

**COUNTRY RE-ENGAGEMENT NOTE**

**FOR**

**LIBERIA**

**March 2004**

**LIBERIA**  
**COUNTRY RE-ENGAGEMENT NOTE**

**CURRENCY EQUIVALENTS**

Current Unit=Liberian Dollar  
US\$1=L\$45.2 (April 30, 2003)

**WEIGHTS AND MEASURES**

Metric system

**FISCAL YEAR**

July 1 - June 30

**ACRONYMS AND ABBREVIATIONS**

AU	African Union
AFDB	African Development Bank
CAF	Conflict Analysis Framework
CDD	Community-Driven Development
CPA	Comprehensive Peace Agreement
CRN	Country Re-engagement Note
DDRR	Disarmament, Demobilization, Rehabilitation and Reintegration
ECOWAS	Economic Community of West African States
GDLN	Global Distance Learning Network
ICGL	International Contact Group on Liberia
IDA	International Development Association
IDPs	Internally Displaced Persons
IMF	International Monetary Fund
IRC	International Reconstruction Conference
JNAM	Joint Needs Assessment Mission
LTF	LICUS Trust Fund
LURD	Liberians United for Reconciliation and Democracy
MODEL	Movement for Democracy in Liberia
NTGL	National Transitional Government for Liberia
OED	Operations Evaluation Department
PRSP	Poverty Reduction Strategy Paper
PRGF	Poverty Reduction and Growth Facility
RFTF	Results-Focused Transitional Framework
SA	Social Assessment
SMP	Staff Monitored Program
SFIA	Strategic Framework for IDA's Assistance to Africa
TA	Technical Assistance
TSS	Transitional Support Strategy
UN	United Nations
UN CAP	United Nations Consolidated Appeals Process
UNDG	United Nations Development Group
UNMIL	UN Mission in Liberia

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**TABLE OF CONTENTS**

	<b>Introduction</b> ...	1
<b>1.</b>	<b>Country Context</b> .....	1
	Recent Political and Security Developments.....	3
	Institutional and Governance Issues .....	4
	Social Context .....	4
	Economic Context .....	6
	IMF Relations and External Debt.....	8
<b>2.</b>	<b>Results-Focused Transitional Framework and Partners in Liberia</b> .....	8
<b>3.</b>	<b>Development Challenges and Windows of Opportunity</b> .....	11
<b>4.</b>	<b>Proposed Re-Engagement Strategy</b> .....	12
<b>5.</b>	<b>Risks</b> .....	18
	 <b>Annexes</b>	
	Annex 1: Liberia at a Glance .....	21
	Annex 2: Liberia Selected Indicators of Bank Portfolio Performance and Management.....	23
	Annex 3: Results-Focused Transitional Framework: Summary of priority outcomes by cluster.....	24
	 <b>Boxes</b>	
	Box 1: UN Sanctions against Liberia .....	4
	Box 2: Liberia's economic structure.....	7
	Box 3: The Results-Focused Transitional Framework (RFTF).....	10
	Box 4: Community Driven Reconstruction: lessons from post-conflict operations...	15
	 <b>Tables</b>	
	Table 1: Overview of proposed activities.....	18





# LIBERIA COUNTRY RE-ENGAGEMENT NOTE

## INTRODUCTION

1. Liberia has undergone a profound change in the past year. The Comprehensive Peace Agreement (CPA) of August 2003, UN Security Council Resolutions 1509 and 1521, and the unusually strong collaborative work between the transitional government and donors that followed, have created a new spirit of hope after more than a decade of conflict. The World Bank has been actively involved from the outset, in the needs assessment in December 2003, through the evolution of a Results-Focused Transitional Framework (RFTF) to guide the transition period, to a successful International Reconstruction Conference in New York on 5-6 February. Progress made under the peace agreement is encouraging. But Liberia's peace is fragile, the devastation wrought by conflict is enormous and the risks are high. Strong donor commitment and collaboration, and government ownership of the process need to be maintained. And a culture change is needed to break with Liberia's history of poor governance and conflict and to drive the urgently needed economic recovery. This Country Re-engagement Note (CRN) provides an overview of Liberia's political and development situation and the Bank's role in the reconstruction dialogue and planning process to date, and sets out a road map for Bank re-engagement covering roughly twenty-four months. The Bank's re-engagement activities form part of a closely coordinated multi-donor strategy within the framework of the RFTF.

## 1. COUNTRY CONTEXT

2. Since 1985, Liberia has experienced sustained and brutal conflict, engulfing the wider region in a period of serious instability. During more than a decade of violent conflict, Liberians have endured human rights violations of major proportions including deliberate and arbitrary killings; disappearances; torture; gender-based and sexual violence; arbitrary detention; forced recruitment and use of child soldiers, and systematic and forced displacement. Over 250,000 people have died, more than 300,000 are currently classified as refugees and 500,000 are internally displaced.

3. This period of conflict in Liberia followed a history of relatively strong economic performance, with GDP per capita reaching US\$500 in 1980.<sup>1</sup> Liberia's war has seen different phases, with elections in 1997 ushering in a period of relative calm until 2001, when hostilities resumed. In the most recent phase of the conflict in 2003, forces loyal to Charles Taylor (GOL) fought with two rebel groups: the Liberians United for Reconciliation and Democracy (LURD), fighting in the northern and western areas of the country and the Movement for Democracy in Liberia (MODEL), active in the south and the east.

4. The seeds of Liberia's first civil war (1989-1997) are found in divisions between the indigenous population and descendants of freed slaves from America who dominated political, social and economic life until 1980. When Sergeant Samuel Doe took power in a military coup in 1980, he brought indigenous Liberians to power for the first time, but the administration perpetuated a pattern of ethnic dominance. Large segments of the population were marginalized. Charles Taylor (though himself an Americo-Liberian) was therefore able to tap into widespread

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<sup>1</sup> IMF figures, 1992 prices.

disaffection, and build a network of forces with which he eventually challenged Doe. Economic rents played a strong role in fuelling the conflict. Revenues from timber and diamonds, including those smuggled from Sierra Leone, and maritime revenue (Liberia is the second largest 'flag of convenience' in the world), are well known to have been major sources of off-budget expenditure in recent years.<sup>2</sup>

5. **A breakthrough occurred in August 2003**, with the departure of then President Charles Taylor into exile in Nigeria and the signing of a Comprehensive Peace Agreement (CPA) on August 18, in Accra, Ghana. The peace agreement called for the deployment of a multilateral force to secure the ceasefire agreed by the warring parties and created a zone of separation between them in order to establish safe corridors for humanitarian activities. The CPA was followed closely by the establishment of a National Transitional Government for Liberia (NTGL) led by businessman and church leader Gyude Bryant. The NTGL consists of representatives of rebel groups, government, and other political parties. The transitional government has a mandate until January 2006, and democratic elections must take place no later than October 2005. In September 2003, the UN Security Council established the UN Mission in Liberia (UNMIL), authorising the deployment of 15,000 peacekeepers to Liberia.<sup>3</sup> Though Liberia has seen peace agreements come and go before, the CPA has opened a real window of opportunity. Many view this as a 'once in a lifetime' opportunity for Liberia, and pin their hopes on its success.

6. **Peace in Liberia is important for regional stability** as well as providing long denied opportunities to ordinary Liberians to live without fear and embark on a new period of development. The negative spill-over effects of state failure in Liberia have included: the spread of conflict from Liberia to Sierra Leone in the early 1990s and subsequently in the wider sub-region; successive waves of displaced people across borders seeking to escape interlinked conflicts; and illegal trade in weapons and natural resources, including diamonds and timber which have financed conflict and eroded the revenue base of governments while enriching political elites.

7. **Donors have responded positively** in support of the NTGL and are mobilizing finance to respond to an overwhelming array of urgent needs. A Joint Needs Assessment Mission took place in November and December 2003, co-led by the United Nations Development Group (UNDG) and the World Bank. The findings, in the form of a Results-Focused Transitional Framework (RFTF) were presented at an International Reconstruction Conference (IRC) in New York on February 5-6, co-hosted by the US, the UN and the World Bank, which were represented by Secretary of State Colin Powell, UN Secretary General Kofi Annan and WB Vice President for Africa, Callisto Madavo, respectively. This process signals a high degree of collaboration at all levels, setting the reconstruction process on a coherent footing from the outset. Donors have responded positively, pledging an estimated US\$522 million. More work is needed to determine funding gaps in key clusters such as DDRR and infrastructure, and there is still a shortfall in the financing of humanitarian assistance.<sup>4</sup>

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<sup>2</sup> Maritime revenues of around \$14-17million accrue to the Government of Liberia annually.

<sup>3</sup> Security Council Resolution 1509, September 19, 2003 gives UNMIL a one year mandate.

<sup>4</sup> A UN Consolidated Appeals Process (CAP) 2004 for Liberia also took place in November 2003.

8. **This early donor commitment needs to be sustained** and matched with an equally high level of commitment to implementation and delivery of results, in the context of a recovery process that remains NTGL owned and led. Peace in Liberia is fragile, susceptible to being derailed by those more interested in personal gain than Liberia's future, and by the ongoing dynamics of regional instability. Similarly the risks of engagement to the Bank and other donors in Liberia are high, but timely donor support is critical to bolster the peace agreement. It is in this context that this Country Re-engagement Note (CRN) for Liberia has been prepared. It provides an overview of Liberia's political and development situation, and the Bank's role in the reconstruction dialogue and planning process to date, and sets out a road map for the Bank's engagement in Liberia until December 2005, which coincides with the period of the RFTF.

