

**AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND**



LIBERIA

Cover Note

**Joint African Development Bank/World Bank Interim Strategy Note (ISN)
2007-2008**

REGIONAL DEPARTMENT WEST (ORWB)

June 2007

I. INTRODUCTION

1. The proposed Joint Interim Strategy Note (ISN) conceptualizes Bank Group and World Bank support to Liberia during the 12-month period of July 2007 to June 2008. It informs the Boards on recent developments in Liberia, presents the principles of arrears clearance schemes expected to be applied by the Bank Group, World Bank and the IMF, and outlines the strategic priorities for Bank Group and World Bank assistance to Liberia during the above-mentioned period. The preparation of the ISN was a genuine partnership exercise between the two institutions and Liberia, including joint preparation missions and comprehensive consultations with the government, development partners and other stakeholders. Close cooperation between the Bank, the World Bank and the government will continue during the implementation of the ISN, on the basis of the joint performance monitoring framework.

II. COUNTRY CONTEXT AND RECENT DEVELOPMENTS

2. **Political:** Liberia descended in the late 1980s into a civil and region-wide war. In 2003 a Comprehensive Peace Agreement (CPA) was signed by the major warring factions in Accra, Ghana, and the National Transitional Government of Liberia (NTGL) established. Historic presidential elections took place in October/November 2005 and Ellen Johnson-Sirleaf was sworn into office in January 2006, becoming the first democratically elected female Head of State in Africa. The United Nations Mission in Liberia (UNMIL) has deployed 15,000 peacekeepers and 1,115 police personnel to Liberia, which has significantly contributed to restore peace and improve security. From a regional perspective, while security along Liberia's borders with Sierra Leone, Cote d'Ivoire and Guinea remains stable at this time, ongoing crises in several neighboring countries have been a potential cause for concern.

3. **Economic:** After years of civil conflict the country's main productive sectors such as agriculture and forestry, mining, manufacturing and construction collapsed, as did its economic and social infrastructure. However, following the cessation of conflict, the economy stabilized and began to rebound in 2004. Real GDP is estimated to have increased by 2.6 percent in 2004, 5.3 percent in 2005 and 7.8 percent in 2006, reflecting the gradual improvement in security in rural areas, post-civil war construction, and notably the contribution of a large donor presence to the services sector and reconstruction activities. The macroeconomic outlook for 2007-08 is broadly favorable, with GDP growth for 2007 projected at 7.8 percent, supported by a continued recovery in agriculture, post-war reconstruction, and the impact of a large donor presence on the service sector. In 2008, growth is expected to increase to 9.8 percent, driven mainly by the expected revival of forestry and mining exports following the removal of UN timber and diamond sanctions and a buoyant service sector, including construction. With regard to public finance, government revenue has recovered strongly since the restoration of peace, from 12.9 percent of GDP in FY 04 to 14.8 percent of GDP in FY 06. Government accumulated cash budget surpluses amounting to 0.8 percent of GDP in FY 05 and 4.5 percent of GDP in FY 06.

4. **Debt and Arrears:** Liberia emerged from its decade-long civil conflict with a severe external debt problem. As at end-June 2006, Liberia's total external debt is provisionally US\$ 4.5 billion. Multilateral institutions represent the largest creditor group, followed by bilateral creditors. As a result of the total stock of outstanding debt being almost entirely in arrears, the total external debt stock in NPV terms is around US\$ 4.5 billion. Total external debt relative to exports of goods and services stands at 1,967 percent. This debt ratio is significantly above the HIPC benchmark of 150 percent debt-to-exports.

5. **Social/Poverty:** Despite positive growth trends, the poverty and social situation remains dire. A recent survey on poverty conducted by the UNDP using the poverty line of one dollar a day shows that roughly 80 percent of all households are considered poor. The adult literacy rate is estimated at 36 percent (female: 18 percent), gross primary enrolment at 51 percent (female: 42 percent), under-five mortality at 235 (per 1000), life expectancy at birth at 42.4 years and HIV prevalence at 2-4.9 percent.

III. MAJOR CHALLENGES

6. **Productive sectors:** The rehabilitation of the **infrastructure** sector remains the greatest post-war challenge. During the war, extensive destruction of basic infrastructure coupled by lack of maintenance led to a vast decline in productive activities. The transport infrastructure base is greatly diminished and needs to be rebuilt, the airport and ports are dilapidated and poorly organized, severely hampering international commerce. Electricity generation and access to running water are very low, the sewerage system is not operational and no solid waste removal is in place. **Agriculture** has been the mainstay of the Liberian economy but households reverted to subsistence farming during the war and the challenge now is to boost marketable surplus. Yet few resources are available to smallholders and a poor transportation network hampers their ability to get products to market. The sector also suffers from low productivity, as technology has remained virtually stagnant for decades. This has been compounded by Liberia's outdated dual land tenure system - formal and customary - which puts in place serious restrictions to land ownership by both Liberians and foreigners. **Natural resources and mining** are also a significant potential source of revenue and poverty alleviation, although long misused to finance conflict. Much work remains to be done to rehabilitate the infrastructure, build capacity and strengthen the regulatory environment.

7. **Social sectors:** Improving education and health outcomes is key to rebuild Liberia's human resource capacity and to reduce poverty. Among the main challenges is the mobilization of funding for communities, their direct involvement in prioritization of needs and in managing sub-projects, and building the capacity of local government, which has proven to be an effective means to get services out to the population. Community-based development is also strengthening social capital and addressing some of the root causes of conflict. Scaling up of community-driven development efforts is thus a high priority of both donors and government.

8. **Public sector:** The civil conflict resulted in a profound degradation of the country's institutional capacities and the public administration's human resources, resulting from physical damage, losses in human lives, and the interruptions or degradation of education for an entire generation. The conflict has caused serious losses in experienced and competent management-level staff as well as in material and archiving capacities - 'brain drain' continues to be a widespread phenomenon in Liberia. However, a functioning public administration is critical for taking Liberia's reforms forward. Key to establishing an efficient public sector in Liberia will be comprehensive capacity building, physical rebuilding of institutions, civil service reform, including review of departmental mandates, structures, staffing levels and tackle payroll fraud. In addition, the effective implementation of an Anti-Corruption Strategy will be crucial to ensure accountability and transparency in the public sector.

9. **Private sector:** Whereas private sector growth is poised to be the main engine of Liberia's post-war recovery, the business environment in Liberia is weak with little formal activity and little incentives for large-scale private investment. With a few exceptions, most

businesses are small and informal and there is very limited access to finance and advisory services. Liberia's inadequate infrastructure and weak human resource base has also inhibited the growth and expansion of businesses.

IV. GOVERNMENT RESPONSE

10. The government in early 2006 adopted the **Governance and Economic Management Assistance Program** (GEMAP), which had been signed by the National Transitional Government of Liberia (NTGL) and development partners in September 2005. To date, GEMAP has seen considerable improvements in public financial management and accountability, budgeting and expenditure management, procurement and concession practices, combating corruption, capacity development and donor coordination. Notably, government revenues have increased significantly due to enhanced control mechanisms, improved financial practices and strengthened tax administration. The government in February 2006 also agreed with the IMF on a **Staff Monitored Program** (SMP) and achieved most of its objectives for the February-September 2006 period. Agreement was also reached on an SMP for 2007, which aims to continue progress with strengthening public financial management and the domestic financial sector, and implement the government's anticorruption and domestic debt resolution strategies.

11. The government in February 2006 launched the development of an **Interim Poverty Reduction Strategy** (I-PRS), while formulating a **150-Day Plan** of short-term reforms and deliverables in the four priority areas of Security, Economic Revitalization, Basic Services and Infrastructure, and Governance and Rule of Law, to be achieved by the end of FY 06. Good progress was made under the 150-Day Plan, with a large majority of deliverables accomplished by end-June 2006, especially in the areas of Security and Economic Revitalization. These main pillars were maintained in preparation of the I-PRS, finalized in January 2007 after broad national consultations. The I-PRS focuses on maintaining security and building peace; improving governance and the rule of law; revitalizing the economy; and rebuilding infrastructure and beginning to get basic services up and running. The sectoral priorities set by the government under the four pillars of intervention adequately reflect Liberia's developmental challenges in order to initiate a longer-term process of improving the livelihoods of Liberians and to reduce poverty on a country-wide basis. Each pillar of the I-PRS contains a matrix of time-bound policy objectives, operational programs results/indicators and deliverables. Capacity building as well as job creation and service delivery measures have been mainstreamed into each pillar. The government intends to start preparations of a full PRS shortly, which is expected to be finalized by mid-2008.

V. RESPONSE OF THE INTERNATIONAL COMMUNITY

12. Consistent with a fragile states approach, donors concentrate in a few key areas, aligning their support and sending common messages to government. Thus the U.S., the World Bank, the African Development Bank, the EC and the IMF all support fundamental governance reforms, but ensure that their programs are mutually reinforcing. Other important donors in Liberia include Sweden, the UK, Germany, Switzerland, Ireland, Japan and France. Sweden, Switzerland and Ireland have been focusing on the social sectors, while Germany is engaged in infrastructure. France has been involved in the health sector and has also provided direct support under GEMAP. The UK continues to focus on governance and rule of law, including anti-corruption. Most of these donors do not yet have bilateral programs in the country and have channeled their support primarily through NGOs or the UN system.

13. With regard to donor coordination, the RFTF Implementation and Management Committee (RIMCO) guided donor interventions under the NTGL, while under the new government, the Liberia Reconstruction and Development Committee (LRDC) was established as a platform for donor dialogue and support of the development of the I-PRS. Cooperation among lead donors has been strong, but aid coordination vis-à-vis the government has been less robust. The February 2007 Liberia Partners Forum in Washington DC, co-hosted by the US, UN, World Bank, African Development Bank, EC and the IMF, was a strong step towards government-led donor coordination. The groundwork for this meeting was laid during a multi-donor partners meeting in Monrovia in July 2006. At the Partners' Forum, donors joined together in public support of the government's track record of reform and in pledges of support, particularly for debt relief. Donors also committed to coordinate and harmonize their own programs to reduce the demands and transaction costs on government.

VI. JOINT ADB/WB INTERIM STRATEGY NOTE (ISN)

14. The overarching objective of this strategy is to support Liberia's transition from post-conflict relief to long-term development, while laying the foundations for sustained and shared economic growth. The strategy takes into account emerging lessons on the delivery of assistance to fragile states in post-conflict transition, which recognizes the need for support for a sustained and broad-based state-building agenda, taking advantage of significant windows of opportunity for fundamental reform. This focuses particularly on rebuilding state capacity in economic policy, public financial management systems, and public administration, as well as the rehabilitation of the country's socio-economic and physical infrastructure and attracting private sector investment which is key to re-launching economic activity. The strategy is predicated on the need for Liberia to fully restore normal relations with the International Financial Institutions (IFIs) and fully in line with the government I-PRS, with all assistance falling within three of the four main pillars of the I-PRS: (i) revitalizing the economy; (ii) strengthening governance and the rule of law; (iii) rehabilitating infrastructure and delivering basic services:

- (i) Under **revitalizing the economy**, the government's program focuses primarily on short-term employment generation, with a longer-term focus on agriculture, natural resource management, and improving the climate for private sector recovery. The World Bank's support, through the IFC program, and Bank Group assistance will center on strong support for private sector-led growth, improvements in the regulatory environment and business climate, in addition to the generation of quick-impact employment through labor-intensive infrastructure and agriculture rehabilitation programs;
- (ii) Under **strengthening governance and the rule of law**, the I-PRS lays a challenge of strengthening the rule of law, rebuilding the public sector, and strengthening governance at all levels of government and civil society. The World Bank and Bank Group's strategy underpins these efforts through broad support for public financial management and economic governance reform, including continuing support for GEMAP; fundamental public sector and civil service reform; quick-impact judicial sector reform; and implementation of a nascent anti-corruption agenda;
- (iii) Under **rehabilitating infrastructure and delivering basic services**, government's focus is on rebuilding critical infrastructure and basic service delivery channels to both support economic growth and, importantly, enhance the

peoples' lives, contributing to peace and stability. The World Bank and the Bank Group are supporting infrastructure projects in roads and transport to help make commerce possible and provide service delivery channels; water infrastructure; and energy sector rehabilitation both on the public and private sector sides. In addition, this ISN supports community driven development and improvements in basic education and health service delivery.

15. The strategy is conceptualized as an **interim** strategy as Liberia is undergoing a dramatic transformation from civil war to the consolidation of peace and the foundation of a functioning and successful state. In a post-conflict country such as Liberia, a short-term strategy is prepared given the fast-changing nature of the transition and need to update the strategy on a more frequent basis. The strategy was prepared **jointly** to allow the two institutions to better align their development programs, avoid duplication of efforts, and realize the benefits of combining their technical expertise. Under this joint strategy the World Bank and the Bank Group have developed a shared vision and common platform for action. Planned interventions are complementary to one another and not duplicative, focusing primarily on key sectors, such as infrastructure, governance and social sectors. Key to implementation is the use of harmonized instruments to increase efficiency and reduce transaction costs. Thus the World Bank and the African Development Bank will carry out several jointly financed programs, including joint investments in the water sub-sector and joint analytic work in the areas of governance and public finance management as well as gender. The strategy was prepared in close cooperation with the government and is based on extensive consultations with stakeholders across Liberia.

Bank Group Assistance to Liberia under the ISN

16. Bank Group assistance to Liberia under the ISN will be provided within the framework of ADF-X (2005-2007) and part of ADF-XI (2008-2010). Bank support under the ISN will be selective, focusing on the priority sectors of infrastructure and governance. While the initial country allocation to Liberia under ADF-X amounted to UA 6.97 million, an amount of UA 2.45 million was added in late 2006 following the Bank's annual CPIA exercise, thereby increasing the total amount accessible by Liberia under ADF-X to UA 9.42 million. Of this amount, UA 3.00 million were allocated towards the Institutional Support Project (ISP) as pre-arrears clearance support, approved by the Bank Group Boards in October 2006. The ISP is implemented by a joint Bank/World Bank Project Implementation Unit established at the Ministry of Finance, thereby reducing transaction cost related to project coordination and reporting. Complementary to the ISP is Bank Group assistance to the Governance Reform Commission, which is financed from bilateral Nordic Funds with US\$ 145,040, approved in December 2006, to support public sector reform. Bank Group support to Liberia under the ICP-Africa program (approx UA 165,000) is also complementary to the ISP, through strengthening the capacity of the Liberia Institute of Statistics and Geo-Information Services (LISGIS).

17. The balance available under ADF-X of UA 6.42 million will be used to fund a labor-intensive public works project in support of the government's National Public Works Program. The main objective of the project is the rehabilitation of the Fish Town - Harper Road stretch, thereby enhancing mobility and accessibility to the country's interior. The project also aims at enhancing access to basic social services and economic activities, create permanent and temporary job opportunities through the use of labor-based methods, and to increase the skills of workers and local communities. The project will pay greater attention to ensure women's participation in project activities by targeting at least 30 percent of those beneficiaries from the employment and skills training will be women. Moreover, in order to

secure women's income, the project will apply equal pay for similar job policy. The project is complementary with other donor interventions, especially World Bank and UNMIL financed projects, as the planned rehabilitation of the Fish Town - Harper stretch is a continuation of the Zewdru - Fish Town road under World Bank funding. Moreover, the proposed project envisages joint implementation arrangements with the World Bank by using the existing Special Implementation Unit (SIU) which has been jointly established by the Ministry of Public Works and the World Bank.

18. In addition, the Bank - within the framework of a joint initiative with the World Bank, DFID and the EU - will implement the Monrovia Water and Sanitation Immediate Rehabilitation Project, totaling US\$ 24.73 million. Each component will be implemented separately by each donor. The DFID sub-component of US\$ 5.86 million will be implemented by the Bank, using existing Bank Rules and Procedures. The Executing Agency will be the Liberia Water and Sewer Corporation (LWSC), responsible for the implementation of the project. The objective of the project is to improve water and sanitation services to Monrovia and improve the capacity of the LWSC to operate and maintain water and sewerage systems on sustainable basis. The main components of the project consist of water works rehabilitation and sewerage system rehabilitation, capacity building for LWSC and water sector reform

19. The Bank will also assist Liberia, in close cooperation with the World Bank, in the implementation of the EITI, and seek to mobilize additional resources from bilateral trust funds to support the 2008 population and housing census and the implementation of the National Statistical Development Strategy. Furthermore, the Bank will undertake analytical work, including studies in the water sector and the development of a Water Sector Reform Action Plan, which are expected to be financed from the African Water Facility (AWF). The Bank will also undertake analytic work on specific gender-related issues, in close cooperation with other development partners, notably with the World Bank. The Bank will also prepare a Governance Profile, with a focus on Liberia's financial sector, including access to finance by SMEs, and land tenure. The Bank will also join the World Bank and other development partners in the implementation of the PEMFAR. The Bank will seek to prepare all ESW jointly with other development partners, which is expected to inform the preparation of the Bank Group's full Country Strategy Paper for Liberia in 2008.

20. The Bank will also support Liberia's private sector. Given the crucial role of the private sector as a main driver of economic growth, poverty alleviation and social stability, the Bank will support the government in private sector development and monitor closely trends affecting the business climate in Liberia. The Bank will also support Liberia's recovery through deepening the financial systems and assist in the rehabilitation of commercial and development banks. Furthermore, it will build the capacity of microfinance entities and identify opportunities to improve MSME access to finance. Opportunities would also be identified in the extractive industries' sector.

21. As the ISN's lifespan is from July 2007 to June 2008, part of Bank Group assistance to Liberia under the strategy will be provided under ADF-XI. The Bank has a robust pipeline of projects for 2008 to continue support in the priority sectors of infrastructure and governance. Following the conclusion of the ISN, the Bank will prepare a full Country Strategy Paper (CSP) for Liberia, covering the period of 2008-2011, which will be based on the government's full PRSP. The CSP 2008-2011 will govern the utilization of resources available to Liberia under ADF-XI and part of ADF-XII as well as exceptional post-conflict allocations from the proposed Fragile States Facility, subject to Board approval.

VII. CONCLUSIONS AND RECOMMENDATIONS

22. **Conclusions:** Liberia is a fragile state undergoing a dramatic post-conflict transformation from civil war to the consolidation of peace and the foundations of a functioning and successful state. This Joint Interim Strategy Note, prepared by the World Bank and the African Development Bank, builds on the tremendous progress made by Liberia in the recent past, notably since the formation of a new government in early 2006. The strategy proposes the provision of development assistance in line with the Principles of Good International Engagement in Fragile States, i.e. to make aid more predictable, respond faster to actual needs and to focus on building state capacity and accountability. The strategy proposes a program of support for the next 12 months, closely aligned with the government's Interim Poverty Reduction Strategy and taking advantage of substantial windows of opportunity for reform under the current government.

23. **Recommendations:** The Boards are invited to endorse this Cover Note to the Joint African Development Bank/World Bank Interim Strategy Note 2007-2008 for Liberia.

**Document of
The World Bank
The African Development Bank**

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Report No. 39821–LR

**INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
AFRICAN DEVELOPMENT FUND**

**JOINT INTERIM STRATEGY NOTE
FOR
THE REPUBLIC OF LIBERIA**

June 14, 2007

**World Bank
West Africa Department 1**

**African Development Bank
Regional Department West 2**

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REPUBLIC OF LIBERIA – FISCAL YEAR

July 1 - June 30

CURRENCY EQUIVALENTS

(as of May 2nd, 2007)

Currency Unit = Liberian Dollar (LR\$)

1 US\$ = 61.5000 LR\$

1 UA = 89.5118 LR\$

WEIGHTS AND MEASURES

Metric System

ACRONYMS AND ABBREVIATIONS

ACPA	Accra Comprehensive Peace Accord	FSS	Fragile States Strategy (AfDB)
AfDB	African Development Bank	GEMAP	Governance and Economic Management Assistance Program
AfDF	African Development Fund	GOL	Government of Liberia
AFL	Armed Forces of Liberia	GRC	Governance Reform Commission
BOB	Bureau of Budget	GSA	General Service Agency
BWIs	Bretton Woods Institutions	GDP	Gross Domestic Product
CBL	Central Bank of Liberia	HIPC	Heavily Indebted Poor Countries
CDP	Country Dialogue Paper	ICP	International Comparison Program
CMC	Contracts and Monopolies Commission	I-CSP	Interim Country Strategy Paper
CMCO	Cash Management Committee	IDP	Internally Displaced People
CPA	Comprehensive Peace Agreement	IFI	International Financial Institution
CSA	Civil Service Agency	IFMIS	Integrated Financial Management Information System
DDRRP	Disarmament, Demobilization, Rehabilitation, and Reintegration Program	IMF	International Monetary Fund
DFID	Department for International Development	I-PRS	Interim Poverty Reduction Strategy
DSRP	Department of Sectoral and Regional Planning	JSSL	Justice Sector Support to Liberia
EC	European Commission	LAN	Local Area Network
ECOMOG	Economic Community of West African States Monitoring Group	LEC	Liberia Electricity Corporation
ECOWAS	Economic Community of West African States	LICUS	Low Income Countries under Stress
EGSC	Economic Governance Steering Committee	LIPA	Liberia Institute of Public Administration
EIP	Emergency Infrastructure Project	LISGIS	Liberia Institute of Statistics and Geo-Information Services
EITI	Extractive Industries Transparency Initiative	LPRC	Liberia Petroleum Refining Company
EU	European Union	LRDC	Liberia Reconstruction and Development Committee
FAO	Food and Agriculture Organization	LTU	Large Tax Payers Unit
FDI	Foreign Direct Investment	LURD	Liberians United for Reconciliation and Democracy
FY	Fiscal Year	LWSC	Liberia Water and Sewerage Corporation
FSF	Fragile States Facility (AfDB)	MDG	Millennium Development Goals
		MFU	Macro-Fiscal Unit

MODEL	Movement for Democracy in Liberia	RFTF	Results Focused Transitional Framework
MOE	Ministry of Education	RIA	Roberts International Airport
MOF	Ministry of Finance	RMU	Resource Management Unit
MOJ	Ministry of Justice	SC	Steering Committee
MOP	Ministry of Planning and Economic Affairs	SDR	Special Drawing Rights
MSME	Micro, Small and Medium Enterprises	SME	Small and Medium Enterprises
MTEF	Medium Term Expenditure Framework	SMP	Staff Monitored Program
NARDA	New African Research Development Agency	SOE	State-owned Enterprise
NGO	Non-governmental Organization	SWAP	Sector-wide Approach
NPA	National Port Authority	TFLIB	Trust Fund for Liberia
NTGL	National Transitional Government of Liberia	TOR	Terms of Reference
NTFP	Non-timber Forest Products	UA	Unit of Account of the AfDB
PCCF	Post-Conflict Country Facility	UNHCR	United Nations High Commissioner for Refugees
PPCC	Public Procurement and Concessions Commission	UNICEF	United Nations Children's Fund
PRGF	Poverty Reduction and Growth Facility	UNMIL	United Nations Mission in Liberia
PRS	Poverty Reduction Strategy	USAID	United States Agency for International Development
		USTD	United States Treasury Department
		UNDP	United Nations Development Program
		UNMIL	United Nations Mission in Liberia
		WB	World Bank

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Acknowledgements

The Liberia Interim Strategy Note benefited from the valuable contributions and inputs of the following colleagues:

From the World Bank: Paola Agostini, Imoni Akpofure Kofi Anani, Kathryn Bach, Laura Bailey, Lisa Bhansali, Parminder Brar, Sarah Cliffe, Peter Darvas, John Davidson, Janet Dooley, Emmanuel Fiadzo, Sabine Hader, Graeme Hancock, Corinne Ilgun, Kremena Ionkova, Chris Jackson, Rob Krech, Paul Kriss, Sima Kanaan, Pilar Maisterra, Rekha Mehra, Eric Nelson, Waafas Ofosu-Amaah, Gylfi Palsson, Alex Preker, Kay Schwendinger, Mike Stevens, Krishna Thapa, Tom Walton, Giuseppe Zampaglione, Simplicie G. Zouhon-Bi

From the AfDB: Yero Baldeh, Yeshiareg Dejene, Lydie Ehouman, Rai Heeroo, Ralph Olaye, Sunita Pitamber, Rex Situmbeko, Tove Strauss, James Tabi, Sameh Wassel.

