

**FOR
AGENDA**

EBD/10/38

June 10, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Liberia—Poverty Reduction Strategy—Annual Progress Report—Joint Staff Advisory Note**

Attached for consideration by the Executive Directors is the advisory note, prepared jointly by the staffs of the Fund and the International Development Association, on the poverty reduction strategy first annual progress report for Liberia. This paper and the poverty reduction strategy first annual progress report (EBD/10/37, 6/10/10), together with the paper on the completion point document for Liberia under the enhanced Initiative for Heavily Indebted Poor Countries and the Multilateral Debt Relief Initiative (EBS/10/113, 6/9/10), are tentatively scheduled for discussion on **Wednesday, June 23, 2010**. At the time of circulation of this paper to the Board, the authorities of Liberia have indicated that they need more time to consider whether they will consent to the Fund's publication of this paper. Publication will only proceed upon the receipt by the Fund of the member's explicit consent. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Mr. Lane (ext. 39852) and Mr. Oestreicher (ext. 37493) in AFR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the African Development Bank, the Economic Community of West African States, the European Commission, the Food and Agriculture Organization, and the United Nations Development Programme, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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LIBERIA

**Joint Staff Advisory Note on the First Annual Progress Report on the Implementation
of the Liberia Poverty Reduction Strategy (LPRS)**

Prepared by the Staffs of the International Monetary Fund (IMF)
and the International Development Association (IDA)

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June 9, 2010

I. OVERVIEW

1. **This Joint Staff Advisory Note (JSAN) reviews the first Annual Progress Report (APR) on the Liberia Poverty Reduction Strategy (LPRS) prepared by the Government of Liberia.** The LPRS covers the period April 2008 to June 2011. It was approved by the Government of Liberia and submitted to the International Development Association (IDA) and the International Monetary Fund (IMF) on July 8, 2008. The first annual progress report covered the period April 1, 2008 to March 31, 2009 and was submitted to IDA and the IMF on March 24, 2010.

2. **The LPRS is set in a medium-term macroeconomic and growth framework with policy objectives grouped under four pillars:** (i) consolidating peace and security; (ii) revitalizing the economy; (iii) strengthening governance and the rule of law; and (iv) rehabilitating infrastructure and delivering basic services. The LPRS also considers cross-cutting issues of gender equity, peace building and conflict sensitivity, environment, HIV/AIDS, and children and youth. The LPRS acknowledges significant capacity constraints in ministries and agencies and the need to prioritize capacity building in government agencies to ensure that key objectives are achieved over the three-year implementation period. The APR employs a monitoring and evaluation (M&E) framework that consolidates data collected by ministries, county level development offices, and development partners. However, the mechanisms for comprehensive and reliable M&E specifically for county level interventions remain weak. The implementation status of all capacity building, policy development and project based deliverables is comprehensively covered in the APR.

3. **The first year of LPRS implementation focused particularly on policy development which accounted for over half of the deliverables across the four pillars.** Despite notable achievements, the results overall were below expectations, with one fifth of deliverables completed in full and on time and the remainder subject to delays. The APR recognizes that the already ambitious reform agenda was held back by weaknesses in management, administrative, and technical capacity, as well as poor inter-sector coordination and communication.

4. **Initial action matrices displayed aggregate costing of the LPRS activities, but more disaggregated cost estimates were not completed despite the recommendations in the previous JSAN.** This caused challenges in implementation and unrealistic plans compared to the available resources and capacity. Distribution and communication of the LPRS and its objectives, especially outside of Monrovia, have not been as efficient as envisioned in the LPRS document. The staffs commend the government's response to the APR findings by adopting the Rapid Results Approach (RRA) in October 2009 to accelerate implementation by focusing on a program of 90-day deliverables across ministries and agencies and launching the "Lift Liberia" communications campaign.