### RECENT POLITICAL AND SECURITY DEVELOPMENTS

9. The NTGL brings a range of Liberian stakeholders, the three main warring factions, plus community-based organizations, into an inclusive body. Mandated to deliver basic services during the transition period and to plan for elections in 2005, it is tentatively establishing its authority. Key ministerial portfolios have been assigned to the main combatant groups, but the pace of filling appointments in the NTGL has been slow overall. This has been met with discontent and threats of withdrawal by some groups, revealing the susceptibility of the NTGL to the interests of its constituent members. Other challenges to the NTGL include the fact that some members simply lack technical capacity or experience of government. Effective government therefore remains a challenge.

10. **The security situation remains fragile, but is improving.** Instability continues in areas of the country not yet occupied by UNMIL, and factionalism within the warring groups poses an ongoing risk that renegade elements could continue fighting or disrupt disarmament, despite the participation of the main factions in the NTGL. Peacekeeping, disarmament, demobilization and establishing the conditions for countrywide humanitarian assistance are therefore considered the highest immediate priorities. Of the authorized 15,000 thousand strong UN Peacekeeping force (UNMIL), 11,000 have been deployed to date. Country-wide deployment is due to be completed by the end of March 2004, with the remaining troops expected to reinforce the deployment in Liberia by the end of April.

11. **Disarmament of combatants is critical to consolidating peace and security.** The disarmament process was initiated on December 7, 2003, but brief riots broke out when the number of combatants exceeded expectations and demobilization requirements were not met, and the process was suspended while further preparations were made. A month-long education campaign among combatants has been underway prior to the process re-starting in the near future. Providing combatants with alternative livelihoods through effective demobilization, rehabilitation and reintegration is key to disrupting the ex-warring factions' command structures, thereby preventing faction leaders from holding the peace process hostage to threats of renewed violence. This calls for both an effective disarmament and demobilization process, but equally important is the creation of adequate opportunities for rehabilitation and reintegration (RR): experience from elsewhere reinforces the importance of early, effective planning and resourcing of the 'RR' components.

### Box 1. UN Sanctions against Liberia

The UN initially imposed sanctions on Liberia in 2001 in response to Liberia's role in the conflict in Sierra Leone. The sanctions included a ban on arms procurement, the diamond trade and a travel ban on officials. The Security Council announced in November 2002 that the sanctions would remain in place until May 2003.

In May 2003 the sanctions were renewed again in Security Council Resolution 1478 and extended to include a ban on **timber production** and exports. This ban was based on evidence suggesting that timber exports were being used primarily to finance the internal conflict. This ban was recently extended to December 2004. In order for the ban to be lifted, the Security Council has stated that a transparent government accounting system should be in place, the NTGL should be in control of the logging areas and that a review of timber concessions and a sustainable logging plan be developed.

## INSTITUTIONAL AND GOVERNANCE ISSUES

12. **Liberia has suffered state capture and collapse**, and its institutions have been eroded through corruption, mismanagement and disregard for the rule of law by successive regimes. Political institutions that could check the power of the executive have never been able to take root. Samuel Doe inherited the essential features of a coercive, neo-patrimonial state when he took power in 1980 from the small Americo-Liberian elite that had maintained political and economic hegemony since the mid-19<sup>th</sup> century. But governance in Liberia only worsened during the Doe and Taylor periods. This has resulted over time in a progressive weakening of the bond between state and civil society, increasing corruption, undermining of local government institutions while power was increasingly centralized in Monrovia,<sup>5</sup> and a diminishing reach of the state's authority and legitimacy into Liberia's interior.

13. The joint needs assessment mission therefore called for "a major overhaul and re-engineering of the institutions and practices that underpin the relationship between State and civil society".<sup>6</sup> This will require not simply reform, but rebuilding of the public service, judiciary and police, tough action to eliminate systemic corruption, a substantial program of decentralization, and the establishment of an environment that is conducive to a vigorous role for civil society, media and the legislature. In the short term, the RFTF calls for a range of assessments of the civil service, rule of law and civil society to be carried out as priorities in 2004, in order to identify key reforms and allow rebuilding to take place based on sound analysis.

## SOCIAL CONTEXT

14. Liberia's decades of poor governance and 14 years of conflict have had appalling social consequences.

<sup>5</sup> According to Article 3 of the 1986 Constitution, Liberia is a unitary state divided into 15 counties for administrative purposes. The counties comprise approximately 65 statutory districts and traditional jurisdictions. Various line ministries have a deconcentrated presence at the local level. However, there is no political or fiscal decentralization in Liberia, and recent assessments show that no funds flow to or through the county and district structure.

<sup>6</sup> "Joint Needs Assessment", February 2004, page 45. National Transitional Government of Liberia, United Nations, World Bank.

- **Liberia is still in the midst of a humanitarian crisis.** Donors agree that financing the UN's consolidated humanitarian appeal (CAP) for 2004, costed at US\$137 million is an equal priority to embarking on development as described in the RFTF.<sup>7</sup> The CAP estimates that humanitarian assistance is expected to reach over 1.7 million people. In addition it estimates that 80 percent of the population lives beneath the poverty line, only 25 percent have access to safe water, 36 percent have access to sanitation facilities, and 35 percent are undernourished.
- **The war has led to large scale population displacement** and severely eroded the survival and coping mechanisms of the wider population. Population movement from rural areas to urban centres has also been marked. Though pre-war figures show a high proportion of Liberia's population living in urban areas (40 percent), the population of Monrovia has swelled dramatically during the conflict.<sup>8</sup> UN agency estimates indicate that there are currently 300,000 refugees remaining in Cote d'Ivoire, Ghana, Guinea or Sierra Leone and 500,000 Internally Displaced Persons (IDPs) within Liberia (9 percent and 15 percent respectively of a population of 3.3 million).<sup>9</sup> Helping displaced persons requires immediate and effective humanitarian relief, but is also a long term development challenge of rebuilding shattered communities. The importance of this strong relief–development continuum is a constant theme in Liberia's recovery.
- **Basic services** have also collapsed. As government service provision has given way to war related spending (in 2002 government health expenditure stood at US\$2.7 million and education spending at US\$2.0 million),<sup>10</sup> NGOs and private service providers have tried to fill the gap.
  - ❖ It is estimated that less than 10 percent of Liberians, mainly those in urban and safe areas, have access to any kind of health care. This compares with 30 percent before the war. High malnutrition, and morbidity caused by communicable diseases and a rising HIV/AIDS prevalence rate add to a grim picture of health in Liberia. Little of the health infrastructure that existed before the war is functioning: 242 out of 293 public health facilities have been looted or forced to close, so that in large parts of the interior no health care is available. Monrovia is better served, with two public sector and three private hospitals and a network of centres and clinics.
  - ❖ In education, the impact of the conflict is apparent in data which shows increasing levels of school enrolment, number of schools and teachers during the relatively peaceful periods between 1998 and 2001, followed by a slump when unrest flared. The primary school net enrolment rate (NER) is estimated to be 46 percent, leaving more than half of Liberian school age children out of school. Gender disparities are also apparent since the NER for boys is 61 percent while for girls it

<sup>7</sup> United Nations Consolidated Appeal Process (CAP) for Liberia, 2004. An additional US\$40 million for food programmes is being sought through the UN's regional humanitarian appeal for West Africa.

<sup>8</sup> In 1995 the UN estimated that the population of Monrovia was 1.3 million, three times its 1986 level.

<sup>9</sup> US government population estimate for July 2003.

<sup>10</sup> IMF Country report No 03/275: Liberia: Selected Issues and Statistical Appendix.

is 34 percent.<sup>11</sup> Rehabilitation of school infrastructure, training teachers, reviewing curriculum and reforming the Ministry of Education are priorities under the RFTF in 2004.

- **HIV/AIDS** infection rates and prevalence have increased rapidly in recent years, with prevalence estimated at 12 percent (from 8.1 percent at the end of 2002). Gender-based and sexual violence that took place during the conflict is likely to have played a part in the upward trend.<sup>12</sup> Tackling HIV/AIDS is a critical development challenge in the next period. Basic sensitization through communication campaigns to combat misinformation and bring about behaviour change will be important starting points, as will increasing the availability of condoms, and training of health professionals.

### ECONOMIC CONTEXT

15. **Liberia's economy has been devastated by conflict.** After a period of strong growth in the 1960s and 1970s resulting from foreign direct investment and an iron-ore and rubber export boom, Liberia's economic situation worsened following the 1980 military coup. Civil war between 1989-96 saw a deepening of economic mismanagement and resulted in a decline of real GDP and a destruction of basic infrastructure, leading to human and financial capital flight and a significant accumulation of additional external debt. Following a peace agreement in 1996, economic activity rebounded due to the recuperation of rubber, timber and small agricultural production. GDP registered growth rates of 20-30 percent per year during 1997-2000. But with the resumption of hostilities in 2001, the postwar recovery stalled again and productive capacity outside the agriculture sector (smallholder cash crops, rubber and timber) was practically nonexistent. The Liberian economy is estimated to have contracted by about 30 percent in real terms in 2003 (compared with an estimated increase of 3 percent in 2002) mainly as a result of the intensification of hostilities and the UN ban on timber exports.