LIBERIA JOINT INTERIM STRATEGY NOTE: FY 2008

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EXECUTIVE SUMMARY

i. Liberia is a fragile state undergoing a dramatic post-conflict transformation from civil war to the consolidation of peace and the foundations of a functioning and successful state. This Joint Interim Strategy Note, prepared by the World Bank and the African Development Bank, builds on the tremendous progress made by Liberia in the recent past, notably since the formation of a new government in early 2006. The strategy proposes the provision of development assistance in line with the Principles of Good International Engagement in Fragile States, i.e. to make aid more predictable, respond faster to actual needs and to focus on building state capacity and accountability. The strategy proposes a program of support for the next 12 months, closely aligned with the government's Interim Poverty Reduction Strategy and taking advantage of substantial windows of opportunity for reform under the current government.

ii. Liberia has emerged from conflict with a severe external debt problem, upwards of US\$ 4.5 billion. US\$ 1.7 billion of this is in arrears to the World Bank, the IMF, and the African Development Bank. Clearance of these arrears is key to the normalization of relations with the International Financial Institution (IFIs) as well as to eligibility for debt relief under the HIPC and MDRI initiatives. The World Bank stands ready with a Development Policy Operation to clear its arrears as soon as the other preferred creditors find financing solutions. The AfDB envisages using its Post Conflict Country Facility (PCCF) to clear Liberia's arrears, calling for exceptionally favorable terms. AfDB's arrears clearance strategy will be articulated in an Arrears Clearance Operations Paper, which is currently under preparation to be discussed by the AfDB Boards. This Interim Strategy Note sets the stage for full normalization of relations with the International Financial Institutions (IFIs) which is an integral part of Liberia's aspirations for a viable development program. Restoring relations with external creditors and securing debt relief through HIPC and MDRI will be critical to Liberia's ability to establish a sound macroeconomic framework and pursue growth and poverty reduction.

iii. Despite positive growth trends the poverty and social situation remains dire. There is little robust poverty data, although efforts are underway to begin collecting this in the context of the preparation of a full PRSP. Government is working through the budget reform process to ensure that expenditures are increasingly pro-poor.

iv. The government has made progress in implementing key economic governance reforms, including meeting the benchmarks of a Staff Monitored Program agreed with the IMF in February 2006. The macroeconomic outlook for the coming year is broadly favorable, government revenue has recovered strongly, and government has undertaken a wide range of measures to improve fiscal management. However, given the current difficult financial environment, the government will need to continue to exercise fiscal discipline and ensure that spending adheres to plans.

v. Structural and sectoral challenges loom large on all fronts. Transport is key to getting economic activity up and running again, but other large infrastructure gaps such as in energy and water and sanitation must also be addressed if medium term gains are to be realized. Agriculture is also key to restoring livelihoods and economic revitalization, although it has been dormant for some time. Natural resources - both forests and mineral wealth - have significant potential but must be well managed to avoid the conflict trap. In the social sectors,

restoring health and education is key to rebuilding Liberia's human resource capacity, while rebuilding community and local government capacity engagement is critical to delivery of basic services. Reconstituting the civil service is a challenging but critical task. Finally, private sector led growth, if equitable, is poised to become the main engine of Liberia's economic recovery - but it requires a favorable investment climate, such as access to credit and banking, a solid regulatory environment, and services for small to medium enterprises. Finally, low overall human capacity and gender inequality remain significant barriers to recovery.

vi. There has been significant progress on economic governance. Widespread corruption during the National Transitional Government of Liberia period led to the establishment of the multi-donor Governance and Economic Management Assistance program (GEMAP), an innovative Security Council-backed framework for improving economic governance support by international technical assistance. In the ensuing period, although enormous challenges remain, the government has seen significant improvements in governance reform, and has successfully met the benchmarks of the IMF's Staff Monitored Program.

vii. Over the last three years, the World Bank has maintained a consistent and selective engagement in Liberia, leading the donor community in core areas of expertise - economic governance, community-driven development, and infrastructure rehabilitation. In support of this, the World Bank mobilized significant funding and technical capacity to support Liberia's fragile transition, despite a difficult arrears situation, and its engagement has had tangible impact. Lessons learned in implementation include the need to constantly innovate to overcome obstacles to implementation in a volatile post-conflict environment. It is expected that application of the World Bank's new Rapid Response Policy will greatly facilitate speed and effectiveness of implementation going forward. The AfDB, in recent years, has intensified its dialogue with Liberia, with a view toward achieving a lasting normalization of relations with the country and to prepare the ground for the resumption of operational activities¹. To this end, the AfDB, since 2004, has engaged in a close dialogue with Liberia on the use of the AfDB Post-Conflict Country Facility (PCCF) for arrears clearance. The AfDB Boards in 2005 and 2006 approved Country Dialogue Papers (CDPs), which have focused on assisting Liberia to address its arrears issues and strengthening the country's institutional capacity. In October 2006, the AfDB Boards approved an Institutional Support Project for Governance, Economic Management and Poverty Reduction as pre-arrears clearance support. The AfDB has recently embarked on the preparation of a Fragile States Strategy (FSS), which, subject to Board approval, is expected to become operational in 2008. It is expected that the FSS will enable the AfDB to provide assistance in a timelier and more effective way.

viii. The joint World Bank/AfDB program is strategically conceived to align with government's Interim Poverty Reduction Strategy Paper (IPRSP) along its three main pillars - economic revitalization, governance and rule of law, and infrastructure and basic services. It is aligned with emerging lessons on the delivery of assistance to fragile states in post-conflict transition, which recognizes the need for support for a sustained and broad-based state-building agenda, taking advantage of significant windows of opportunity for fundamental reform.

¹ The AfDB has had limited presence in Liberia since the country fell into arrears in 1985, which occasioned the cancellation of the entire AfDB portfolio of on-going operations.

ix. The World Bank's program builds on the strong foundation put in place over the last three years of World Bank re-engagement in Liberia. It aims to continue to strengthen the reforms and deepen interventions already underway, such as in infrastructure, community-driven development, and economic governance, while entering new areas of engagement such as education, health and civil service and judicial reform. It will support moving towards a government-driven program with a modest budget support operation and focuses strongly on capacity building across all sectors.

x. AfDB assistance to be provided to Liberia under the ISN will focus on the priority sectors of infrastructure and governance. AfDB support aims mainly at rehabilitating the country's infrastructure, notably roads and water/sanitation facilities, thereby contributing to a more conducive environment for private sector activity and economic growth as well as improved basic service delivery. AfDB assistance also aims at further improving governance and economic management through continued capacity building and support of civil service reforms.

xi. The World Bank has developed a strong partnership with other donors on the ground, beginning just after the conclusion of the peace process. This work increased the World Bank's relevance and effectiveness, and has led to an effective and close operational collaboration among partners today. This has in turn given to innovative solutions to a range of issues. The AfDB, similarly, has intensified dialogue with other donors and development partners, particularly to achieve arrears clearance for Liberia and ensure the country's timely full re-engagement with development partners. In this regard, the AfDB, since 2004, has initiated several meetings in Liberia with the government as well as other donors and participated in the Liberia Partners' Forum held in Monrovia, in July 2006, and in Washington, D.C., in February, 2007.

xii. The interventions proposed under the ISN are expected to have a discernible impact in terms of improved dialogue, deepened policy reforms - particularly in the area of economic governance and institutional reform improved government capacity to manage aid financing and development projects, as well as progress on actual physical infrastructure rehabilitation. Given the short-term nature of the strategy (12 months), and the fact that most projects are still in start-up phases, projects are expected to be only at the mid-point of implementation by the end of the ISN period.

xiii. **Conclusions:** Although there is much cause for optimism, enormous challenges remain. Government's reform program - highly praised at the Liberia Partners' Forum held in Washington DC in February 2007 - is new and fragile. Vested interests continue to oppose and undermine reform efforts, and implementation capacity is very low. If its fledgling reform efforts are to succeed, government must continue to receive strong support from the entire international donor community.

xiv. **Recommendations:** The Boards are invited to endorse the Joint World Bank/AfDB Interim Strategy Note FY 08 for Liberia.

I. INTRODUCTION

1. **Liberia is a fragile state undergoing a dramatic post-conflict transformation from civil war to the consolidation of peace and the foundations of a functioning and successful state.** This Joint Interim Strategy Note, prepared by the World Bank and the African Development Bank, builds on the tremendous progress made by Liberia in the recent past, notably since the formation of a new government in early 2006. The Joint Strategy proposes the provision of development assistance in line with the Principles of Good International Engagement with Fragile States, i.e. to make aid more predictable, respond faster to actual needs and to focus on building state capacity and accountability. The strategy proposes a program of support for the next 12 months, closely aligned with the government's Interim Poverty Reduction Strategy and taking advantage of substantial windows of opportunity for reform under the current government. The strategy also sets the stage for full normalization of relations with the International Financial Institutions (IFIs) which is an integral part of Liberia's aspirations for a viable development program. Restoring relations with external creditors and securing debt relief through HIPC and MDRI will be critical to Liberia's ability to establish a sound macroeconomic framework and pursue growth and poverty reduction.

2. **This program consolidates and mainstreams the focused and selective work that the World Bank has carried out in economic governance, infrastructure rehabilitation, and community development, as well as the work the African Development Bank has done in the areas of governance and economic management.** The strategy also proposes, for the first time, intervention in a few new and critical sectors, such as education and health, as government's poverty reduction program takes root.

3. **Although there is much cause for optimism, enormous challenges remain.** Government's reform program - highly praised at the Liberia Partners' Forum held in Washington D.C. in February 2007 - is new and fragile. Vested interests continue to oppose and undermine reform efforts and implementation capacity is very low. If its fledgling reform efforts are to succeed, government must continue to receive exceptionally strong support from the entire international donor community. This Joint Strategy proposes a strong program of support towards that end.

II. COUNTRY CONTEXT AND RECENT DEVELOPMENTS

A. POLITICAL CONTEXT

4. **Liberia has witnessed a dramatic transformation from decades of civil conflict to a return to peace and democracy.** Liberia descended in the late 1980s into a civil and region-wide war known for its brutality against civilians. In 2003 a Comprehensive Peace Agreement (CPA) was signed by the major warring factions in Accra, Ghana, and the National Transitional Government of Liberia (NTGL) and a National Transitional Assembly (NTLA), each representing the various factions, were established in mid-October 2003. The NTGL had a two-year mandate and brought together a wide variety of Liberian stakeholders, including the three main warring factions and community-based organizations. During this period, a large United Nations peacekeeping mission, the United Nations Mission in Liberia (UNMIL) was mandated by the Security Council under the UN Charter, Article 7 to oversee security, the humanitarian relief effort, and initial efforts at reconstruction.

5. **Historic presidential elections took place in October/November 2005.** Ellen Johnson-Sirleaf won with 59 percent of the vote, in an election considered by international observers and most Liberians to be free and fair. Johnson-Sirleaf was sworn into office on January 16, 2006 and so became the first democratically elected female Head of State in Africa. In forming the new government the President has attempted to create an all-inclusive Cabinet with representatives from all ethnic and regional backgrounds. Despite a challenging political environment, government worked with the legislature to successfully pass Liberia's first budget in early 2006.

6. **Strong international support has helped consolidate peace and security.** UNMIL has deployed 15,000 peacekeepers and 1,115 police personnel to Liberia. By early 2007 UNMIL had disarmed and demobilized about 101,500 combatants and rehabilitated some 65,000 of them, while about 37,000 ex-combatants remained to be placed in reintegration programs. UNMIL and partners have also supported the restructuring of the national police and army and the re-establishment of state authority throughout the country. From a regional perspective, while security along Liberia's borders with Sierra Leone, Cote d'Ivoire and Guinea remains stable at this time, ongoing crises in several neighboring countries have been a potential cause for concern.

B. ECONOMIC CONTEXT

7. **The economy is showing modest signs of recovery, although much of the basis is short-term in nature.** While national accounts for Liberia are unreliable and based on a quarter-century old pre-conflict framework, general trends can be ascertained. After years of civil conflict the country's main productive sectors such as agriculture and forestry, mining, manufacturing and construction collapsed, as did its economic and social infrastructure. However, following the cessation of conflict, the economy stabilized and began to rebound in 2004. After having declined by over 30 percent in 2003, real GDP is estimated to have increased by 2.6 percent in 2004, 5.3 percent in 2005 and 7.8 percent in 2006, reflecting the gradual improvement in security in rural areas, post-civil war construction, and notably the contribution of a large donor presence to the services sector and reconstruction activities. While reliable sectoral data are scarce, the mainstay of the Liberian economy remains *agriculture and fisheries*, which contributed about 52 percent of aggregate GDP in 2004-2006. *Forestry* accounted for about 12 percent of GDP during the same period, though this figure, exclusively based on the production of charcoal and wood due to the UN embargo on timber exports, may be exaggerated. *Mining* recorded an extremely small share of GDP (0.1 percent in both 2004 and 2005), which is significantly below its potential and is expected to rise sharply in the medium term. *Manufacturing* accounted for around 12 percent of GDP in 2004 and 2005. The *service* sector accounted for about 24 percent of GDP during 2004-2005. Growth in the sector during this period was mainly based on increased activity in the construction, transportation and communication, trade and hotels sub-sectors.

8. **The macroeconomic outlook for 2007-08 is broadly favorable.** Real GDP growth for 2007 is projected at 7.8 percent, supported by a continued recovery in agriculture, post-war reconstruction, and the impact of a large donor presence on the service sector. In 2008, growth is expected to increase to 9.8 percent, driven mainly by the expected revival of forestry and mining exports following the removal of UN timber and diamond sanctions and a buoyant service sector, including construction.

9. **Government revenue has recovered strongly since the restoration of peace.** While total revenue (excluding grants) amounted to \$56.0m (12.9 percent of GDP) in FY 04, it increased to \$79.3m (16.0 percent of GDP) in FY 05, and further to \$84.6m (14.8 percent of GDP) in FY 06. In line with the policy of implementing a cash-based budget, total expenditure in FY 04 amounted to \$50.4m, \$76.3m in FY 05, and to \$59.6m in FY 06. Government accumulated cash budget surpluses amounting to 0.8 percent of GDP in FY 05 and 4.5 percent of GDP in FY 06. However, the fiscal surplus for FY 06 is much lower when expenditures are measured on a commitment, rather than a cash, basis. Because of delays in approving expenditures during February-May 2006, which were the result of the enactment of a recast budget, the strengthening of the interim commitment control system and the introduction of the Public Procurement and Concessions Act, many government checks were only printed towards the end of the fiscal year and had yet to be cashed when the year ended. The budget surplus on a commitment basis is estimated at 1.5 percent of GDP in 2005/06.

Table 1 Liberia Selected Economic Indicators, 2005-2007

	GDP (2005)	2005 Est	2006 Est	2007 Proj	2008 Proj
Real GDP (growth rate)	US\$ 530.2m	5.3	7.8	7.8	9.8
Agriculture (excl. forestry)	60.0 %				
Non-agriculture	40.0 %				
Forestry	12.1 %				
Mining	0.1 %				
Manufacturing	7.4 %				
Services	20.4 %				
Inflation (annual average rate)		6.9	9.5	8.5	8.0
Government revenues (percent of GDP, excl. grants)		16.0	14.8	20.8	25.6
Overall fiscal balance (cash basis, deficit -)		0.8	4.5	-0.6	
Trade balance (percent of GDP, deficit -)		-34.6	-39.5	-38.5	-35.0
Central Bank of Liberia's net foreign exchange position (months of imports of goods and services)		0.2	0.5	0.7	0.8
Terms of trade (percentage change, deterioration -)		3.9	28.7	0.5	-4.7

Source: IMF

10. **Since taking office in January 2006, the new government has implemented a wide range of measures to improve fiscal management.** Revenues rose substantially during February-June 2006 as the government made a strong effort to improve tax and customs administration, including revision of tax rates, strengthening of revenue administration, and reduction of exemptions. Measures taken include the enforcement of pre-shipment inspections for imports and exports, including an increase in the penalty for not undertaking the inspections, improving tax collection through strengthening the Large Taxpayers Unit (LTU), implementation of a computerized tax payment system, elimination of non-cash payment of taxes, reducing import tax exemptions and improving management of those granted to NGOs, redefining the base for the goods and services tax on imports, and increasing the excise tax on beer and cigarettes. The government also developed a plan for a review of the Investment Incentive Code, which inter alia aims to eliminate the granting to individual investors of ad hoc tax exemptions outside of the Liberia Revenue Code (LRC). On the expenditure side of the budget, the government made the commitment control system more effective by strengthening the Cash Management Committee, and introduced the Public Procurement and Concessions Act. As noted above, these measures, combined with the late approval of the budget, delayed spending approvals and resulted in the accumulation of sizeable balances in the government's accounts at the Central Bank of Liberia (CBL) of about US\$40m at end-March 2007. As the government cannot borrow (though consideration may be given in the future to short-term borrowing for liquidity management), the macroeconomic influence of fiscal policy is limited.

11. **Given the high level of public debt, the government will need to exercise fiscal discipline and maintain expenditures within the available budgetary resources, while intensifying its efforts to mobilize revenue.** Government will need to further reduce tax exemptions and continue strengthening tax administration, including the LTU. The government also intends to review the LRC and ensure that use of the revised Taxpayer Identification Number is enforced. These reforms are expected to increase the efficiency of revenue administration and help widen the tax base through better coordination between tax collection, auditing and enforcement. The government is also considering a possible outsourcing of the management and operation of customs for a maximum period of 3 years, thereby increasing transparency, accountability and effectiveness of customs administration.

12. **On the expenditure side, the government will need to ensure that spending agencies strictly adhere to prioritized monthly cash plans and to take measures to enable individual spending agencies to more effectively implement budgeted expenditures** by, for example, providing internationally recruited procurement management experts in the key larger public spending agencies to fill the capacity gap while providing further training to the procurement committees and units within these agencies. It is also important that the government strengthens the Ministry of Finance's capacity to undertake sound macro-fiscal analysis, including the development of multi-year expenditure and revenue projections which include realistic projections of potential donor flows. This would entail ensuring that procurement planning and data on costing are part of the budget formulation and multiyear planning. Also, more resources will need to be allocated within the budget towards pro-poor spending (social, infrastructure and rural development), to which end the government intends to create more fiscal space through further removal of ghost workers from the public payroll and initiation of a comprehensive civil service reform program.

13. **Inflation rates have been relatively stable in the last three years, remaining on average in a single-digit range.** Given the large share of imports in the economy (imports f.o.b. are estimated to have amounted to 65.2 percent of GDP in 2006) consumer price inflation is strongly influenced by the exchange rate, which has been relatively stable since the beginning of 2004. Broad money growth rate decelerated from 49.3 percent in 2004 to an estimated 35.7 percent in 2005 and then further declined to 34.4 percent in 2006. The CBL has strengthened the monetary policy framework by clarifying the role of the Money Management and Policy Review Committee, giving it the primary responsibility for guiding monetary policy decision making. The CBL also clarified the rules and procedures for the foreign exchange auction, its main policy instrument, and has resumed its regular program of bi-weekly auctions since early 2006.

C. DEBT AND ARREARS

14. **Liberia emerged from its decade-long civil conflict with a severe external debt problem.** As at end-June 2006, Liberia's total external debt is provisionally US\$ 4.5 billion (Table 2, page 8). Multilateral institutions represent the largest creditor group, followed by bilateral creditors. As a result of the total stock of outstanding debt being almost entirely in arrears, the total external debt stock in NPV terms is around US\$ 4.5 billion. Total external debt² relative to exports of goods and services³ stands at 1,967 percent. This debt ratio is significantly above the HIPC benchmark of 150 percent debt-to-exports.

² NPV of Debt After Traditional Debt Relief - Includes a stock-of-debt operation on Naples terms at end-June 2006; and comparable action by other official bilateral creditors on eligible debt (pre-cut off and non-ODA).

Table 2 Liberia External Debt, end-June 2006 (US\$ million) ¹

		Total Debt Stock	of which in arrears
		4,516	4,313
Multilateral Institutions		1,662	1,543
	IMF	772	772
	WB	536 ²	458 ³
	AfDB	266	233
	Other multilaterals	89	80
Bilateral		1,408	1,325
	Paris Club	1,282	1,214
	United States	405	358
	Germany	314	299
	Other Paris Club	563	556
	Non-Paris Club	126	111
Commercial		1,446	1,446

¹ Totals may not add up due to rounding errors; 2/3 Of which IBRD US\$ 410.6m

15. **Liberia is eligible for debt relief under the HIPC and MDRI (IDA and AfDB) frameworks, but the country's arrears to the Multilateral Institutions need to be cleared first.** It is widely recognized that the country's own ability to clear these arrears is non-existent given its acute resource constraints. Liberia's financing gap is so large that it is hardly able to meet even minimum recurrent expenditures. The IMF, World Bank and AfDB have been working with shareholders to find a comprehensive solution to Liberia's arrears problem, and a great deal of progress has been made, including recent pledges by several donors to contribute fresh resources, and the development of a framework for handling IDA arrears cases going forward.

16. **The World Bank is ready with a solution to clear Liberia's arrears and is discussing with other IFIs the way forward. The AfDB envisages using its Post Conflict Country Facility (PCCF) to clear Liberia's arrears, calling for exceptionally favorable terms.** The World Bank plans to proceed with a Development Policy Operation, financed by an exceptional IDA allocation, once the other preferred creditors (IMF and AfDB) have received the financing assurances they need to proceed to clear arrears.⁴ AfDB's arrears clearance strategy for Liberia will be articulated in an Arrears Clearance Operations Paper, which is currently under preparation to be discussed by the Boards. It will be based on AfDB's arrears clearance framework with its attendant Post Conflict Country Facility (PCCF). To provide an adequate response to Liberia's acute resource constraints, AfDB's arrears clearance strategy will call for terms exceptionally favorable for the country. The IMF is still working on an arrears clearance strategy that would be acceptable to its shareholders, and it is possible that a solution will be found by the end of FY 07. It is expected that Liberia's arrears to the IMF will be cleared through a bridge loan obtained from bilateral creditors, after which the IMF will be in a position to approve new financing for Liberia. The new financing provided by the IMF would be used to repay the bridge loan. It is also expected that Liberia would reach HIPC decision point at, or shortly following, arrears clearance, which would allow Liberia to immediately benefit from interim debt relief. A preliminary HIPC document is currently under preparation by staff of the World Bank and

³ Based on the three-year export average (backward-looking average, i.e. 2003/2004 - 2005/2006).

