

Liberia: Interim Poverty Reduction Strategy Paper—Joint Staff Advisory Note

The attached Joint Staff Advisory Note (JSAN) of on the Interim Poverty Reduction Strategy Paper for Liberia, prepared jointly by the staffs of the World Bank and the IMF, was distributed with the member country's Interim Poverty Reduction Strategy Paper (PRSP) to the Executive Boards of the two institutions. The objective of the JSAN is to provide focused, frank, and constructive feedback to the country on progress in implementing its Poverty Reduction Strategy (PRS).

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION
REPUBLIC OF LIBERIA

Joint Staff Advisory Note on the Interim Poverty Reduction Strategy Paper

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

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I. OVERVIEW

1. **Liberia has undergone profound changes in the past three years.** A country long known for corruption and exploitation of the population by a minority, it descended in the late 1980s into a civil and regional war known for its brutality against civilians. But a spirit of hope has emerged: after the Accra Comprehensive Peace Agreement of August 2003 and the UN Security Council Resolutions 1509 and 1521, work between the National Transitional Government of Liberia and partners culminated in free and fair elections in October-November 2005. The new government, headed by President Ellen Johnson-Sirleaf, took office on January 16, 2006. It has since taken action to implement structural reforms to start addressing governance issues, reestablish macroeconomic stability, rebuild institutional capacity, and rebuild Liberia's infrastructure. The government's policy framework has received wide support from the international community. As a postconflict nation, however, Liberia still faces the complex challenges of recovery, reconstruction, and development.

2. **The interim Poverty Reduction Strategy Paper (I-PRSP) traces the roots of conflict to Liberia's exclusion and marginalization of much of the population, and lays out a broad vision and program for July 2006–June 2008.** To facilitate rapid economic growth, job creation, poverty reduction, and progress toward the Millennium Development Goals, it aims to consolidate peace, enhance justice, deepen democracy, ensure food security, promote human development and steer the nation toward sustainable growth and development. The strategy reflects the many consultations the authorities held with other stakeholders; the authorities plan to extend such meetings, as the PRSP process continues. The I-PRSP appropriately considers social issues that affect economic performance such as gender equality, education and training for youth, and HIV/AIDS.

3. In this Joint Staff Advisory Note (JSAN), the staffs of IDA and the IMF offer comments and advice on the I-PRSP prepared by the government of Liberia (submitted to IDA and the IMF on January 18, 2007).

II. GOVERNMENT COMMITMENT AND OWNERSHIP

4. **The government's commitment to the I-PRSP's objectives** is reflected in the central role of the Liberia Reconstruction and Development Committee (LRDC), chaired by the President, in guiding its development, and by the progress achieved in the first year of the government's term in office (under the 150-Day Action Plan, the Governance and Economic Management Assistance Program, and the IMF staff-monitored program (SMP)).

III. THE PARTICIPATORY PROCESS

5. **The preparation of the I-PRSP has helped to start a national dialogue on reducing poverty and coordinating reform.** The participatory process, which began on May 12, 2006, informed the population, donors, and other key stakeholders of the process; generated information on poverty; and assessed past and present policies. Participatory discussions involved administrative and technical personnel, elected officials, women and youth leaders, nongovernmental organizations, the private sector, and the donor community. County and development superintendents, tribal chiefs, and clan chiefs conducted discussions in Liberia's 15 counties. These discussions, which built on earlier consultations by the Governance Reform Commission and in the preparation of the Results Focused Transitional Framework, helped shape the strategic priorities of the I-PRSP. The PRSP process might be strengthened by expressly seeking participation of marginalized and conflict-affected groups. It will also be essential to consult extensively with the legislature, given the important role it plays in achieving policy objectives.

6. **In preparing a full PRSP, the government will need to deepen support for its poverty initiatives among representatives of national institutions, especially the legislature, and other selected groups, such as returning refugees, youth, women and ex-combatants.** The authorities will need to extend consultations—and delineate the committees or entities responsible for conducting consultations that inform the PRSP—so that the various stakeholders can agree on the policy interventions needed to achieve the PRSP's objectives. The authorities must also continue working to build greater trust among civil society, the government, and Liberia's development partners.

IV. THE STRATEGY

7. **The I-PRSP sets an ambitious development and poverty reduction agenda that is supported by four strategic pillars:** enhancing national security, revitalizing the economy, strengthening governance and the rule of law, and rehabilitating infrastructure and delivering basic services. Given capacity constraints, limited resources and an ambitious timeline for

preparation of the full PRSP, it will be important to prioritize which policy interventions will be developed and costed in each of the pillars.

