establishing an increasingly sound track record with regard to expenditure management. It is anticipated that there is much room for improvement on both revenues and expenditures, but initial results are positive.

**Appendix I: Funding for Support to GEMAP Institutions**

<b>Donor/Partner</b>	<b>Amount</b>	<b>Period</b>	<b>Remarks(Coverage )</b>
<b>European Commission</b>	\$4,248,199	2006/07	<b>Commitments:</b> for management studies of GRC and BMA, second audits of FDA, LPRC, CBL and RIA, support to the contracts and concessions review - two persons plus operational costs, support to BCE, support to GAO and AG position, support to the Commissions (GRC and PPCC.)
<b>United States/ USAID</b>	\$7,045,532	2006/2007	<b>Commitments and disbursements to date:</b> for internationally recruited experts at RIA, NPA, LPRC, FDA, GSA, Bureau of the Budget, Ministry of Lands, Mines and Energy, support to the contracts and concessions review, plus additional program costs and technical assistance.
<b>United Kingdom/ DFID</b>	\$353,578	2005/2006	<b>Actual funding to date:</b> for support to development of an anti-corruption strategy, support to CSA, GAC and LIPA.
<b>International Monetary Fund</b>	\$900,000	2006/2007	<b>Commitments and disbursements to date:</b> for TA on revenue management ,public expenditure management, central banking operations, banking sector restructuring, statistics and tax policy and legislation.
<b>World Bank</b>	\$7,100,000	2005/2007	<b>Actual funding to date:</b> for procurement reform, resource management unit, procurement reforms and IFMIS support.
<b>Total Contribution</b>	<b>\$19,647,309</b>	<b>2005/2007</b>	

<b>Min/Agency/SOE</b>	<b>Amount</b>	<b>Remarks</b>
<b>Bureau of the Budget</b>	\$183,767	Overall budget FY 06/07 for GEMAP Implementing agencies
<b>Ministry of Finance</b>	\$1,078,536	""
<b>Forestry Development Authority</b>	\$718,760	""
<b>Bureau of Maritime Affairs</b>	\$235,000	""
<b>Roberts International Airport</b>	\$200,000	""
<b>National Port Authority</b>	\$184,162	""
<b>General Services Agency</b>	\$144,389	""
<b>Governance Reform Commission</b>	\$175,000	""
<b>General Auditing Commission</b>	\$481,056	""
<b>Public Procurement &amp; Concessions Commission</b>	\$83,845	""
<b>Estimated Total budgeted (FY 06/07)</b>	<b>\$2,514,515</b>	