16. **Fiscal developments have also followed the cycle of conflict.** Government revenues increased modestly in 2000/01, but then declined in 2001/02 by over US\$10 million to US\$71.9 million, largely due to the drop-off in revenue from the Liberian International Shipping and Corporate Register. Public expenditure fell from US\$82.5 million in 2000/01 to about US\$79 million in 2001/02.<sup>13</sup> The decline was accompanied by a shift in the composition of expenditures, including a substantial drop in funding for social services and increases in expenditure related to national security. On a cash basis the fiscal deficit widened from 0.7 percent of GDP in 2000/01 (US\$3.9 million) to 1.3 percent of GDP in 2001/02 (US\$7.3 million).

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<sup>11</sup> Joint Needs Assessment.

<sup>12</sup> Joint Needs Assessment, page 72.

<sup>13</sup> These levels of public expenditure do not reflect the large debt-servicing costs and other arrears the GOL is liable for.

### Box 2. Liberia's economic structure

The Liberian economy has always been based on the agricultural sector (subsistence agriculture, rubber and timber) which accounts for half of GDP. The sector is made up mostly of *subsistence agriculture* (rice, cassava, cocoa, coffee and palm oil). In the subsistence area there is little tradition of commercially oriented agriculture and therefore productivity has been low. Agricultural production was severely affected by the war, leading to increased imports of food. Nevertheless, the agriculture sector has the potential to become the major source of employment and income generation for displaced farmers. Urgent supply side support (credit, inputs and extension services) is needed.

- *Rubber* is the most important cash crop, accounting for 30 percent of total exports, employing about 4000 workers and generating income for a significant number of small and medium landholders. At present, international prices favour the development of this sector. There are extensive areas with rubber plantations that belong to smallholders, that cannot be put into production at present because of the security situation. This activity used to be self-sustaining (with the plantation purchaser advancing part of the final price to the smallholder). However in the present circumstances, some external or private sector financing may be needed to expedite the productive process.

- *Forestry* has since 1977 attracted much of the FDI into Liberia and logging is the largest provider of foreign currency. It is estimated that there are around 25 logging companies operating in Liberia, but serious concerns exist that some of these companies obtained their concessions unlawfully and did not comply with the applicable forest and fiscal regulations. It is estimated that at least 6-7000 people are employed in the sector. Though the situation of the forestry sector is not well documented, it is known that the environment has suffered and that this sector is characterised by serious governance problems. Revenues from logging, for example, are considered to have been a principal source of finance for the war. As a result of these problems, UN sanctions have been imposed on Liberia logging exports. This has resulted in a standstill in the logging industry. In order for sanctions to be lifted and logging activities to resume and contribute to sustainable growth, the forestry sector in Liberia will require substantial reform and initial financial assistance.

- *Fisheries*. There is little reliable data about the number of people employed in fishing, levels of production, income, and marketing practices. However, fishing activity is largely artisanal, and does not play a significant role in Liberia's economy.

- *Mining*. Iron-ore mining production stopped early in the war, although there may still exist important deposits in Liberia. Its revival will require high levels of FDI. Gold and diamonds are also mined in a small scale but smuggling makes it difficult to get accurate data about the level of production, prices and exports.

- *Manufacturing*. The manufacturing sector has not been a significant contributor to GDP. Traditionally, iron-ore and rubber processing activities have dominated the manufacturing sector. SMEs used to produce everyday consumer goods, though mostly packaged finished products from abroad (soap, furniture, clothes, beer, cigarettes, etc) so its value added was low. Although the small size of the domestic market could be a major handicap for the sector growth, better security and a rehabilitated basic infrastructure should make possible the rebirth of light industry, which would contribute to import-substitution as well as providing an important source of urban job creation.

- *Construction and Services*. The construction sector is already developing fast as the rehabilitation and reconstruction process starts. But monopolies, for example on cement importation are a source of rent-seeking, and increase construction costs. The service sector is likely to lead the economic recovery, together with the construction sector.

- "*Informal sector*" activity constitutes the largest segment of the service sector and is the main source of employment and income for more than 500,000 Liberians.

17. **Stability may boost the economy in the short term.** As is typical in post-conflict environments, Liberia's economy may be buoyed initially by stability and increasing external assistance. A probable economic scenario developed by the IMF projects an increase of GDP during the first half of 2004 by about 16 percent over the second semester of 2003, largely because of an increase in services, construction and selected manufacturing activities, in response to rising donor activities. This scenario assumes gradual deployment of UNMIL, steady progress on disarmament, demobilization, rehabilitation and reintegration (DDRR), and continuation of the UN ban on timber exports. GDP per capita under this scenario would remain significantly below its 2002 level at US\$99 (compared with US\$160 in 2002).

18. **From short term recovery to a stable growth path.** The challenge in the transition period is to lay the foundations for economic recovery and to set Liberia on a path to stable growth. More analysis will be needed in the short term to help identify strategies for unleashing sources of economic growth in key sectors such as agriculture and forestry. Dimensions of this challenge are discussed in Section 3 and are addressed through the Bank's proposed activities related to economic governance and social and economic revival.

19. **The NTGL has signalled a commitment to improved economic management.** The NTGL's Chairman took bold steps in October 2003 to grasp the nettle on revenue management, centralizing revenue collection to the Ministry of Finance under Executive Order 2. This resulted in an increase in revenue collection to US\$5 million per month in October 2003-January 2004, compared with an average monthly collection of US\$1.3 million in the third quarter of 2003.<sup>14</sup> The NTGL also announced in December 2003 that financial and management audits would be conducted in key revenue generating agencies including the Bureau of Maritime Affairs, (BMA) and Liberia's ship registry program, the Forestry Development Authority, and the National Port Authority.

#### IMF RELATIONS AND EXTERNAL DEBT

20. **Liberia and the IMF.** Liberia's relations with the Fund deteriorated continuously prior to the NTGL taking office, owing to lack of cooperation on policies and accumulation of arrears. Consequently, Liberia's voting and related rights were suspended in March 2003. The NTGL assured the IMF of its intentions to normalize relations, and has largely cooperated with IMF staff during and after a mission in December 2003. The authorities are interested in a staff-monitored program (SMP). However, they agree that their preparedness for moving to an SMP needs to be further tested.

21. **Liberia is emerging from conflict with a serious debt overhang.** By the end of 2003, Liberia's outstanding external debt was estimated at US\$2.9 billion. Arrears to multilateral creditors are large. Arrears to the Bank currently total US\$416 million, of which US\$378 million is to IBRD and US\$38 million is to IDA; arrears to the IMF are US\$717 million; and arrears to AFDB are US\$192 million. While the Bank is working to find a solution to the arrears situation, putting together a comprehensive arrears clearance plan will take time and no new multilateral lending operations can be approved until the arrears situation is resolved. Sustained progress on reforms to enable rapid entry into the HIPC initiative will be important.

## 2. RESULTS-FOCUSED TRANSITIONAL FRAMEWORK AND PARTNERS IN LIBERIA

22. **Development partners have collaborated closely to support Liberia's recovery** since the August 2003 peace agreement. In December 2003 the United Nations Development Group (UNDG) and the World Bank co-led a Joint Needs Assessment (JNA), including participation by the IMF and a range of other specialists from bilateral donors and non-governmental

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<sup>14</sup> IMF Report, February 2004



organizations. The mission took place under the guidance of the NTGL which provided counterparts for the teams conducting assessments under each of 13 priority sectors. Bank staff led the sector assessments in the areas of economic management and infrastructure and had substantial input into other sector assessments such as community driven development. The process was monitored by a core group of representatives from the US, the European Commission, the Economic Community of West African States (ECOWAS), the African Union (AU), France, Ireland, Japan, Sweden, and the UK.

23. The needs assessment involved an intense month of collaborative work in difficult physical circumstances, and an environment in which information was scarce. Travel outside the capital was impossible. Each of the sectoral teams produced thematic reports which were synthesized into an overview report and distilled into a results matrix. The findings of the needs assessment are set out in a Results Focused Transitional Framework for Liberia, which includes priority actions and outcomes on 10 themes (clusters) in 6 month periods until December 2005. The RFTF constitutes both an NTGL strategy and a partnership agreement between Liberia and its donor partners. It provides the nucleus of the government's national development framework and could lead into the PRSP framework as stronger analysis and consultation processes are instituted to inform a medium term poverty reduction strategy.

24. **An International Reconstruction Conference on Liberia** took place in New York on 5-6 February 2004. The RFTF was strongly endorsed at the conference, and enjoys wide support as a framework for NTGL and donors to follow in pursuit of Liberia's recovery. However, important challenges remain if the RFTF is to be fully implemented. Central among these is the creation of an effective coordination and management mechanism to oversee and monitor implementation of the RFTF and a technical structure to support the coordination mechanism. To signal a clear break with the poor governance of the past, and to give donors confidence regarding use of their funds, this coordination mechanism must be characterized by transparency and effective decision-making. Discussion is underway, in which the World Bank is engaging actively with the highest authorities of the NTGL and major donor partners (UNDP, EU and US), on the structure and composition of the coordination mechanism. A second challenge is to ensure that the strong sense of NTGL ownership over the RFTF approach is maintained. This will require a high level of self-discipline by donors as they plan and begin implementation of projects linked to the RFTF.