A. Pillar 1: Enhancing National Security

8. **The I-PRSP rightly identifies national security as a top priority.** Acknowledging past abuses of the security forces, the I-PRSP seeks to address the immediate challenges of lack of professionalism, absence of democratic control, poor accountability, weak oversight mechanisms, and inadequate resources. The I-PRSP rightly focuses on assuring that national security agencies can maintain peacekeeping and other functions once the United Nations force in Liberia departs. The staffs welcome the government's plans to finish demobilizing and reintegrating ex-combatants and to provide training for at-risk youths.

B. Pillar II: Revitalizing the Economy

9. **The staffs agree with the government that the private sector should be the main engine of economic growth.** The I-PRSP correctly focuses on the sectors that are likely to recover the fastest: agriculture (including fisheries and rubber), forestry, mining, and urban services. The staffs welcome the government's commitment to a comprehensive and ambitious program of sound macroeconomic policy reforms to maintain macroeconomic stability, reform tax policy and revenue administration, continue with the disciplined cash-based budget framework, bring tariffs compliant with the planned future Economic Community of West African States (ECOWAS) common external tariff, reform state-owned enterprises, revise the investment incentives code to limit discretion and noncompliance with the tax laws, move toward compliance with the Kimberly Process and the Extractive Industries Transparency Initiative, and modernize the telecommunications laws.

10. *Agricultural sector:* An ongoing review of the sector, together with the national food security and fisheries policies, should reveal policy options and inform the full PRSP. The policy reforms must emphasize the need for a more integrated approach that addresses the inequalities facing small-holder farmers, which have contributed to the crisis and conflict. Revitalizing the sector will also require complementary investment in infrastructure and agricultural markets. The staffs note the government's commitment to address inefficiency in managing abandoned rubber plantations; they urge the authorities to conduct expeditious reviews and competitive tendering of rubber concessions and other plantation estates.

11. *Forestry.* The new forestry law and related reforms, including provisions for benefit sharing, social agreements, and environmental assessments, together with capacity-building efforts in the Forestry Development Agency, should help revive the sector. However, to encourage more and faster growth, the full PRSP will need to identify ways to streamline the necessary participatory processes used for vetting regulations and forest land use allocations and for granting timber contracts.

12. *Mining.* The staffs note the absence of baseline sector data and welcome the government's commitment to identify opportunities for mining sector development. The constraints to mineral development remain significant: from a lack of a clear regulatory framework and fiscal regime to poor infrastructure, and lack of capacity to promote and manage the sector. While some donor-funded activities have been valuable in supporting priority areas identified by the government in the I-PRSP, a long-term programmatic approach is needed for dealing with the issues facing the sector. The full PRSP needs to elaborate a well-planned program of institutional development for both the Ministry of Lands, Mines, and Energy and the Geological Survey. It should include a functional review of the Ministry; a program of policy, legal, and regulatory development; and measures to build operational infrastructure and capacity to regulate and promote the mining and petroleum sectors.

13. **The full PRSP ought to emphasize the importance of financial sector development in stimulating private sector-led growth and rural growth.** While the I-PRSP acknowledges the impact of limited access to finance, it focuses only on developing microfinance institutions. The full PRSP should also create a policy framework for strengthening the domestic banking sector, including its regulation, and identify policies to address institutional barriers to credit such as weak contract enforcement. The PRSP should also discuss plans to strengthen monetary policy in the context of a dollarized environment as well as to develop a modern national payments system.

C. Pillar III: Strengthening Governance and the Rule of Law

14. **The staffs welcome the broad goals to lay the foundation for a new democratic culture, create balanced development that addresses human rights and gender issues, and promote a culture of accountability.** The governance reforms outlined would help the three branches of government provide needed checks and balances. The government intends to promote and defend the rule of law and human rights.

15. **The I-PRSP acknowledges the issue of unequal rights for men and women as well as the abuse of women and children.** It highlights the potential importance of women in decision making and governance. The government's National Gender Policy, which is being developed with support from donors, will advance this agenda. The full PRSP must make the case that such issues as gender equality, access to education and work opportunities, and personal safety, also require legal and judiciary reforms. Therefore, initiatives directed at strengthening laws and the judiciary should emphasize building capacity to address gender-based discrimination and to understand gender-based rights and protection.

