IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IDA H3350)

ON A
GRANT
IN THE AMOUNT OF SDR 277 MILLION
(US$430 MILLION EQUIVALENT)
TO THE
REPUBLIC OF LIBERIA
FOR A
RENGAGEMENT AND REFORM SUPPORT PROGRAM

MARCH 25, 2009
CURRENCY EQUIVALENT
(As of March 26, 2009)

Currency Unit = Liberian Dollar
US$1 = LR$66.0

FISCAL YEAR
July 1 – June 30

ABBREVIATIONS AND ACRONYMS

AfDB African Development Bank
CAS Country Assistance Strategy
CFAA Country Financial Accountability Assessment
CMC Cash Management Committee
CWIQ Core Welfare Indicators Questionnaire
DP Decision Point under the Enhanced HIPC Initiative
ECOWAS Economic Community of Western African States
EGSC Economic Governance Steering Committee
EITI Extractive Industries Transparency Initiative
EU European Union
FDI Foreign direct investment
FY Fiscal Year
GDP Gross Domestic Product
GEMAP Governance and Economic Management Assistance Program
GFRP Global Food Crisis Response Program
HIPC Heavily Indebted Poor Countries
IBRD International Bank for Reconstruction and Development
IDA International Development Association
IFC International Finance Corporation
IMF International Monetary Fund
I-PRSP Interim Poverty Reduction Strategy Paper
JAS Joint Country Assistance Strategy
JISN Joint Interim Strategy Note
LECAP Liberia Expenditure Control and Accounting Program
LACE Liberian Association for Community Empowerment
LEITI Liberia Extractive Industry Transparency Initiative
LIC-DSA Low-income country debt sustainability analysis
LICUS Low Income Countries Under Stress
LISGIS Liberia Institute of Statistics and Geo-Information Services
LRDC Liberia Reconstruction and Development Committee
MoF Ministry of Finance
NGOs Non-governmental Organizations
NTGL National Transitional Government of Liberia
PFM Public Financial Management
PRGF Poverty Reduction and Growth Facility
PRS Poverty Reduction Strategy
PEMFAR Public Expenditure Management and Financial Accountability Review
Vice President: Obiageli K. Ezekwesili
Country Director: Ishac Diwan
Sector Manager: Antonella Bassani
Task Team Leader: Eric R. Nelson
ICR Team Leader: Errol G. Graham
REPUBLIC OF LIBERIA
REENGAGEMENT AND REFORM SUPPORT PROGRAM

TABLE OF CONTENTS

Data Sheet
A. Basic Information
B. Key Dates
C. Ratings Summary
D. Sector and Theme Codes
E. Bank Staff
F. Results Framework Analysis
G. Ratings of Program Performance in ISRs
H. Restructuring

1. PROGRAM CONTEXT, DEVELOPMENT OBJECTIVES AND DESIGN ............................................................ 1
2. KEY FACTORS AFFECTING IMPLEMENTATION AND OUTCOMES .............................................................. 6
3. ASSESSMENT OF OUTCOMES ................................................................................................................. 14
   NOT APPLICABLE ...................................................................................................................................... 20
4. ASSESSMENT OF RISK TO DEVELOPMENT OUTCOME ............................................................................ 20
5. ASSESSMENT OF BANK AND BORROWER PERFORMANCE ...................................................................... 22
6. LESSONS LEARNED ............................................................................................................................... 25
7. COMMENTS ON ISSUES RAISED BY BORROWER/IMPLEMENTING AGENCIES/PARTNERS .................. 26
WORLD BANK (CHRONOLOGICAL ORDER) ................................................................................................ 33

Tables:

Table 1: Liberia—Selected Economic and Financial Indicators, 2006-2011 ........................................ 7
Table 2: RRSP Prior Actions, Implementation Status, & Rationale ..................................................... 11
Table 3: RRSP Anticipated Risks and Mitigating Factors .................................................................... 17
Table 4: Anticipated and Actual RRSP Results .................................................................................... 18

Annexes:

Annex 1: Bank Lending and Implementation Support/Supervision Processes .................................... 27
Annex 2: Beneficiary Survey Results ....................................................................................................... 28
Annex 3: Stakeholder Workshop Report and Results .......................................................................... 29
Annex 4: Summary of Borrower's ICR and/or Comments on Draft ICR ........................................... 30
Annex 5: Comments of Cofinanciers and Other Partners/Stakeholders ............................................ 32
Annex 6: List of Supporting Documents ................................................................................................. 33
Annex 7: Liberia Map Number 33435R2 ......................................................................................... 34
### A. Basic Information

<table>
<thead>
<tr>
<th>Country:</th>
<th>Liberia</th>
<th>Program Name:</th>
<th>Re-engagement and Reform Support Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program ID:</td>
<td>P102915</td>
<td>L/C/TF Number(s):</td>
<td>IDA-H3350</td>
</tr>
<tr>
<td>ICR Date:</td>
<td>03/30/2009</td>
<td>ICR Type:</td>
<td>Core ICR</td>
</tr>
<tr>
<td>Lending Instrument:</td>
<td>DPL</td>
<td>Borrower:</td>
<td>REPUBLIC OF LIBERIA</td>
</tr>
<tr>
<td>Original Total Commitment:</td>
<td>XDR 277.0M</td>
<td>Disbursed Amount:</td>
<td>XDR 255.6M</td>
</tr>
</tbody>
</table>

**Implementing Agencies:**
Ministry of Finance

**Cofinanciers and Other External Partners:**

### B. Key Dates

<table>
<thead>
<tr>
<th>Process</th>
<th>Date</th>
<th>Process</th>
<th>Original Date</th>
<th>Revised / Actual Date(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concept Review:</td>
<td>01/10/2007</td>
<td>Effectiveness:</td>
<td></td>
<td>12/05/2007</td>
</tr>
<tr>
<td>Appraisal:</td>
<td>07/17/2007</td>
<td>Restructuring(s):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approval:</td>
<td>12/04/2007</td>
<td>Mid-term Review:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing:</td>
<td></td>
<td></td>
<td>09/30/2008</td>
<td>09/30/2008</td>
</tr>
</tbody>
</table>

### C. Ratings Summary

#### C.1 Performance Rating by ICR

- **Outcomes:** Satisfactory
- **Risk to Development Outcome:** Substantial
- **Bank Performance:** Satisfactory
- **Borrower Performance:** Satisfactory