25. By defining specific, time-bound goals, the RFTF should be a vital disciplining mechanism over a vast array of needs and a diverse group of domestic and international stakeholders in Liberia. Nevertheless, development partners, including the Bank, need in the near future to articulate a clear division of labor, and achieve clarity on partnerships, within the overall framework of the RFTF. Progress is being made in this area. In broad terms, it is clear that the UN will continue to take the lead in security through UNMIL and the DDRR program, and support work on Governance; the EU is contributing to DDRR, community development for refugees and IDPs, and financial management; and the US and other bilaterals are focusing on different RFTF clusters in addition to providing extensive humanitarian support.

### Box 3. The Results-Focused Transitional Framework (RFTF)

The Joint Needs Assessment culminated in the RFTF – a framework that sets out a vision for the transition period as well as priority outcomes in 9 sectoral clusters and 1 implementation related cluster. It also defines expected results in 6, 12, 18 and 24 months (from June 2004 to December 2005). The NTGL Chairman and senior members of the NTGL were involved in the needs assessment and the design of the RFTF, increasing national ownership and thereby legitimacy of the RFTF. In addition, more than 60 individuals from the NTGL were involved in detailed work on specific themes and sectors. National Stakeholder Consultations and a High Level Summit also took place from 5-8 January 2004 involving more than 200 Liberians (including legislators, Ministers, individuals from the former warring factions, heads of parastatals, leaders of political parties, and civil society representatives). However, given the security conditions in Liberia, broad based participation, in particular at the country and district level, in the preparation of the RFTF was not feasible.

The vision statement from the RFTF is: *“A secure and enabling environment leading to democratic elections, recovery and reconstruction through the scrupulous implementation of the Comprehensive Peace Agreement (CPA) under a cohesive, accountable and adequately resourced Transitional Government at the service of the Liberian people.”*

*Key features of the RFTF:*

- **The specific, time bound results defined in the RFTF enable government and donors alike to prioritise and sequence actions.** This is important in post-conflict environments, where needs are urgent and widespread and capacity low.
- **The RFTF provides a management tool for NTGL** and it now constitutes the NTGL’s program for the transitional period.
- **The RFTF is a means of communicating** with the public, promotes dialogue and can be used to manage expectations as well as to foster accountability.

*The 10 RFTF clusters are:*

- Cluster 1: Security (including UNMIL deployment, armed forces restructuring)
- Cluster 2: Disarmament, Demobilisation, Rehabilitation and Reintegration of ex-combatants
- Cluster 3: Refugees, Returnees and Internally Displaced Persons (IDPs)
- Cluster 4: Governance, Democratic Development and Rule of Law (including public sector capacity, local government, the judiciary, police service, corrections system, development of civil society, human rights, media)
- Cluster 5: Elections
- Cluster 6: Basic Services (including health and nutrition, education, community water and sanitation, agriculture, fisheries, community development, social safety nets –groups with specific needs)
- Cluster 7: Restoration of Productive Capacity and Livelihoods
- Cluster 8: Infrastructure (power, transport, communications, water and sanitation)
- Cluster 9: Economic Policy and Development Strategy (financial management and audit, development strategy, budget and statistical systems, public sector procurement, financial sector, public enterprises, forestry, extractive industries and natural resources management)
- Cluster 10: Coordinated Implementation of the Transition Framework

Cross cutting themes are: gender, HIV /Aids, environment, human rights, shelter, forestry and media.

### 3. DEVELOPMENT CHALLENGES AND WINDOWS OF OPPORTUNITY

26. **Stimulating economic recovery and growth.** The challenge for the transition period is to lay the foundations for longer term economic growth. More immediately, growth and economic recovery are fundamental for providing viable employment and livelihoods for Liberia's population. This is particularly critical for vulnerable groups such as ex-combatants and returnee populations. In Liberia's case, economic recovery has multiple drivers, of which five are highlighted here. First, revival of agriculture is vital, since this sector represents around 50 percent of GDP and 75 percent of the labor force in Liberia. Second, the forestry sector, which accounted for approximately 18 percent of GDP in 2002 and attracted a high proportion of foreign direct investment, needs to be reactivated and effectively managed. Actions leading to the lifting of UN sanctions are especially critical here. Thirdly, Liberia's shattered infrastructure must be rebuilt to facilitate recovery and to restore productive capacity and livelihoods. Fourth, strengthening revenue management is critical to ensuring that in future Liberia's rich natural resources no longer drive a political economy of conflict, but contribute instead to economic growth. Finally, the confidence of investors must be restored, through the creation of an acceptable environment for the private sector.

27. **Balancing short-term service delivery and infrastructure needs with long term institution building.** Liberia is in a transitional period. The NTGL is responsible for preparing the foundations for the democratically elected government in 2005, and for delivering basic services and managing the short term recovery program in the interim. Effective state structures to maintain the rule of law and deliver services across the country do not exist. In the vacuum caused by the collapse of the state, Liberia will therefore face a trade-off between the need to build national capacity and state institutions, and the need to deliver visible short-term benefits on the ground from the peace agreement.

28. Balancing these competing priorities indicates the need for transitional delivery mechanisms while state capacity is being strengthened. This can be done through community driven or NGO-supported approaches, or through autonomous agencies, using financing mechanisms that are ring-fenced from weak government systems. In some cases these might form the shell of government institutions that continue beyond the transition; in other cases they may be interim arrangements that give way to government bodies once these are reconstituted with sufficient capacity to obviate the need for transitional mechanisms. Clear strategies are needed for the key sectors which ensure that temporary delivery mechanisms are well-coordinated. It is critical that these strategies should not by-pass, but include a clear role and capacity building for government and national stakeholders, in order to facilitate a structured transition to effective state service delivery.

29. **Building the absorptive capacity for aid.** Research shows that though post-conflict financing needs are great, absorptive capacity for aid is often low in the immediate aftermath of conflict due to the erosion of government systems and capacity. This is undoubtedly true in Liberia. With significant volumes of finance now pledged for Liberia's reconstruction, effective mechanisms for coordination, program delivery, financial management and increased private sector capacity are crucial for optimising Liberia's absorptive capacity. Building the absorptive

capacity for aid, to facilitate effective use of the money pledged for Liberia's recovery, both during the transition period and beyond is therefore a key development challenge.

#### 4. PROPOSED RE-ENGAGEMENT STRATEGY

30. **The World Bank** has been absent from Liberia for an extended period. During the 1970s and early 1980s, the Bank supported approximately 29 projects in agriculture, education, and infrastructure (roads and water), though OED reports suggest that these projects performed poorly, attributing this to weak implementing capacity and deteriorating country conditions. Several projects closed early, or experienced repeated suspensions. No loans have been made since 1984, when Liberia fell into arrears with the Bank. In 1998, during a break in the conflict, the Bank approved a grant proposal for an Economic Recovery and Reintegration Program to be implemented as part of a Transitional Support Strategy for Liberia. However due to a resurgence in the conflict, this project was never implemented. The Bank currently has no presence in Liberia.

31. **The case for Bank re-engagement in Liberia is compelling.** The August 2003 peace agreement and the work of the donor community in the months that followed has set Liberia on a promising path to peace and recovery. To stay the course, however, Liberia's transitional government and the government to be elected in 2005 need to be able to rely on an adequate response from international donors both in terms of expertise and finance. In addition, peace provides a window of opportunity for the Bank to rebuild its knowledge base and understanding of national partner institutions, both of which are essential to increase readiness for a full Bank lending program when that becomes possible. Thirdly, key issues in Liberia's recovery – economic management, forest management, infrastructure rehabilitation and community development– are areas where the Bank has gained important experience in other post-conflict contexts in recent years.

32. **Period of the strategy.** The strategy laid out in this Country Re-engagement Note (CRN), which is consistent with the Strategic Framework for IDA's Assistance to Africa (SFIA), is intended to support the two year implementation of the RFTF until December 2005. Should arrears clearance be achieved prior to that date, the Bank would be in a position to fully re-engage with IDA resources. At that point a Transitional Support Strategy (TSS) would be prepared for Liberia. An update of this CRN will be produced once the RFTF period has expired (December 2005) if it is not possible by then to move to a TSS. This sequence is likely to mirror Liberia's transition from the RFTF to a PRSP framework.

33. **Financing.** No new IDA lending can be approved until all arrears to IBRD and IDA are cleared. However given the magnitude of Liberia's arrears to multilateral creditors and the difficult situation on the ground, arrears clearance is likely to take some time. To allow the Bank to play an active role in assisting Liberia while an arrears clearance plan is developed, Management proposes to use grant financing from two sources. First, approximately US\$4 million under the period of this CRN will be sought from the LICUS Trust Fund (LTF). The entry points described below are consistent with the LTF's criteria (capacity building to support governance reform; strengthening social service delivery) and with the LTF's objective of giving

priority to activities that form part of a multi-donor strategy.<sup>15</sup> The LTF resources would be used to lay the foundations in key sectors (economic management and CDD) through basic assessments, reform and capacity building.