⁴ The DPO will cover the amount of arrears to the World Bank at the time of Board approval. The amount of arrears due to the Bank could be affected by a forthcoming proposal to modify interest charges of fixed rate loans with overdue principal payments and special treatment for countries presently in non-accrual which will be considered by the Board in the coming months. If approved, this could reduce Liberia's overdue interest charges by around US\$ 110 million and result in a corresponding reduction in Liberia's outstanding payments arrears to IBRD.

the IMF. It will be important to ensure that during the period between clearance of the World Bank's arrears and the start of interim debt relief (HIPC Decision Point), payments to creditors are not increased and that the country does not lapse back into arrears.

17. **Government, for its part, has implemented impressive economic, structural and institutional reforms that have elicited a positive international response.** As confirmed by donors at the Liberia Partners' Forum in February 2007, there is widespread recognition that debt relief is needed in order for Liberia and its partners to focus resources and efforts on the urgent task of reconstruction and that a solution to Liberia's arrears is needed as soon as possible.

18. **Once arrears to the preferred creditors are cleared, Liberia will move to a path of regular IDA and ADF funding.** Liberia will be eligible for exceptional post-conflict allocations which are likely to be provided on a grant basis in accordance with IDA's and AfDB's grant allocation framework and the proposed AfDB Fragile States Facility (FSF) which, subject to Board approval, is expected to become operational in 2008. Liberia's performance under the World Bank's Post-Conflict Performance Indicators (PCPI)⁵ and the AfDB's Country Policy and Institutional Assessment (CPIA) has shown a marked improvement, increasing from a rating by the World Bank of 2.4 in 2004 to 3.2 in 2006 (6 point scale) and by the AfDB from 2.5 in 2005 to 3.2 in 2006, respectively (6 point scale). Based on current performance, Liberia's IDA allocation for FY 08 could be in the range of US\$ 35 to US\$ 45 million⁶, and it is expected that additional grant resources will be made available under the ADF and FSF. Provided the situation in Liberia remains stable and governance indicators continue to improve, it is likely that IDA and AfDB will prepare a full Country Assistance Strategy for the FY 09 - FY 11 period. Should there be a downturn in the situation or country performance, IDA and AfDB would prepare another Interim Strategy Note instead.

19. **In addition to an unsustainable external debt burden, the Liberian government has significant domestic debt liabilities.** In January 2007 the government finalized a domestic debt resolution strategy following an extensive review of US\$ 914 million in claims classified as either "valid," "contestable," or "rejected" with the assistance of an external auditor. The breakdown was roughly a third in each category. All valid claims, with the exception of the CBL, will be discounted ranging from 0 percent for claims below US\$ 1,000 to 87.6 percent for claims above US\$ 1 million. Of the US\$ 263.8 million of valid claims to financial institutions, 97 percent is owed to the CBL. Claims owed to financial institutions will be paid over 30 years beginning in FY 08, with debt service increasing in the outer years, following a four-year grace period on principal. The strategy provides for the establishment of a Trust Fund to ensure sufficient resources to implement the debt strategy. To finance the Trust Fund, the government will allocate US\$ 6 million in the FY 08 budget, and 5 percent of total revenues over the period FY 09 - FY 11.

⁵ A measurement derived from the CPIA that looks at the security, economic, governance, and institutional context, and is calibrated for the post-conflict context.

⁶ The final FY 08 allocation numbers will be determined in June 2007 in the context of IDA's regular resource allocation process.

D. POVERTY PROFILE

20. **Despite positive growth trends, the poverty and social situation remains dire.** A recent survey on poverty conducted by the UNDP using the poverty line of one dollar a day shows that roughly 80 percent of all households are considered poor. The closure of IDP camps and withdrawal of humanitarian relief service providers is expected to further reduce the level of social services delivered.

Key Poverty & Social Indicators 2006	
Poverty (% below poverty line)	80
Adult Literacy Rate (%)	36
Female Literacy Rate (%)	18
Gross Primary Enrollment	51
Female Primary Enrollment (%)	42
Under-five Mortality (per 1,000)	235
Life Expectancy at birth (years)	42.5
HIV Prevalence (%)	2-4.9

21. **Robust data on social indicators remains difficult to obtain.** The recent UNDP survey referenced above, in addition to a recent Food Security and Nutrition survey conducted by the government of Liberia in collaboration with FAO/WHO, provides some intermediate indicators: 11 percent of the households surveyed are food insecure and 40 percent highly vulnerable to food security. 41 percent are moderately vulnerable to food security, while 9 percent can be considered to be food secure. Results also revealed limited access to basic services, including water and sanitation, e.g. only 32 percent surveyed had access to improved water sources and 24 percent to sanitary communal latrines.

22. **Work is underway to collect data and establish baselines to underpin poverty reduction efforts going forward.** The World Bank is working closely with the Liberian Institute of Statistics and Geo-Information Services (LISGIS) to conduct the household survey (CWIQ - Core Welfare Indicators Questionnaire Survey) needed to construct the poverty profile. The CWIQ will be constructed so as to collect data at the individual level, with a view towards gaining a better picture of economic roles of women both in the labor market and within households. LISGIS in collaboration with Micro International is conducting a Health and Demographic Survey (DHS) to provide anthropometric and social data on households. This work will feed into the full PRS currently under preparation, which is expected to be finalized by mid-2008.

23. **Government is working to ensure that spending is increasingly pro-poor.** The FY 07 budget re-allocated resources to pro-poor sectors, and the budget for social services, including education and health, has been increased to one-quarter of all government expenditure. Going forward, as donor financing flows increasingly through the government budget, care will need to be taken that poverty reduction spending is not displaced, but continues to increase as a proportion of increases in government revenues.

E. STRUCTURAL AND SECTORAL DEVELOPMENTS AND CHALLENGES

24. **Rehabilitation of the infrastructure sector remains the greatest post-war challenge, but will provide one of the greatest boosts to growth and recovery.** During the war, extensive destruction of basic infrastructure coupled by lack of maintenance led to a vast decline in productive activities. The transport infrastructure base is greatly diminished and needs to be rebuilt: most of the 10,000 km of existing roads are in extreme disrepair, often completely impassable during the rainy season. The airport and ports are dilapidated and poorly organized, severely hampering international commerce. There is very little electricity generation (only a 2.3 MW grid) supplying mainly institutional customers, as well as individual diesel generators (as 40-50 MW combined production) throughout Monrovia; only 10-15% of Monrovia has running water; the sewerage system is not operational and no solid waste removal is in place. The needs are immense and not all can be addressed immediately

with available funds. Instead, the I-PRS sets out a prioritized program of interventions targeting selected activities in transport, energy, water and sanitation. As part of the work to be undertaken under the full PRS, government will need to carry out a comprehensive medium-term infrastructure rehabilitation strategy.

25. **The transport sector is key to getting economic activity up and running again in the short term - but other large infrastructure gaps such as in energy and water and sanitation must also be addressed if medium term gains are to be realized.** Main roads and bridges as well as feeder roads need to be rehabilitated to re-connect farmers with markets. The current priority is to rehabilitate 1500 km of mainly rural roads and to get the main port in Monrovia, plus neighboring export ports working again. In the **energy sector**, what little electricity capacity exists comes primarily from private generators at exorbitant cost. The government's immediate priority is to increase the current generation capacity, while in the medium term it will focus on rebuilding hydro-power capacity and exploring alternative energy sources such as solar and biomass. **Water and sanitation** is equally important, particularly to health outcomes. Only 10 percent of the rural population has access to safe drinking water. Similarly, more than 1 million inhabitants of Monrovia use completely dilapidated water and sanitation facilities designed for a city a quarter that size, creating great susceptibility to water-borne diseases. Immediate priorities include community-based water supply, rehabilitation of the Monrovia water treatment plant, transmission and distribution lines, as well as sanitation facilities.

26. **Agriculture is a major component of economic revitalization.** Agriculture is the primary source of livelihood for the majority of the population. Households reverted to subsistence farming during the war and the challenge now is to boost marketable surplus. Yet few resources are available to smallholders and a poor transportation network hampers their ability to get products to market. Recovery has been quicker in the commercial plantation sector with the high price of rubber and oil palm spurring investment. The agricultural sector also suffers from low productivity, as technology has remained virtually stagnant for decades. This has been compounded by Liberia's outdated dual land tenure system⁷ - formal and customary - which puts in place serious restrictions to land ownership by both Liberians and foreigners. The unequal distribution and limited access to land by large parts of the population, particularly marginalized rural youth, contributed significantly to the escalation of the civil conflict. To address these issues, the government has embarked on an Agricultural Sector Review, which is currently in progress, including land reform. The government has also undertaken efforts to increase yields and production in key cash and export crops utilizing both small-holder and commercial/ plantation sectors; support improved value chains, including more efficient supply chains and more opportunity for value addition and off-farm employment including the necessary infrastructure for cash and export crops; and to build the capacity of the Ministry of Agriculture and other institutions to plan and monitor outcomes in the sector. This includes the critical issue of ensuring that women - who make up more than 50 percent of those engaged in agriculture - obtain equal access to resources, training and services as subsistence and commercial producers, processors and traders⁸.

⁷ Liberia's formal land law was written in 1956. There is no formal written customary land law.

⁸ Even if women are viewed as primarily subsistence farmers, these services, by raising agricultural output, can help address the pervasive food insecurity and malnutrition problem in Liberia.

27. **Natural resources are a significant potential source of revenue and poverty alleviation, although long misused to finance conflict.** Although UN timber sanctions were lifted in 2006, much work remains to be done to build capacity in order to implement the new forestry law and regulations and put in place commodity and expenditure tracking systems. In addition, forest communities must be sensitized to the new opportunities provided by the legal reforms, including the new provisions for benefit sharing and social agreements with forest contract holders, as well as additional community rights to manage forest resources. Liberia has one of the most significant remaining forests in Africa in terms of biodiversity, and conservation is critical. Forestry reforms also include the establishment of a protective area network (to cover at least 10 percent of forested areas) and allowed to share in the benefits of logging and given incentives to share in conservation efforts, since at the moment communities are not benefiting from forestry concession directly, but use the forest only for NTFP collection (Non-timber Forest Products).

28. **The mineral sector also has enormous potential.** Prior to the conflict, the mineral sector accounted for 80 percent mineral production and 25 percent of GDP. Currently, exports have all but ceased and diamond production has been limited due to a UN export embargo. Infrastructure is severely degraded and the regulatory environment is weak and governance is an issue. Government has recognized that given Liberia's significant mineral potential an improved regulatory framework and infrastructure must be put in place. Work has already begun on a national mineral policy, a new legal framework for the sector, and an updated cadastre system. In recognition of government's efforts to fulfill Kimberley Process requirements, the UN Security Council in April 2007 lifted sanctions on diamond exports⁹.

29. **In the social sectors, improving education and health outcomes is key to rebuilding Liberia's human resource capacity, while rebuilding community and local government capacity engagement is critical to delivery of basic services.** In health, services are at very low levels with only 390 clinics operating, of which 80 percent have been supported by humanitarian assistance. Closure of IDP camps and departure of relief NGOs, operating throughout the war years, is likely to have a significant impact on those populations that were receiving relief services. Life expectancy has dropped to 42 years, below even the LICUS average. Infant mortality is around 157 and child mortality around 235 per 1000 live births, maternal mortality, 790 per 100,000 live births among the highest in the world. Preventable diseases like malaria, diarrhea, respiratory infections, measles are thought to be the main direct causes of under-5 mortality. Malnutrition is also wide spread, and is considered a key underlying factor in high death rates. Government and donors are working together on a national health plan to address systemic deficiencies, to attract additional investments in infrastructure and human resource development, and to fund recurrent expenditures. In education large numbers of additional children are enrolling in schools following the recent abolition of fees, but the system is unable to absorb them. In addition, there are a significant number of youths and young adults with very low education levels as a result of the war. Donor interventions in the education sector have been both fragmented and aimed at non-core activities, providing little assistance for improving public service delivery or filling the budget gap. Government and donors have recently begun addressing this with the development of a system-wide education sector plan to identify key policies, resources, and capacity needed to attain the overarching goal of universal primary and basic education. Even with progress at the policy or ministerial level, actual service delivery at the local level remains a daunting challenge. Mobilization of funding for communities, their direct

⁹ Subject to review and confirmation after a 90-day period at end-July 2007.

involvement in prioritization of needs and in managing sub-projects, and building the capacity of local government has proven to be an effective means to get services out to the population. Community-based development is also strengthening social capital and addressing some of the root causes of conflict. Scaling up of community-driven development efforts is thus a high priority of both donors and government.

30. **A functioning public administration is critical for taking Liberia's reforms forward.** To begin reversing the massive erosion of public sector capacity during 14 years of civil war, a Governance Reform Commission was created under the Comprehensive Peace Agreement to oversee an ambitious agenda of reform initiatives covering such areas as: civil service reform, judicial reform, constitutional reform, land reform, anti-corruption strategy, code of conduct for public officials, decentralization, legislative capacity building, and security sector reform. Regarding the civil service specifically, there were approximately 42,000 government workers (including teachers and health workers) on the payroll with around 20-30 percent believed to be ghost workers. Many rural workers are not at their posts, but remain in Monrovia to collect pay which is issued there. Wages are extremely low and there are few incentives for qualified technical staff to join the civil service. Recent assessment work has noted a "missing middle" of technical staff able to carry out the day to day work of government, and staff who survived the turmoil of war and misgovernment have been deskilled. Thus Liberia displays the symptoms of collapsed public sector capacity, common to many post-conflict countries.

Box 1 - Liberia Rapid Social Assessment and Update

- In 2004 a rapid social assessment was carried out in Liberia to inform the overall post-conflict needs assessment and underpin the development of the community empowerment program. It found that "community" in Liberia was a deeply contested notion and that existing assumptions of social cohesion, participation, and consensus underpinning CDD were overly idealistic. It recommended that programs take measures to prevent resources being a source of conflict in communities and to ensure that vested interest did not dominate planning. It also recommended that CDD activities avoid focusing only on infrastructure at the exclusion of other activities which could build social cohesion.
- An update of the RSA was carried out in 2006, which confirmed the original findings, particularly in light of persistent tensions with regards to return and reintegration. Evidence suggests that responsiveness of development agencies to these dynamics is lagging behind, yet there are important opportunities to build on emerging community cohesion and to engage in a new forum for local government involvement
- These recommendations are being incorporated in the scale-up of the Bank's Community Empowerment Project, which includes a focus on building social capital, as well as a new component to help integrate local government into the implementation process.

31. Tackling payroll fraud, reviewing departmental mandates, structures and staffing levels, addressing critical manpower gaps, extending training, and strengthening bureaucratic leadership through the creation of a small senior executive service are declared government priorities. There is also a need to address staff incentives within a sustainable pay and employment strategy, install basic HR management systems, rebuild personnel records, and strengthen the capacity of the Civil Service Agency both to lead reforms. Here progress will depend on political commitment to a sequenced reform program, and well directed external support for many years.

32. Judicial reform is also a key aspect of the overall public sector reform effort. The civil war left the justice system in ruins: judges, magistrates and justices of the peace are grossly underpaid, courthouses are destroyed and do not have the basic needs (legal texts, paper,

photocopiers, physical facilities, etc.), corruption is still common, and prisoners spend months in pre-trial detention. Access to justice depends on economic or social capital and thus, Liberians seldom recur to the courts and remain uninformed of their rights and how to exercise them. Government has recognized the need to urgently address corruption and foster the rule of law, particularly as regards foreign investment.

33. **Private sector growth, if equitable, is poised to be the main engine of Liberia's post-war recovery.** At this time, the private sector and investment climates are weak with little formal activity and little incentives for large-scale private investment. In terms of the general business environment, the current situation is typical of a post-conflict country where, with the exception of a few major companies such as Arcelor Mittal and Firestone, most businesses are small and informal. There is very limited access to finance and advisory services. However, for growth to be broad-based, the SME sector is essential. A major hurdle is Liberia's heavy historical dependence on the export of raw timber and rubber which has resulted in under-development in other critical sectors such as agriculture, manufacturing, tourism and general service provision. The existing infrastructure (energy, roads and land-line telecommunications) is severely inadequate thus inhibiting the growth and expansion of businesses.

34. In addition, there are no reliable business support services and the country has a limited number of local qualified BDS providers. The most prevalent SME support institutions are public institutions with mixed track records and limited potential for efficient operations due to dependence on government funding and weak skills/knowledge base. As a result, there is generally a weak entrepreneurship culture and low production capacity within local firms. Despite all of these challenges, the government of Liberia is committed to private sector-led growth, focusing particularly on the enabling environment for the private-sector, including a continuing focus on macroeconomic stability, tax and tariff reforms, the legislative framework, and transparency.

GOVERNANCE

35. **Governance issues have been a key historical driver of conflict in Liberia and the system of vested interests remains entrenched in the public sector.** Robust governance diagnostics are scarce, but the 2006 Global Integrity Report¹⁰ rated Liberia as "very weak" on four of six indicators including: governance accountability; administration and civil service; oversight and regulation; and anti-corruption and rule of law, and the World Bank's Post-Conflict Performance Indicators rated Liberia 2.3 (on a 6 point scale) on public sector management and institutional performance, although this is an improvement from a rating of 1.7 in previous years.

36. **Weak governance and corruption which persisted during National Transitional Government of Liberia period led to the establishment of the multi-donor Governance and Economic Management Assistance Program (GEMAP).** The GEMAP - an innovative Security Council-backed framework for improving economic governance support by international technical assistance - included the immediate implementation of robust remedial measures focusing on six areas: financial management and accountability; improving budgeting and expenditure management; improving procurement practices and the granting of concessions; establishing effective processes to control corruption; supporting key

¹⁰ See Global Integrity 2006 Report <http://www.globalintegrity.org/reports/2006/liberia/index.cfm>

institutions and capacity building. GEMAP has already registered a number of important achievements. For example, the general concessions and contract review of 96 major contracts has been completed with a number being cancelled, while the concessions granted to Mittal Steel were successfully renegotiated on terms which are much more favorable to Liberia. Government has also subscribed to the Extractive Industries Transparency Initiative (EITI) and has started work on implementing the Kimberley Process. Efforts are also underway to create an effective supreme audit agency by ensuring the legal independence of the government Audit Committee (GAC) and to strengthen its capacities. Box 2 provides additional details on GEMAP implementation.

37. **Going beyond GEMAP, the current government is firmly committed to governance reform over the long term.** Government has put cash management controls in place, has maintained a balanced cash-based budget, and has restored transparency to the budget process. The government achieved most of its objectives under the February-September 2006 IMF staff-monitored program (SMP). Agreement was also reached on an SMP for 2007 which aims to continue progress with strengthening public financial management and the domestic financial sector, and implement the government's anticorruption and domestic debt resolution strategies.

Box 2 - International Response to Governance Weaknesses in a Post-Conflict Transition

As reports of widespread corruption and diversion of public resources surfaced, donors were increasingly reluctant to place funds under NTGL control. As evidence mounted, key partners (EC, ECOWAS, UN, US, World Bank and IMF) together with Liberian authorities developed the **Governance and Economic Management Assistance Program (GEMAP)** which provides a strong platform for public financial management underpinned by international technical assistance, backed by Security Council resolution. It has seen considerable improvements in public financial management and accountability, budgeting and expenditure management, procurement and concession practices, combating corruption, capacity development and donor coordination. Notably, government revenues have increased significantly due to enhanced control mechanisms, improved financial practices and strengthened tax administration. **GEMAP is a ground-breaking example of strong donor coordination in a deteriorating governance environment.** Results achieved include the following:

Securing Liberia's Revenue Base. Government has undertaken a wide range of measures, including: a Memorandum of Understanding was signed in June 2006 between key revenue generating State Owned Enterprises (SOEs) and commercial banks currently operating in Liberia. All revenues and fees of SOEs are now openly monitored in a specified number of accounts, to ensure that these revenues are not misused as in the past. Furthermore Internationally Recruited Experts have been seconded to key ministries and other public agencies with co-signing authority to establish transparent financial management systems and to report openly on SOE operations, revenues and spending. The government has also strengthened revenue administration, which resulted in a significant increase in revenue since early 2006.

Improving Budgeting and Expenditure Management. Government has strengthened its commitment control system, reinforcing the role of the Cash Management Committee, which now ensures that expenditure are consistent with funds available. As a result, government has implemented a cash-based balanced budget and no new arrears have been accumulated. The government has also taken initial steps to develop a multi-year fiscal framework to guide spending agencies in expenditure planning. To further increase transparency, the government produced an Annual Fiscal Report 2005/2006 that was sent to the Parliament and widely published in local papers. Also, the budget FY 07 and first quarter fiscal report have been posted on the Ministry of Finance's website and publication of monthly revenue outturns has begun. Publication of monthly expenditure outturns is expected to commence shortly.

Improving Procurement Practices and Granting of Concessions. Government in early 2006 activated the Public Procurement and Concessions Commission to implement the Public Procurement and Concessions Act and to continue the independent review of all contracts and concessions entered into by the NTGL. The government reviewed and nullified all forestry concessions, with a view to re-awarding through transparent competition. Government has also subscribed to the EITI and has started work on implementing the Kimberley Process..

Combating Corruption. The Governance Reform Commission recently finalized an anti-corruption strategy and is now preparing legislation for the creation of an independent anti-corruption agency.

Supporting Key Institutions of Government and Capacity Building. Several key ministries and other public agencies have benefited from support provided by Internationally Recruited Experts, management studies/reviews of several key public agencies have been sponsored by various donors, experts have been providing support to the rebuilding of financial systems and processes and structured training sessions.

CROSS-CUTTING ISSUES

38. **Liberian women have been actively pursuing and promoting peace, human security, and the restoration of central authority in Liberia, but still face tremendous challenges in terms of overcoming poverty.** Although women constitute 31 percent of the Cabinet, this does not translate into gender equality and empowerment. During the war and post-war transition, through their contributions to agriculture and trade, women have made important contributions to Liberia's economy and to household welfare, especially food security and income generation. A recent gender needs assessment shows, however, that without explicit inclusion in post-war reconstruction and development programs, women may be excluded from emerging development processes and unable both to fully contribute and benefit. As it is, women comprise just 2 percent of those employed in the formal sector; they have less access than men to key productive inputs such as land, credit, training and tools;

illiteracy among women is twice as high as among men and girls' educational attainment at the secondary level lags that of boys.¹¹ Although women constitute 53 percent of those in the farming sector and 80 percent of those involved in trade, they are involved in low-paying and marginalized economic activities with low growth prospects. Furthermore, due to gender discriminatory practices, women and girls are not fully integrated into the rehabilitation programs such as employment in public works programs and are also likely to be less competitive for jobs in the future as the private sector develops. Concerted efforts are needed to ensure women's full participation in program development processes and become direct beneficiaries of labor-intensive public works programs in infrastructural and agricultural development. Additional opportunities lie in proposed private sector development initiatives, particularly microfinance, and in emerging agricultural development initiatives.

39. **Other factors that increase women's vulnerability to poverty include deeply rooted socio-cultural and traditional customs.** For example, women married under customary laws (the most common system in rural areas) have no rights to marital properties including land. The government passed a new inheritance law (2003), which grants wives the right to a third of their husbands' property. However, the application of the law benefiting women has yet to be determined. Similarly, entrenched cultural and religious practices such as early marriage, domestic labor, biases against girls' education are cited as some of the reasons for girls' low school enrollment. Gender-based violence is a serious problem, affecting women's and girls' health and increasing their risk to HIV/AIDS and other sexually transmitted diseases.