#### C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)

<table>
<thead>
<tr>
<th>Bank</th>
<th>Ratings</th>
<th>Borrower</th>
<th>Ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality at Entry:</td>
<td>Satisfactory</td>
<td>Government:</td>
<td>Not Applicable</td>
</tr>
<tr>
<td>Quality of Supervision:</td>
<td>Satisfactory</td>
<td>Implementing Agency/Agencies:</td>
<td>Not Applicable</td>
</tr>
<tr>
<td>Overall Bank Performance:</td>
<td>Satisfactory</td>
<td>Overall Borrower Performance:</td>
<td>Satisfactory</td>
</tr>
</tbody>
</table>

#### C.3 Quality at Entry and Implementation Performance Indicators

<table>
<thead>
<tr>
<th>Implementation Performance</th>
<th>Indicators</th>
<th>QAG Assessments (if any)</th>
<th>Rating:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential Problem</td>
<td>No</td>
<td>Quality at Entry</td>
<td>None</td>
</tr>
</tbody>
</table>
Program at any time (Yes/No): (QEA):
Problem Program at any time (Yes/No): No Quality of Supervision (QSA): None
DO rating before Closing/Inactive status:

D. Sector and Theme Codes

<table>
<thead>
<tr>
<th>Sector Code (as % of total Bank financing)</th>
<th>Original</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central government administration</td>
<td>93</td>
<td>93</td>
</tr>
<tr>
<td>General industry and trade sector</td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Theme Code (Primary/Secondary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt management and fiscal sustainability</td>
</tr>
<tr>
<td>Other accountability/anti-corruption</td>
</tr>
<tr>
<td>Public expenditure, financial management and procurement</td>
</tr>
<tr>
<td>Tax policy and administration</td>
</tr>
</tbody>
</table>

E. Bank Staff

<table>
<thead>
<tr>
<th>Positions</th>
<th>At ICR</th>
<th>At Approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vice President:</td>
<td>Obiageli Katryn Ezekwesili</td>
<td>Obiageli Katryn Ezekwesili</td>
</tr>
<tr>
<td>Country Director:</td>
<td>Ishac Diwan</td>
<td>Ishac Diwan</td>
</tr>
<tr>
<td>Sector Manager:</td>
<td>Antonella Bassani</td>
<td>Antonella Bassani</td>
</tr>
<tr>
<td>Program Team Leader:</td>
<td>Emmanuel Doe Fiaodzi</td>
<td>Eric R. Nelson</td>
</tr>
<tr>
<td>ICR Team Leader:</td>
<td>Errol George Graham</td>
<td></td>
</tr>
<tr>
<td>ICR Primary Author:</td>
<td>Errol George Graham</td>
<td></td>
</tr>
</tbody>
</table>

F. Results Framework Analysis

Program Development Objectives (from Project Appraisal Document)
The objectives of the proposed grant are to: (i) facilitate the clearance of Liberia's arrears to IBRD and IDA, which is required in order to restore normal relations between Liberia and the World Bank; and (ii) support the Government's efforts to establish a rigorous underpinning for the Liberian economy that will permit accelerated recovery and growth.

Revised Program Development Objectives (if any, as approved by original approving authority)
No change in PDO
### (a) PDO Indicator(s)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Baseline Value</th>
<th>Original Target Values (from approval documents)</th>
<th>Formally Revised Target Values</th>
<th>Actual Value Achieved at Completion or Target Years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Indicator 1</strong> : Liberia is current with its main official creditors following the HIPC Decision Point</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value (quantitative or Qualitative)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Date achieved</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comments (incl. % achievement)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### (b) Intermediate Outcome Indicator(s)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Baseline Value</th>
<th>Original Target Values (from approval documents)</th>
<th>Formally Revised Target Values</th>
<th>Actual Value Achieved at Completion or Target Years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Indicator 1</strong> : Clearance of Liberia's arrears with IBRD and IDA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value (quantitative or Qualitative)</td>
<td>US$332.3 million IBRD arrears</td>
<td>Zero arrears</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Date achieved</td>
<td>11/20/2007</td>
<td>01/01/2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comments (incl. % achievement)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Indicator 2</strong> : Clearance of Liberia's arrears with AfDB</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value (quantitative or Qualitative)</td>
<td>US$240.2 million AfDB arrears</td>
<td>Zero arrears</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Date achieved</td>
<td>11/20/2007</td>
<td>01/01/2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comments (incl. % achievement)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### G. Ratings of Program Performance in ISRs

<table>
<thead>
<tr>
<th>No.</th>
<th>Date ISR Archived</th>
<th>DO</th>
<th>IP</th>
<th>Actual Disbursements (USD millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>03/21/2009</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>405.23</td>
</tr>
</tbody>
</table>
H. Restructuring (if any)
Not Applicable
1. Program Context, Development Objectives and Design

1.1 Context at Appraisal

1. The Reengagement and Reform Support Program (RRSP) was designed in 2007 as a stand-alone operation to address two key objectives. The first objective, which accounted for the bulk of the operation’s resources, was to facilitate the clearance of Liberia’s outstanding arrears to the IBRD and IDA, thereby paving the way for the normalization of relations with the World Bank. The second objective was to support the government’s efforts to establish a rigorous fiscal underpinning for the Liberian economy that would permit accelerated recovery and growth. The grant supported key measures in the government’s strategy, including to: (i) stabilize the fiscal situation, (ii) improve fiscal management, and (iii) accomplish both of these objectives in a new regime of public transparency concerning both revenues and expenditures.

2. The enormity of Liberia’s arrears and the substantial economic challenges facing the government were the result of 25 years of economic decline and civil conflict. Although Liberia had been a middle income developing country in the early 1970s, with a GDP growth rate of approximately 5 percent per annum and per capita GDP rates comparable to those of Egypt, Indonesia, and the Philippines, this economic growth was narrowly based on mining (primarily iron ore) and rubber concessions. While strong rubber and iron ore prices in the 1970s seemingly fuelled healthy rates of economic growth, this growth benefitted a few economic elites, with little physical or social investment occurring in rural areas. Consequently, these inequities and marginalization – combined with gross mismanagement – led to a coup in 1980. The subsequent economic collapse and arbitrary rule culminated in civil war, beginning in 1989. The ensuing 14-year conflict (1989-2003) killed an estimated 270,000 Liberians, and totally destroyed the country’s roads, railroads, mining capital stock, electricity generation and transmission, potable water, and sewage facilities.