34. Second, Management intends to request approval from the Executive Directors and the Governors for an allocation from surplus of US\$25 million. A formal request based on the strategy outlined in this note will be submitted in the coming weeks.<sup>16</sup> The special allocation for FY04 will be used to complement and scale up foundational activities in the areas of CDD, economic management, and infrastructure. Depending on the results of planned assessments, incremental funds may also be allocated to support effective transitional strategies for service delivery and agriculture and private sector recovery. The use of that additional finance would require careful planning in consultation with partners. Commitments for FY04 are subject to the approval of the Liberia proposal to the LICUS Trust Fund and of a grant allocation from surplus for Liberia.

35. **The strategic goal** of Bank engagement during this period is to assist in the consolidation of Liberia's transition to peace by supporting implementation of the RFTF as encapsulated in its vision statement - *"A secure and enabling environment leading to democratic elections, recovery and reconstruction through the scrupulous implementation of the Comprehensive Peace Agreement (CPA) under a cohesive, accountable and adequately resourced Transitional Government at the service of the Liberian people."*

36. Activity in the transition period must give priority to delivering fast and visible results on the ground to an expectant population. But while the joint needs assessment and the RFTF have defined the desirable results, development partners lack accurate data and analysis on many dimensions, particularly with regard to conditions outside Monrovia. Considerable further assessment is needed to fill these knowledge gaps. The Bank's extended absence from Liberia prior to this re-engagement strategy is a further imperative to focus on rapidly re-establishing the Bank's stock of knowledge on Liberia. As noted in the previous section, institutional capacity building also requires urgent attention. The activities under this CRN therefore aim to strike a balance between building the knowledge base, launching institutional capacity building initiatives early on, while moving swiftly to deliver results in the Bank's focal clusters.

37. In pursuit of the goal (supporting implementation of the RFTF), the Bank has identified three broad objectives for the CRN period:

- ❖ To contribute to the achievement of rapid and visible socio-economic revival, through community driven reconstruction and labor intensive infrastructure rehabilitation
- ❖ To support the establishment and strengthening of state institutions and fundamental governance reforms

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<sup>15</sup> The Low Income Countries Under Stress Implementation Trust Fund was discussed by Board on January 15 2004 (IDA/R2003 -0241), and comes into effect subject to approval by the Governors on March 5 2004.

<sup>16</sup> If circumstances warrant, Management may request approval of an additional allocation from surplus in late FY05.

- ❖ To maintain the focus and momentum of reconstruction by supporting the establishment of an effective, nationally-driven mechanism to coordinate RFTF activities and monitor the achievement of results

*Support for social and economic revival*

38. **Community Driven Development in war-affected communities.** Support to the reintegration of displaced persons and demobilized combatants, together with the delivery of tangible social and economic revival in war-torn communities, is critical to the consolidation of the peace process. Under this entry point, the Bank will assist in the establishment of an effective national mechanism for channelling donor support for Community Driven Development (CDD) in war-affected communities. This intervention has two main objectives: (i) to support the establishment of a national structure and operating modalities that promote economic and social revival, community empowerment and self-reliance in war affected communities in Liberia, and; (ii) through the national structure, to support empowerment, trust and social capital building activities within communities as a foundation for long term stability and reconciliation.

39. The Bank's activities in support of CDD will include: (i) carrying out a staged and rapid Social Assessment and Conflict Assessment using the Bank's Social Assessment (SA) and Conflict Analysis Frameworks (CAF); (ii) providing technical assistance (TA) for the design and establishment of a national structure to channel funds for community driven development, and; (iii) piloting of community activities designed both to meet immediate needs (including HIV/AIDS) while building critical human and social capital. Pilot projects would also test the national structure for future scaling up of CDD activities. These activities would be implemented by an international NGO. Funding from the LICUS Trust Fund will be sought for these three activities. In addition, a significant portion of the allocation from net surplus to be requested for Liberia may be utilized to support the scaling up of CDD activities during this CRN period.

**Box 4. 'Community Driven Reconstruction': lessons from post-conflict operations**

CDR applies the methodology of community driven development (CDD) to a post-conflict setting. The basic principles are the same, but the operating environment is different and communities in post-conflict contexts are often 'rebuilding from zero'. The underlying premise is that communities possess the knowledge and skills to lead many of the reconstruction efforts in their own communities. The Bank has growing experience of community driven reconstruction (CDR) programs in post-conflict settings. Experience from these examples highlights four especially important lessons:

- ❖ adopt a conflict sensitive approach to community governance structures
- ❖ adapt design for speed, including simple procedures and emergency grants
- ❖ ensure strong links with local administration, building capacity for sustainable decentralization
- ❖ coordinate with sectoral reconstruction initiatives, to avoid duplication and plan for recurrent costs

40. **Supporting rehabilitation of infrastructure.** The restoration of minimal infrastructure services (transport, water and sanitation, electricity and telecommunications) is critical for the reintegration of displaced persons, for jump starting the economy and to allow economic actors

to manage and deliver reconstruction efforts. Basic infrastructure needs for rural communities will be addressed as part of the community-driven development activities. To address the needs of urban and primary infrastructure during the transition period, the Bank will support activities identified in cluster 8 of the RFTF in order to: (i) provide high-impact rehabilitation; (ii) rebuild the service delivery capacities of the main public agencies and ministerial departments in charge of infrastructure and; (iii) prepare detailed assessments of the medium-term needs for revamping the primary infrastructure of the country. The Bank will finance: (i) technical assistance to the public water and electricity utilities and to the Ministry of Public Works to strengthen managerial and planning capacities; (ii) consulting services for the preparation of the electricity master plan and the detailed assessments of the water supply and sanitation systems of Monrovia. In a second step, using a portion of the allocation from net surplus, the Bank's participation in physical rehabilitation of the power generation and potable water production will be determined in close coordination with the EU and the US.

41. **Support for health and education service delivery** institutions and sector strategies. The RFTF sets out an ambitious program of recovery in the health and education sectors. The capacity of the ministries in each case is limited, and it is likely that external agencies will need to take the lead in managing the priority activities, while ministries will retain overall oversight. It is essential that these transitional modalities are designed to build national capacity and that service provision is financially and technically sustainable on the basis of national resources in the longer-term. During the CRN period the Bank will work closely with other donors to (i) conduct a service delivery and institutions assessment and (ii) if appropriate, provide support to build capacity in institutions that can accountably handle delivery in these sectors during the early reconstruction period and transition to normal public service provision in the longer-term.

*Support for the establishment of institutions and governance reforms*

42. **Economic management.** Developing a culture and systems for sound economic management is important in the short term to ensure that aid flows for Liberia's recovery are managed accountably, giving the NTGL the legitimacy that derives from sound governance. In addition, preparatory work on economic management systems needs to be undertaken during the transition period so that they are in place for the new government after elections in 2005. Linked to RFTF clusters 9 and 4, the Bank's objectives in this sector are to support priority reforms and capacity building in the areas of public resource management and the fiduciary framework (public financial management, public procurement); public sector management (civil service reform, legal and regulatory framework and public enterprise reform); banking sector reform and forest management (see below).

43. As first steps under this activity, the Bank will work with the NTGL, providing: (i) technical assistance (TA) for establishing a sound public financial management system and; (ii) TA for civil service reform, at this stage supporting foundational work such as a census of the civil service and strengthening payroll systems. Funding from the LICUS Trust Fund will be sought to enable these preliminary assessments and technical support. An additional allocation would be made from the net surplus grant to support implementation of key reforms. The Bank will work in close conjunction with the US, the IMF and the EU, who are proposing activities in the related areas of budget preparation and execution, revenue administration, tax reform and public expenditure management. In addition, the Bank will consider options for further work to

embed controls against corruption in government systems being established in the post conflict period.

44. Building effective institutions is always an enormous challenge in post conflict settings, in particular given the need to show short term results while national institutions are still severely weakened. Other post conflict countries have suffered from high volumes of uncoordinated technical assistance which has failed to build national capacity over time. In proposing several initiatives that will use TA, the Bank will draw on these lessons by (i) working closely with other donors on the coordination of technical assistance; (ii) where possible drawing on existing skills within Liberia and the highly skilled Liberian diaspora; and (iii) ensuring that any outsourced government functions contain strong provisions for the transfer of systems and skills to national counterparts.

45. **Reform and reactivation of the forestry sector and forest management**, is closely linked to work on economic management (it falls under clusters 7 and 9 in the RFTF). An integrated package of key reforms in the sector needs to be undertaken as a priority in the transition period. These include: (i) a comprehensive review of all concessions leading to confirmation, continuation or withdrawal of illegally obtained concessions; (ii) setting up of a transparent system for concession awards (iii) establishment of a transparent revenue collection and management system; (iv) design/implementation of forestry regulations responding to environmental concerns; and (v) a review of legal and regulatory instruments. In support of these aims, the Bank's activities in the CRN period will include support for: ongoing dialogue in the forestry sector; a review of forest legislation; and the design of a transparent and competitive system for future allocation of concessions. Close collaboration with other key partners in this sector is considered essential. Funding will be sought from the LICUS Trust Fund for the fundamental reforms proposed under this component. In addition, a proposal for the Global Environment Facility (GEF) is under preparation to re-establish management of Sapo National Park, a prime biodiversity resource and protected area, and to improve Liberia's protected area system.