40. **Liberia's public sector suffers from low institutional capacity.** The civil conflict resulted in a profound degradation of the country's institutional capacities and the public administration's human resources, resulting from physical damage, the scale of losses in human lives, and the interruptions or degradation of education for an entire generation. The conflict has caused serious losses in experienced and competent management-level staff as well as in material and archiving capacities; 'brain drain' continues to be a widespread phenomenon in Liberia. The country's institutional memory has significantly suffered from the exodus of qualified staff and the disorganization of the administration. The precariousness of working conditions, characterized by the extremely low level of wages, lack of equipment in ministerial departments and other public sector agencies, as well as the absence of a system of ongoing education and retraining, weighs heavily on the motivation of those who remained behind. Among these, the most qualified are seeking better opportunities, notably with international organizations. As an overall result of physical destruction and lack of qualified staff, the effectiveness and efficiency of Liberia's public administration as well as the private sector is highly limited, and service delivery is poor, thereby posing serious bottlenecks to implementation and management of programs and financial resources.

¹¹ Maria Elena Ruiz Abril, *Liberia--Towards Women's Economic Empowerment: A Gender Needs Assessment*, The WB (PRMGE) and the Ministry of Gender and Development, February 2007.

III. IMPLEMENTATION OF THE WORLD BANK COUNTRY RE-ENGAGEMENT NOTE AND THE AFDB COUNTRY DIALOGUE PAPER

A. WORLD BANK COUNTRY RE-ENGAGEMENT NOTE

41. **The 2004 Country Reengagement Note set out three broad objectives**, grounded in the government's Results Focused Transition Framework (RFTF), including: rapid socio-economic revival through labor-intensive infrastructure rehabilitation and community-driven development; establishment of the state and basic economic governance; and establishment of a multi-donor implementation and monitoring mechanism for the RFTF. Support under these areas included: establishment of fundamental governance systems and state capacity for governance, particularly public financial management capacity and public procurement reform; support for management implementation of the RFTF; a community empowerment program to build social cohesion in war-torn communities and deliver some essential services; and support for rehabilitation of critical infrastructure. This program was financed by a variety of instruments, including the LICUS Trust Fund, an IBRD net income-funded Trust Fund for Liberia (TFLIB), and IDA pre-arrears clearance grants. It was underpinned by a robust program of analytic work, including infrastructure feasibility studies that are still informing the reconstruction effort today; as well as work on forestry, telecoms, and more recently, on agriculture, health, and education.

42. **The World Bank mobilized significant funding and technical capacity to support Liberia's fragile transition, despite a difficult arrears situation.** This included a US\$ 25 million Trust Fund for Liberia (TFLIB) funded from net income (see Annex 8 for a status report) and approximately US\$ 11 million over two separate phases from the LICUS Trust Fund. In addition, the World Bank has more recently committed US\$ 46.5 million in IDA pre-arrears clearance grants to scale up infrastructure rehabilitation activities. Many of these programs have fully disbursed, and some are just beginning implementation. Table 3 (page 18) provides a summary of activities underway. Annex 2 describes the full portfolio and proposed pipeline.

43. **Over the last three years, the World Bank has maintained a consistent and selective engagement in Liberia, leading the donor community in core areas of expertise - economic governance, community-driven development, and infrastructure rehabilitation.** Despite significant capacity, governance, and implementation constraints, the program has delivered results. World Bank support has helped to spur positive momentum for change, build capacity, and provide visible results for the first time in many years. A 2005 assessment of the Phase I LICUS TF program found that early engagement had been key to guiding the pace of subsequent recovery and reform efforts: uncovering critical weaknesses in governance - leading to the development of GEMAP; mobilizing community-level recovery, significantly strengthening the natural resource management framework; and putting in place a strong donor coordination mechanism. Overall, GEMAP-supported public financial management reforms have led to tangible increases in government revenue and increased transparency in the budgeting process. In infrastructure, an innovative collaboration between the World Bank, UNMIL and UNDP on labor-intensive road rehabilitation will provide emergency improvements on 400 km of roads and will produce up to 145,000 man days of employment during the 2006/07 dry season. The start-up of a large main road corridor project is building government project implementation capacity for the first time in many years. World Bank funding is being used to dredge the port of Monrovia, where its access channel is at risk of silting up and preventing entry of vessels. Emergency intervention

at a water treatment plant is ensuring minimal provision of potable water in Monrovia, while preparation for major rehabilitation is underway. World Bank engagement under the Liberia Forestry Initiative led directly to the withdrawal of UN timber sanctions and agreement with government to implement fundamental reforms in the sector before letting new concessions. The Community Empowerment Program has mobilized 79 communities, with projects under implementation including: 36 primary schools, 10 clinics, 1 birthing center, 12 market buildings; 13 small bridges; 6 wells and latrines; and 1 handicapped rehabilitation center.

Table 3 World Bank Ongoing Portfolio in Liberia

Instrument	Approval Date ¹²	Committed	Main Activities and Results
LICUS Trust Fund Phase I	April 2004	US\$ 4.6 million	Laid groundwork for GEMAP and fundamental governance reforms; launched community empowerment program and established Liberian Agency for Community Empowerment; contributed to lifting of UN forestry sanctions; contributed to better donor and aid coordination with support of RFTF implementation.
LICUS Trust Fund Phase II	November 2006	US\$ 6.9 million	Builds on existing interventions in governance reform; launches civil service reform program; introduces transition support fund to support demand-driven rehabilitation/reconstruction visible results activities in a fast-changing environment.
Trust Fund for Liberia	Various - ranging from 2004 to late 2006	US\$ 20 million	Supports a variety of interventions, closely coordinated with LICUS support, including: early infrastructure feasibility studies which provided the technical basis for subsequent larger-scale infrastructure interventions; early intervention in rehabilitation of the airport and Port of Liberia; will also support establishment of an integrated financial management system, a Global Distance Learning Center, and some support for the overall civil service reform effort.
IDA Pre-Arrears Clearance	June and November, 2006	US\$ 46.5 million	Scales up infrastructure rehabilitation program, focusing primarily on transport (i.e. road rehabilitation) with some work on water and sanitation, urban works, and port rehab.

44. **Given the considerable obstacles to implementation, constant innovation has been key to success.** In the difficult governance environment under the NTGL and an almost total lack of counterpart capacity, use of third parties for implementation was critical to getting programs up and running quickly. For example, the 2004 pilot Community Empowerment Program used a capable NGO, Mercy Corps, to both pilot community level activities and also to help set up a new Liberian Agency for Community Empowerment (LACE), modeled on other World Bank-supported CDD institutions. LACE now independently implements a large community empowerment program and is set to receive additional resources from donors – a significant achievement both in terms of government ownership and donor harmonization. The World Bank developed a close partnership with UNDP which was executing large programs on the ground in Monrovia, enabling the World Bank and government to designate UNDP as executor of a number of programs, including support for RFTF implementation, a Transition Support Fund, and a portion of the Emergency Infrastructure Project Supplemental Component (EIPSC). This close partnership has been critical to the World Bank’s ability to respond quickly and flexibly in a rapidly changing environment. Going beyond this partnership, the World Bank, UNDP, and the UN peacekeeping operations (UNMIL) have collaborated on an innovative program of labor-intensive road rehabilitation, using existing UNMIL equipment and technical capacity, World Bank financing, and UNDP program management.

¹² Denotes funding envelope approval only. In many cases, individual grant approvals follow later.

45. **Despite successes, there were many setbacks and implementation challenges related to operating in a volatile post-conflict environment.** Governance challenges during the NTGL period slowed the pace of reform and considerably reduced the level of resources donors were willing to commit to the recovery effort. An almost complete lack of technical capacity within government meant few government counterparts to carry out technical activities and program management, leaving much of the burden of implementation on a small World Bank team. Internally, the World Bank's emergency policy framework was not entirely suited to the implementation speed and flexibility needed to support efforts in a fast-changing post-conflict environment. These limitations notwithstanding, the World Bank has delivered a strong program of support to Liberia in a challenging environment. It is expected that the new Operational Policy on Rapid Response to Crises and Emergencies, OP 8.00¹³ will greatly improve both speed of implementation and also availability of institutional resources the World Bank can bring to bear to the Liberia program.

B. AfDB COUNTRY DIALOGUE PAPER

46. **AfDB, in recent years, has intensified its dialogue with Liberia, with a view toward achieving a lasting normalization of relations with the country.** AfDB has had limited presence in Liberia since the country fell into arrears in 1985. The suspension of regular cooperation occasioned the cancellation of the entire AfDB portfolio of on-going operations. Prior to the onset of this development, the AfDB had an active portfolio of projects and programs with a total commitment (net) of UA 94.1 million (around US\$ 140 million) for 21 operations. However, as the conflict deepened, the operations could not be implemented and the country inevitably found it difficult to honor its obligations to the International Community, including those to the AfDB. This notwithstanding, the AfDB approved two emergency assistance operations in the health sector through grant resources in 2001 and 2003, amounting to US\$ 500,000 each. In addition, AfDB since 2005 has provided support to Liberia under the ICP-Africa program¹⁴, amounting to approx. UA 165,000, to help rebuild the country's statistical capacity. With a view toward achieving a lasting normalization of relations with Liberia and to prepare the ground for the resumption of operational activities, the AfDB Boards in January 2005 approved a Country Dialogue Paper (CDP) for Liberia. AfDB assistance spelled out in the CDP comprised two components: (i) assisting Liberia to address its debt and arrears issue; and (ii) strengthening the country's institutional capacity. In line with the strategic focus of the CDP, the AfDB engaged in close dialogue with Liberia on the use of the AfDB Post-Conflict Country Facility (PCCF) for arrears clearance, and embarked in August 2005 on the preparation of an Institutional Support Project (ISP) for Governance and Economic Management. However, as NTGL displayed a lack of commitment to the ISP, the AfDB postponed the preparation of the project until the formation of the new government of President Sirleaf.

47. **A second CDP was approved by the Boards in October 2006.** It also recommends the use of the PCCF for clearing the country's arrears to the AfDB and proposes to assist the government in rebuilding public sector capacity. With regard to arrears clearance, the AfDB has undertaken several missions to Liberia since August 2004 to dialogue with the country on this issue. The most recent one took place in February 2006, led by the VP Finance, during

¹³ See Toward a New Framework for Rapid Bank Response to Crises and Emergencies, (R2007-0010) January 17, 2007.

¹⁴ The International Comparison Program (ICP) is a global statistical initiative, which has been supported by AfDB since 2004 with US\$ 28.17 million for 51 Regional Member Countries to strengthen statistical capacity.

which the AfDB underscored its preparedness to use the PCCF to clear Liberia's arrears and to pave the way for debt relief under the enhanced HIPC and Multilateral Debt Relief Initiatives (MDRI). Given Liberia's severe resource constraints, the AfDB would grant exceptionally favorable terms to Liberia using the flexibility built in the PCCF. Liberia will also need to fulfill a set of preconditions in order to qualify for assistance through the PCCF. Upon achievement of the HIPC decision point, Liberia will be eligible for interim debt relief from the AfDB, up to a maximum of 40 percent of the estimated debt relief. At the completion point, Liberia will qualify for an irrevocable debt relief of the estimated amount, and a further debt relief from the AfDB and other IFIs under the MDRI.

48. **With regard to rebuilding public sector capacity, the AfDB Boards approved an ISP in October 2006, amounting to UA 3.00 million.** The ISP was launched in November 2006 and focuses on strengthening key institutions involved in the budget process, strategic planning and the judiciary as well as support to the preparation of a full PRS, including assistance to the conduct of the 2008 population and housing census. The launching exercise brought all the implementation partners and stakeholders together to familiarize them on the project objectives and activities, as well as to provide the participants with guidance on AfDB's project implementation procedures. In addition, AfDB approved assistance to the Governance Reform Commission for funding of a Governance Reform Program, financed from bilateral Nordic Funds amounting to US\$ 145,040. The Grant Agreement was signed in December 2006 and the full amount disbursed in February 2007.

IV. GOVERNMENT DEVELOPMENT AGENDA

49. **In January 2004, the NTGL articulated a transition strategy for 2004-2005, which was actively supported by all major donors.** This "Results-Focused Transitional Framework" (RFTF) established a comprehensive set of priorities, including security sector reform, humanitarian assistance, demobilization and reintegration, return of refugees and internally displaced people, rule of law, democratic elections, access to basic services, rebuilding infrastructure, and improvement of public sector/finance and natural resource management. Assessment of progress made under the RFTF was mixed. While progress was made with regard to the deployment of UNMIL peacekeepers, disarmament and demobilization of ex-combatants, humanitarian efforts, and the preparation and conduct of elections, success was more limited in improving the delivery of basic social services, infrastructure rehabilitation, and revitalization of the economy. Major economic governance challenges became progressively more difficult during the course of the NTGL, which in turn triggered the evolution of GEMAP. This mixed track-record notwithstanding, the RFTF's comprehensive approach, spanning all areas from security to public financial management, attempting to set measurable priority results, aligning all partners, serving as a tool for the new leadership, and helping to communicate with people, evolved previous needs assessment tools into a more practical tool to be used in post-conflict environments. It served as a basis for the first International Conference on Liberia in February 2004. The funding committed at that time was subsequently superseded.

50. **The elected government launched in February 2006 the development of an Interim Poverty Reduction Strategy (I-PRS), while formulating a 150-Day Plan** of short-term reforms and deliverables in the four priority areas of Security, Economic Revitalization, Basic Services and Infrastructure, and Governance and Rule of Law, to be achieved by the end of FY 06. Good progress was made under the 150-Day Plan, with a large majority of deliverables accomplished by end-June 2006, especially in the areas of Security and Economic Revitalization.

51. **These main pillars were maintained in preparation of the I-PRS, finalized in January 2007** after broad national consultations. The I-PRS focuses on maintaining security and building peace; improving governance and the rule of law; revitalizing the economy; and rebuilding infrastructure and beginning to get basic services up and running. The sectoral priorities set by the government under the four pillars of intervention adequately reflect Liberia's developmental challenges in order to initiate a longer-term process of improving the livelihoods of Liberians and to reduce poverty on a country-wide basis. Each pillar of the I-PRS contains a matrix of time-bound policy objectives, operational programs results/indicators and deliverables. Capacity building as well as job creation and service delivery measures have been mainstreamed into each pillar. The government has started preparing a full PRS, which is expected to be finalized by mid-2008.

V. JOINT WORLD BANK/AFDB INTERIM STRATEGY (ISN)

A. RATIONALE OF THE ISN

52. **Despite the severity of Liberia's difficulties, the new government has made good progress in consolidating peace and security, stabilizing the economy and improving governance, and this moment offers a rare window of opportunity to foster recovery and longer-term development.** The government has succeeded in fostering: (i) a return to constitutional order; (ii) progress towards stabilizing the economy and public finance through an IMF SMP and GEMAP; (iii) effective implementation of an interim expenditure control system and strengthening of revenue administration; (iv) improved management of the country's natural resources, including a comprehensive review of all contracts and concessions awarded by the NTGL; and (v) the launching of a labor-intensive public works program to begin the reconstruction effort and bring visible results to the population. Government has demonstrated its commitment to reform, but will not be able to successfully address the development challenges lying ahead without large-scale international support.

53. **The World Bank/AfDB ISN is conceptualized as an *interim* strategy, covering the period of July 2007 to June 2008,** as Liberia is undergoing a dramatic transformation from civil war to the consolidation of peace and the foundation of a functioning and successful state. In a post-conflict country such as Liberia, a short-term strategy is prepared given the fast-changing nature of the transition and need to update the strategy on a more frequent basis. The ISN is aligned with emerging lessons on the delivery of assistance to fragile states in post-conflict transition, which recognizes the need for support for a sustained and broad-based state-building agenda, taking advantage of significant windows of opportunity for fundamental reform. This focuses particularly on rebuilding state capacity in economic policy, public financial management systems, and public administration, as well as the rehabilitation of the country's socio-economic and physical infrastructure and attracting private sector investment which is so important to re-launching economic activity. These actions are carried out within a closely aligned multi-donor framework to ensure that donors reinforce key messages to government and that activities complement, rather than duplicate, efforts.

B. AREAS OF SUPPORT AND OBJECTIVES OF ISN

54. The overarching objective of this strategy is to support Liberia's transition from post-conflict relief to long-term development, while laying the foundations for sustained and shared economic growth. The strategy is predicated on the need for Liberia to fully restore

normal relations with the International Financial Institutions (IFIs); and it is anticipated that over the course of the ISN period, comprehensive arrears clearance will be carried out. The strategy is underpinned by a three-pronged approach focusing on rebuilding state capacity, ensuring visible impact, and closely coordinating with other donors. The World Bank and the AfDB's approach is fully in line with the government I-PRS with all assistance falling within three of the four main pillars of the I-PRS: (i) revitalizing the economy; (ii) strengthening governance and the rule of law; (iii) rehabilitating infrastructure and delivering basic services.

55. Under **revitalizing the economy**, the government's program focuses primarily on short-term employment generation, with a longer-term focus on agriculture, natural resource management, and improving the climate for private sector recovery. The World Bank's support, through the IFC program, and AfDB assistance will center on strong support for private sector-led growth, improvements in the regulatory environment and business climate, in addition to the generation of quick-impact employment through labor-intensive infrastructure and agriculture rehabilitation programs.

56. Under **strengthening governance and the rule of law**, the I-PRS lays a challenge of strengthening the rule of law, rebuilding the public sector, and strengthening governance at all levels of government and civil society. The World Bank and AfDB's strategy underpins these efforts through broad support for public financial management and economic governance reform, including continuing support for GEMAP; fundamental public sector and civil service reform; quick-impact judicial sector reform; and implementation of a nascent anti-corruption agenda.

57. Under **rehabilitating infrastructure and delivering basic services**, government's focus is on rebuilding critical infrastructure and basic service delivery channels to both support economic growth and, importantly, enhance the peoples' lives, contributing to peace and stability. The World Bank and the AfDB are supporting infrastructure projects in roads and transport to help make commerce possible and provide service delivery channels; water infrastructure; and energy sector rehabilitation both on the public and private sector sides. In addition, this ISN supports community driven development and improvements in basic education and health service delivery.

C. PROPOSED WORLD BANK /AFDB ASSISTANCE

58. **The ISN was prepared jointly¹⁵ by the World Bank and AfDB to allow the two institutions to better align their development programs, avoid duplication of efforts, and realize the benefits of combining their technical expertise.** Under this joint strategy the World Bank and the AfDB have developed a shared vision and common platform for action. Planned interventions are complementary to one another and not duplicative, focusing primarily on key sectors, such as infrastructure, governance and social sectors. Key to implementation is the use of harmonized instruments to increase efficiency and reduce transaction costs. Thus the World Bank and the AfDB will carry out several jointly financed programs, including joint investments in the water sub-sector and joint analytic work in the

¹⁵ It may be recalled that the AfDB and the World Bank concluded a Memorandum of Understanding, dated March 14, 2000, which provided for collaboration between the institutions for the benefit of the regional member countries. This collaboration includes conducting joint reviews of countries such as the ISN provided in this memorandum

areas of governance and public finance management as well as gender as detailed in Table 5 (page 27). The ISN was prepared in close cooperation with the government and is based on extensive consultations with stakeholders across Liberia (Box 3 and Annex 5).

Box 3 – Interim Strategy Note - Stakeholder Consultations

In addition to continued strategy discussions on the ground, a joint World Bank/AfDB team visited Monrovia in November 2006 and in April 2007 for upstream and downstream consultations on the ISN. The team met with government, civil society, academics, and members of the legislature in Monrovia. It also met with members of local government and civil society in several Liberian counties, including Voinjama, Zwedru, Greenville, and Robertsport. The consultations generally confirmed the broad thrust of the ISN over the next year. At all levels, consultations confirmed support for the work that the World Bank and the AfDB are undertaking in Liberia. Participants emphasized above all else the urgent need for **roads** - for access to markets, to health care, to extension services, for local government support, as well as for vital connections to Monrovia and other main cities. In addition, participants called for **access to credit and banking services** for small business, to help get economic activity up and running again for everyone ranging from entrepreneurs and farmers to market women. Participants also called for **capacity building** - for government to improve its ability to implement change, for civil society in its ability to hold government to account, and above all, to ensure educational opportunities for all citizens. Additional information on the ISN consultations is contained in Annex 3.

World Bank Assistance

59. **The World Bank’s portfolio supports three pillars of the government's Poverty Reduction Strategy: infrastructure and basic services; economic revitalization; and governance and rule of law.** As of May 15, 2007, the World Bank has US\$ 85 million in commitments, drawing on financing from the LICUS Trust Fund, the Trust Fund for Liberia (TFLIB) and IDA pre-arrears clearance grants. The existing portfolio includes US\$ 63 million in infrastructure (primarily road rehabilitation, but with some interventions in power, water and urban works); a US\$ 6 million community empowerment project (CEP); US\$ 14.3 million in governance and economic revitalization activities and US\$ 1.4 million supporting donor coordination. Sixteen percent of the portfolio of US\$ 85 million has been disbursed, but some US\$ 50 million was approved by the Board in the last 12 months. A number of earlier projects are nearing 100 percent disbursement. Table 1 (Annex 2) provides a view of the complete portfolio.

60. **As noted in paragraph 14 above, Liberia remains in arrears with the World Bank.** Although the World Bank stands ready with a solution to clear its arrears, other creditors have not yet finalized their arrangements. Thus, it is being proposed that the projects being presented to the Board along with this ISN (i.e. Community Empowerment and Emergency Health) proceed on a pre-arrears clearance basis, using US\$ 13.5 million of the US\$ 18.5 million remaining in Liberia's FY 07 IDA allocation¹⁶. Such extended use of pre-arrears clearance grants is justified in light of Liberia’s strong track record of good policy

¹⁶ Liberia's post-conflict IDA allocation is US\$ 35 million in FY 07. US\$ 16.5 million of this was approved by the Board in October, 2006, as additional financing for the Emergency Infrastructure Project. The use by IDA of pre-arrears clearance grants has been authorized since the IDA 12 period for post-conflict countries with large and protracted arrears, where the needs are great and alternative sources of financing are inadequate, especially when such assistance is part of a concerted international effort to assure positive flows to a post-conflict country. A framework for providing pre-arrears clearance grants was approved by the Board in July 2001. It outlined five conditions, four of which have been met in Liberia’s case, and one of which has only been partially met (relating to agreement among creditors not to make net withdrawals from the country). A fuller treatment of this issue is contained in the project documents for the Health and Community Empowerment projects.

performance over the last 15 months, Liberia's immense reconstruction needs, and the fact that the delay in arrears clearance is unrelated to the efforts of the Liberian government. Given the positive momentum with respect to other creditors regarding approaches to arrears clearance, it is expected that IFI arrears will be cleared in the coming months, which would allow Liberia to resume normal relations with the World Bank and would make it possible for IDA to provide regular support to the country's development program.

61. **The proposed IDA program will build on the strong foundation put in place over the last three years of World Bank re-engagement in Liberia.** It aims to continue to strengthen the reforms and deepen interventions already underway, such as in infrastructure, community-driven development, and economic governance, while entering new areas of engagement such as education, health and civil service and judicial reform. Most projects proposed are new or recent interventions, thus activities will only be at their mid-point by the end of the ISN period. Nevertheless, it is expected that the strategy will deliver results - both in terms of intermediate project-specific outcomes and in terms of laying the foundations for a full IDA program, including building government financial management and implementation capacity and moving towards strengthening use of national systems. Table 4 provides a project-by-project breakdown of ongoing and planned IDA support, while Table 5 (page 27) provides an overview of the entire World Bank and AfDB program for Liberia.