Macroeconomic and Growth Framework

5. **The macroeconomic framework presented in the APR is broadly in line with the staffs' assessment.** The global financial crisis adversely impacted the performance of the Liberian economy in 2009, slowing economic growth, reducing employment in the rubber sector, and delaying investments in iron ore mining. Domestic constraints, particularly finalization of the legal framework, held back development of the timber sector. As the global economy recovers, the authorities anticipate an acceleration of economic growth, which will strengthen their ability to deliver on the PRS objectives. The staffs note that the scale of the growth recovery is uncertain and would depend on the pace and timing of foreign direct investment and the strength of efforts to rebuild transport and power infrastructure.

6. **Fiscal policies have generally supported implementation of the LPRS.** Revenue performance in FY09¹ was strong, underpinned by buoyant growth of taxable imports and rising income taxes. With rising food prices during 2008, the authorities dropped a levy on rice imports and subsequently proposed reductions in personal and corporate income taxes in the context of the FY10 budget. The authorities maintained their commitment to no new borrowing from domestic and external sources and refrained from accumulating arrears. Significant progress was made in advancing a

¹ FY09 covers the period from July 2008 to June 2009.

commercial debt buyback, and in obtaining debt restructuring agreements with official bilateral and multilateral creditors.

7. **Medium-term prospects for continued economic growth remain favorable.** Following strong GDP growth, which averaged 8 percent since 2006, growth slowed during the period of this implementation review. The APR correctly notes that the global downturn affected the authorities' capacity to achieve the broad poverty reduction goals under the PRS, although policy formulation was not directly affected. Going forward, growth is projected to recover as a result of increased activities in the forestry, commercial agriculture, and mining sectors.

8. **Key policy challenges remain.** These include: (i) maintaining macroeconomic stability; (ii) catalyzing external financing with high-quality investment plans and strengthened public financial management; (iii) further development of the financial sector to support private saving and investment; (iv) building capacity in government ministries and agencies to improve implementation; and (v) improved policy coordination and donor coordination.

II. POVERTY REDUCTION

9. **The APR provides no estimates or analysis of current poverty levels and the poverty effects of the LPRS in the absence of reliable statistics.** Baseline poverty data were collected in Liberia with the Core Welfare Indicator Questionnaire (CWIQ) survey in 2007. During 2008 and 2009, Liberia has been hit hard by rising international food prices and then by the global financial crisis. The food price shocks, reductions in remittance flows and layoffs following the halting of mining and other large investment programs and the decrease in rubber exports have set back the government's efforts to reduce poverty. The staffs commend the government's efforts to mitigate the impact of the crises on the poor through implementation of various safety net measures, including: community-based programs; extensive school feeding programs; cash-for-work programs; and prioritizing programs that provide inputs to small scale farmers. The staffs also comment the Government's efforts in launching a labor force survey and a new CWIQ to provide the information for poverty analysis.

10. **The staffs recommend including a thorough poverty diagnosis that build on the results of the two CWIQs in the next APR.** Staffs also recommend regular monitoring of poverty levels together with a deeper analysis of the root causes of social exclusion that fuelled the Liberian conflict.

Pillar I: Enhancing National Security

11. **The security situation in Liberia, though fragile, has remained stable.** To ensure peaceful elections, UNMIL has committed to keeping a strong peacekeeping force in Liberia at least until 2012. Ensuring continued peace and security has been identified as a critical precondition for economic recovery and poverty reduction. Reform of the security sector has been progressing, but not at the expected pace. The APR reports that the sector completed only two out of eleven target indicators over the implementation period. Lack of funding, overly ambitious timeframes, and challenges in passing reform legislation have been the key constraints leading to weak performance. The recommendations from the Truth and Reconciliation Report finalized in June 2009 and sent to the legislature were widely viewed as controversial and some public concern has been expressed over the impact of the report on the reconciliation process. Land tenure disputes continue to be a trigger for incidents of violence and may hamper investment. Limited progress was recorded in the area of land reform over the APR period and the APR provides very little discussion of the implementation challenges in this very important policy area. However, a Land Commission was established in March 2010. The staffs encourage the government to prioritize the implementation of the land reform agenda and in this regard to ensure that the commission is fully operational as soon as possible. The staffs also encourage the government to expedite the passage of the legal framework for streamlining the security institutions and the implementation of the new security architecture and strategy to ensure a smooth transition on UNMIL's departure.