*Capacity building to establish systems for donor coordination and effective use of aid*

46. **RFTF and donor coordination mechanism.** The Bank will provide TA and capacity building to assist with the establishment and operation of a strong and transparent mechanism for RFTF coordination and oversight (RFTF cluster 10). This coordination mechanism will be based in Monrovia, and led by the NTGL. It will be administered by a new technical support office, and linked to a core group of donors that will meet after each six month period of the RFTF timeframe. This mechanism will be critical in driving the pattern of strong donor coordination on which the joint needs assessment and RFTF are based, and maintaining Liberians' and the international community's confidence in the RFTF process. It will also help build Liberia's absorptive capacity for aid, which as in section 3 above, is vital in the next period. Work needs to begin in this area immediately. Funding for this component will be sought from the LICUS Trust Fund.

*Knowledge generation and partnerships*



47. In addition to the specific activities detailed above, the CRN period will also be used to rebuild the Bank's knowledge base in Liberia, in order to provide timely input on policy options to national counterparts and partners. Given the scarcity of accurate information on key sectors and conditions outside Monrovia, a significant program of Economic and Sector Work (ESW) is also planned in this period. Since the needs assessment missions to date have had little opportunity to work outside the capital, additional needs assessments may also be supported as necessary in addition to the analytical work proposed here. In support of activities in **institution building and governance reform**, a rapid Public Expenditure Management and Fiduciary Accountability Review (PEMFAR); an institutional and governance note and a forestry assessment are proposed.

48. Concerning **social and economic revival**, the Bank plans to conduct: a poverty assessment; an assessment of health and education services and service delivery institutions; an infrastructure assessment and; a study on the prospects for growth in Liberia. The latter study, which is a particular priority given the degree of disruption in agriculture as a result of the war, would encompass the prospects for growth in agriculture and the private sector, including linkages between: agricultural productivity, small and medium enterprise development and livelihoods for the poor. The transition period provides an important opportunity to conduct in depth assessment to gain an accurate picture of current conditions in rural areas.

49. By taking an active role in the joint needs assessment process for Liberia, the Bank has already forged strong partnerships with the NTGL, donors and other key stakeholders in Liberia. To maintain and deepen these partnerships, to create sufficient capacity to support the work program laid out in this CRN, and to increase readiness for full Bank re-engagement in Liberia following arrears clearance, the Bank will appoint a Senior Country Officer for Liberia. In addition the Bank will establish a video conference facility in Monrovia and will explore the establishment of a GDLN, enhancing timely communication between clients and staff working in the field and regional and Washington based staff.

50. **Table 1** shows the principal components of the Bank's program and proposed FY04 financial commitments.

Table 1. Overview of proposed activities

Objectives	RFTF cluster	LICUS Trust Fund (US\$ million)	FY04 surplus grant (US\$ million)
<i>Support for social and economic revival</i>	Support for service delivery sector strategies and institutions. <b>(RFTF 6)</b>	0.25	tbd
	Community Driven Development. <b>(RFTF 7)</b>	1	10
	Agricultural and private sector recovery <b>(RFTF 7)</b>	n/a	tbd
	Infrastructure Rehabilitation <b>(RFTF 8)</b>	n/a	5-10
	<b>AAA: Service delivery and institutional assessment; Poverty assessment; Study on rural and private sector growth; Infrastructure assessment.</b>		
<i>Support for the establishment of state institutions and fundamental governance reforms.</i>	Economic management: public financial management and basic civil service reform <b>(RFTF 9 &amp; 4)</b>	2	5
	Reactivation of the forestry sector, and forest management including Sapo National Park Management <b>(RFTF 9)</b>	0.5 (+ GEF grant 1.0)	tbd
	<b>AAA: Governance assessment; PEMFAR; Forestry Review; WBI /CPR leadership seminars.</b>		
<i>Establish systems for RFTF and donor coordination and effective use of aid</i>	Support for a transparent and effective coordination mechanism for RFTF implementation <b>(RFTF 10)</b>	1	n/a

51. Two UN administered Trust Funds have already been established to channel resources to activities in specific clusters of the RFTF (for DDRR and Governance). Discussion is underway in Monrovia regarding the best modalities for mobilizing and managing donor finance in other clusters of the RFTF. As these talks progress, the options, structures and the potential role for different partners in such arrangements will become clearer. Should the Bank be requested to play a role in administering any new Trust Fund, lessons from other post-conflict countries will be adopted.

52. The International Finance Corporation's (IFC) small existing portfolio has been severely impacted by the civil war and political crisis. IFC will support the Bank's efforts to restore economic activity, in particular with support to projects restoring key business infrastructure, and with support to SMEs. Liberia is not a Multilateral Investment Guarantee Agency (MIGA) member, therefore would not be eligible for MIGA operations under current circumstances.

## 5. RISKS

53. Considerable optimism regarding Liberia's peace process is warranted: the NTGL and the RFTF, backed by a strong UNMIL, provide as coherent a framework for Bank re-engagement as can be expected under the circumstances. But the Bank is aware of serious risks that could derail the peace or hamper donor activities in Liberia.

54. **Security.** The first risk, from which the others stem, concerns security. If UNMIL deployment proceeds too slowly and /or the disarmament and demobilization process continues to face difficulties, tensions could flare posing a real risks of renewed violence. Bringing the remaining, large parts of rebel held Liberia under UNMIL control and achieving full disarmament of armed factions is a prerequisite to effective transition and development in Liberia. In addition, continuing currents of instability in the wider region, particularly in Cote d'Ivoire, pose an ongoing risk to Liberia's security situation. UNMIL's presence under a strong Security Council mandate is critical to mitigate this risk, together with rapid action on the security, DDRR and livelihood components of the RFTF. The Bank and other donors are also committed to support efforts to increase regional cooperation and dialogue, for example through the World Bank's West Africa Regional Integration Assistance Strategy (RIAS).

55. **State cohesion.** The NTGL has the potential to lead the transition effectively, but has already faced challenges to its authority. The second risk is therefore that the NTGL could prove unworkable and at worst collapse if competing interests of the former warring factions take precedence over the business of governing the transition period. In this situation, the RFTF may become impossible to implement. The WBI/CPR leadership seminars proposed in this CRN are a small contribution within the Bank's area of expertise to efforts led by other donors to facilitate a smooth political transition and increase state cohesion in the interim period.

56. **Corruption.** More subtle risks are that patterns of the past prove hard to break. Chief among these is the prevailing culture of mis-governance and corruption that stripped the state of its resources and its legitimacy in the past. Though the NTGL is strongly committed to bringing about a 'culture change' based on transparency and accountability in government and fundamental reforms, this commitment needs to be followed through with action, including prosecution as cases are discovered. Otherwise, implementation of the RFTF could be seriously compromised. The CRN's strong focus on economic governance is designed to mitigate this risk. In addition, the country team intends to explore with the Bank's Department of Institutional Integrity (INT) possible mechanisms to embed preventative controls on corruption early in the reconstruction program.

57. **Monrovia bias** that led to systematic neglect of Liberia's interior is a further risk associated with Liberia's history. Mitigating this risk requires a consistent focus on inclusion in reconstruction planning and implementation. Failing to counter this risk would lessen Liberia's chances of strong economic and social recovery, and worse, could fuel the dynamics which originally caused Liberia's conflict. The rural growth and development activities contained in the CRN are critical to support a more balanced and inclusive development strategy.

58. **Absorptive capacity.** Research shows that building capacity to absorb aid flows takes time, so that absorptive capacity is strongest three or four years after a conflict. In Liberia's case the devastated condition of all government systems, means that building absorptive capacity is clearly a major challenge. While the Bank and other donors need to recognise that this will take time, efforts to build absorptive capacity must start quickly to enable the reconstruction program to have a rapid and sustained impact. Failure to do this poses a risk of funds not being disbursed and the reconstruction program stalling, posing a further risk of stability and reducing the legitimacy of the peace process. The Bank's proposed support to the coordination mechanism for the RFTF and to the establishment of a national structure for CDD will help mitigate this risk.

59. **Sustained financial support.** A final risk is that after an initial high level of commitment to Liberia's recovery, donor fatigue and other priorities lead to a loss of donor focus and a mismatch between early pledges and actual funding. This risk is present in all post-conflict contexts, but is particularly true at the present time given the coincidence of Liberia's transition with other high profile post-conflict reconstruction situations demanding donor response. Successful achievement of key RFTF results, followed by a gradual transition to a PRSP framework will assist Liberia to achieve the sustained international support it needs.

60. **Early engagement increases the prospect of success.** The strategy set out here is based on an assumption that risks to the Bank of modest engagement in this period are less than the risk of further instability in Liberia, which would be likely should the current transition face setbacks. Moreover, engagement reduces the risk of Liberia's transition failing: the risks call for stronger not weaker donor engagement. A wholehearted response from donors, including the Bank, is now needed to enable the RFTF's implementation, creating a virtuous cycle of momentum, results, and further momentum. The Bank's modest program proposed for this period aims to support this coordinated effort by contributing to mitigating some of the risks described above.

61. **Exit strategy.** Should the situation in Liberia deteriorate once more, the Bank would have to revert to more typical activities under a 'Watching Brief' (i.e. analytic work) in Liberia and the work program outlined above would have to be put on hold. In that case the Bank would seek to maintain a limited level of consultation with key stakeholders in the national dialogue, and would aim to continue assessment processes and dialogue with beneficiaries in accordance with 'Watching Brief' guidelines.