Table 4 Planned World Bank Support FY 08

Operations	Indicative Amount (US\$m)	Expected Board Date
Infrastructure & Basic Services Pillar		
Agriculture and Infrastructure Project	37.0	FY 08
Community Empowerment Project II	5.0	June 2007
Emergency Health Project	8.5	June 2007
Governance & Rule of Law/Economic Revitalization Pillar		
Economic Governance and Institutional Reform Project	6.0	FY 08
Budget support	4.0	FY 08
Liberia Reengagement & Reform Support Program (arrears clearance)	(tbd. ¹⁷)	FY 08

62. **Interventions in infrastructure will focus on scaling up existing rehabilitation work to restore basic services while interventions in the governance sector will expand ongoing reforms, with a focus on improved public financial management systems and civil service reforms.** The US\$ 37 million Agriculture and Infrastructure Project (AID) will expand existing works on roads and bridge rehabilitation across the country, critical port repairs, the rehabilitation of the Monrovia water treatment plant and pilot approaches to improving agricultural productivity in communities benefiting from road rehabilitation work. It will also improve agricultural productivity through improved access to markets. Through a US\$ 6 million Economic Governance and Institutional Reform Project, the World Bank will expand its efforts to support reforms in public financial management and procurement, allowing government to get more aid flowing through its own systems and building capacity for use of the new fiduciary systems. The World Bank will, moreover, contribute to the design and implementation of a comprehensive civil service reform program to begin the process of long-term structural reform, while strengthening the 'missing middle' in line ministries on a more urgent basis. Finally, the World Bank will provide targeted support for judicial reform, aimed at strengthening judicial functions in Monrovia and clearing large case backlogs.

¹⁷ See footnote 6.

63. **Following President Johnson-Sirleaf's recent endorsement of the Liberia Agency for Community Empowerment (LACE) as the primary vehicle for community empowerment, the World Bank will scale up support to the Community Empowerment Program** through a US\$ 5 million grant whose objective is to scale up community-based initiatives with a focus on building community cohesion, and service delivery capacity, and establishing links between local government and communities. Given the urgent needs for improved health service delivery performance, the World Bank will also engage with other donors in strengthening policy making and management functions of the Ministry of Health and Social Welfare and providing critical inputs to sustain the referral system needed to support essential health services. The Emergency Health Project will contribute \$8.5 million to that effort. All of these projects have been prepared under the World Bank's new operational policy on emergency recovery, OP/BP 8.00 which facilitates rapid preparation of emergency programs.

64. **Building on progress in economic governance, in particular in making the budget the central instrument to implement policy, the World Bank intends to support Liberia's FY08 budget with a first budget support operation.** Government made a strong plea at the July 2006 partners' meeting in Monrovia and at the February 2007 Liberia Partners' Forum in Washington DC for partners to engage in a budget support framework. To do so now would signal to Government and other donors the Bank's support for the governance reform effort thus far, in addition to beginning the process of moving to programmatic support to Government's program as formulated in its budget. Much work has been done to understand and improve public financial management, although improvements are still needed. In this regard, the World Bank seeks to respond to government's commitment to raise PFM standards and implement key reforms. A first operation incorporating suitable safeguards could build on existing knowledge stemming from the Bank's extensive fiduciary work, incorporating any additional upfront diagnostic work that may be needed; with continuing progress, a first operation incorporating suitable safeguards could then be considered in the first half of FY 08, and followed by future, possibly broader, operations in a multi-donor framework. The first operation could be a Development Policy Operation; current discussions focus on civil service reform.

65. **Governance is robustly addressed in the World Bank program.** The World Bank continues to support government's efforts to mainstream governance and anti-corruption through ongoing technical assistance under GEMAP, including: the formalization of a Resource Management Unit within the Ministry of Finance; support for implementation of transparency initiatives including EITI; support for system-wide procurement reform; a training and accreditation program for young resource management professionals in the Ministry of Finance; and the development of procurement training and accreditation program within the Liberian Institute of Public Administration. A new public sector and judicial reform program will further tackle core governance challenges through preparation of a comprehensive civil service reform strategy and support for basic judicial and legal reform work, as well as support to government's Governance Reform Commission in its governance oversight efforts. The Economic Governance and Institution Building project will underpin these efforts during the ISN implementation period.

66. **Attention to cross-cutting issues is being integrated throughout the program.** In gender, analytic work such as the agriculture assessment and the land tenure study are being designed to ensure that data are disaggregated by sex and women's roles and opportunities

are analyzed for their implications for overall poverty reduction and economic growth. Operationally, results-based interventions (RBIs) are being piloted within existing programs, for example, to test alternatives to improve women's participation in labor-intensive infrastructure programs. On the policy side, the World Bank is working to help government ensure the integration of gender issues into the PRS, particularly into the design of programs and policies in the economic sectors through technical and advisory assistance to the Ministry of Gender and Development.

67. **Capacity building is also integrated into analytic and operational work.** These needs are vast and are being addressed through capacity building to strengthen project implementation and financial management capacity in key Ministries. It is also being addressed through the overall civil service reform effort which will include a component to strengthen the Liberian Institute for Public Administration, including the introduction of an intensive public procurement curriculum as part of the training program for all civil servants. All projects include institutional strengthening and capacity building components. In addition, WBI is providing a program of capacity building support, focusing on support to the legislature in economic governance reform and budget oversight; support for anti-corruption initiatives; and institutional support to the strong community radio sector to help strengthen citizen participation in governance.

68. **IFC will play a key role, given the fundamental importance of the private sector in financing Liberia's recovery.** Given the vast financing requirements, it is critical to engage the private sector early on to leverage financing for reconstruction and spur investment and economic growth. IFC has come in with a program of support for private sector development, in particular support for SME growth. This includes rehabilitation of financial institutions which can provide access to financing, as well as business development and support services. IFC is also providing support in the power and mining sectors, agribusiness development, and - critically - support to the government of Liberia in improving the overall investment climate.

69. **The World Bank is carrying out analytic work and technical assistance** in order to prepare the ground-work for the government's full PRS and the future IDA program. This includes: a comprehensive agriculture strategy (with FAO and IFAD); a program of analytic work on gender issues, as well as pilot projects to build women's economic empowerment; a study on land tenure reform - a critical element of peace building in the post-war period; health and education sector work - particularly to find ways to leverage overall donor support in these critical but under-funded areas; continued work on telecoms reform; and a plan for statistical capacity building. In addition, the World Bank together with AfDB and other development partners are preparing an integrated Public Expenditure Management and Fiduciary Assessment Report (PEMFAR) which will be critical to diagnosing critical weaknesses in public financial management and fiduciary capability and underpinning the process of long-term structural reform. The World Bank, AfDB and others are jointly assisting the implementation of a statistical capacity building roadmap - an essential step to monitoring progress under the PRS as well as in improving national accounts and other national statistics.

Table 5 World Bank and AfDB Ongoing and Planned Interventions FY 07/08

World Bank	African Development Bank
I. Economic Revitalization	
<i>Ongoing:</i>	
• Resource Management Unit (LICUS TF - \$2.5 m)	
• Public Procurement Reform (LICUS TF - \$1m)	
• Forestry Sector Managemt. Reform (TFLIB - \$2 m)	
<i>Planned:</i>	
• Public Expenditure Management and Fiduciary Assessment Report (PEMFAR) (AAA, FY 08)	• Support to the PEMFAR
• Economic Governance and Institutional Reform Project (EGIRP) (IDA - \$6m, FY 08)	
• Budget Support (IDA - \$4m, FY 08)	
II. Governance & Rule of Law	
<i>Ongoing:</i>	
• Global Distance Learning Center (TFLIB - \$2 m)	• Institutional Support Project ISP (ADF X; UA 3m or US\$ 4.5m)
• WB Institute Program	• Support to GRC (Nordic Funds; US\$ 145,040)
• Judicial Reform Project (LICUS TF - \$600k)	• Statistical Capacity Building (ICP-Africa; UA 164,610)
<i>Planned:</i>	
• Civil Service Reform Project (LICUS TF - \$900k; also \$1-2m under EGIRP)	• Institutional Support Project II (ADF XI)
	• Governance Profile
	• Support to the implementation of the EITI
III. Infrastructure and Basic Services	
<i>Ongoing:</i>	
• Emergency Infrastructure Project (IDA \$30 m)	
• Emergency Infrastructure Project Supplemental (IDA \$16.5 m)	
• Infrastructure Rehabilitation Project (TFLIB \$8.5 m)	
• Transition Support Fund (LICUS TF \$1.8 m)	
• Community Empowerment Program (TFLIB \$6 m)	
<i>Planned:</i>	
• Agriculture Infrastructure Project (IDA \$37 m)	
	• Labor-based Public Works Project (ADF X; UA 6.42m or US\$ 9.5m)
	• Monrovia Water and Sewerage Immediate Rehabilitation Project (WB/EU/DfID; US\$ 10.73m)
	• Expansion of Monrovia Water Supply and Sewerage Study (AWF; US\$ 0.85m) ;
	• Rehabilitation of Ten Outer Stations Water Supply and Sewerage Systems Study (AWF; US\$ 0.55m) ;
	• Water Sector Reform Action Plan (AWF; US\$ 1.25m)
	• Expansion of Monrovia Water Supply and Sanitation Project (ADF XI)
	• Rehabilitation of Ten Outer Stations Water Supply and Sewerage Systems Project (ADF XI)
• Community Empowerment Project II (IDA \$5 m)	
• Emergency Health (IDA \$8.5 m)	
• Transition Support Fund II (LICUS TF \$6.9 m)	
	• Gender Study

70. **The World Bank and government have agreed to develop a multi-donor instrument to support the large-scale investments in infrastructure that are so desperately needed.** A World Bank administered multi-donor trust fund (MDTF) is currently under discussion. Consistent with best practice emerging from other post-conflict MDTFs, it will include a governance structure that allows input from both government and development partners. Projects will be prepared according to IDA policy practice to take advantage of existing systems and economies of scale.

African Development Bank Assistance

71. **AfDB assistance to Liberia under the ISN will be provided within the framework of ADF-X (2005-2007) and part of ADF-XI (2008-2010). AfDB support under the ISN will be selective, focusing on the priority sectors of infrastructure and governance.** While the initial country allocation to Liberia under ADF-X amounted to UA 6.97 million, an amount of UA 2.45 million was added in late 2006 following AfDB's annual CPIA exercise, thereby increasing the total amount accessible by Liberia under ADF-X to UA 9.42 million. Of this amount, UA 3.00 million were allocated towards the Institutional Support Project (ISP) as pre-arrears clearance support, approved by the AfDB's Boards in October 2006. The ISP is implemented by a joint World Bank/AfDB Project Implementation Unit established at the Ministry of Finance, thereby reducing transaction cost related to project coordination and reporting. AfDB assistance to the Governance Reform Commission, financed from bilateral Nordic Funds amounting to US\$ 145,040, is complementary to the ISP in that it provides additional AfDB support to public sector reform, contributing to strengthened governance and improved public service delivery. AfDB support to Liberia under the ICP-Africa program (approx UA 165,000) is also complementary to the ISP, through strengthening the capacity of the Liberia Institute of Statistics and Geo-Information Services (LISGIS) and assistance to the preparation of a National Statistical Development Strategy.

72. **The balance available under ADF-X of UA 6.42 million will be used to fund a labor-intensive public works project in support of the government's National Public Works Program.** The main objective of the project is the rehabilitation of the Fish Town - Harper Road stretch, thereby enhancing mobility and accessibility to the country's interior. The project also aims at enhancing access to basic social services and economic activities, create permanent and temporary job opportunities through the use of labor-based methods, and to increase the skills of workers and local communities. The project will pay greater attention to ensure women's participation in project activities by targeting at least 30 percent of those beneficiaries from the employment and skills training will be women. Moreover, in order to secure women's income, the project will apply equal pay for similar job policy. The project is complementary with other donor interventions, especially World Bank and UNMIL financed projects, as the planned rehabilitation of the Fish Town - Harper stretch is a continuation of the Zewdru - Fish Town road under World Bank funding. Moreover, the proposed project envisages joint implementation arrangements with the World Bank by using the existing Special Implementation Unit (SIU) which has been jointly established by the Ministry of Public Works and the WB.

73. **In addition, the AfDB - within the framework of a joint initiative with the World Bank, DFID and the EU - will implement the Monrovia Water and Sanitation Immediate Rehabilitation Project, totaling US\$ 24.73 million.** Each component will be implemented separately by each donor. The DFID sub-component of US\$ 5.86 million will be implemented by AfDB, using existing AfDB Rules and Procedures. The Executing Agency will be the Liberia Water and Sewer Corporation (LWSC), responsible for the implementation of the project. The objective of the project is to improve water and sanitation services to Monrovia and improve the capacity of the LWSC to operate and maintain water and sewerage systems on sustainable basis. The main components of the project consist of water works rehabilitation and sewerage system rehabilitation, capacity building for LWSC and water sector reform.

74. **The AfDB will also assist Liberia, in close cooperation with the World Bank, in the implementation of the EITI, and seek to mobilize additional resources from bilateral trust funds to support the 2008 population and housing census and the implementation of the National Statistical Development Strategy. Furthermore, the AfDB will undertake analytical work,** including studies in the water sector and the development of a Water Sector Reform Action Plan, which are expected to be financed from the African Water Facility (AWF). The AfDB will also undertake analytic work on specific gender-related issues, in close cooperation with other development partners, notably with the World Bank. The AfDB will also prepare a Governance Profile, with a focus on Liberia's financial sector, including access to finance by SMEs, and land tenure. The AfDB will also join the World Bank and other development partners in the implementation of the PEMFAR. The AfDB will seek to prepare all ESW jointly with other development partners, which is expected to inform the preparation of AfDB's full Country Strategy Paper for Liberia in 2008.

75. **The AfDB will also support Liberia's private sector.** Given the crucial role of the private sector as a main driver of economic growth, poverty alleviation and social stability, the AfDB will support the government in private sector development and monitor closely trends affecting the business climate in Liberia. The AfDB will also support Liberia's recovery through deepening the financial systems and assist in the rehabilitation of commercial and development banks. Furthermore, it will build the capacity of microfinance entities and identify opportunities to improve MSME access to finance. Opportunities would also be identified in the extractive industries' sector.

76. **As the ISN's lifespan is from July 2007 to June 2008, part of AfDB assistance to Liberia under the strategy will be provided under ADF-XI.** AfDB has a robust pipeline of projects for 2008 to continue support in the priority sectors of infrastructure and governance. The pipeline for 2008 includes projects to expand and rehabilitate water supply, sanitation facilities and sewerage systems, thereby complementing the abovementioned joint Monrovia Water and Sanitation Immediate Rehabilitation project. The 2008 pipeline also includes a second Institutional Support Project to further strengthen Liberia's public administration and support civil service reform, thereby complementing support provided under AfDB's ISP funded under AFD-X. Following the conclusion of the ISN, the AfDB will prepare a full Country Strategy Paper (CSP) for Liberia, covering the period of 2008-2011, which will be based on the government's full PRSP. The CSP 2008-2011 will govern the utilization of resources available to Liberia under ADF-XI and part of ADF-XII as well as exceptional post-conflict allocations from the Fragile States Facility.

VI. RESULTS MONITORING AND EVALUATION

77. **The interventions proposed in this ISN are expected to have a discernible impact in terms of improved dialogue, deepened policy reforms - particularly in the area of economic governance and institutional reform - improved government capacity to manage aid financing and development projects, and on actual physical infrastructure rehabilitation.** The strategy is short-term in nature (12 months), and many projects are still in start-up phase. It is expected that most achievements by the end of the ISN period will take the form of intermediate milestones as input to achieving the country's more medium-term development goals. Thus, the results matrix (Annex 1) illustrates the I-PRSP goals, while providing the intermediate milestones that are expected to result from World Bank and AfDB project-level interventions after a 12-month period.

78. **Monitoring will take place primarily through intensive project-level supervision, mid-term reviews, and other operational reviews.** Government policy performance will be rated through the regular PCPI/CPIA exercise and through regular assessments of progress on the IMF Staff Monitored Program. As the World Bank CAS/AfDB CSP will be developed in tandem with the full PRS, a full results framework with underlying data will be possible. A review of progress and lessons-learned under this ISN will be included in the full CAS/CSP.

VII. PARTNERSHIP

79. **The World Bank's partnership and coordination strategy rests on two mutually reinforcing principles: (i) broad interpretation of the World Bank's mandate in post-conflict settings and (ii) the imperative of creative innovation in sector interventions.** The World Bank's close work with partners on the ground with differing mandates has increased the World Bank's relevance and effectiveness, starting in the immediate post-conflict period.

80. **First, World Bank participation in the International Contact Group for Liberia (ICGL) was critical to get development issues on the table early in the peace process.** The ICGL was created to monitor the implementation of the ACPA at the country level, with higher level international meetings held every quarter among the same members (ECOWAS and the EU as co-chairs, AU, Ghana, Nigeria, US, UK, and later others). Although the donor coordination group, RIMCO, laid the foundations for donor coordination of the reconstruction agenda during the life of the NTGL, the ICGL, primarily a political body, focused on the key issues, such as threats to peace, progress towards the end-2005 democratic elections and – over time - even corruption, the magnitude of which was recognized by the UN and ECOWAS as a potential threat to peace and stability. Had the World Bank limited its participation in donor coordination to RIMCO and its more familiar Consultative Group-like setting, rather than joining the ICGL (first as an observer and then as a member), it would have not been in a position to bring its internal expertise on economic and financial matters to bear on key decisions being made by the more traditional political actors during the two-year mandate of the NTGL. For example, it is likely that GEMAP would have not been conceived and implemented had the World Bank not been represented at the ICGL. Finally, participation in ICGL meetings (as well as those of the UN Mission's Security Management Team) allowed the World Bank to better assess the overall security risks associated with an expansion in its staff presence, office location, and portfolio engagement.

In return, the presence of a multilateral institution with global reach was welcomed by most of the ICGL's national members, and the World Bank's current growing coordination role in the i-PRSP-driven LRDC is the combined result of its involvement in both RIMCO *and* the ICGL.

81. **Second, the World Bank's membership in the United Nations Country Team (UNCT) and the support it received at all times from the Special Representative of the Secretary General (SRSG) and UNMIL's leadership provided the underpinnings for its early deployment, immediate operational effectiveness on the ground and continued strategic coherence.** Ranging from security coverage (which includes World Bank membership in the UN's Security Management Team), to logistics (e.g., long-distance air transport within the country, plus additional support *ad hoc* basically whenever needed) and operational partnering, e.g. with UNDP, the UN has been critical to the World Bank's success. The joint UN/World Bank response to the challenges of road rehabilitation and urban renewal (Ministry of Public Works, UNMIL, UNDP, and World Bank), formulated on the basis of a shared appreciation of the importance of job creation, is but the most recent demonstration of how dynamic and far-reaching that partnership has become.

82. **Going beyond the early days, comprehensive aid and donor coordination is of particular importance in the Liberian recovery process.** The RFTF Implementation and Management Committee (RIMCO) guided donor interventions under the NTGL, while under the new government, the Liberia Reconstruction and Development Committee (LRDC) was established as a platform for donor dialogue and support of the development of the *interim Poverty Reduction Strategy* (I-PRS). Cooperation among lead donors has been strong, but aid coordination vis-à-vis the government has been less robust. In part, as a result of lack of political will and capacity, little or no monitoring and evaluation processes have been put in place to ensure alignment with government priorities, or to track how funds were disbursed. As a result, the government has had little overview of aid flows coming into the country. The LRDC has recently made it its priority to foster the harmonization and accuracy of donor reporting on disbursements for development (a challenge in many countries). In the past, asymmetrical reporting of funding flows by various donors has either underrepresented or exaggerated the level of support that was being provided. This, combined with tighter, more predictable sector strategies and the steady trend towards national (versus donor) execution of projects, should improve the government's control over its reconstruction resources and agenda.

83. **The February 2007 Liberia Partners Forum, co-hosted by the World Bank, U.S., EC, AfDB, UN, and the IMF was a strong step towards government-led donor coordination.** The groundwork for this meeting was laid during a multi-donor partners meeting in Monrovia in July 2006. At the Partners' Forum, donors joined together in public support of the government's track record of reform and in pledges of support, particularly for debt relief. Donors also committed to coordinate and harmonize their own programs to reduce the demands and transaction costs on government. In this regard, they agreed to track disbursements and projections of resources to help ensure a greater alignment between government I-PRS priorities, expected results, and available resources. This effort should allow government to more easily incorporate aid into its own budgeting and planning processes.

84. **Liberia is a strong example of coordination at the operational level.** Table 6 (page 32) shows the main areas of support by each main donor. Consistent with a fragile states approach, donors concentrate in a few key areas, aligning their support and sending common messages to government. Thus the U.S., the World Bank, the AfDB, the EC and the IMF all support fundamental economic governance reforms, but ensure that their programs are mutually reinforcing. This is evidenced by strong operational coordination with the UN both in the roads building project as well as use of UNDP as administrator of more than \$20 million in World Bank grant funding. Recently, the European Commission pledged co-financing support for the World Bank's work in infrastructure and community development, for a total of US\$ 19 million under EDF 9.

85. **Other important donors in Liberia include Sweden, the UK, Germany, Switzerland, Ireland, Japan and France.** Sweden, Switzerland and Ireland have been focusing on the social sectors, while Germany is engaged in infrastructure and has recently indicated specific support for the World Bank's proposed MDTF. France has been involved in the health sector and has also provided direct support under GEMAP. The UK continues to focus on governance and rule of law, including anti-corruption. Most of these donors do not yet have bilateral programs in the country and have channeled their support primarily through NGOs or the UN system.

Donor	Comments
US	Most sectors, with a focus on security, economic governance, education and health.
EC	Most sectors, with a focus on economic governance, water, roads, power, and service delivery/community development, with possible contributions to Liberia Agency for Community Empowerment (LACE), the World Bank's health sector work, and –in the future – the MDTF for infrastructure.
AfDB	Infrastructure and governance
WB	Infrastructure, agriculture, economic governance, civil sector reform, health, education, CDD.
IMF	Fiscal Monetary policy, central banking, and statistics
United Nations	Most sectors, with a focus on security sector reform; political governance, rule of law, public sector reform (including local level); and service delivery.

Table 6 Support Provided by Selected Donors

VIII. RISKS AND MITIGATION

86. **Liberia faces considerable risks following the extensive economic, social, and physical disruptions caused by the civil conflict.** A major risk relates to security. Although the deployment of UNMIL peacekeepers and police has restored peace and stabilized the security situation in most parts of the country, state institutions and mechanisms responsible for ensuring effective human rights protection for citizens throughout the country (including the police and judiciary) remain fragile and underdeveloped. In particular, the large number of ex-combatants awaiting reintegration and rehabilitation opportunities and political groups marginalized in the new political context might pose challenges to security in the country. Furthermore, the unstable regional context, including in Côte d'Ivoire and Guinea continues to present an external risk. Thus, UNMIL's presence under a strong Security Council mandate is critical, as are enhanced efforts by the government to effectively implement reforms of security institutions and the reintegration of ex-combatants into Liberian society so that a delayed collapse does not occur when UNMIL departs. The AfDB and other

development partners are committed to support efforts to increase regional cooperation and dialogue through, for example, the World Bank's dialogue in neighboring countries, World Bank and AfDB participation in the International Contact Group for the Mano River Union, and the AfDB's Regional Integration Assistance Strategy for West Africa.