16. **The government has taken important steps to strengthen public financial management (PFM), including adding transparency to budget preparation, execution, and reporting.** Rigorous application of the interim commitment control system has helped

reverse poor budget implementation, which had facilitated corruption and led to domestic arrears. However, given its slow pace, the budget execution process needs further improvement. While some improvements have been made in PFM, the credibility of budget execution remains a challenge insofar as the government needs to improve its systems throughout all ministries, particularly in procurement and internal audit. The PRSP should establish a policy framework and program outline to support the move from what is an unreliable budget—subject to in-year cash constraints—to a more robust budget, based on sound macro-fiscal analysis and a medium term expenditure framework linked to PRSP objectives. The full PRSP should also emphasize the importance of improved budget reporting for effective implementation of the PRSP and accountability to stakeholders and more fully describe government efforts in this area. Timely reporting of revenues and expenditures would help guide policy choices by providing an evaluation of progress in implementation of pro-poor spending. To this end, systems improvements will be required in defining and tracking poverty reduction spending. Strengthening budget transparency and fiduciary systems should also help build public and donor confidence, which would promote the channeling of donor support through the budget, thus contributing to better PRSP formulation and implementation.

17. **The staffs welcome the commitment to reform the government’s payroll and to develop a broader comprehensive civil service reform program with donor support.** The staffs note progress in finalizing the organizational and strategic reviews of major line ministries and agencies. Given the limited capacity among middle managers in government, the staffs note that the government intends to create a cadre of strategically placed policymakers in the senior executive service (SES), with salaries to be topped up by donors. The staffs urge the government to ensure that the SES is designed and implemented as part of broader civil service reform to ensure that it is financially sustainable. This issue will need to be addressed in the full PRSP.

18. **The government’s commitment to implement its anticorruption strategy is welcome.** This includes establishing an anticorruption commission. The staffs urge the government to consult with international partners on the draft legislation to create an independent anticorruption commission and on efforts to secure its financing.

D. Pillar IV: Rehabilitating Infrastructure and Delivering Basic Services

19. **Liberia faces massive needs to rehabilitate its infrastructure and improve the delivery of basic services.** Past efforts to deal with these challenges were ineffective because of a lack of socioeconomic data, inadequate government resources, and the government’s inability to coordinate and track donor funding and nongovernmental organizations’ activities (which represent about two-thirds of the sector’s total funding). The planned phaseout of these humanitarian relief programs providing basic social services poses challenges to even the maintenance of existing, inadequate capacity.

20. **The full PRSP will need to address infrastructure issues in a deeper and more comprehensive way.** The Ministry of Public Works should establish priorities for rehabilitation over the next four years and ensure that maintenance costs of rehabilitated infrastructure are integrated into the annual budget process. In the water sector, the PRSP needs to distinguish between the needs of urban, small towns, and rural areas, with each having different capital investment needs and different methods for operating and maintaining facilities. There have been significant developments in the sector and plans for future investments possibly with some private funds, which have not been captured in the I-PRSP. The government's efforts to improve the power sector should include rebuilding capacity at the Liberia Electricity Corporation.

21. *Education:* The I-PRSP recognizes the link between human resource development and public sector capacities. Capacity in the public sector is severely strained by several factors, including the large number of new students enrolling in schools following the abolition of fees, and a dearth of qualified teachers. In addition, available external financing is either fragmented or aimed at noncore activities providing little assistance for either improving public service delivery or filling the budget gap. To address these core problems, the government and donors have started to develop an education sector plan that focuses on the public sector's ability to assure universal primary and basic education; it will identify the key policies and resources needed to assure this fundamental objective.

22. *Health:* The I-PRSP recognizes the major challenges facing the health sector and identifies key health indicators, including mortality rates, malnutrition rates, immunization rates, and anti-malaria and HIV/AIDS efforts. The commitment to complete a national health plan is also commendable. The full PRSP needs to more clearly address several other health sector issues, such as reducing systemic inefficiencies and improving operations management, attracting additional investments in infrastructure, developing human resources, and identifying ways to fund recurrent expenditures.

V. POVERTY DIAGNOSTICS

23. **The I-PRSP does not contain a satisfactory diagnostic of poverty owing to the lack of comprehensive poverty data, but does recognize the need for capacity building and support in this area.** The lack of reliable and comprehensive household expenditure data is a critical challenge to developing the PRSP. The population census was last conducted over 20 years ago, economic statistics are limited to Monrovia, and routine data collection at service delivery agencies has collapsed. The authorities are encouraged to finalize the National Statistical Strategy and identify priority statistical activities for funding under the PRSP. More immediately a Demographic and Health Survey in early 2007 will be followed by a Core Welfare Indicators Questionnaire survey containing a household consumption module. These surveys will be the basis of a poverty profile for the PRSP. Timely completion of these surveys would help ensure that the full PRSP can be completed in early 2008. The National Population and Housing Census, planned for March 2008 but facing a

significant funding gap, is urgently needed to create spatially disaggregated demographic and social statistics and an up-to-date sampling frame.