# Liberia at a glance

2/27/04

## POVERTY and SOCIAL

### 2002

	Liberia	Sub-Saharan Africa	Low-income
Population, mid-year ( <i>millions</i> )	3.3	688	2,495
GNI per capita ( <i>Atlas method, US\$</i> )	140	450	430
GNI ( <i>Atlas method, US\$ billions</i> )	0.48	306	1,072

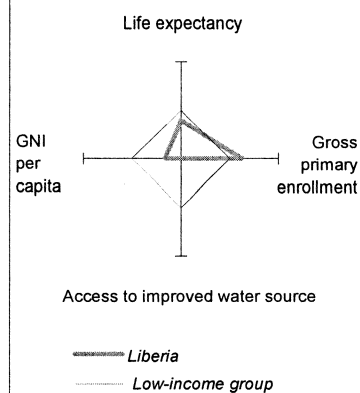
### Average annual growth, 1996-02

	Liberia	Sub-Saharan Africa	Low-income
Population (%)	2.7	2.4	1.9
Labor force (%)	2.0	2.5	2.3

### Most recent estimate (latest year available, 1996-02)

Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	46	33	30
Life expectancy at birth ( <i>years</i> )	47	46	59
Infant mortality ( <i>per 1,000 live births</i> )	157	105	81
Child malnutrition (% of children under 5)	..	..	..
Access to an improved water source (% of population)	..	58	76
Illiteracy (% of population age 15+)	44	37	37
Gross primary enrollment (% of school-age population)	118	86	95
Male	140	92	103
Female	96	80	87

### Development diamond\*



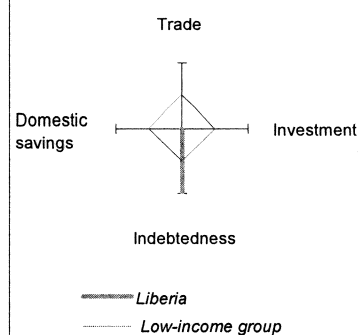
## KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1982	1992	2001	2002
GDP ( <i>US\$ billions</i> )	0.96	0.22	0.53	0.56
Gross domestic investment/GDP	..	..	..	..
Exports of goods and services/GDP	..	..	..	..
Gross domestic savings/GDP	..	..	..	..
Gross national savings/GDP	..	..	..	..
Current account balance/GDP	0.4	..	-20.6	-5.1
Interest payments/GDP	1.4	0.0	0.0	0.0
Total debt/GDP	94.2	860.1	404.9	413.7
Total debt service/exports	10.2	..	0.6	0.6
Present value of debt/GDP	..	..	360.7	..
Present value of debt/exports	..	..	1,351.4	..

### (average annual growth)

	1982-92	1992-02	2001	2002	2002-06
GDP	-14.7	17.1	4.9	3.3	..
GDP per capita	-16.7	14.0	2.2	0.8	..
Exports of goods and services	..	..	..	..	..

### Economic ratios\*



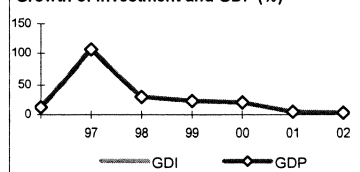
## STRUCTURE of the ECONOMY

	1982	1992	2001	2002
(% of GDP)				
Agriculture	..	..	..	..
Industry	..	..	..	..
Manufacturing	..	..	..	..
Services	..	..	..	..
Private consumption	..	..	..	..
General government consumption	..	..	..	..
Imports of goods and services	..	..	..	..

### (average annual growth)

	1982-92	1992-02	2001	2002
Agriculture	-22.5	23.1	..	..
Industry	-36.7	2.1	..	..
Manufacturing	..	..	..	..
Services	-34.2	-3.8	..	..
Private consumption	..	..	..	..
General government consumption	..	..	..	..
Gross domestic investment	..	..	..	..
Imports of goods and services	..	..	..	..

### Growth of investment and GDP (%)



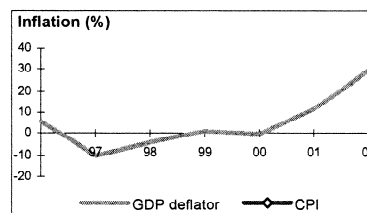
Note: 2002 data are preliminary estimates.

This table was produced from the Development Economics central database.

\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

## PRICES and GOVERNMENT FINANCE

	1982	1992	2001	2002
<b>Domestic prices</b>				
(% change)				
Consumer prices	..	..	..	..
Implicit GDP deflator	5.0	-1.1	11.6	29.4
<b>Government finance</b>				
(% of GDP, includes current grants)				
Current revenue	..	..	..	..
Current budget balance	..	..	..	..
Overall surplus/deficit	..	..	..	..

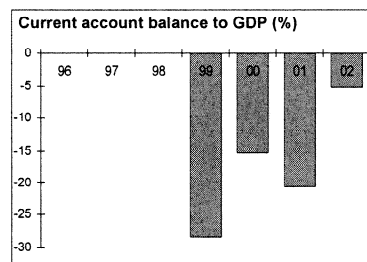


## TRADE

	1982	1992	2001	2002
(US\$ millions)				
Total exports (fob)	..	..	..	..
Commodity 1	..	..	..	..
Commodity 2	..	..	..	..
Manufactures	..	..	..	..
Total imports (cif)	..	..	..	..
Food	..	..	..	..
Fuel and energy	..	..	..	..
Capital goods	..	..	..	..
Export price index (1995=100)	..	..	..	..
Import price index (1995=100)	..	..	..	..
Terms of trade (1995=100)	..	..	..	..

## BALANCE of PAYMENTS

	1982	1992	2001	2002
(US\$ millions)				
Exports of goods and services	510	..	143	163
Imports of goods and services	482	..	197	173
Resource balance	28	..	-54	-10
Net income	-72	..	-109	-85
Net current transfers	48	..	..	..
Current account balance	3	..	-110	-29
Financing items (net)	-72	..	..	..
Changes in net reserves	68	0	..	..

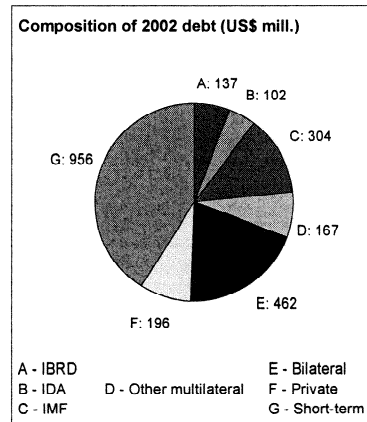


## Memo:

Reserves including gold (US\$ millions)	..	..	..	..
Conversion rate (DEC, local/US\$)	1.0	1.0	48.6	61.8

## EXTERNAL DEBT and RESOURCE FLOWS

	1982	1992	2001	2002
(US\$ millions)				
Total debt outstanding and disbursed	903	1,922	2,164	2,324
IBRD	91	139	123	137
IDA	36	103	98	102
Total debt service	52	1	1	1
IBRD	7	0	0	0
IDA	0	0	0	0
Composition of net resource flows				
Official grants	46	96	32	47
Official creditors	52	0	0	0
Private creditors	-7	0	0	0
Foreign direct investment	35	0	-20	-65
Portfolio equity	0	0	0	0
World Bank program				
Commitments	58	0	0	0
Disbursements	17	0	0	0
Principal repayments	4	0	0	0
Net flows	14	0	0	0
Interest payments	4	0	0	0
Net transfers	10	0	0	0



Note: This table was produced from the Development Economics central database.

2/27/04

**Liberia**  
**Selected Indicators\* of Bank Portfolio Performance and Management**  
 As Of Date 12/11/2003

<b>Indicator</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Portfolio Assessment				
Number of Projects Under Implementation <sup>a</sup>	0	0	0	0
Average Implementation Period (years) <sup>b</sup>	0.0	0.0	0.0	0.0
Percent of Problem Projects by Number <sup>a, c</sup>	0.0	0.0	0.0	0.0
Percent of Problem Projects by Amount <sup>a, c</sup>	0.0	0.0	0.0	0.0
Percent of Projects at Risk by Number <sup>a, d</sup>	0.0	0.0	0.0	0.0
Percent of Projects at Risk by Amount <sup>a, d</sup>	0.0	0.0	0.0	0.0
Disbursement Ratio (%) <sup>e</sup>	0.0	0.0	0.0	0.0
<b>Portfolio Management</b>				
CPFR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

<b>Memorandum Item</b>	<b>Since FY 80</b>	<b>Last Five FYs</b>
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.