Pillar II: Revitalizing the Economy

12. **During the first year of implementation of the LPRS, the authorities have strengthened the environment for sustainable economic growth, development, and poverty reduction.** As indicated in the APR, specific advances include: improvements in the business climate, revisions to the revenue code, and reforms of the mining, forestry and financial sectors that contributed to new investment. Nonetheless, only 11 out of 46 planned deliverables under this pillar were achieved under the first year of LPRS implementation. Challenges include delays in passing legislation, low institutional capacity and financial resource constraints. The substantial progress made, by any measure, and the still substantial remaining agenda again highlight the high ambition of the LPRS.

13. **Progress in reforming and activating the productive sectors—particularly forestry, mining and agriculture—has been slower than expected.** The forestry sector, envisioned to jumpstart economic growth and lead employment creation, has not been developed according to the timetable envisioned in the LPRS. The granting of forestry concessions consistent with the new Forestry Law required more time than anticipated in the PRS. The staffs commend the efforts to enlarge the protected areas

and to protect the forests under the Forest Carbon Partnership initiative. Though some major mining investments stalled as a result of the global economic slowdown, the APR indicates that the government has progressed with reform efforts including: the establishment of a framework for the management of mineral resources, the updating of the Minerals and Mining Law and the approval of the Model Mineral Development Agreements. The LPRS identifies agriculture as a priority sector in creating sustainable pro-poor growth and ensuring food security. Currently the sector accounts for an estimated 50 percent of the GDP and employs 70 percent of the population. However, the APR provides very little analysis of developments within the sector. The staffs would therefore reiterate the point made in the previous JSAN regarding the need for greater specificity in the plans for agriculture including the plans for rebuilding research and the capacity of the extension service.

14. During the APR period there have been some improvements in the business environment and financial sector. Liberia's rank in the Doing Business indicators has improved from 167 in 2008 to 147 in 2010 (based on 2009 data). The Central Bank of Liberia (CBL) raised the minimum capital requirements for commercial banks to US\$ 6 million in 2008 and further to US\$ 8 million in 2009. To extend the reach of financial services to micro, small, and medium-sized businesses, the CBL established a Micro Finance Unit and a National Micro Finance Policy. Access to finance outside Monrovia has been significantly improved by commercial banks expanding their services to the counties.

15. The economic slowdown exacerbated already high levels of unemployment and under employment, especially among young people. To alleviate the pressure and create jobs, the government has implemented cash-for-work programs and other labor-intensive local development projects. The staffs commend the government for its focus on creating capacity and skills through enhancing Technical and Vocational Education Training (TVET) capacities and recommend a more in-depth treatment of the employment issues in the next APR.

Pillar III: Strengthening Governance and the Rule of Law

16. Weak governance and an inadequate legal system have been identified as root causes of conflict in Liberia since 1989. The APR notes that progress in the sector has not been as strong as expected as only four of 18 targeted deliverables were met. Nonetheless, Liberia has made substantial progress on reforms to curb corruption; including establishing the Liberia Anti-Corruption Commission (although the weak legal system is a challenge for enforcement actions). Audit and oversight is undergoing significant reforms: the General Auditing Commission has published regular audits on large spending ministries; during the period under review Liberia started up and has since published two validated EITI reports on extractive industries revenue flows. Steps were taken to strengthen the Public Procurement Commission.

Staffs encourage the Government to prioritize the adoption of the Code of Conduct for civil servants, improve the governance of state owned enterprises (SOEs) and address capacity challenges in the public sector that compromise the effective implementation of new policies and legislation.

17. As the APR noted, **the government initiated reforms of the legal and regulatory framework for public financial management under the Public Finance Management Act**, which covers the full public finance management cycle, including budget preparation, approval and execution, borrowing, public debt and guarantees, cash management, accounting and reporting, internal control and audit, and autonomous agencies and special funds. Following extensive and lengthy discussions in the legislature, the Act was finally approved and enacted in September 2009. The staffs commend the authorities on this achievement and emphasize the focus on implementation of the new Act and its enabling regulations.