87. **The government's limited capacity to implement reforms also poses a significant risk. 'Brain drain' has been a widespread phenomenon in Liberia.** This risk is mitigated by support provided by development partners to assist in rebuilding Liberia's institutional capacity. However, given the magnitude of physical destruction and the need for skilled staff at all levels, substantial additional efforts on the part of development partners to support capacity building are urgently required. This will be addressed both through capacity building efforts at the project level as well as through World Bank/AfDB-supported civil service reform and capacity building efforts targeted to government institutions in charge of implementation of reforms, e.g., the Public Procurement and Concession Committee.

88. **Another risk is related to the maintenance of macroeconomic stability, which could prove difficult in the event of government failure to adhere to fiscal discipline, or due to corruption or a shortfall in donor funding.** However, the latter seems unlikely given the international community's commitment to continue to support Liberia in its reconstruction efforts, notably at the February 2007, Liberia Partners' Forum. Furthermore, the IMF Staff Monitored Program for Liberia agreed with the government in February 2006 and renewed in February 2007 has contributed to improved economic and financial stability in the country. The IMF Board concluded in February 2007 that Liberia's performance in implementing macroeconomic policies and economic reforms under the SMP in 2006 was satisfactory. The risk of macro-economic deterioration will be further mitigated by WB/AfDB support for continued public financial management reform.

89. **There remains a risk that Liberia will fail to arrange arrears clearance to the IFI or to a sufficient number of commercial creditors to permit its entry into the HIPC process.** Donors are actively seeking a comprehensive solution to Liberia's arrear problem, and the World Bank and AfDB have worked to develop mechanisms for arrears clearance. In addition, other donors (e.g. Switzerland) are offering legal and financial technical assistance on commercial debt issues. It should be noted that, if arrears are not cleared during the course of this ISN period, the AfDB would continue to work with government and IFIs to find a lasting solution to the issue of arrears and would seek to provide pre-arrears clearance assistance to Liberia, provided that good government performance is maintained.

90. **The issue of corruption is another risk, in particular the culture of poor governance** which stripped the state of its resources and legitimacy in the past. Corruption and the abuse of power and privileges continue to impede effective policy implementation, public service delivery, and the reduction of poverty. The government has demonstrated a firm commitment to fight corruption through the finalization in December 2006 of an anti-corruption strategy and the creation of an anti-corruption agency. The government has also demonstrated its commitment to enhance governance, transparency, and accountability in the conduct of the public sector through the continued implementation of GEMAP. A further risk concerns the government's ability to get legislation passed by Parliament, where the President's political party lacks a majority. Hence, the government must win the support of members of other parties. Continued strong, demonstrated international support for the current administration's anti-corruption efforts, combined with judicious attention to internal

fiduciary controls and external private sector/civil society scrutiny and appropriate capacity building, are expected to help mitigate these risks. Going forward, as donor financing is channeled increasingly through the government budget, care will be taken to addressing corruption risk through carefully selected triggers that would leverage progress towards increased transparency in public procurement.

91. **Given the strategic emphasis on new construction of infrastructure and potential development in the mining sector, the government's ability to address environmental issues and manage environmental and social impacts is a potential concern.** Under this strategy, the World Bank and AfDB will work to build environmental planning and management capacity in key line ministries and agencies, notably the Environment Protection Agency (EPA), the Ministry of Public Works, the Forest Development Authority (FDA) and the Ministry of Lands, Mines and Energy and the Liberia Water and Sewerage Corporation, in tandem with the scaling up of investments in the sectors for which they are responsible.

IX. SCALING UP AND EXIT STRATEGY

92. Under the current scenario, provided arrears are cleared and the situation remains stable, the World Bank would continue to provide exceptional post-conflict allocations from IDA in line with current IDA allocation policy. This allocation will be calibrated according to improvements in government performance as measured by the Post-Conflict Performance Indicators (PCPI) and portfolio implementation performance. AfDB over the coming years expects to provide grant resources to Liberia under the ADF and the proposed Fragile States Facility (FSF). While the availability of funds from the ADF will continue to be based on the AfDB's CPIA, exceptional post-conflict allocations from the FSF would be calibrated according to Liberia's performance under the ADF X. Considering the short-term nature of the strategy, intermediate progress on key areas of the PCPI and AfDB CPIA such as economic governance and public sector reform, would provide sufficient basis for preparation of a full World Bank CAS/AfDB CSP during 2008

93. In the event of unsatisfactory progress on reform, the World Bank and AfDB will prepare another ISN. Should poor portfolio performance arise, the World Bank and AfDB would adjust their operations as needed, revising implementation schedules and planned activities, or in the case of severe obstacles, a partial suspension of activities. Nevertheless, the World Bank and AfDB remain committed to staying engaged in Liberia over the long term.

LIBERIA
JOINT INTERIM STRATEGY NOTE
Annexes

- Annex 1:** Liberia ISN Results-based Framework
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- Annex 9:** Report on Internal Control over Financial Reporting Trust fund Activities - June 30, 2006
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Liberia ISN Results-based Framework

Medium-term Country Goals (PRSP/MDGs)	Issues that Hinder Achievement of Country Goals	Milestones ¹⁸ WB expects to influence during ISN period (through December 2008)	Milestones ¹ AfDB expects to influence during ISN period (through December 2008)	WB Interventions	AfDB Interventions
Pillar I: Economic Revitalization – promote efficient and transparent management of national resources, improve the investment climate and accelerate growth and the creation of sustainable employment.					
Strengthen fiscal policy and financial management <ul style="list-style-type: none"> Fundamental public financial management and procurement systems in place, 	<ul style="list-style-type: none"> Fundamental lack of systems and capacity after 14 years of war Governance and control challenges – inability to use new fiduciary systems Reforms highly centralized 	Milestones: <ul style="list-style-type: none"> Spend 100% of budget using new fiduciary controls Positive assessment of IMF SMP 	Milestones: <ul style="list-style-type: none"> Introduction of the concept of a Medium-term Expenditure Framework for 2 pilot ministries in the budget FY 08/09 Increased revenue through the installation of automated tax payments systems in the Bureau of Internal Revenue and the Bureau of Direct Taxation of the Ministry Of Finance, and in 50% of tax collection offices throughout Liberia 	<ul style="list-style-type: none"> Financial Management (\$2.5m) Procurement Reform (\$1.0m) Resource Management Unit/TA (\$2.5m) Budget Support for Public Sector Reform Economic Governance & Institutional Reform (\$6.0m) PEMFAR (AAA) 	<ul style="list-style-type: none"> Institutional Capacity Building Project (\$4.5 m)
Increase investment to reactivate agricultural sector <ul style="list-style-type: none"> Smallholders producing and accessing markets Redeveloping and expanding agricultural exports, e.g. <i>cocoa</i> 	<ul style="list-style-type: none"> Lack of self-sufficiency in basic staple foods Absence of investment in critical commodities Lack of clarity on and increase of disputes over land tenure 	Milestones: <ul style="list-style-type: none"> Rebuilding value and supply chains for tree crops and food crops: Cocoa export increase by 10% market where rice seed is sold increase from 3 to 5. Land tenure framework developed and proposed 		<ul style="list-style-type: none"> Agriculture and Infrastructure Development Project (\$37.0m) Land tenure study (AAA) 	

¹⁸ In some cases, given a lack of data, baselines are being established during project implementation.

Medium-term Country Goals (PRSP/MDGs)	Issues that Hinder Achievement of Country Goals	Milestones ¹⁸ WB expects to influence during ISN period (through December 2008)	Milestones ¹ AfDB expects to influence during ISN period (through December 2008)	WB Interventions	AfDB Interventions
<p>Reactivate the forestry sector in sustainable manner and with emphasis on increasing value added</p> <ul style="list-style-type: none"> • Increase in forestry exports and revenues • Strengthen environmental management 	<p>- Mismanagement of forestry concessions and revenue collected by Government.</p>	<p>Milestones:</p> <ul style="list-style-type: none"> - 10 forestry management contracts awarded in compliance with new Forestry Reform Law Protected Areas Network designed. 		<ul style="list-style-type: none"> - Forestry Sector Management Reform (\$2m) Protected Areas GEF - Economic and Governance Project (0.5 M of total 7. M) 	
<p>Enable Private Sector recovery and development</p> <ul style="list-style-type: none"> • Increase in private investment • Access to capital and banking services for informal sector/ SMEs 	<ul style="list-style-type: none"> - Large informal sector - Limited access to finance & advisory services 	<p>Milestones:</p> <ul style="list-style-type: none"> - Investment climate reform program developed - Liberia Bank for Development and Investment providing improved services - At least one micro-credit program established 		<ul style="list-style-type: none"> - IFC - Investment Climate Assessment - Micro Finance 	
Pillar II: Governance – facilitating effective institutions that will support democratic governance, justice, and human security					
<p>Implement comprehensive civil service reform</p> <ul style="list-style-type: none"> • Reformed civil service with appropriate staffing and compensation policies and upgraded capacity. 	<ul style="list-style-type: none"> - Large number of ghost workers - Payroll large % of budget 	<p>Milestones:</p> <ul style="list-style-type: none"> - Elimination of ghost workers in two ministries -15 positions identified and senior executives recruited 	<p>Milestones:</p> <ul style="list-style-type: none"> - Elimination of ghost-workers in two ministries - 15 positions identified and senior executives recruited 	<ul style="list-style-type: none"> - Economic Governance & Institutional Reform Project (\$1.4m) - Senior Executive Service Project (\$1.3m) 	<ul style="list-style-type: none"> - Institutional Capacity Building Project II

Medium-term Country Goals (PRSP/MDGs)	Issues that Hinder Achievement of Country Goals	Milestones ¹⁸ WB expects to influence during ISN period (through December 2008)	Milestones ¹ AfDB expects to influence during ISN period (through December 2008)	WB Interventions	AfDB Interventions
<p>Strengthen rule of law and respecting human rights</p> <ul style="list-style-type: none"> Functioning and reformed judicial system in place (including courts, corrections, administration, etc.) 	<ul style="list-style-type: none"> Lack of capacity Corruption and lack of citizen trust in judicial system Large backlog of cases 	<p>Milestones:</p> <p>Pilot approaches to increase effectiveness of judicial system:</p> <ul style="list-style-type: none"> Average time a case remains in Judiciary prior to adjudication Reduce court cases backlog 	<p>Milestones:</p> <ul style="list-style-type: none"> Average time a case remains in Judiciary prior to adjudication reduced Backlog of court cases reduced 	<ul style="list-style-type: none"> Judicial Sector Reform Pilot Project (\$650,000) 	<ul style="list-style-type: none"> Institutional Capacity Building Project (\$4.5 m)
Pillar III: Infrastructure and Basic Services – facilitating the improvement of productive livelihoods and service delivery					
<p>Re-build and rehabilitate national roads and transportation infrastructure and rebuild and renovate buildings</p> <ul style="list-style-type: none"> Restored primary road network including a significant number of secondary and feeder roads Functioning Port of Monrovia handling increased volume of exports and imports Improve quality of life in Monrovia 	<ul style="list-style-type: none"> Weak Government capacity for preparing and managing project activities Government's inability to push-through politically difficult decisions Limited international interest by reputable consultants and contractors Lack of overall infrastructure policy and strategy framework 	<p>Milestones:</p> <ul style="list-style-type: none"> 125 Km of rural roads rehabilitated. 6 bridges rehabilitated, and 20 minor crossings improved. Port: Average Crane productivity at Port (baseline: 3 moves per hour/crane, target: 8 moves per hour/crane) <p>Urban:</p> <ul style="list-style-type: none"> Rehabilitate existing landfill to be used temporarily, <ul style="list-style-type: none"> Rehabilitate sewage network, Rehabilitate drainage, Launch massive solid waste clean up, Engage in small urban beautification projects 	<p>Milestones:</p> <ul style="list-style-type: none"> 50 km of rural roads rehabilitated Increased youth employment 	<ul style="list-style-type: none"> Trust Fund for Liberia - TFLIB Emergency Infrastructure Project and Supplemental Component Infrastructure Rehabilitation Project (\$68.9m) Agriculture and Infrastructure Development Project (\$37.0m) 	<ul style="list-style-type: none"> Labor-based Public Works Project (\$9.5m)

Medium-term Country Goals (PRSP/MDGs)	Issues that Hinder Achievement of Country Goals	Milestones ¹⁸ WB expects to influence during ISN period (through December 2008)	Milestones ¹ AfDB expects to influence during ISN period (through December 2008)	WB Interventions	AfDB Interventions
Increase the quality and accessibility of water and improve waste management	<ul style="list-style-type: none"> - Unavailability of basic infrastructure including water and Solid Waste Management systems and networks 	<p>Milestones:</p> <ul style="list-style-type: none"> - Volume of water distributed in Monrovia increase from 2 to 8 MGD 	<p>Milestones:</p> <ul style="list-style-type: none"> - Volume of water distributed in Monrovia increased from 2 to 4 MGD to serve 200,000 people - Sewerage service improved for 100,000 people - Reduction of water borne diseases by 10 percent 	<ul style="list-style-type: none"> - Agriculture and Infrastructure Development Project - water subcomponent (\$5.3m) 	<ul style="list-style-type: none"> - Monrovia Water & Sewerage Immediate Rehabilitation Project (\$5.86 m) - Rehabilitation of Ten outer Stations Water Supply and Sewerage Systems Project
Improve access to and quality of health care	<ul style="list-style-type: none"> - Significant number of people not served by formal health services - Weak formal health services because of: - Infrastructure debilitated, - Insufficient no. of qualified health workers, - Lack of basic medical equipment. - Incomplete control and accountability of health care providers through out the country (unknown quality of health services 	<p>Milestones:</p> <ul style="list-style-type: none"> - Begin process of staffing tertiary hospital through recruitment of 5 clinical teachers and staff recruited in areas of critical shortage (doctors, nurses, midwives and other allied health workers) - Strengthen the financial, procurement and project management units from the ministry of health through recruitment of at least 3 qualified personnel to - Contribute to strengthening policies through beginning preparation of new policies in human resources, health financing, contracting and decentralization 		<ul style="list-style-type: none"> - Health System Reconstruction Project (\$8.5m) 	

Medium-term Country Goals (PRSP/MDGs)	Issues that Hinder Achievement of Country Goals	Milestones ¹⁸ WB expects to influence during ISN period (through December 2008)	Milestones ¹ AfDB expects to influence during ISN period (through December 2008)	WB Interventions	AfDB Interventions
<p>Improve the quality and accessibility of education</p>	<p>- Educational inputs (facilities, teacher qualifications, textbook supply etc.) are poor and lacking, planning capacity is weak.</p>	<p>Milestones:</p> <p>Change in primary school net enrollment rate (baseline:50%, target: 10% yearly improvement)</p> <p>Change in the number of qualified teachers (baseline: 40%, target: 60% increase)</p> <p># of textbooks distributed (target: 300,000)</p>		<p>- World Bank administration of Education For All Fast Track Initiative - Joint DP support (\$20m)</p> <p>- TA to develop Full Education Sector Plan (funded by EPDF)</p>	
<p>Strengthen service delivery at the community level</p> <ul style="list-style-type: none"> Strengthen local education and health service delivery Strengthen link between local government and communities 	<p>- Constrained social integration</p> <p>- Former rebels, militias and opposition threatening security</p> <p>-Lack of resources to finance recurrent expenditures</p> <p>-Lack of trained health and education staff</p>	<p>Milestones:</p> <p>- 40 sub-projects completed in health and education and other basic local services;</p> <p>- 60 county/district officials trained;</p> <p>- 400 Project Management Committee officials trained</p>	<p>Milestones:</p> <p>- Sustainable Community-based maintenance schemes established in at least 5 Communities in the South East of Liberia</p>	<p>- Community Empowerment Project II.(\$5 m)</p>	<p>- Labor-based Public Works Project (\$9.5m)</p>

World Bank Portfolio and Pipeline by Government Pillar

Government Pillar	Project Name	Funding Source	Amount	Implementation
Mult-Sectoral	Donor Coordination/ Communication (LRDC/GEMAP)	LICUS II	\$600,000	UNDP
	Donor Coordination (RIMCO Support)	LICUS I	\$760,000	UNDP
		Pillar Total	\$1,360,000	
Economic Revitalization	GEMAP			
	Financial Management	LICUS I	\$465,000	Bank Executed TA
	IFMIS	TFLIB	\$2,500,000	UNDP
	RMU (GEMAP)	LICUS II	\$2,500,000	UNDP
	Procurement Reform (GEMAP)	LICUS II	\$1,100,000	Country Executed
	Procurement Reform (GEMAP)	LICUS I	\$1,040,000	Country Executed
	FORESTRY			
	Forestry Reform	LICUS II	\$2,000,000	UNDP
	Forestry Sector	LICUS I	\$570,000	Bank Executed TA
	OTHER			
	Senior TA for MoF	LICUS I	\$99,500	Bank Executed TA
	SAPO National Park Conservation	GEF	\$975,000	Fauna & Flora Int'l
	Statistics Capacity Building	TFSCB	\$42,000	Bank Executed TA
		Pillar Total	\$11,291,500	
Governance/ Rule of Law	GDLN	TFLIB	\$1,500,000	UNDP
	Legal Reform	LICUS I	\$650,000	ILAC
	Public Sector Reform	LICUS II	\$900,000	Bank Executed TA
		Pillar Total	\$3,050,000	
Infrastructure/ Basic Services	INFRASTRUCTURE			
	Infrastructure Rehabilitation Project	TFLIB	\$8,500,000	MPW
	Infra TA/Studies (Roads, Water, Power, Trans, Tele)	TFLIB	\$5,000,000	Bank Executed TA
	Transition Support Fund	LICUS II	\$1,800,000	UNDP
	Emergency Infrastructure Project (Roads and Water)	IDA Pre-Arrears	\$30,000,000	MPW
	EIP Supplemental I	IDA Pre-Arrears	\$16,500,000	MPW
	BASIC SERVICES			
Community Empowerment Project	TFLIB	\$6,000,000	LACE	
Community Driven Development	LICUS II	\$1,180,000	Mercy Corps	
		Pillar Total	\$68,980,000	
		Grand Total	\$84,681,500	
FY07-08 IDA Pipeline				
	Emergency Infrastructure Project II		\$37,000,000	
	Community Empowerment Project II		\$5,000,000	
	Emergency Health Project		\$8,500,000	
	Economic Governance and Institutional Reform		\$6,000,000	
	Budget Support		\$4,000,000	
		Total	\$60,500,000	
Other Instruments				
	Multi-Donor Trust Fund		\$0	
	LICUS Transition Support Fund II		\$6,700,000	
		Total	\$6,700,000	
		Grand Total	\$67,200,000	

AfDB List of Ongoing Operations (as at 31 May 2007)

Lending Window	Sector name	Project title	Approval date	Signature date	Approved UA	Signed UA	Cancelled UA	Net Signed UA	Cumul. Disburs. UA	Undisb. Balance UA	Disburs. Ratio
ADF	Multi-Sector	ISP FOR ECONOMIC MANAGT. & GOOD GOVERNANCE	27-Oct-06	24-Nov-06	3,000.00	3,000.00	-	3,000.00	-	3,000.00	0.00%
	Multi-Sector Total				3,000.00	3,000.00	-	3,000.00	-	3,000.00	0.00%
Grand Total					3,000.00	3,000.00	-	3,000.00	-	3,000.00	0.00%

AfDB Summary Statement of Public Sector Loans (as at 31 May 2007)

Lending Window	Sector	Project title	Approval date	Signature date	Approved	Signed	Cancelled	Net Signed	Cumul. Disburs.	Undisburs. Balance	Disb. Ratio
ADB	Agriculture	FORESTRY DEVELOPMENT	22-Aug-78	27-Sep-78	4,200.00	4,200.00	107.36	4,092.64	4,092.64	-	100.00%
ADB	Agriculture	DECORIS OIL PALM	23-Oct-79	16-Nov-79	6,200.00	6,200.00	2,608.16	3,591.84	3,591.84	-	100.00%
	Agriculture Total				10,400.00	10,400.00	2,715.52	7,684.48	7,684.48	-	100.00%
ADB	Finance	LINE OF CREDIT I	20-Jun-72	18-Jul-72	500.00	500.00	1.00	499.00	499.00	-	100.00%
ADB	Finance	LINE OF CREDIT II	13-Sep-74	4-Nov-74	2,000.00	2,000.00	12.20	1,987.80	1,987.80	-	100.00%
ADB	Finance	LINE OF CREDIT III	21-Dec-76	5-May-77	1,700.00	1,700.00	-	1,700.00	1,700.00	-	100.00%
ADB	Finance	LINE OF CREDIT IV	24-Aug-81	10-Sep-81	3,000.00	3,000.00	288.35	2,711.65	2,711.65	-	100.00%
	Finance Total				7,200.00	7,200.00	301.55	6,898.45	6,898.45	-	100.00%
ADB	Ind/Mini/Quar	GLASS CONTAINER	21-Dec-82	15-Sep-83	8,400.00	8,400.00	431.99	7,968.01	7,968.01	-	100.00%
ADB	Ind/Mini/Quar	NIOC REHABILITATION	24-Aug-81	11-Sep-81	10,000.00	10,000.00	450.19	9,549.81	9,549.81	-	100.00%
	Ind/Mini/Quar Total				18,400.00	18,400.00	882.19	17,517.81	17,517.81	-	100.00%
ADB	Power	GAS TURBINE	24-Jul-69	25-Feb-70	1,350.00	1,350.00	6.47	1,343.53	1,343.53	-	100.00%
ADB	Power	POWER REHABILITATION	18-Oct-83		18,000.00	-	18,000.00	-	-	-	0.00%
	Power Total				19,350.00	1,350.00	18,006.47	1,343.53	1,343.53	-	100.00%
ADB	Social	ELEMENTARY TRAINING DEVELOPMENT	19-Oct-82	19-Nov-82	9,000.00	9,000.00	1,355.47	7,644.53	7,644.53	-	100.00%
	Social Total				9,000.00	9,000.00	1,355.47	7,644.53	7,644.53	-	100.00%
ADB	Transport	KAKATA-TOTOTA ROAD	14-Mar-84	23-Mar-84	17,800.00	17,800.00	9,008.43	8,791.57	8,791.57	-	100.00%
ADB	Transport	TWO STANDARD ROADS MANO RIVER	14-Mar-84	23-Mar-84	20,000.00	20,000.00	13,297.97	6,702.03	6,702.03	-	100.00%
ADB	Transport	GBARNGA-GANTA-TOTOTA ROAD	19-Aug-75	8-Sep-75	5,000.00	5,000.00	15.02	4,984.98	4,984.98	-	100.00%
ADB	Transport	TUBMAN BRIDGE-BOMI HILLS ROAD	18-Aug-77	16-Sep-77	5,000.00	5,000.00	0.00	5,000.00	5,000.00	-	100.00%
ADB	Transport	LINK ROAD PROJECT	17-Sep-73	5-Dec-73	655.20	655.20	(0.00)	655.20	-	-	0.00%
ADB	Transport	LINK ROAD PROJECT (S.L.)	27-Mar-75	7-May-75	302.40	255.89	-	255.89	-	-	0.00%