3. Following the imposition of United Nations Security Council (UNSC) economic sanctions in July 2003, Liberia entered a new political chapter with the signing of the Accra Comprehensive Peace Agreement in August 2003 and the deployment of United Nations in Liberia (UNMIL) peacekeeping troops. This peace agreement established a National Transitional Government of Liberia (NTGL), which led the country until the completion of free and fair legislative and presidential elections in October-November 2005 and the inauguration of Africa’s first democratically elected woman President, Ellen Johnson Sirleaf, in January 2006.

4. The new government articulated a broad vision for a new Liberia that was peaceful, secure, and prosperous, as expressed in the President’s 2006 inauguration speech and the 150-Day Action Plan. As part of this plan, the Government launched an IMF Staff Monitored Program (SMP) in February 2006, immediately endorsed the Governance and Economic

---

1 Liberia’s economy posted an annual growth rate of 4-7 percent from the mid-1940s though the 1960s as a result of the country’s policy regime welcoming foreign investment and granting generous concessions for the exploitation of iron ore, rubber, and timber.
2 While Liberia benefitted from favorable rubber and iron ore prices in the 1970s, the 1980 coup coincided with a fall in the terms of trade both of which – combined with a sharp decline in capital investment – led to a sharp decline in annual GDP growth to less than 1 percent in the mid-1980s, and a collapse in GDP by 90 percent between 1989-1994.
3 The UN Security Council imposed sanctions on the export of diamonds and timber in 2003, as these revenues were being used to finance arms and regional conflicts.
Management Assistance Program (GEMAP) and began to implement wide-ranging public financial management reforms.\footnote{Following the discovery of malfeasance and poor public financial management under the NTGL, the GEMAP was signed in September 2005 between the NTGL and Liberia’s international partners and was endorsed by the UNSC. The GEMAP has six components: (i) securing Liberia’s revenue basis; (ii) improving budgeting and expenditure management; (iii) improving procurement practices and granting of concessions; (iv) establishing processes to control corruption; (v) supporting institutions of government that are key to promoting and sustaining an accountable government and good financial management; and (vi) capacity building.} It also established an Economic Governance Steering Committee (EGSC)—chaired by the President and comprised of key ministers, the Central Bank of Liberia, international partners, and civil society—to oversee GEMAP implementation. The government also set out a bold program to strengthen Liberia’s fiscal framework through the improvement of fiscal management and the transparency of revenues and expenditures, among other measures. On the security front, combatants were disarmed, and demobilized, and were being reintegrated into society.

5. Following the 2003 peace agreement, donor disbursements to Liberia increased sharply, reaching an estimated US$300 million in 2006, equivalent to more than half of GDP, and an additional US$300 million in 2007. The economy began to recover, driven by the recovery in agriculture; high levels of spending by UNMIL forces and international donors; and a launch of businesses and economic activity. Real GDP growth rose from an estimated 5.3 percent in 2005 to 7.8 percent in 2006, while inflation held to single digits. GDP growth accelerated to 9.5 percent in 2007 and is estimated at 7.1 percent in 2008. End of period inflation inched up to 11.7 percent in 2007 but settled back to 9.4 percent in 2008. Revenue mobilization -- which had evaporated owing to the collapse in economic activity combined with widespread rent-seeking behavior in the customs and revenue administrations -- rose by 16 percent in the five months after the new Government took office, and increased by an additional 74 percent in FY 2006-07 over FY05/06.

6. Notwithstanding this economic turnaround, nearly 30 years of conflict and economic mismanagement had left Liberia’s economy in shambles. Real per capita GDP had declined from its peak of US$890 in 1980 to only US$163 in 2005 (in 2005 prices), making Liberia one of the poorest countries in the world. It is estimated that in 2007, approximately 64 percent of the population lived below the poverty line and about half lived in abject poverty.\footnote{Core Welfare Indicator Survey, 2007.} Life expectancy at birth had dropped to 42 years; infant and maternal mortality rates were among the highest in the world; and other health and social indicators were equally dire.\footnote{In addition, preventable diseases such as malaria, diarrhea, respiratory infections, and measles were widespread; malnutrition was widespread and considered a key factor in high death rates; 19 percent of children under 5 were underweight, and 39 percent were stunted. Net primary school enrollment was only 37 percent, and net secondary school enrollment was only 15 percent. Approximately 50 percent of the population lacked access to safe water, and over 60 percent had not access to improved sanitation facilities.} An overwhelming majority of Liberians were unemployed or employed in the informal sector; national and local institutions were largely dysfunctional; and the delivery of basic social services such as health and education was disrupted.

7. Liberia’s public and publicly guaranteed external debt reached an estimated US$4.7 billion in nominal terms by end-June 2007 (including arrears, capitalized interest, and penalties).
Moreover, most of this debt was in arrears. This debt included US$1.6 billion in multilateral debt to the IMF, World Bank, and AfDB; bilateral debt (primarily to Paris Club creditors) of US$1.4 billion; and commercial debt estimated at US$1.6 billion. Not only was this level of debt (and concomitant debt service) clearly unsustainable, but its exceptional size meant that addressing the debt problem would require substantial support, including unusually deep relief from the international community.

8. It was in this context – particularly the Government’s 22-month track record of satisfactory economic performance, including the country’s significant progress in reforming its fiscal and public management systems -- that the RRSP was approved in December 2007. By normalizing relations between Liberia and the World Bank through clearance of the country’s arrears, and supporting the Government’s efforts to establish a rigorous fiscal underpinning for the Liberian economy, the RRSP supported Liberia’s accelerated recovery and growth in the context of a multi-donor reengagement process. Since Liberia was at high risk of debt distress, the RRSP’s single tranche was provided on grant terms, and the proceeds were disbursed to: (i) provide direct reimbursement of a bridge loan of US$376.6 million extended to clear Liberia’s arrears to IBRD and IDA and (ii) support cash flow needs in the period immediately after Liberia cleared its arrears to the IBRD and IDA including future debt service obligations. This operation was financed with an exceptional allocation of IDA resources, and in accordance with IDA’s systematic approach to the clearance of arrears to the IBRD and IDA.