18. **Decentralization of political and economic power, while ensuring basic service delivery across the country, remains a major priority for the government.** The APR indicated that the Decentralization Policy has been adopted by the cabinet and is awaiting legislative approval. However, the challenges in channeling resources to county or lower levels of government, especially as experienced in implementing the County and Community Development Funds, demonstrate the extremely low capacity in sub-national level governance structures. This constraint needs to be addressed while planning for the gradual decentralization of fiscal and political powers. Staffs recommend the establishment of an inter-ministerial coordination mechanism to develop a realistic implementation plan and provide oversight for its implementation.

19. **Slow progress in the area of legal and judicial reform compromises the government's ability to enforce reforms, consolidate peace, and attract investment.** Stronger collaboration and coordination between the different branches of the state, greater cooperation between donors, and prioritization of the reform program are necessary to accelerate progress. Staffs commend the authorities for the enactment and enforcement of the Inheritance and Rape Laws and encourage the government to continue the implementation of legal and governance reforms supporting gender equality and preventing abuse.

Pillar IV: Rehabilitating Infrastructure and Delivering Basic Services

20. **Restoring basic infrastructure is a priority in the LPRS that accounts for largest share of allocated financial resources.** Since April 2008, Liberia has made some progress in improving the road network and other basic infrastructure. However, compared to the planned deliverables in the Infrastructure and Basic Service pillar during the APR period, only six objectives were achieved of 31 planned. To address

the funding constraints within the sector, the government has set up a multi-donor trust fund which has attracted additional donor funding, though a significant funding gap remains.

21. **During the APR period the government has successfully increased the supply of power from 2.7 MW to 9 MW in the Monrovia area.** As the APR indicated, the Government has focused on improving the legal, institutional and regulatory framework for the energy sector. A National Energy policy and a Strategic Plan for the energy sector was developed. The rural electrification program is under implementation and the government has established a Rural and Renewable Energy Agency to lead the effort. The staffs commend the progress and emphasize the importance of affordable and reliable sources of energy in attracting investments and supporting growth.

22. **Progress in expanding basic service delivery has been mixed.** The staffs commend the government on the progress made in the health sector, enabling the delivery of Basic Package of Health Services in 47 percent of all health facilities by August 2009. However, progress in the education sector has been slow. The staffs encourage the government to expedite implementation of education sector reforms.

A. Cross-cutting Issues

23. **Of the LPRS's six cross cutting themes, the most focus has been placed on the themes of gender, equity, peace building and conflict sensitivity.** The staffs commend the government for the progress and continued focus on these areas, specifically finalization of the Gender Policy, the enactment of the rape and inheritance laws, and the initiation of a women's economic empowerment program, but note the continued political and economic disadvantages Liberian women face and encourage the government to systematically integrate gender aspects into key laws, policies, and programs. On the peace building and conflict sensitivity theme, the staffs emphasize the importance of a well managed decentralization process to reduce the urban-rural divide and expand the opportunities for democratic participation.

III. IMPLEMENTATION, MONITORING, AND EVALUATION

24. **The balance of implementation results confirm that the LPRS has proven to be an overly ambitious agenda that did not fully anticipate the scale and depth of institutional and capacity challenges.** Challenges in attracting funding, enormous capacity constraints, weak policy and donor coordination structures, and unfavorable developments in the world economy have compromised the PRS deliverables. However, the accelerated progress made after the APR period has proven the government's strong commitment to the LPRS. The staffs commend the government for the adoption of the Rapid Results Approach and the accelerated rate of implementation progress following its adoption.

25. **The staffs also commend the government for formulating a comprehensive framework for the M&E of the LPRS both at the central and county level.** The staffs recommend increased coordination between the Ministry of Planning and Economic Affairs M&E unit and the line ministries, both in the collection and distribution of information. The central level coordination mechanisms should be strengthened and roles and responsibilities of different stakeholders should be more carefully defined. Staffs would like to reiterate the recommendation made in the JSAN on the LPRS, regarding the need to establish social accountability mechanisms to track public service delivery.