ADB	Transport	LINK ROAD PROJECT	17-Sep-73	5-Dec-73	0.00	-	-	-	-	-	0.00%
ADB	Transport	LINK ROAD PROJECT (S.L.)	27-Mar-75	7-May-75	0.00	-	-	-	-	-	0.00%
	Transport Total				48,757.60	48,711.09	22,321.41	26,389.68	25,478.59	-	96.55%
ADB	Water Sup/Sanit	MONROVIA WATER SUPPLY	24-Jan-73	21-Feb-73	950.00	950.00	-	950.00	950.00	-	100.00%
ADB	Water Sup/Sanit	MONROVIA WATER SUPPLY	20-Aug-75	10-Oct-75	829.00	829.00	115.33	713.67	713.67	-	100.00%
ADB	Water Sup/Sanit	MONROVIA WATER SUPPLY II	31-Dec-77	23-Jan-78	2,151.00	2,151.00	-	2,151.00	2,151.00	-	100.00%
	Water Sup/Sanit Total				3,930.00	3,930.00	115.33	3,814.67	3,814.67	-	100.00%
ADB Total					117,037.60	98,991.09	45,697.95	71,293.15	70,382.05	-	98.72%
ADF	Agriculture	LOFA COUNTY AGRICULTURAL DEVELOPMENT	26-May-82	27-Oct-82	8,289.47	8,289.47	2,634.73	5,654.73	5,654.73	-	100.00%
ADF	Agriculture	BONG AGRICULTURAL DEVELOPMENT	15-Jun-84	9-Jul-84	4,605.26	4,605.26	2,256.22	2,349.04	2,349.04	-	100.00%
	Agriculture Total				12,894.73	12,894.73	4,890.95	8,003.78	8,003.78	-	100.00%
ADF	Multi-Sector	DEBT MANAGEMENT PROGRAMME	19-Dec-89	5-Jan-90	2,256.58	2,256.58	2,256.58	-	-	-	0.00%
ADF	Multi-Sector	ISP FOR ECO MANAGT. & GOOD GOVERNANCE	27-Oct-06	24-Nov-06	3,000.00	3,000.00	-	3,000.00	-	3,000.00	0.00%
	Multi-Sector Total				5,256.58	5,256.58	2,256.58	3,000.00	-	3,000.00	0.00%
ADF	Transport	MANO BRIDGE -KLE ROAD	14-Mar-84	23-Mar-84	18,421.04	18,421.04	7,140.41	11,280.63	11,280.63	-	100.00%
	Transport Total				18,421.04	18,421.04	7,140.41	11,280.63	11,280.63	-	100.00%
ADF Total					36,572.35	36,572.35	14,287.94	22,284.41	19,284.41	3,000.00	86.54%
NTF	Ind/Mini/Quar	GLASS CONTAINER PROJECT	20-Mar-90	20-Mar-90	7,004.87	7,004.87	-	7,004.87	7,004.87	-	100.00%
	Ind/Mini/Quar Total				7,004.87	7,004.87	-	7,004.87	7,004.87	-	100.00%
NTF	Social	SOUTH-EAST LIBERIA EDUCATION	23-Feb-77	5-May-77	3,600.00	3,600.00	120.29	3,479.71	3,479.71	-	100.00%
NTF	Social	PRIMARY SCHOOL DEVELOPMENT	20-Mar-90	20-Mar-90	7,644.53	7,644.53	-	7,644.53	7,644.53	-	100.00%
	Social Total				11,244.53	11,244.53	120.29	11,124.25	11,124.25	-	100.00%
NTF	Transport	KAKATA ROAD PROJECT	20-Mar-90	20-Mar-90	8,791.57	8,791.57	-	8,791.57	8,791.57	-	100.00%
	Transport Total				8,791.57	8,791.57	-	8,791.57	8,791.57	-	100.00%
NTF Total					27,040.98	27,040.98	120.29	26,920.69	26,920.69	-	100.00%
Grand Total					180,650.92	162,604.42	60,106.17	120,498.25	116,587.15	3,000.00	96.75%

**World Bank & African Development Bank Joint Interim Strategy Note for Liberia
Stakeholder Consultations
April-May 2007**

Methodology

The Joint Interim Strategy Note (ISN) for Liberia was developed over a six month period, November 2006-April 2007. Stakeholder consultations were held in Liberia with national and local government, civil society, non-governmental institutions, international organizations and donors prior to the development of the strategy in November 2006. Further consultations with the same target groups were undertaken to validate and confirm the draft strategy in April and May 2007.

Consultations were carried out by a joint World Bank and AfDB team, comprising of staff from headquarters in Tunis and Washington respectively and the Liberia World Bank Country Office.

Results of the Consultative Process

i.a. National Government

Initial consultations prior to the development of the strategy with the national government had been held at the ministerial level, while the validation discussions with government were held at the more operational, thus Deputy Minister, level. This included the Ministry of Finance, Ministry of Planning and Economic Affairs, Ministry of Public Works, Civil Service Agency, Governance Reform Commission, Ministry of Health and Social Welfare, Liberia Reconstruction and Development Committee Secretariat, etc.

The workshop aimed to validate the strategy as well as to develop and refine the results framework was held with government officials from all major line ministries implicated in the ISN. The main outcome of the discussions was the development of a series of precise and achievable indicators which provide the basis for the results framework (see Results Framework) included in the ISN document and guiding the monitoring and evaluation component.

At the national government level, it would appear that the priorities set by the AfDB and the World Bank were correctly identified and adequately aligned with the iPRSP. Infrastructure rehabilitation –primarily transport, improving economic governance, supporting the social sectors, and building Government capacity to manage and carry out development programs were considered the principle areas of focus on the national level.

ii. a. Local Government

As an indication of the development priorities in the counties, the ISN was presented to the local authorities in several counties (Grand Cape Mount, Sinoe and Grand Gedeh). Included in these consultations were county superintendents, development superintendents and county representatives of the line ministries such as Education, Health and Social Welfare, Public Works, Finance, National Security, Bureau of Immigration, and others.

Overall, the strategic approach outlined in the ISN was welcomed. However, three salient points crystallized from the discussions:

1. Road building is considered the overall top priority by all ministries. Main roads were seen as important conduits linking the different counties, but feeder roads were similarly vital. These provide access to markets, social services and connectivity to the capital.

It was noted that road rehabilitation was happening slowly at the county level. Although it was appreciated that labor intensive construction methods had been deliberately instituted to create employment, it was felt that speed was of an essence and should take precedence over temporary job creation -- the idea being that once communities have the necessary infrastructure and connectivity to markets, they create their own jobs.

2. Participants clearly outlined the importance of support for agricultural revitalization, both assistance with scaling up or rehabilitating large-scale facilities in cocoa, rice, and palm oil, as well as support for smallholders to allow them to get their farms up and running.
3. Closely linked to this was the demand for credit facilities, both via microcredit/finance schemes and the establishment of formal banks in rural areas. It was highlighted that if communities had access to capital, they could generate their own employment.
4. Social infrastructure, such as schools and hospitals are in sad state of disrepair. More must be done to rehabilitate these structures and provide much needed equipment. Linked this was the issue of providing incentives to attract teachers and health workers back to the counties. This included providing housing and adequate salaries.
5. Although support from Monrovia is beginning to be forthcoming, Government salaries were perceived as inadequate. This was viewed within the larger context of civil service reform.

ii. Legislature

The World Bank Liberian Country Office is increasingly attempting to actively engage with parliament, who welcomed being involved in the ISN validation process.

The members of the Liberian parliament were particularly concerned with the implementation and activity level. Issues were viewed both through the lens of community –driven development as well as at the national level. A number of points were highlighted:

1. Participants raised concerns about partnerships between different institutions being supported by the Bank, such as LIPA (Liberian Institute of Public Administration) and the Ministry of Finance, noting that it was important to build capacity of all institutions of higher learning.
2. It was highlighted that Parliament would appreciate development actors and government supporting and strengthening already existing institutions within the context of their activities, rather than creating new and additional bodies.
3. The social sector, education in particular, was considered a priority. There should be better flows of information between the legislature and government on the social sectors.
4. Private sector development, specifically access to capital and the attracting of foreign direct investment were identified as key areas required for Liberia's growth and development.
5. It was underlined that the rehabilitation of infrastructure, both roads and urban works, was critical to development and reconstruction of Liberia at all levels.

iii. Civil Society: Academia, local and international non-government organizations, market associations, local leaders

Consultations with civil society were held both at the national and local levels. The strategy was viewed as having identified the main development priorities of Liberia. The focus of civil society was principally on:

1. Private sector development
2. Access to capital and the establishment of commercial banks in the various counties of Liberia.
3. The rehabilitation of roads and bridges, as well as other vital infrastructure which will improve access to markets and services.
4. Incentives to attract and retain teachers and health workers to the counties.
5. Transparency and accountability of government, linked to the equitable distribution of resources and the profits gleaned thereof.

iv. Donors and International Organizations

Most large donors present in country, the IMF, UN system and other international stakeholders were consulted.

The consultative process was welcomed. Donors emphasized several key points critical to work in the upcoming period:

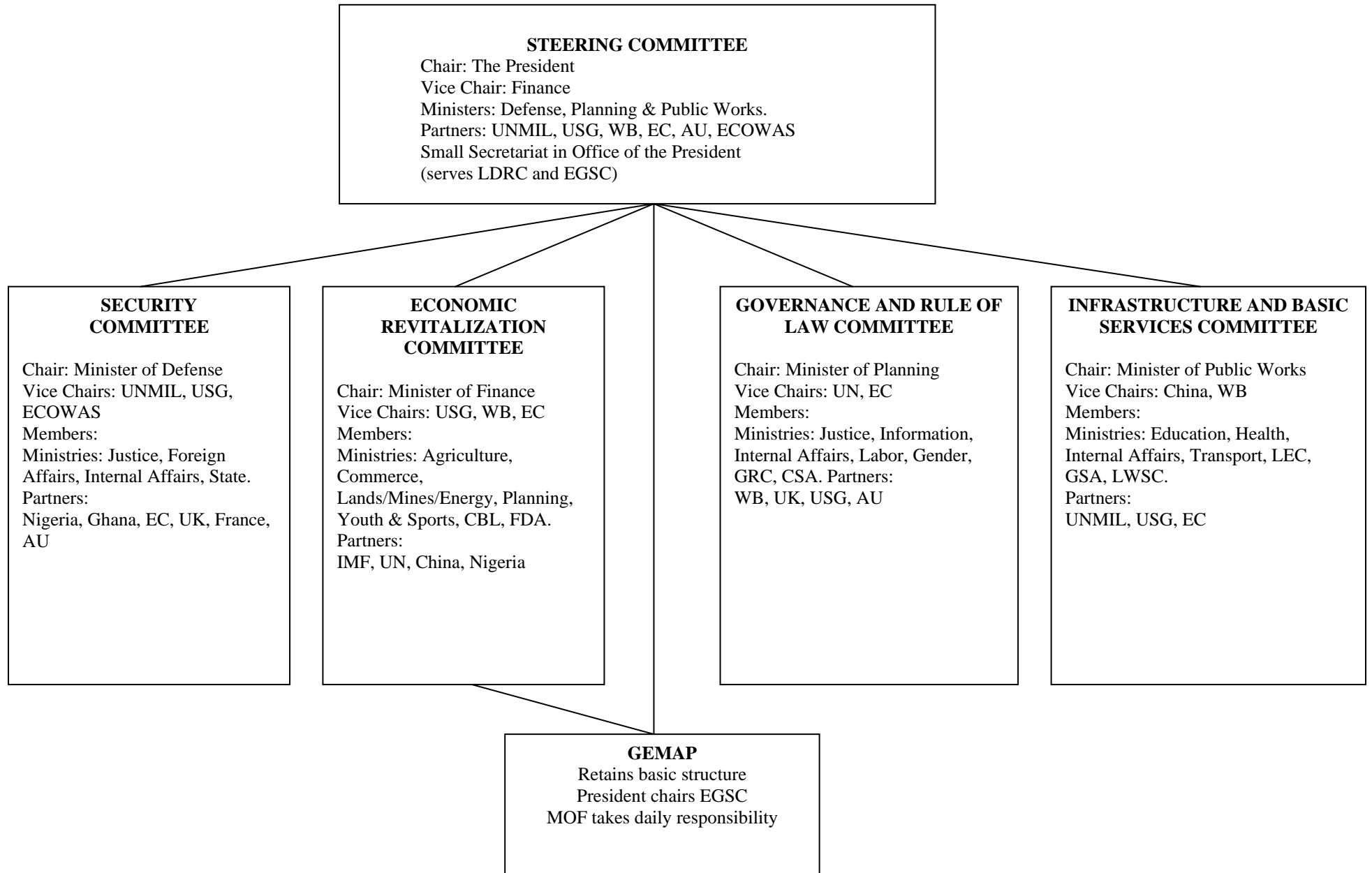
1. Rehabilitation of infrastructure, including the port and airport, and its role in private sector development.
2. The importance of private sector development and foreign investment, and the role that it can play in creating employment and reducing poverty.
3. The building and maintaining of innovative and strategic development partnerships particularly in project implementation, e.g. the World Bank is working closely with other UN bodies in Liberia.
4. Finding creative ways to finance the reconstruction of Liberia, specifically infrastructure, was seen as essential in order to move forward. The financial needs are perceived as too great to be met by aid grants alone.

Summary/Conclusions

The ISN was generally validated by all parties. Three key issues were universally and uniformly identified as the most critical development priorities in Liberia today:

1. The need for the reconstruction of lasting roads and bridges
2. Access to financial capital to all sectors of society
3. Building capacity at both the national and local levels.

The message from local government and civil society in particular was clear: give us access to capital and markets, and we can do the rest ourselves. Health and education were important areas also, the rehabilitation of infrastructure was also considered a precondition for these services to be revitalized. These sectors are intrinsically linked.

Liberia Reconstruction and Development Committee

Joint UN/World Bank Collaboration Note

World Bank / UN Joint Action
A Rapid Start in Post-Conflict Liberia
DRAFT Briefing Note February 2007



In response to massive needs in post-conflict Liberia and high expectations on the new government, the UN and the World Bank are engaged in a range of innovative initiatives to boost recovery efforts.

One example is the US \$ 6 million effort that brings together Liberia's Ministry of Public Works, the World Bank, the United Nations Development Programme (UNDP) and the United Nations Mission in Liberia (UNMIL). The aim is to rehabilitate four rural roads and provide short-term jobs. The roads are an UNMIL priority as main supply routes for contingents ensuring national security. However, with additional funds provided by the Bank, UNDP's management capacity and technical expertise from the Ministry of Public Works and UNMIL, more than 5,700 laborers will be employed and a more sustainable standard of rehabilitation achieved.

Principle objectives of this joint World Bank / UN initiative are to:

- Assist the new Government of Liberia deliver rapid results;
- Employ people - on a short-term basis – including skilled and unskilled labour;
- Rehabilitate infrastructure in a more sustainable manner than required by UNMIL;
- Use the current window of opportunity with UNMIL capacity - notably UNMIL force engineering assets, including heavy construction equipment, and UN field staff presence and expertise;
- Tap UN agency capacity in project management and implementation as a mechanism for a rapidly accelerated disbursement of World Bank funds;
- Introduce human rights-based and conflict-sensitive practices into project design and implementation.

An earlier example of World Bank and UN cooperation in Liberia includes joint work on the Post Conflict Needs Assessment in 2003. More recently the Bank participated in the UN Common Country Assessment (CCA) and is actively engaged with UN agencies in the preparation of the United Nations Development Assistance Framework (UNDAF). Examples of ongoing and planned collaboration include joint support for the Governance and Economic Management Assistance Program (GEMAP) and as members of the Liberia Forestry Initiative (LFI) as well as the Forest Reform and Monitoring Committee (FRMC). FAO and the Bank collaborate in carrying out joint agricultural assessments and provide technical input for the Ministry of Agriculture's policy. The Bank and UNIFEM plan to collaborate in a Results Based Initiative (RBI) supporting women's economic empowerment by improving women's participation in agricultural production, processing and marketing.

During a recent visit to Liberia, the President of the World Bank Group, Paul Wolfowitz, encouraged the UN and the Bank to develop a joint action plan to advance collaboration in respect of Liberia's Interim Poverty Reduction Strategy (iPRS). Further areas of joint work could focus on sharing expertise in planning and evaluation and bringing in technical expertise, which could be put at the disposal of the new government and the Liberia Reconstruction and Development Committee (LRDC).

Liberia presents a unique opportunity for greater collaboration among all members of the UN system. Increased harmonisation and joined-up approaches, along the lines of this model of cooperation, should be developed into standard operational procedure for post-conflict situations.

World Bank Report on Trust Fund for Liberia Status Report to the Board

I. Introduction

1. **Purpose.** This report provides a status update on implementation and use of funds for the Trust Fund for Liberia (TFLIB). Section I provides an update on the country situation and places TFLIB interventions in the broader context of the Bank's portfolio in Liberia. Section II provides a project-by-project summary of TFLIB activities, laying out main objectives, status of implementation, and results achieved (or expected). Section IV discusses overall implementation and attendant challenges in a challenging post-conflict environment and provides some suggestions for lessons learned in other programs in similar circumstances. Section V provides concludes the paper and provides recommendations going forward.

2. **Background.** In August 2004, the Board approved a \$25 million transfer from surplus to a special Trust Fund for Liberia (TFLIB) designed to aid the newly-constituted National Transition Government of Liberia (NTGL) during Liberia's war to peace transition. Liberia had been in non-accrual status with the World Bank since 1987 and was unable to access new financing. TFLIB, together with resources from the LICUS Trust Fund, has filled a critical gap during the last three years, first supporting the transitional government and now supporting a newly-elected Government as it attempts to consolidate the transition to peace and moves closer to implementation of a regular IDA program.

3. **Country Context.** During the three years following the Accra Peace there has been enormous change in Liberia. Despite numerous challenges, particularly during the transitional government period, both Liberia and its partners have progressed in their goals of consolidating peace and beginning the process of rebuilding a devastated state. Since January 2006, the country has moved to a democratic and reform-minded government. While much has been achieved, enormous challenges remain. A 20-year capacity gap is very much affecting Government's ability both to govern and to manage new development programs. An 80% unemployment rate, particularly among youth, threatens long-term peace and stability. A devastated infrastructure means basic transportation and power are not available to help get industry and commerce up and running. A difficult economic governance situation hampers efforts to get both aid and private sector financing flowing.

4. **Implementation Status.** To date, three of five projects in the TFLIB pipeline have been approved and all are disbursing. Table 1 shows aggregate commitments and disbursements.

5. **Portfolio Context.** The Bank's current portfolio in Liberia totals some \$85 million including funding from IDA pre-arrears clearance grants and trust fund sources. The program is organized according to Government's I-PRSP pillars, including Security; Governance and Rule of Law; Economic Revitalization; and Infrastructure and Basic Services. (Annex 2 of the ISN document details the full portfolio). The Bank has primarily focused its efforts in support of governance reform as well as infrastructure rehabilitation and basic services provision, within a tightly-focused multi-donor framework. In general, LICUS TF resources have been used to support pilot and early interventions, given that it has very quick and flexible procedures. The

LICUS TF interventions have in many cases laid the groundwork for more substantial interventions, for example a start-up grant in forestry helped develop a larger TFLIB grant in forestry sector reform. In other cases, TFLIB itself has laid the groundwork for IDA interventions,-- indeed TFLIB-funded infrastructure feasibility studies have laid the groundwork for all subsequent Bank interventions in infrastructure. Thus, it is important to view individual TFLIB interventions and their timing within the context and timeline of the entire Liberia portfolio.

6. For example, the Community Empowerment Project was launched with a \$1.2 million LICUS grant which financed a Rapid Social Assessment and pilot community empowerment program (CEP) in 2004. In 2005, a subsequent TFLIB project scaled up the LICUS-financed CEP program to \$6 million. The Forestry Development Project, recently approved, follows on a very successful LICUS TF pilot which helped Liberia end U.N sanctions on timber exports. The TFLIB forestry project is designed to assist Government in getting a robust governance and forestry revenue management system in place in the medium term. On the economic governance side, the Integrated Financial Management Information System (IFMIS) project, follows on a series of LICUS TF grants which first exposed serious weaknesses in the public financial management system, then supported a series of reforms, leading to a LICUS-TF funded Resource Management Unit in the Ministry of Finance. This TFLIB project will complement the placement of the RMU, providing a critical information management tool for the modernization of Liberia's public financial management system. In the case of infrastructure, TFLIB financed a series of critical needs assessments that laid the foundation for both the TFLIB-financed Infrastructure Rehabilitation Project (financing critical repairs at the port and airport), as well as a \$30 million IDA pre-arrears clearance Emergency Infrastructure Rehabilitation (EIP) financing primarily roads and water network rehabilitation.

II. Projects

7. The 2004 Board paper establishing the TFLIB identified a total of four projects – a. infrastructure rehabilitation; b. community empowerment; c. economic management; and d. a distance learning center. Five projects have been identified and prepared under the TFLIB, closely adhering to ideas set out in the original paper, although part of the economic management interventions were subsequently taken up by LICUS which allowed the addition of a separate forestry project building on LICUS work. The following paragraphs provide a project-by-project description of operations being supported under the TFLIB.

8. **Infrastructure TA.** \$5 million. This project financed an in-depth technical assessment of Liberia's emergency infrastructure rehabilitation needs covering transport, water, and urban reconstruction, among others. The studies identified emergency infrastructure interventions totaling around \$450 million that have been a basis for most subsequent donor intervention in the sector, including the \$8.5 million Infrastructure Rehabilitation Project financed by TFLIB and \$45 million in IDA pre-arrears clearance grants supporting the transport, water, and power sectors.

9. **Community Empowerment Program.** \$6 million. This program scales up a pilot program originally financed by the LICUS trust fund. The LICUS TF-funded program both created a methodology for carrying out community empowerment projects as well as setting up an autonomous national agency – the Liberian Agency for Community Empowerment (LACE) – both to implement projects and also guide national policy on community-driven development

programs. The CEP was declared effective in June 2005 and has disbursed \$3.13 million. The program was designed to fund 100 community sub-projects, primarily rural schools, health posts, and water and sanitation projects selected by communities in coordination with line ministries and local authorities, and implemented by the communities with funds transferred directly to them. The project also included institutional strengthening of LACE. To date, 17 subprojects have been fully completed and are now being managed by the communities; 37 sub-projects are currently under implementation; and 21 subprojects are undergoing the procurement process. More than 400 community members have been trained in project management and 225 have been trained in project financial management. This work has resulted in the mobilization of 79 communities, with projects under implementation including: 36 primary schools, 10 clinics, 1 birthing center, 12 market buildings; 13 small bridges; 6 wells and latrines; and 1 handicapped rehabilitation center. A mid-term review of the CEP took place in January 2007 and led to the endorsement by Government of LACE for all CDD projects.

10. ***Infrastructure Rehabilitation Project (IRP)***. \$8.5 million. On the basis of the infrastructure assessment described above, this project was designed to address urgent infrastructure rehabilitation needs at the Monrovia port and international airport. The operation was designed in tandem with the IDA Emergency Infrastructure Rehabilitation project and Supplemental Component. The project became effective in December 2006 and works are currently commencing to be completed around June 2007. This project is implemented by Government, specifically by a Special Implementation Unit in the Ministry of Public Works that has been constituted to manage this and other large infrastructure projects. Design and implementation of this project have been quite challenging, primarily due to very low in-country capacity and governance issues surrounding port management which needed to be addressed before the project could move forward. Bank Management and the task team are monitoring the situation very closely and stepping up capacity support where needed.

11. ***Forestry Development Project***. \$2 million. This project follows on a successful LICUS TF pilot activity, providing technical assistance for designing new policies and management systems for the forestry sector – a key source of revenue, but also a source of significant illegal activity in the past. Bank input into the multi-donor Liberia Forestry Initiative led directly to cancellation of all existing forestry concessions and lifting of UN Sanctions on timber exports in July 2006. The TFLIB-financed follow-on project will assist authorities of the Liberian Forestry Development Agency in developing and implementing a forestry management policy; putting in place a new concessions system; building capacity within the agency; and setting up a log-tracking system – all critical for preventing illegal sales and exports and ensuring revenues are used transparently and accountably. The project was approved by the RVP on Sept 12, 2006 and is being implemented by UNDP. It became effective in October 2006.