VI. THE MACROECONOMIC FRAMEWORK

24. **Notwithstanding severe data limitations, the I-PRSP provides the basic elements of the medium-term macroeconomic framework**, including (a) sustaining medium-term GDP growth of 7–8 percent; (b) maintaining price stability; (c) building foreign exchange reserves consistent with the objective of maintaining relative exchange rate stability; and (d) increasing government revenues. In the full PRSP, a more comprehensive framework should be developed to analyze how policies and objectives support sustained growth, macroeconomic stability, and poverty reduction. In particular, the full PRSP should describe (a) potential sources of growth; (b) monetary policy and the external sector; and (c) the fiscal framework. This should include more detailed medium-term projections for growth, inflation, balance of payments, and revenues and expenditures to highlight the expected impact of individual policies and identify the unfunded elements of the PRSP.

25. *Potential sources of growth:* The I-PRSP notes that GDP growth will be driven by improved security on rubber plantations, investment in the iron ore sector, the effect of the lifting of UN export sanctions on timber and diamonds, and strengthened agricultural, manufacturing, and service sectors. Further details on upside and downside risks to each sector would highlight the importance of particular reforms aimed at increasing potential growth and stability. While the I-PRSP presents a useful description of efforts to address the employment crisis in the short-run, the full strategy paper should present medium-term growth scenarios, and assess their consistency with poverty-reduction objectives.

26. *Monetary policy and the external sector:* As noted in the I-PRSP, the primary objective of monetary policy is to maintain price stability. The staffs agree this is essential to promote investment, growth and poverty reduction, and gradual market-driven de-dollarization. The full PRSP could present a more detailed description of planned reforms to strengthen the monetary policy framework, including the introduction of new policy instruments, and describe efforts to strengthen the balance sheet of the central bank, a condition needed to make monetary policy more effective. The full PRSP will also need to provide more detail on policies to develop the financial sector and how the sector's revitalization would stimulate private sector-led growth. While the I-PRSP projects a widening of the current account deficit, more detail on what is driving this projection, the potential risks, and policy options to address external shocks would be welcome. It should also outline the trade policy agenda for 2008–11, including policies governing import licenses and implementation of the planned future ECOWAS common external tariff.

27. *Public Debt:* The I-PRSP recognizes the need to address Liberia's unsustainable external debt, a large share of which is in arrears. As part of its immediate response, the government is committed to continue strengthening economic management under the SMP

and to fulfill the requirements for arrears clearance and early comprehensive debt relief under the Enhanced HIPC Initiative. The staffs also welcome the government's strategy to tackle its heavy burden of domestic debt and arrears. In this context, the full PRSP will need to elaborate a program for strengthening debt management capacity, and a strategy for mobilizing financing to meet Liberia's development needs over the medium term.

28. *Fiscal policy framework:* The I-PRSP describes efforts to increase government revenues, including a further strengthening of tax and customs administration and continued reduction of tax exemptions. The full PRSP will need to present medium-term revenue and expenditure projections, including data on medium-term plans for pro-poor spending. In view of Liberia's unsustainable domestic and external debt, Liberia will need to pursue a balanced budget (after grants) in the foreseeable future. On public financial management, important steps have been taken to implement an interim commitment control, which is essential to improve budget implementation and increase donor confidence. The full PRSP could provide more details on planned efforts to address capacity constraints and improve budget implementation, including the timely implementation of line ministries' expenditure plans.

VII. IMPLEMENTATION, MONITORING, AND EVALUATION

29. **The government has taken important steps to implement, monitor, and evaluate the I-PRSP.** The LRDC, which is chaired by the President and has representatives from major development partners, civil society, and nongovernmental agencies, is proving to be a useful management framework for the I-PRSP. It has four pillar committees in line with the I-PRSP. The staffs encourage the authorities to use this framework as a platform to promote transparency, to review I-PRSP implementation progress, and encourage donors to align their priorities with those of the I-PRSP and the budget.