No	CLUSTER & SECTOR	Priority Outcome by December 2005
<b>1</b>	<b>SECURITY:</b>	
1.1	UNMIL DEPLOYMENT	Public and business confidence increased, and greater security ensured, through UNMIL troop deployment.
1.2	ARMED FORCES RESTRUCTURING	Establishment of armed forces' role in building peace and supporting democratic transformation; restructuring, retraining and deployment initiated in accordance with the August 2003 Comprehensive Peace Agreement.
<b>2</b>	<b>DISARMAMENT, DEMOBILISATION, REHABILITATION AND REINTEGRATION OF EX-COMBATANTS (DDRR):</b>	Successful disarmament and demobilization of 38,000 – 53,000 female and male ex-combatants (XCs) and collection and destruction of 70,000 weapons by December 2004; child XCs demobilized and fully reintegrated; essential restorative support, counselling and referral services initiated for all ex-combatants; at least 50% of adult XCs reintegrated into Liberian society through enhanced community absorption capacity.
<b>3</b>	<b>REFUGEES, RETURNEES AND INTERNALLY DISPLACED PERSONS (IDPs):</b>	Essential restorative support (transport, household items, food assistance, etc.); social protection, legal assistance and basic social services (health, education, water and sanitation) for up to 350,000 refugee and returnees; 73,000 third-country refugees in Liberia and 490,000 IDPs with inputs to community-level institutions that encourage self-sufficiency of returnees and IDPs, and their effective reintegration.
<b>4</b>	<b>GOVERNANCE, DEMOCRATIC DEVELOPMENT AND RULE OF LAW:</b>	Immediate priority given to the establishment of institutions necessary for security and the rule of law, particularly those required by the CPA, and to the essential functions of government during the transition period.
4.1	PUBLIC SECTOR CAPACITY	Government functions implemented through streamlined, efficient national institutions, executed by a restructured, re-capacitated, professional and merit-based public sector that works as a disciplined and credible entity, made possible through focused technical assistance and rehabilitation of essential public infrastructure.
4.2	LOCAL GOVERNMENT	Improved capacity for planning, coordinating and delivering essential services at the local level.
4.3	THE JUDICIARY	Jump-starting of essential criminal courts; foundations laid for a professional, independent and credible judiciary. Mechanisms (including criminal courts) re-established to facilitate the rule of law.
4.4	POLICE SERVICE	Rapid establishment of an interim Police Force, staffed by well-vetted personnel with essential equipment and training; foundations laid for the new professional Liberian Police Service.
4.5	CORRECTIONS SYSTEM	Reform of the corrections system so that it functions more in line with international best practice.
4.6	DEVELOPMENT OF CIVIL SOCIETY	Foundations laid for a strong, vibrant and involved civil society with CSOs able to exercise their rights (freedom of opinion, expression and assembly, and no discrimination), develop community-driven accountability mechanisms and access legal aid, including for women and vulnerable populations.

<sup>17</sup> From Joint Needs Assessment, February 2004



No	CLUSTER & SECTOR	Priority Outcome by December 2005
4.7	HUMAN RIGHTS	National reconciliation fostered through the establishment of the Truth and Reconciliation Commission (TRC); realization of human rights facilitated through Independent National Human Rights Commission (INHRC) and programmes addressing gender, protection and human rights concerns.
4.8	MEDIA	Fostering public dialogue, encouraging freedom of expression and promoting confidence in democratic institutions through functioning and independent public-service media.
5	<b>ELECTIONS:</b>	Prepare for, and ensure the holding of free, fair, and transparent elections, with full participation of the electorate in accordance with the Comprehensive Peace Agreement (CPA).
6	<b>BASIC SERVICES:</b>	
6.1	HEALTH AND NUTRITION	Nationwide action to increase the Liberian people's access to effective Primary Health Care (PHC) and referral services, targeting priority health conditions (HIV/AIDS, malaria, TB, diarrhoea, mental illness, childhood and maternal illness, malnutrition and violence-related conditions), and promoting health (particularly women's health) through community-based health interventions implemented through local-level organizations, civil society, functionally rehabilitated key health facilities, strengthened capacity in the Ministry of Health at central and local levels, and through the re-training and re-equipping of health personnel.
6.2	EDUCATION	Support universal access to quality education by: a) rehabilitating, supplying and revitalizing at least 25% of primary and secondary schools, and a substantial part of the vocational training and the higher education systems, b) implementing back-to-school programmes, and c) addressing gender-based inequality in education. Meet immediate needs for capacity and institution building (including supporting the MOE in defining and implementing a new education policy, strengthening teachers and education officers' training, reviewing curricula for all levels of the education system, and procuring and developing teaching and learning materials). Promote community-based involvement and action (parent teacher associations). Strengthen non-formal education programmes.
6.3	COMMUNITY WATER AND SANITATION	Improve the functioning of community-based water and sanitation systems in Monrovia and other urban areas with an emphasis on better access to water with the use of household water treatment systems, and better access to latrines; improve functioning of community-based water and sanitation systems in rural areas (with an initial focus on larger villages) with an emphasis on better access to potable water from improved sources and low-cost excreta disposal systems.

<b>7</b>	<b>RESTORATION OF PRODUCTIVE CAPACITY AND LIVELIHOODS:</b>	
7.1	AGRICULTURE	Availability of, and access to, food in rural and urban areas improved, and food security achieved through the following actions: improving vulnerable groups' access to food (via food input and cash-based safety nets); restoring agriculture-based productive capacity (including post-harvest preservation facilities), livelihoods and incomes; promoting the revival of the rural economy (via reconstruction initiatives); community-based development sustained through local capacity-building, inputs to increase food and cash crop production, skills training, rehabilitation of rural infrastructure and sustainable use of forest resources. First stages underway for the establishment of a conducive environment for domestic and foreign private investment in national resource development and both raw and processed agricultural products.
7.2	FISHERIES	Inland aquaculture revived through rehabilitation of hatcheries and fish ponds, equipment and materials and microfinance. Artisanal coastal fish production restored through provision of equipment and microfinance (grants and credit) to cooperatives and fisher groups.
7.3	<b>COMMUNITY DEVELOPMENT</b>	Programme to jump-start recovery of Liberia's communities—with particular attention to the needs of women and returnees—underway in selected communities, incorporating the approach to community-based planning envisaged for DDRR and 4R, and resulting in the economic revival of communities and increased earning and employment opportunities.
7.4	SOCIAL SAFETY NETS - GROUPS WITH SPECIFIC NEEDS	Options for safety nets are examined and acted on to support disabled and elderly people, pregnant women and new mothers, street and working children, and others who are vulnerable.
<b>8</b>	<b>INFRASTRUCTURE:</b>	
8.1	POWER	Rebuilt capacities of Liberia Electricity Corporation, electricity services in Monrovia restored, electricity services in rural areas developed, and options for private sector participation explored.
8.2	TRANSPORT	Restored road system and stable road management environment established, with maintenance of key paved roads, upgrading of primary network, and rehabilitation of secondary and feeder roads; improved safety of public and freight transport; improved availability and efficiency of air travel (through restoring normal operations of Roberts International Airport and domestic airports); improved operation of ports so that they serve national (and neighbouring countries) needs for sea transport and have the potential to generate revenue.
8.3	COMMUNICATIONS	Fixed telephone services restored; mobile phone network expanded; and regulatory framework established.
8.4	URBAN WATER AND SANITATION	As a priority, improve all levels of the management of systems; improve managed water, sewerage and solid waste disposal systems in Monrovia; resulting in three times the current volume of managed water and an end to sewage contamination of populated areas in Monrovia; establish managed water and solid waste disposal systems in the equivalent of six other urban areas.
<b>9</b>	<b>ECONOMIC POLICY AND DEVELOPMENT STRATEGY:</b>	

9.1	FINANCIAL MANAGEMENT AND AUDIT	Revenue collection, budgeting, and financial management practices brought into line with current best practice; strengthened accounting systems and practices following establishment of a computerised financial management system. Internal financial control mechanisms established and implemented, and independent audit agency (General Auditing Office) made more effective. De-concentration of financial management to different spending centres within the NTGL.
9.2	DEVELOPMENT STRATEGY, BUDGET AND STATISTICAL SYSTEM	Legislative control of the budget restored, ensuring the emergence of a results-oriented, accountable budget and expenditure framework laying the foundation for future work on a interim Poverty Reduction Strategy. Collection, processing and analysis of statistical information resumed.
9.3	PUBLIC SECTOR PROCUREMENT	Reform public sector procurement system to enhance transparency, accountability, value for money and reduce risk of procurement-related corruption with an initial focus on health and education.
9.4	FINANCIAL SECTOR	A functioning banking system—based on clear international prudential regulations—is restored, together with an insurance industry—also based on clear international prudential regulations).
9.5	PUBLIC ENTERPRISES	Sound financial management of public enterprises established, and the mandate of public enterprises (PES) reviewed.
9.6	FORESTRY, EXTRACTIVE INDUSTRIES AND NATURAL RESOURCES MANAGEMENT	Options for policies and improved practice in natural resource management (forestry, diamonds, water, etc.) examined; forest management practices—that balance commercial logging, community use and conservation—implemented with an adequate, transparent framework for resuming commercial forestry activities. This framework forms the basis of efforts to secure the removal of timber sanctions.
<b>10</b>	<b>CO-ORDINATED IMPLEMENTATION OF THE TRANSITION FRAMEWORK</b>	
10.1	MANAGING, MONITORING AND EVALUATING THE IMPLEMENTATION OF THE TRANSITION FRAMEWORK	A joint government, international organization and donor mechanism established to manage inputs for implementation of the RFTF (with the pooling of national revenue and international funds where appropriate) and to report regularly (to legislators, the general public and development partners) on the achievements and impact of the RFTF in a transparent and accountable manner.