12. ***Global Distance Learning Center (GDLN)***. \$1.5 million. Consistent with its program across the Africa Region, WBI has designed a Global Distance Learning Center project which will allow access by Government officials and other stakeholders to global information and communications resources for capacity building. The center will facilitate international training for government officials and other stakeholders. It is based upon a proven model of gradual self-financing and is expected to be fully self-sustaining within five years. There has been very strong demand within Government for this activity. The project is currently under preparation and is expected to be approved by June 2006. The project will be implemented by UNDP with support from Bank IT specialists in installation of standard IT equipment and software.

13. ***Integrated Financial Management Information System.*** \$2 million. Complementing the LICUS TF-financed Resource Management Unit (RMU) in the Ministry of Finance, this project will help put in place an integrated financial management information system to strengthen management and controls within the public finance system. Despite challenging conditions on the ground (i.e. lack of electricity, poor infrastructure, low capacity), this IFMIS is being modeled on successful experience in Sierra Leone. The staff of the RMU will include IFMIS experts who will be responsible for implementation which is expected to systematize public finance reforms now being put in place. The grant will also finance a comprehensive training program for Ministry staff. This project is currently being prepared and is expected to be approved in coming months. The grant will be implemented by UNDP.

14. ***Implementation Capacity.*** Many TFLIB projects are implemented by third parties, given low capacity in Government to manage both development funds and the implementation of aid projects. The Bank's primary partner in implementation in Liberia has been UNDP given its experience in managing large flows of funds and facilities for carrying out direct contracting in project implementation. Thus, three of the five TFLIB projects are being (or will be) implemented by UNDP in Liberia. In the meantime, several large infrastructure projects (both IDA and TFLIB-financed) are being implemented directly by Government, allowing Government to build its capacity both in project financial management and project implementation management In order to take the portfolio forward.

III. Implementation Experience: Innovations and Challenges

15. Implementation of the Liberia program has been challenging. The country has suffered from an almost complete capacity drain over the past 14 years of civil war. There are very few in-country counterparts with technical expertise and even fewer with experience implementing Bank projects. These difficulties notwithstanding, the Liberia team and Government counterparts have managed to rise to the challenge and put in place a portfolio of interventions totaling over \$85 million and covering several major sectors. The Bank has now established itself as a key donor in Liberia, working to ensure tight donor coordination and helping to guide the interventions of other partners, despite the relatively small volume of financial support the Bank has brought to bear. Against this background, the TFLIB continues to constitute an important part of the Bank's overall program support to Liberia.

16. ***Procedures.*** It was agreed in the original TFLIB design that all projects would be processed using OP/BP 8.50 (*Emergency Recovery Assistance*) procedures with direct RVP as opposed to Board approval to speed processing. In principle, this translated into somewhat accelerated project processing procedures, allowing combined pre-appraisal and appraisal mission and using an ad hoc committee as a single upstream advisory and clearance entity. In practice, however, procedures were cumbersome. In It is worth noting that, the procedures associated with the LICUS TF has demonstrated somewhat better flexibility and responsiveness, with fewer processing steps, more streamlined project documentation, an internal dispute resolution mechanism (i.e. the LICUS TF Secretariat and Committee) and clear and demonstrated support for use of third parties as needed in execution. The approval of the new rapid response OP 8.00, which will now take the place of OP 8.50 as the primary processing procedure, is expected to improve overall preparation for the remaining TFLIB projects, as well as for the entire portfolio.

IV. Conclusions

17. The Trust Fund for Liberia continues to play a critical role in the Bank's support for Liberia's transition. It has helped lay the groundwork for critical investments in emergency infrastructure and has provided important funds for scaling up successful early pilot initiatives. The funding provided by TFLIB, extended over a several year period, has provided funding at the time it was needed to support interventions as they could be prepared and absorbed.

18. Lessons learned for countries in similar circumstances include ensuring that self-standing trust funds are set up with sufficient procedural flexibility to allow interventions to move forward, even in risky environments. This includes the ability to change the focus of interventions as needed and the ability to redirect resources quickly and easily to respond to changing priorities. Finally, government implementation capacity is an important issue that must be addressed up front – particularly terms of eligible recipients and expected results from a trust fund such as TFLIB.

The World Bank Group
Report on Internal Control
Over Financial Reporting
Trust Fund Activities

June 30, 2006

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**The World Bank Group
Report on Internal Control
Over Financial Reporting
Trust Fund Activities**

June 30, 2006

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY
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August 15, 2006

**MANAGEMENT'S ASSERTION REGARDING EFFECTIVENESS OF INTERNAL CONTROLS
OVER FINANCIAL REPORTING OF TRUST FUND ACTIVITIES**

The International Bank for Reconstruction and Development ("IBRD"), the International Development Association ("IDA"), the International Finance Corporation ("IFC"), and the Multilateral Investment Guarantee Agency ("MIGA") (collectively referred to herein as "the Bank"), as administrators for certain trust funds, are responsible for establishing and maintaining effective internal control and procedures over financial reporting for trust fund activities which are designed to provide reasonable assurance to the Bank's Management and Board of Directors regarding the preparation of reliable trust fund financial reports prepared using the cash receipts and disbursements basis of accounting modified to mark investments to market (referred to herein as "modified cash basis of accounting").

Assertions as of June 30, 2006 made by Management in this document pertain to the effectiveness of internal control over financial reporting of trust fund activities using the modified cash basis of accounting.

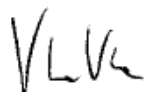
Specific management assertions as of June 30, 2006 with respect to financial reporting for trust fund activities using the modified cash basis of accounting are set forth below:

1. Contributions from Donors are recorded in the appropriate trust fund on a timely basis.
2. Assets underlying funds held in trust are segregated from funds of the Bank and are in the form of cash and investments managed by the Bank.
3. Transactions recorded in the underlying financial records and the financial reporting of each trust fund are valid and complete.
4. Investment income is earned and credited to the appropriate trust fund in accordance with the terms and provisions of the trust fund agreements.
5. Disbursements follow established Bank policies and procedures.
6. Fees for administering each trust fund are charged in accordance with the terms and provisions of the trust fund agreements.
7. Financial reporting is in compliance with the requirements set forth in the legal agreements.

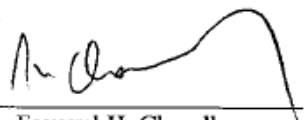
August 15, 2006

The Bank's internal control and procedures over financial reporting of trust fund activities using the modified cash basis of accounting contain self-monitoring mechanisms, and actions are taken to correct deficiencies as and when identified. Even an effective internal control system, no matter how well designed, has inherent limitations, including the possibility of human error and the circumvention or overriding of controls, and therefore can provide only reasonable assurance with respect to financial report preparation. Such human error, circumvention, or overriding of controls may, among other things, result in ineligible expenditures charged to a trust fund which, systems of internal control cannot always detect at the time of recording. Management does not perceive this to be indicative of an overall ineffective system of internal control given that procedures for the ex-post compliance review are in place.

The Bank assessed its internal control over financial reporting of trust fund activities using the modified cash basis of accounting as of June 30, 2006 as a whole. This assessment was based on the criteria for effective internal control over financial reporting described in the "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Bank has maintained effective internal control over financial reporting for trust fund activities using the modified cash basis of accounting, as of June 30, 2006.



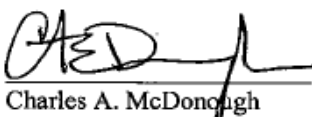
Vincenzo La Via
Chief Financial Officer
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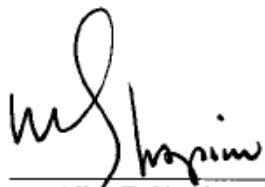
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INDEPENDENT ACCOUNTANTS' REPORT

International Bank for Reconstruction and Development,
International Development Association,
International Finance Corporation, and
Multilateral Investment Guarantee Agency
as Administrators for the trust funds

We have examined management's assertion, included in the accompanying "Management's Assertion Regarding Effectiveness of Internal Controls over Financial Reporting of Trust Fund Activities", that the International Bank for Reconstruction and Development ("IBRD"), the International Development Association ("IDA"), the International Finance Corporation ("IFC") and the Multilateral Investment Guarantee Agency ("MIGA") (together referred to herein as the "Bank") maintained effective internal control over financial reporting for trust fund activities using the cash receipts and disbursement basis of accounting modified to mark investments to market ("modified cash basis of accounting") as of June 30, 2006, based on the criteria for effective internal control over financial reporting as established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of internal control over financial reporting, testing, and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Assertions made by management in the accompanying document pertain only to effectiveness of internal control over financial reporting for trust fund activities using the modified cash basis of accounting.

In our opinion, management's assertion that the Bank maintained effective internal control over financial reporting of trust fund activities using the modified cash basis of accounting as of June 30, 2006 is fairly stated, in all material respects, based on the criteria for effective internal control over financial reporting as established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Deloitte + Touche LLP

August 15, 2006

World Bank Country Financing Parameters for Liberia

Item	Parameter	Remarks/Explanation
Cost Sharing: Limits on the proportion of individual project costs that IDA may finance.	100%	All projects are expected to be financed at 100%, given the government's extremely small budget and inability to provide counterpart funding. In the near term, only when co-financing is available will IDA's share be less. Ownership of Bank-financed programs is being ensured through a close relationship between the Bank and Government's top leadership. At the project level, ownership is being ensured through means such as close supervision and capacity-building of government institutions, and placing project management responsibilities directly in the concerned ministries.
Recurrent Cost Financing: Any limits that would apply to the overall amount of recurrent expenditures that the Bank may finance.	No country-level limit	The Bank, working closely with the IMF, would monitor the fiscal situation, and public expenditure management and public sector reforms to ensure that recurrent cost financing is embedded in a credible and sustainable government macroeconomic strategy. In determining Bank financing of recurrent costs in individual projects, the Bank will take into account sustainability issues at the sector and project levels, including a consideration of implied future budgetary outlays.
Local Cost Financing: Are the requirements for IDA financing of local expenditures met, namely that: (i) financing requirements for the country's development program would exceed the public sector's own resources (e.g., from taxation and other revenues) and expected domestic borrowing; and (ii) the financing of foreign expenditures alone would not enable IDA to assist in the financing of individual projects?	Yes	The requirements for local cost financing are met. The Bank may finance local costs in any proportions required by individual projects.
Taxes and Duties: Are there any taxes and duties that the Bank would not finance?	No	Taxes and duties are considered reasonable. The application of this general approach will be subject to an ongoing monitoring of tax policy and how taxes are applied to Bank-financed projects. At the project level, the Bank will consider whether taxes and duties constitute an excessively high share of project costs.

Annex 11**Liberia Selected Economic and Financial Indicators, 2003-2007**

	2003 Est.	2004 Est.	2005 Est.	2006 Est.	2007 Proj.
(Annual percentage change, unless otherwise indicated)					
National income and prices					
Real GDP	-31.3	2.6	5.3	7.8	7.8
Consumer prices (annual average) ^{1/}	10.3	3.6	6.9	9.5	8.5
Consumer prices (end of period) ^{2/}	5.0	7.5	7.0	12.0	9.0
Nominal GDP (in millions of U.S. dollars)	410.2	460.0	530.2	614.8	678.0
GDP deflator in U.S. dollars	10.0	9.3	9.5	7.6	2.3
Real GDP per capita (constant 1992 U.S. dollars)	115.4	117.7	122.3	128.8	135.6
External sector (U.S. dollar terms)					
Exports of goods, f.o.b.	-34.5	-4.7	6.3	43.0	-0.6
Imports of goods, f.o.b.	-4.3	84.4	24.4	36.5	4.2
Terms of trade (deterioration -)	20.8	4.9	3.9	28.7	0.5
Official exchange rate (L\$/US\$; end of period)	50.5	54.5	56.5	59.5	...
Nominal effective exchange rate (end of period)	9.1	-18.4	3.1	-11.6	...
Real effective exchange rate (end of period)	12.7	-14.1	8.4	-2.6	...
Central government operations ^{3/}					
Total revenue and grants	-18.5	4.3	36.1	6.5	60.0
<i>of which</i> : tax revenue	-12.6	-1.0	41.6	6.6	58.7
Total expenditure and net lending	-6.2	-26.7	51.3	-21.9	136.5
<i>of which</i> : current expenditure	-31.5	67.6	40.6	-14.8	124.2
capital expenditure	25.3	-90.9	186.9	-65.5	324.6
(Annual percentage change; beginning-period stock of money, unless otherwise indicated)					
Money and banking					
Net foreign assets	223.6	-456.0	-96.6	67.9	-22.3
Net domestic assets	-215.3	505.3	132.4	-33.6	36.1
Net claims on government	-320.1	533.5	133.4	-23.9	0.0
Claims on nongovernment	-8.1	21.1	7.2	17.2	-1.8
Other items net	112.9	-49.4	-8.3	-26.9	37.9
Broad money (M2) ^{3/}	8.3	49.3	35.7	34.4	13.8
Velocity (GDP relative to broad money)	6.6	5.3	4.7	4.3	4.1
Reserve money	17.6	31.4	27.2	23.9	18.0
Broad money (stocks, billions of Liberian dollars)	3.1	4.7	6.4	8.5	9.7
Liberian dollar component	1.6	2.2	2.8	3.5	4.1
U.S. dollar component	1.5	2.5	3.6	5.1	5.6
(In percent of GDP)					
Central government operations (January-December) ^{3/}					
Total revenue and grants	11.9	13.6	16.2	14.9	21.2
<i>of which</i> : total revenue	11.9	12.9	16.0	14.8	20.8
Total expenditure and net lending	14.4	11.6	15.4	10.4	21.8
<i>of which</i> : current expenditure	5.8	10.7	13.3	9.8	19.4
capital expenditure	8.6	0.9	2.1	0.6	2.4
Overall fiscal balance (cash basis)	-2.5	2.0	0.8	4.5	-0.6
External sector					
Current account balance, including grants (deficit, -)	-14.1	-5.6	-9.4	-17.4	-21.2
<i>of which</i> : public interest payments due	-11.6	-11.7	-15.6	-16.8	-16.4
Current account balance, excluding grants (deficit, -)	-18.9	-46.7	-63.5	-67.0	-65.7
Trade balance (deficit, -)	-4.6	-28.7	-34.6	-39.5	-38.5
Exports, f.o.b.	26.6	22.6	20.8	25.7	23.1
Imports, f.o.b.	-31.2	-51.3	-55.4	-65.2	-61.6
Public sector external debt outstanding (total)	820.0	812.0	690.3	612.0	571.6
(Millions of U.S. dollars, unless otherwise indicated)					
Current account balance including grants (deficit, -)	-58.0	-25.7	-49.9	-106.8	-144.0
Trade balance (deficit, -)	-19.0	-132.2	-183.2	-243.1	-260.8
CBL's net foreign exchange position	-1.3	3.3	6.5	21.8	33.5
(months of imports of goods and services)	-0.1	0.1	0.2	0.5	0.7

Sources: Liberian authorities; and Fund staff estimates and projections.

1/ Technical adjustments were made to the CPI in 2004 in light of the substitution of some items in the CPI survey in mid-2004.

2/ Fiscal year basis (July-June).

3/ Defined as Liberian currency outside banks plus demand, time, and savings deposits in Liberian and U.S. dollars.

Liberia Development Indicators and Millennium Development Goals

Development Indicators - Liberia				
Social Indicators	Liberia		Africa	Developing countries
	1990	2006 *		
Area ('000 Km ²)	111		30,307	80,976
Total Population (millions)	2.1	3.4	924.3	5,325.8
Population growth (annual %)	-1.1	2.2	2.1	1.4
Life expectancy at birth, total (years)	43	43	51	64
Mortality rate, infant (per 1,000 live births)	162.0	134.0	82.5	58.3
Physicians per 100,000 People	...	3.2	38.2	78.0
Births attended by skilled health staff (% of total)	...	89.1	43.7	59.0
Immunization, measles (% of children ages 12-23 months)	...	94.0	68.0	74.1
Prevalence of HIV, total (% of population ages 15-49)	...	6.6	4.5	4.5
School enrollment, primary (% gross)	29.8	105.4	96.7	91.0
School enrollment, secondary (% gross)	13.8	34.0	40.8	88.0
Ratio of girls to boys in primary education (%)	68.6	72.2	87.2	...
Illiteracy rate, adult total (% of people ages 15 and above)	60.8	40.2	43.3	26.6
Access to Safe Water (% of Population)	46.0	...	62.3	78.0
Access to Sanitation (% of Population)	38.0	26.0	44.2	...
Human Develop. Index Value (0-1)	...	...	0.475	0.694
Human Poverty Index (% of Population)	...	...	38.0	...
Liberia				
Economy	1990	2000	2005	2006
GNI per capita, Atlas method (current US\$)	...	130	130	...
GDP (current Million US\$)	384	526	530	661
GDP growth (annual %)	0.3	...	...	...
Per capita GDP growth (annual %)	1.4	-5.0	-1.3	-2.2
Gross Domestic Investment (% of GDP)	...	...	...	...
Inflation (annual %)	12.0	10.0	6.9	8.0
Budget surplus/deficit (% of GDP)	...	...	...	...
Private Sector Development & Infrastructure	1990	2000	2005	2006
Time required to start a business (days)	...	...	...	...
Investor Protection Index (0-10)	...	...	...	...
Fixed line and mobile phone subscribers (per 1000 people)	4	3	...	...
Internet users (per 1,000 people)	...	0	...	...
Roads, paved (% of total roads)	6	...	...	...
Electricity Consumption per Capita (KWh)	132	106	108	...
Trade, External Debt & Financial Flows	1990	2000	2005	2006
Export Growth, volume (%)	...	...	...	...
Import Growth, volume (%)	...	...	...	...
Terms of Trade (% change from previous year)	...	...	...	...
Trade Balance (mn US\$)	..	..	..	..
Trade balance (% of GDP)	...	...	...	...
Current Account (mn US\$)	..	..	..	..
Current Account (% of GDP)	...	...	...	...
Debt Service (% of Exports)	...	...	...	...
External Debt (% of GDP)	...	...	...	...
Net Total Inflows (mn US\$)	518.6	631.6	-1,402.7	...
Net Total Official Development Assistance (mn US\$)	113.7	67.4	236.2	...
Foreign Direct Investment Inflows (mn US\$)	225.2	20.8	194.0	...
External reserves (mn US\$)	...	0.3	25.4	45.6
External reserves (in month of imports)	...	...	...	...

Source: ADB Statistics Department, based on various national and international sources

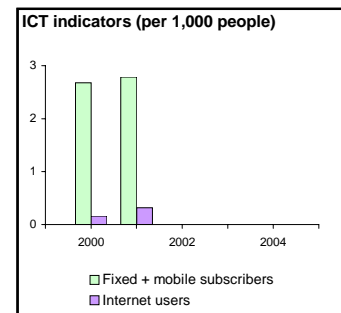
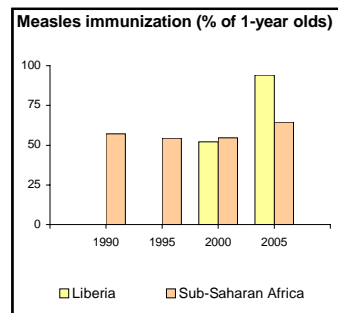
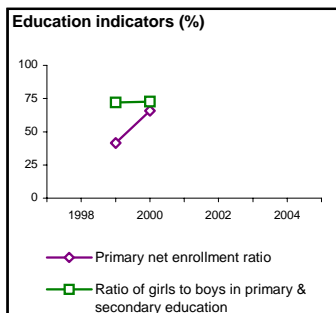
* Most recent year

Millennium Development Goals

Liberia

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Liberia			
	1990	1995	2000	2004
Goal 1: halve the rates for \$1 a day poverty and malnutrition				
Poverty headcount ratio at \$1 a day (PPP, % of population)	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..
Share of income or consumption to the poorest quintile (%)	..	..	..	..
Prevalence of malnutrition (% of children under 5)	..	..	27	..
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	..	..	66	..
Primary completion rate (% of relevant age group)	..	..	..	..
Secondary school enrollment (gross, %)	..	..	32	..
Youth literacy rate (% of people ages 15-24)	57	..	..	..
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	..	..	73	..
Women employed in the nonagricultural sector (% of nonagricultural employment)	24	..	..	..
Proportion of seats held by women in national parliament (%)	..	6	8	13
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	235	235	235	235
Infant mortality rate (per 1,000 live births)	157	157	157	157
Measles immunization (proportion of one-year olds immunized, %)	..	..	52	94
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	760	..
Births attended by skilled health staff (% of total)	..	..	51	..
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	..
Contraceptive prevalence (% of women ages 15-49)	..	..	10	..
Incidence of tuberculosis (per 100,000 people)	113	197	269	301
Tuberculosis cases detected under DOTS (%)	..	31	28	50
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	55	..	..	61
Access to improved sanitation facilities (% of population)	39	..	..	27
Forest area (% of total land area)	42.1	..	35.9	32.7
Nationally protected areas (% of total land area)	..	..	..	15.8
CO2 emissions (metric tons per capita)	0.2	0.2	0.1	0.1
GDP per unit of energy use (constant 2000 PPP \$ per kg of oil equivalent)	..	..	..	..
Goal 8: develop a global partnership for development				
Fixed line and mobile phone subscribers (per 1,000 people)	4	2	3	..
Internet users (per 1,000 people)	0	0	0	..
Personal computers (per 1,000 people)	..	..	..	..
Youth unemployment (% of total labor force ages 15-24)	..	..	..	..



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

3/20/07

Selected Indicators* of World Bank Portfolio Performance and ManagementAs Of Date
04/23/2007

Indicator	2006	2007	0	0
Portfolio Assessment				
Number of Projects Under Implementation ^a	1	2	0	0
Average Implementation Period (years) ^b	0.0	0.6	0.0	0.0
Percent of Problem Projects by Number ^{a, c}	0.0	0.0	0.0	0.0
Percent of Problem Projects by Amount ^{a, c}	0.0	0.0	0.0	0.0
Percent of Projects at Risk by Number ^{a, d}	0.0	50.0	0.0	0.0
Percent of Projects at Risk by Amount ^{a, d}	0.0	84.5	0.0	0.0
Disbursement Ratio (%) ^e	0.0	28.5	0.0	0.0
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	25	0
Proj Eval by OED by Amt (US\$ millions)	195.2	0.0
% of OED Projects Rated U or HU by Number	52.0	0.0
% of OED Projects Rated U or HU by Amt	47.4	0.0

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio.

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

IDA Program Summary (as of 23 April 2007)**Proposed /IDA Base-Case Lending Program ^a**

<i>Fiscal year</i>	<i>Proj ID</i>	<i>US\$(M)</i>	<i>Strategic Rewards b (H/M/L)</i>	<i>Implementation b Risks (H/M/L)</i>
2007	LR-Health Systems Support ERL (FY07)	8.5	H	M
	LR-Agric. & Infra. Dev. Proj. ERL (FY07)	37.0	H	M
	LR-Community Empowerment II-ERL (FY07)	5.0	H	M
	Result	50.5		
2008	LR-Re-eng. and Reform Support (DPO) FY07	460.0	H	L
	LR-Economic Governance and Inst. Reform SIL	6.0		
	LR-Economic Reform Program (DPO) FY08	4.0	H	H
	Overall Result	520.5		

Map of Liberia