30. **The successful preparation, implementation, and monitoring of the PRSP will depend on the availability of resources and adequate local capacity.** Adequate budgetary resources will need to be allocated to build the capacity at the planning ministry to carry out monitoring and evaluation tasks, PRSP-related thematic and sectoral studies, and PRSP-related workshops and seminars. This plan must take into account the realistic amount of financial and human resources available, which means that the reform agenda included in the PRSP should be prioritized and properly sequenced, recognizing the tradeoff between timeliness and comprehensiveness in preparing the PRSP, and within that PRSP assuring that implementation plans permit less urgent programs to be cut or postponed if available financing falls short. Coordination among donors and the government is essential to assure the provision of adequate finance and technical services to complete, implement and monitor the PRSP and its priority elements.

VIII. RISKS

31. **There are significant risks to the implementation of the I-PRSP.** The I-PRSP is an ambitious document, serving not just as an interim document but a full poverty reduction

strategy for two years. However, the Government lacks the human and financial capacity to implement such a strategy. While further prioritization would have established priorities if resources are inadequate, donors must be prepared to mitigate this risk through technical and financial assistance to the areas of highest priority.

32. The I-PRSP outlines an ambitious path to complete a full PRSP in early 2008.

Data limitations, public and private sector capacity constraints, human resource issues, and weak communications strategies could put that goal at risk. It will also be important to maintain a good working relationship between the government and the legislature. The participatory process could result in a long list of demands and create public expectations that cannot be met. To mitigate this risk, the staffs recommend that the participatory process identify strategic options and priority actions in areas of consensus and analyze trade-offs. Early emphasis on participatory monitoring and evaluation of existing policies, in close coordination with local line ministries responsible for service delivery, could help participants better understand existing constraints and ensure that a realistic and concrete approach is taken. Delays in meeting the ambitious deadline for finalizing the PRSP could relate to Liberia's long and intense rainy season, resource constraints, and poor road and telecommunication infrastructures.

33. Commitment to fiscal discipline and macroeconomic stability are important to sustaining the implementation of the I-PRSP and facilitating the timely completion of the full PRSP. The staffs therefore urge the authorities to continue their ambitious agenda of policy reforms and continue seeking financing assurances needed to initiate the process of debt relief under the HIPC Initiative. The full PRSP should assess the implications of a potential substantial increase in donor inflows and public expenditure.

34. Continued partner commitment is required both to overcome eventual cutbacks in humanitarian and security assistance as the conflict recedes and to assure the additional resources and technical assistance required for priority actions.

IX. CONCLUSIONS

35. The I-PRSP sets out an ambitious 2 year program to consolidate peace, improve national security, rebuild key legal and democratic institutions (including in the public sector), promote private sector-led economic revitalization, and further reduce poverty. It also lays out a timetable to complete the full PRSP by early 2008, which may prove too ambitious if progress in developing baseline poverty and other sectoral data is slow. More time may also be needed to conduct credible consultations with the public and other stakeholders. The prioritization process may require weighing the tradeoff between speed and comprehensiveness of the next set of reforms in what will be a continuing process.

36. Accordingly, more steps should be taken to expand the participatory process so that the full PRSP can be created and instituted as soon as possible.

37. **The government must act quickly to build statistical capacity and assemble reliable baseline data** on poverty, demographics, and key economic sectors. Strategic plans for the agriculture, mining, and forestry sectors will require more detailed data on production, employment, and other trends. The absence of national income statistics also poses major problems to the design of long-term growth strategies aimed at reducing poverty. The full PRSP would benefit from the preparation of in-depth sectoral studies on important areas, including productive sectors, such as mining, agriculture, and forestry, as well social sectors, such as health, education, and the water supply. There will also be a need for thematic studies on cross-cutting themes, such as governance and gender equity.

38. **There is a need to strengthen capacity in the public sector.** While some improvements have been made in the area of public financial management, the credibility of the budget remains a challenge and will limit the effectiveness of the I-PRSP, unless adequate attention is paid to it. Prompt action on civil service reform with financial and technical support from donors is critical. It is especially important to ensure that the senior executive service is sustainable and fully integrated in the reform program.

39. **Strategies in the I-PRSP and PRSP to develop key sectors need to be fully costed,** so that the government can assess financing needs, prioritize programs, and develop a macroeconomic framework to sustain its strategy.

40. **Finally, the government must better coordinate aid from its development partners to ensure that donor financing is aligned with the PRSP priorities.** This is especially important given the limited resources in the cash-based balanced budget and continued large aid flows outside the budget.

X. ISSUES FOR DISCUSSION BY EXECUTIVE DIRECTORS

41. **In considering the authorities' I-PRSP and associated JSAN, Executive Directors' views are sought on whether they agree with the main areas identified by staffs** as priorities for strengthening the I-PRSP and its implementation. Director's views are also sought on whether they concur with the areas identified by staffs as key implementation risks.