1.2 Original Program Development Objectives (PDO) and Key Indicators (as approved)

9. As set forth in the Program Document, the key objectives of the grant were to: (i) facilitate the clearance of Liberia’s arrears to the IBRD and IDA, which was required to restore normal relations between Liberia and the World Bank; and (ii) support the government’s efforts to firmly establish the fiscal underpinnings for recovery and for the provision of essential public services in the context of its Interim Poverty Reduction Strategy (I-PRS). Accordingly, the RRSP supported key measures in the Government’s strategy to: (i) stabilize the fiscal situation; (ii) improve fiscal management; and, (iii) accomplish both of these objectives in a new regime of public transparency regarding both revenues and expenditures. It was anticipated that this strategy would over time lead to:

- strengthened fiscal sustainability;
- improved economic governance; and
- enhanced transparency of state institutions and processes.

7 The IMF and IDA/IBRD were Liberia’s largest creditors, accounting for approximately 17 percent and 9 percent of total claims, respectively.

8 Commercial debt was estimated at US$1.1-1.6 billion; however, the exact amount of commercial debt was uncertain when this operation was designed owing to the destruction of most debt records during the conflict and multiple lootings and fires at the Ministry of Finance, and the fact that much of the debt was no longer owned by the original creditors. Notwithstanding the exact amount, Liberia’s commercial debt was unusually large (compared with other HIPC countries) because, in part, Liberia’s middle-income status in the 1980s allowed it to borrow commercially more readily than other HIPC countries.

9 The size of the arrears and debt was exceptionally large relative to Liberia’s population (3.3 million) and GDP (US$500 million). Liberia’s net present value (NPV) of external debt-to-exports ratio was 1,567 percent at end-June 2007, far above the threshold under the HIPC Initiative, and its debt-to-GDP ratio was 263 percent. Debt service due in 2007 was equivalent to 16 percent of GDP.
10. While a key objective of the operation was to support the government’s program for fiscal stabilization and management, the RRSP was embedded in a broader, coordinated strategy for arrears clearance by the AfDB, IMF, and World Bank. The principal difficulty in addressing arrears clearance for Liberia was the level of the arrears\(^\text{10}\) and the lack of resources, both within the government and the international community, to address the clearance. At the request of the Government, this operation directly addressed this difficulty by using the bulk of the grant proceeds for direct reimbursement of a bridge loan of US$ 376.6\(^\text{11}\) million extended by the US to clear Liberia’s arrears to both the IBRD (US$340.1 million)\(^\text{12}\) and IDA (US$36.5 million), while providing an additional US$4 million for immediate budgeted fiscal needs, as well as a further $5 million to support future debt service obligations. Consequently, the RRSP also created fiscal space that would assist the government in implementing activities that would otherwise be beyond its fiscal capabilities (e.g., introducing improved financial management procedures in ministries).

11. Additionally, normalization of relations with the Bank would both set the stage for the provision of regular IDA resources, and facilitate Liberia’s efforts to reestablish relations with the rest of the international community, including other creditors and donor agencies. The grant therefore prepared the ground for possible future support to Liberia. Moreover, the clearance of arrears to the World Bank, IMF and the AfDB would provide a critical element of progress towards: (i) the HIPC Decision Point that would trigger interim debt relief; (ii) further debt relief at the HIPC Completion Point, under both the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI); and (iii) a commercial debt buy-back operation covering about US$1.2 billion. As such, the RRSP was a key part of an integrated, comprehensive, and multi-donor approach to Liberia’s external debt problem.

12. In addition to addressing the country’s debt problem, the RRSP supported a number of fiscal objectives that were a core element of the Government’s Interim Poverty Reduction Strategy (I-PRS), completed in January 2007. The Interim PRS was developed following a national dialogue on poverty reduction, and provided the basis for the Bank’s and other donors’ support. The Bank’s support for the I-PRS was laid out in a World Bank-African Development Bank Joint Interim Strategy Note (JISN), presented to the Board in June 2007. The JISN set out a short-term strategy for scaling up support to Liberia’s post-conflict transition (discussed further below in Section 1.4, Original Policy Areas).

The operation established eight key indicators as follows:

- Liberia is current with its main official creditors following the HIPC Decision Point;

\(^{10}\) Whether measured on a per capita basis, as a share of GDP, or in absolute terms.

\(^{11}\) The amount of US$416.4 million equivalent (indicated in square brackets) was the original estimate required for both the arrears clearance and the budget support (US$9 million equivalent) as indicated in the Program Document. At the time of signing, the approved amount was US$430 million equivalent, of which US$376.6 million equivalent was applied to clear the arrears and US$9 million was disbursed to finance immediate budgeted fiscal needs (the remaining amount was cancelled). The difference between the original estimate, signed amount and final disbursed amount is due to exchange rate changes and the 5 percent safety margin included in the bridge loan which was subsequently returned to the bridge loan provider.

\(^{12}\) This sum reflects an Executive Board decision in July 2007 to permit the re-pricing of IBRD interest on loans in arrears, which lowered the estimated arrears total by approximately $100 million. The sum also excludes the amount of interest on overdue principal.
• The Liberia Expenditure Control and Accounting Program is operational in the Ministry of Finance and the Bureau of the Budget;
• Liberia continues to qualify as a candidate for the Extractive Industries Transparency Initiative;
• Amendments to the Public Procurement and Concessions Act and a new Public Finance Act have been submitted to the Legislature;
• Regulations, manuals and instructions to implement the PPCA have been published;
• A comprehensive Civil Service Reform Strategy has been approved by Cabinet and published;
• Audits targeting agencies and ministries posing the largest fiduciary and financial risks have been produced for FY05-06 and FY06-07; and
• A revised National Investment Code no longer includes provisions for ad hoc tax incentives to individuals and firms.

1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and Reasons/Justification

The PDOs and indicators were not revised.

1.4 Original Policy Areas Supported by the Program (as approved)

13. The Interim PRS traced the roots of the country’s multi-year conflict to Liberia’s exclusion and marginalization of much of the population, and laid out a vision to address those root causes. To this end, the I-PRS was organized into four “Pillars:”

(i) Enhancing national security;
(ii) Revitalizing economic growth;
(iii) Strengthening governance and the rule of law; and
(iv) Rehabilitating infrastructure and delivering basic services.

14. The JISN’s short-term strategy provided the basis for the Bank’s overarching support for Pillars II-IV. The RRSP, which was the first Development Policy Operation (DPO) in Liberia, supported a specific subset of key policy reforms under Pillar II (“Revitalizing Economic Growth”) of the I-PRS. The operation supported specific actions aimed at stabilizing the fiscal situation and improving fiscal management, while creating a regime of public transparency for both revenues and expenditures.