26. **The capacity of the Liberian Institute for Statistics and Geographic Information System (LISGIS) is weak and the availability of reliable data in Liberia is sparse, challenging the planning and M&E of the LPRS.** A National Statistics Development Strategy has been adopted, but the APR does not reflect the developments in building the capacities for preparing national statistics. The staffs commend the government for conducting the first population census in over 20 years and publishing the results in 2009. The staffs emphasize the importance of strengthening LISGIS and collecting new comparable data to measure the impact of the LPRS implementation on poverty levels in Liberia.

27. **Following the one year review of LPRS implementation the government has reprioritized its interventions** and increased the accountability mechanisms and policy coordination to ensure newly set targets are met. Prioritization and focus remain critical for the government to effectively use scarce financial resources, while a detailed realistic plan will help to attract more donor funds. Scarcity of funds will continue to be a challenge in achieving the overly ambitious LPRS objectives. However, following the achievement of HIPC completion point, the government will have more financing options for addressing the funding challenges of the LPRS implementation.

IV. RISKS AND CONCLUSIONS

28. **The first APR gives a candid and generally fair assessment of progress achieved and challenges encountered in implementing the LPRS.** The report takes into account many comments made in the Joint Staff Advisory Note on the PRS, especially in the area of monitoring and evaluation. Staffs commend the government on the steps accomplished under difficult political and financial circumstances and encourage the authorities to continue to accelerate the pace of implementation. Although progress in terms of specific deliverables in the first year fell short of expectations, implementation was satisfactory. Staffs encourage the authorities to hasten the pace of implementation. Nevertheless, a number of institutional reforms in the area of anti-corruption, accountability, legal reform and civil service were achieved. The authorities have shown commitment to re-invigorating the momentum of PRS

implementation through the program of 90-day deliverables that yielded encouraging early progress in the second half of 2009.

29. **Substantial risks to implementation remain.** The report highlights severe capacity and financing constraints as well as challenges in finalizing the legislative framework:

- While progress has been made in building capacity at the national level, significant problems remain at the county level and below. Additional capacity will be necessary to ensure effective data collection, compilation, analysis, and reporting needed for effective monitoring of the PRS progress. Additional resources should be devoted to training the critical staff involved in the process.
- The authorities face significant challenges in monitoring the activities of development partners, with most assistance currently delivered outside the government budget. This emphasizes the need for strong donor coordination to ensure that support is aligned with PRS priorities, as well as the need to strengthen public financial management to encourage donors to use national systems.
- A number of political risks are apparent. Strengthened cooperation with the legislative and judicial branches is needed for supportive legislation and judicial decisions, notably in the areas of governance and the rule of law. However, increased politicization of the reform agenda in the run-up to the 2011 elections may slow decision making for critical reforms.
- Challenges in finding sufficient funding to deliver, especially the infrastructure and basic services pillar programs, remains a risk for successful implementation of the LPRS. Accordingly, efforts should continue to strengthen tax administration and public financial management to increase fiscal space, and improve the effectiveness of spending and to identify creative solutions for private sector financing of infrastructure.

30. **The LPRS presents a comprehensive, medium-term strategy to improve economic fundamentals and reduce poverty in line with the Millennium Development Goals.** Although implementation was below expectations in this first review, the authorities took action to revive the process and made considerable progress. The adoption of a 90-day action plan resulted in accelerated implementation of PRS deliverables in late 2009 by government ministries and agencies. Implementation is being monitored monthly by the Ministry of Planning and Economic Affairs with encouraging initial results. Staffs are of the view that this new monitoring process will substantially improve implementation going forward.

31. **Do Executive Directors agree with the staffs' assessment that the Liberian authorities have made satisfactory progress in implementing the LPRS under the difficult circumstances they faced?** Do Directors agree that the Liberian authorities have taken sufficient action to ensure better implementation results going forward?