The following reform areas were targeted by the I-PRS under its Pillar II:

• Revitalize the economy for growth, job creation, and poverty alleviation: The measures introduced under this area focused on relaunching and strengthening the private sector as the engine of growth.

---

13 The Bank’s engagement in Liberia recommenced in 2003 in the form of providing emergency stabilization support through programs focused on basic economic governance reforms, community-driven development for service delivery, and emergency infrastructure rehabilitation.
• **Improve fiscal management:** Key measures introduced in this area included those aimed at establishing sound public finance management; enhancing public revenues; strengthening tax collection and broadening the tax base; improving budget processes; improving instruments for expenditure allocations and budget control; and ensuring legality, improved transparency, and the public benefit of concessions and contracts.

• **Debt relief and relations with the IFIs:** These measures focused on clearing domestic and international debt arrears while avoiding the accumulation of additional debt.

• **Improve monetary and financial sector policy and operations:** These measures focused on improving the finances of the Central Bank of Liberia (CBL) and strengthening the monetary policy framework and the financial sector, as well as strengthening government-owned institutions.

15. Among the broad reforms encompassed under Pillar II of the I-PRS, the RRSP identified six specific measures to improve fiscal management that were deemed essential to supporting the government’s broader reform program for fiscal recovery and economic growth. These six measures were established as the prior actions for the RRSP. These specific prior actions and their status are discussed further below in Section 2.1 *Program Performance*.

1.5 Revised Policy Areas

The policy areas were not revised.

1.6 Other Significant Changes

There were no significant changes in design, scope and scale, implementation arrangements, or funding.

2. Key Factors Affecting Implementation and Outcomes

2.1 Program Performance

16. As noted, the grant was an integral part of the World Bank’s Joint Interim Strategy for Liberia for the 2007-08 period. This interim strategy, which was developed jointly with the AfDB, was closely aligned with the government’s I-PRS and was designed to take advantage of the opportunity to sustain reform momentum. It consolidated the work supported by the World Bank in the areas of economic governance, infrastructure rehabilitation and community development, and that of the AfDB on governance, economic management, and infrastructure. It also supported interventions in critical areas such as health and civil service reform, in line with the objectives of the I-PRS.

17. There were six prior actions for the grant. These actions were directly related to the successful implementation of the Government’s program of fiscal recovery and economic growth, with a special emphasis on prudent fiscal management, effective revenue mobilization, and transparent governance. These prior actions required concrete reforms by the government and were directly relevant to Liberia’s reform agenda (e.g., they required actual implementation of a decision, as opposed to simply passing a law or signing a policy statement). All six actions were met prior to the operation’s approval. The prior actions, their status, and the rationale for their selection are shown in Table 2 below.
18. In the year following the RRSP’s approval, considerable progress was made in the areas of macroeconomic management including fiscal strengthening; debt reduction and management; and governance, as discussed below.

19. **Macroeconomic Performance:** Although poor quality of data hampers the production of reliable estimates of GDP, the economic growth that began with the peace accord in 2003 continued in the context of the RRSP, and real GDP grew from 7.8 percent in 2006 to an estimated 9.5 percent in 2007 and a further 7.1 percent in 2008.\(^{14}\) Growth was fuelled primarily by agriculture (mainly rubber), retail trade, communications, transport, and the construction sector. GDP growth is expected to slow to around 4.9 percent in 2009, owing to the expected adverse impact of the financial crisis and the global economic slowdown. The economic slowdown has resulted in lower primary commodity prices and consequently, lower and/or delayed investments in the key growth sectors (mining, rubber and forestry). Inflation, which had remained in the single digit range between 2004 and 2006, anchored on a relatively stable exchange rate, increased to 11.7 percent in 2007. For the first three quarters of 2008 inflation spiked to nearly 20 percent as a result of increases in global food and fuel prices. However, the sharp reduction in food and fuel prices in the last quarter of 2008 resulted in a moderation of the inflation rate to 9.4 percent for the year. Inflation is expected to return to about 4 percent for 2009 and 5 percent in 2010.

| Table 1: Liberia—Selected Economic and Financial Indicators, 2006-2011 |
|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Indicator          | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  |
| Real GDP (% growth) |       |       |       |       |       |       |
| Consumer prices (annual average % growth) |       |       |       |       |       |       |
|         |       |       |       |       |       |       |
| Consumer prices (end of period %) |       |       |       |       |       |       |
|         |       |       |       |       |       |       |
| Exchange rate (annual average L$/US$) |       |       |       |       |       |       |
|         |       |       |       |       |       |       |
| Exports, f.o.b (US$Million) |       |       |       |       |       |       |
|         |       |       |       |       |       |       |
| Imports, f.o.b (US$Million) |       |       |       |       |       |       |
|         |       |       |       |       |       |       |
| External Current Account Balance, incl. grants (% of GDP) |       |       |       |       |       |       |
|         |       |       |       |       |       |       |
| Broad Money (% Change) |       |       |       |       |       |       |
| Revenues and Grants (% of GDP) |       |       |       |       |       |       |
| Grants (% of GDP) |       |       |       |       |       |       |
| Expenditures (% of GDP) |       |       |       |       |       |       |
| Overall surplus or deficit (incl. grants, cash basis) |       |       |       |       |       |       |
| Domestic Debt (% of GDP) |       |       |       |       |       |       |
| Public sector external debt (inc arrears US$ Mn) |       |       |       |       |       |       |
| Public sector external debt (% of GDP) |       |       |       |       |       |       |
| Debt service charges (% of GDP) |       |       |       |       |       |       |

All figures are expressed as percent of GDP unless otherwise specified.
Overall fiscal balance on cash basis
1/ Assumes full delivery of HIPC Initiative, MDRI and beyond-HIPC assistance

\(^{14}\) GDP growth was 2.4 percent and 5.3 percent in 2004 and 2005, respectively.
Since taking office in 2006, the Government has shown a strong commitment to fiscal prudence. Although fiscal management is difficult owing to weak expenditure management systems and inadequate procurement capacity, the Government remains committed to fiscal prudence, and overall, the fiscal position continued to improve in 2008, with an estimated fiscal surplus of 1.2 percent of GDP. The FY08/09 budget (approved in August 2008), continued the practice of a cash-balanced budget with zero borrowing. The Central Bank of Liberia has been largely successful in maintaining exchange rate stability through the amount of foreign exchange sold through auction. As a result, the Liberia dollar/US dollar exchange rate depreciated only by about 3 percent through September 2008.

Liberia’s balance of payments has deteriorated since the end of the war as imports for reconstruction increased sharply in the face of improving but weak exports. Exports (mainly rubber) improved in 2007, and strengthened still further in 2008 (from 28.3 percent of GDP in 2007 to an estimated 31.1 percent of GDP in 2008), while imports rose from nearly 68 percent to an estimated 90.8 percent of GDP. The current account deficit (including grants) rose slightly, from 37.2 percent of GDP in 2007 to 40.7 percent of GDP in 2008, reflecting increased imports for reconstruction and higher food and oil prices.

Liberia also introduced a number of structural reforms in the first three quarters of 2008 under its Poverty Reduction and Growth Facility (PRGF) program with the IMF (signed in March 2008). Under the PRGF, the Government has focused on rebuilding fiscal institutions, enhancing revenue collection and strengthening public expenditure management. These changes include measures to improve the predictability of budget execution; submission of a comprehensive Public Finance Law; and legislation to effect the merging the Bureau of the Budget into the Ministry of Finance (MoF).

External debt and debt sustainability: Liberia cleared its arrears to the World Bank in December 2007 through a bridge loan provided by a bilateral donor, and then used part of the RRSP proceeds to repay the bridge loan. Liberia’s arrears to the AfDB were also cleared in December 2007 and to the IMF in March 2008. As a result, Liberia reached the Decision Point under the Enhanced HIPC Initiative in March 2008, which enabled the Government to benefit from interim HIPC relief. While interim relief reduced the amount due to creditors, the country’s debt service increased considerably from the token payments previously made, thereby constraining Liberia’s limited fiscal space. Consequently, funding was made available through

---

15 An additional sign of the government’s fiscal prudence is its practice of developing a “core” budget and a “contingent” budget. The latter consists of expenditures that will be financed by revenues that are particularly uncertain (primarily relating to payments from mining concessions and transfers from SOEs); these expenditures will only be authorized if these uncertain revenues are collected.

16 Liberia has been highly dollarized since its founding in 1847, and US dollars account for an estimated 90% of the money supply, with Liberian dollars (mostly coins) circulating alongside.

17 Prior to the conflict, the trade balance grew from a surplus of about US$5.5 million in 1978 to a larger surplus of US$212 million in 1989. By 2004, however, there was a trade deficit of US$325.5 million as a result of the sharp decline in the mining sector, which dropped from 12 percent of GDP in 1988 to 0.08 percent in 2004 owing to the destruction of iron ore mining and transport infrastructure and UNSC sanctions. UNSC sanctions on timber were lifted in 2006 and on diamonds in 2007.

18 Liberia had been in arrears to the Fund since 1984 and its arrears totaled SDR543 million. Following this clearance, the IMF Executive Board approved a three-year arrangement for Liberia under the PRGF and the Extended Fund Facility (EFF) totaling SDR 582 million.
the RRSP to help Liberia meet the foreign exchange costs associated with interim period debt service to the World Bank and to prevent the likelihood of Liberia falling back into arrears.

24. Discussions with Liberia’s six smaller multilateral creditors, regarding the clearance of arrears totaling US$82.9 million, is continuing and has so far led to debt relief by some creditors on terms fully consistent with the HIPC Initiative. The government also reached agreement with the Paris Club creditors in April 2008 which resulted in the immediate cancellation of US$254 million of debt and a suspension of debt service payments between March 2008 and end-December 2010, provided that Liberia continues to satisfactorily implement its PRGF program with the IMF. In December 2008, the government began good-faith negotiations with its commercial creditors, and a debt purchase offer was launched in January 2009 with the intent of extinguishing a significant portion of the debt owed to commercial creditors. The debt purchase is being supported by a grant under the World Bank’s Debt Reduction Facility.

25. A preliminary update of the Debt Sustainability Analysis (DSA) shows an improvement in the long-run outlook relative to the decision. However, the short-term projections for NPV of debt-to-GDP and export ratios are somewhat worse as GDP and exports growth short-term prospects have suffered from the global economic downturn. Liberia’s debt situation is therefore not likely to be manageable until the HIPC completion point is reached, probably in 2010, and the HIPC, MDRI, and other debt relief is delivered.

26. **Domestic debt:** In addition to its substantial external debt, the Government of Liberia has domestic debt of about US$304 million. Approximately 84 percent of the domestic debt is owed to the CBL while the majority of the other claims constitute arrears to government employees and arrears on goods and services.

27. **Debt management:** Both the systems and human capacity of the MoF’s Debt Management Unit was substantially eroded as a result of the civil conflict. The subsequent lack of a comprehensive public debt database severely limits the government’s capacity to generate reliable statistics and report on its debt. To address this problem, the government made substantial progress on the reconciliation of the debt with the syndicate agent and/or current creditor of record to agree on the base amount of principal, contractual interest, interest penalties (where applicable), and the compounding methodology. In addition, the government formulated a comprehensive national debt management strategy setting out the legal and institutional framework governing the contracting and management of debt, as part of its commitments made under the HIPC and the PRGF with the IMF.

28. **Governance:** Poor governance, as manifested in widespread corruption and the abuse of public resources, was a key historical driver of conflict in Liberia. While governance in Liberia

---

19 These creditors were: the OPEC Fund for International Development (OFID); the International Fund for Agricultural Development (IFAD); the Arab Bank for Economic Development in Africa (BADEA); the European Union (EU); the European Investment Bank (EIB); and the Economic Community of West African States (ECOWAS). Arrears to these institutions accounted for approximately 2 percent of Liberia’s arrears.

20 This effort is supported by a technical assistance grant under the Bank’s Debt Reduction Facility (DRF).

21 The HIPC Completion Point is floating and depends upon country performance against: (i) triggers defined in the Decision Point document; (ii) one year of implementation of a full PRSP and a joint Bank-Fund staff favorable evaluation of its performance; and (iii) maintenance of economic stability under a PRGF-supported program.
is still weak by most measures, the government has demonstrated a strong commitment to governance reform and has taken a number of steps to improve governance. It has: (i) developed a comprehensive anti-corruption policy, strategy, and implementation framework and has passed legislation to establish an anti-corruption commission and has nominated the Commissioners; (ii) transformed the Governance Reform Commission established under the Accra Peace Accord into an organ of the State that will continue to monitor the governance reform agenda and process; (iii) established a Truth and Reconciliation Commission and an Independent National Commission for Human Rights; (iv) begun to develop a more professional and efficient civil service and completed a Civil Service Reform Strategy in June 2008; and (v) initiated discussions on decentralization.

The government has demonstrated its commitment to transparency by requiring all ministers to declare their assets. To help ensure transparency, civil society is represented on the EGSC and the GEMAP technical teams and can report freely on GEMAP and its findings. The Government also established the Liberia Extractive Industry Transparency Initiative (LEITI) Secretariat in May 2008 (with membership from the Government, civil society, the private sector and donors) to help ensure transparency and accountability in the mineral and forestry sectors. Liberia became a candidate country for the EITI in September 2007 only 10 months after its initial commitment. In February 2009, the LEITI publicly launched its first report of the receipts and payments from the extractive industries. The Government also cancelled 87 forestry concessions and ordered a review of all the contracts concluded under the NTGL. In addition, the Government has passed a landmark forestry law that ensures that local communities play a greater role in the approval and monitoring of timber concessions and that the communities benefit from the revenues from the concessions. Other notable measures taken by the government is the ratification of the United Nations convention on corruption.

The government has taken significant steps to improve public financial management. It resurrected the Cash Management Committee, which had been created in the 1980s but ceased to function after the outbreak of civil war in 1990, to contain expenditures within available cash revenues. The cash management and commitment control system has improved accountability and transparency and curbed expenditure arrears but will need to evolve in the medium term. In the Ministry of Finance it is necessary to shift responsibility for operating the system away from GEMAP technical experts to those officials of the MOF who would normally be in charge of the payment process, and to rationalize the approval process further, as it currently involves a large number of separate steps. In addition, over the medium term and in the context of the PRSP, the Government needs to shift from cash-based management to increased program budgeting and cash flow forecasting. This transition is beginning with technical assistance support from the World Bank through the Economic Governance and Institutional Reform Project (EGIRP), which is focused on improving the efficiency and transparency in managing public financial and human resources, concentrating on: (i) improving the legal and regulatory framework; (ii) improving the regulatory and administrative framework for procurement; (iii) improving budget preparation and execution; (iv) strengthening internal and external audits to provide better oversight; (v) improve civil service and pay-roll management; (vi) strengthening debt management; and (vii) improving aid coordination.

For example, Liberia scored 2.1 out of 10 in the 2007 Transparency International’s Corruption Perception Index.

The CMC consist of the Minister of Finance as the chairperson and the Minister of Planning, Minister of State for Financial, Economic and Legal Affairs, and the Director-General of the Bureau of Budget are members, along with the public financial management advisor (with co-signatory authority) under GEMAP.
31.  **Poverty Reduction Strategy:** In March 2008, Liberia completed its first full Poverty Reduction Strategy (PRS), which sets forth the government’s priority agenda for a three-year period from April 2008 to June 2011. The PRS was developed through extensive stakeholder participation, including regional consultations across all 15 counties, thematic consultations, and specific stakeholder consultations. Building on the progress made under the 150-Day Action Plan and the I-PRS, the PRS rests on four pillars – Peace and Security, Economic Revitalization, Governance and Rule of Law, and Infrastructure and Basic Services – that reflect much continuity with the I-PRSP.

<table>
<thead>
<tr>
<th>RRSP Prior Action</th>
<th>Status</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adopt administrative measures to ensure that the Cash Management Committee (CMC) is fully operational and effective.</td>
<td>Met</td>
<td>The CMC ceased to function in 1990 but was reconvened in 2004 by the NTGL and Liberia’s partners. It provides the basis for the successful implementation of the Government’s fiscal reforms by (i) ensuring that only items in the annual budget are approved for disbursement, and (ii) there is sufficient cash to finance the expenditure under a balanced cash-based budget.</td>
</tr>
<tr>
<td>Submit to the legislature prior to the commencement of the Fiscal Year beginning July 1, 2007 a bill of law for the approval of its 2007-08 budget.</td>
<td>Met</td>
<td>The legislature had not exercised a role in budget design, approval, or oversight in modern Liberian history. The FY06/07 budget was submitted to the legislature, but lack of experience led to late budget approval and accumulation of salary arrears and other problems.</td>
</tr>
<tr>
<td>Increase government revenues by at least 16% for the period February 1, 2006 through June 30, 2006, and 74% for the entire fiscal year (July 1, 2006 to June 30, 2007) relative to the same periods in the previous fiscal year.</td>
<td>Met</td>
<td>Government commitment to its program can be measured by an increased mobilization of domestic revenues which are transparently declared.</td>
</tr>
<tr>
<td>Meet the official criteria to become a candidate country for the Extractive Industries Transparency Initiative.</td>
<td>Met</td>
<td>Conformance with the four official criteria demonstrates that Liberia is open for business with a transparent governance regime intended to prevent the abuses of the past in forest and mineral exploitation.</td>
</tr>
<tr>
<td>Submit to the President and Chair of the EGSC findings of a report on the legality, transparency, and public benefit of all concessions and contracts signed under the period of the NTGL.</td>
<td>Met</td>
<td>Review of all contracts and concessions entered during the NTGL enables the identification and cancellation of those that were illegal, did not conform to public procurement norms, or did not provide value for money to the Liberian people, and provides basis for awarding new contracts based on the principles of transparency and competitiveness.</td>
</tr>
<tr>
<td>Increase revenues from taxes on international trade by 35% for the period February 1, 2006 through June 30, 2006 compared to the same period in 2005, through improved enforcement of pre-shipment inspection and customs regulations.</td>
<td>Met</td>
<td>Trade taxation (or its avoidance) was a major source of corruption in the past. A 35% increase in tax revenue from international trade, largely through improved enforcement, demonstrates to the Liberian people and the country’s partners a commitment to eliminating the practices of the past.</td>
</tr>
</tbody>
</table>

### 2.2 Major Factors Affecting Implementation:

The PRS was assessed by the Joint IDA-IMF Staff Advisory Note in June 2008 as a “comprehensive, credible medium-term strategy to improve socioeconomic indicators and reduce poverty,” although it was noted that it lacked specificity on the short-run strategy for maintaining social stability and peace until the benefits of the medium-term strategy were widely felt.
32. Two key factors positively affected program implementation. These were strong government ownership and strong donor support and coordination. These are each discussed in turn.

33. Strong Government Ownership: The government demonstrated strong ownership of the reform program supported by the RRSP, continuing the significant progress achieved since the government’s first year in office, including under the 150-Day Action Plan, the GEMAP, and the IMF SMP. The specific reforms supported by the operation were critical elements in the Government’s strategy as set out in the I-PRS and were strongly promoted and advanced by both the President and the Minister of Finance in international fora.

34. This level of ownership also reflected substantial support from civil society. The EGSC, which is the steering committee for the GEMAP, includes representatives from civil society to represent its interests and guarantee the public nature of GEMAP proceedings; the GEMAP technical team also has civil society representation. Moreover, the Liberia Reconstruction and Development Committee (LRDC) includes representatives from civil society. Finally, the I-PRS was developed through a participatory process that involved administrative and technical personnel; elected officials; women and youth leaders; NGOs; the private sector; and the donor community. In sharp contrast to the marginalization previously practiced in Liberia—which contributed heavily to the outbreak of conflict—discussions were conducted on reducing poverty in all of Liberia’s 15 counties by county and development superintendents, tribal chiefs, and clan chiefs. These discussions helped to shape the strategic priorities of the I-PRS.

35. Effective Donor Coordination: Since the Accra Peace Accord in 2003, donor coordination in Liberia has been strong. The RRSP was implemented in the context of the close donor coordination that led to the establishment of the GEMAP by Liberia and its development partners in 2005. The GEMAP is coordinated by the EGSC, which brings together donors, international and regional partners, key ministries, NGOs, and civil society. The JISN was produced jointly by the Bank and the AfDB, as was the subsequent Joint Assistance Strategy (JAS) which is under preparation. The donors have held joint fora to discuss the I-PRS and the PRS and to reiterate their support for the Government’s program.

36. The Bank’s support through the RRSP was a response to Government efforts to align donor support in order to lower transaction costs to the government and to harmonize the policy dialogue with donors around the I-PRS priorities. Donor aid coordination and policy dialogue is managed through the Liberia Reconstruction and Development Committee, chaired by the President, and which serves as a coordinating mechanism for development assistance as well as the oversight body for the I-PRS and the PRS. Through the LRDC, the government articulates its national priorities and works directly with donors to ensure that resources are directed to priority interventions. Both the EGSC and LRDC bring together both donors and key government representatives on a regular basis.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization:

25 The Liberia Partners Forum was co-hosted by the World Bank, US, IMF, EC, and AfDB in 2007 to discuss the I-PRS and a similar forum was supported by the Bank and hosted by Germany in 2008 to discuss the full PRSP.

26 The LRDC is organized in accordance with the four Pillars in the Government’s PRS, thus ensuring that donor support is aligned with the Government’s reform agenda.
37. M&E design, implementation, and utilization are rudimentary in Liberia. Poor quality data is the result of both the destruction of statistical capability, as well as the obsolescence of baseline surveys which are more than a quarter of a century old in an environment where much productive capacity has been destroyed. These data limitations have been exacerbated by weak financial and human resources for M&E. Consequently, the government has had to completely rebuild its statistical capacity and assemble reliable baseline data on poverty, demographics, and key economic sectors. The Liberia Institute of Statistics and Geo-Information Services (LISGIS) -- which was established in 2004 as the principal agency responsible for the collection and publication of official statistics -- has, despite severe capacity constraints, made significant progress, including implementing a number of national surveys; conducting Liberia’s first population census in over 20 years; and developing a National Strategy for the Development of Statistics to provide a framework for the revitalization of statistical capacity in Liberia.

38. Nonetheless, M&E capacity within Government remains generally weak as there are not enough trained persons to collect and analyze data. (The LISGIS relied heavily on external technical assistance to oversee and manage the surveys and other initiatives, as there are few trained statisticians in Liberia.) The lack of reliable and comprehensive household expenditure data posed a challenge in developing the I-PRS and the PRS, and the absence of national income statistics poses major problems to the design of longer-term growth strategies aimed at reducing poverty, while strategic plans for the mining, forestry, and agriculture sectors need more data on production and employment trends.

39. While the Liberia’s overall M&E capabilities are weak, the government was extremely pro-active and focused in conducting M&E in the areas critical to the RRSP’s prior actions (e.g., in regard to external debt and arrears). M&E was also carried out closely in the area of budget expenditures, and the Bank used the RRSP list of anticipated results to both monitor implementation progress and provide technical support for the implementation of the broader Government reform program under the I-PRSP Pillar II. The adequacy of budget execution and monitoring was also addressed by other activities financed under other Bank instruments (e.g., LICUS and TFLIB grants and the EGIRP), as well as by the IMF and other donors.

2.4 Expected Next Phase/Follow-up Operation:

40. The RRSP prepared the ground for possible future support to Liberia through a follow on development policy operation. In anticipation of this support, the RRSP policy matrix proposed “subsequent phases” of reform measures that could sequentially follow on from the key measures and DPO prior actions. Specifically, the operation identified five additional policy and institutional actions that would be needed for possible future support from IDA. These measures were:

- Make the Liberia Expenditure Control and Accounting Program (LECAP) operational in the Ministry of Finance and the Bureau of the Budget.

---

27 The last population census was conducted over 20 years ago, economic statistics were limited to Monrovia, and routine data collection at service delivery agencies collapsed.

28 These include a Core Welfare Indicators Questionnaire (CWIQ) Survey; a Demographic and Health Survey (DHS); a Comprehensive Food Security and Nutrition Survey (CFNS); and a Participatory Poverty Assessment (PPA). A National Population and Housing Census was also planned in 2008.
• Improve the legislative framework for public financial management by submitting to the Legislature a Public Finance Act, as well as an amended Public Procurement and Concessions Act (PPCA). Introduce regulations, manuals, and instructions to implement the PPCA.
• Approve by Cabinet a comprehensive Civil Service Reform strategy and its publication.
• Audit Government accounts for key ministries for FY05-06 and FY06-07.
• Revise the National Investment Code to remove provisions that provide for ad hoc tax incentives to individuals and firms.

41. These measures, plus the continued integrity of the entire budget process, were set as prerequisites for any future development policy support from IDA.

42. As the Government’s maintained its commitment to and continued its progress on its reform agenda, a follow-on operation – the Second Reengagement and Reform Support Program (RRSPII) is being prepared and is scheduled for Board presentation in April 2009. Most of the measures identified above became the prior actions for this follow-on operation, which is expected to be effective in the fourth quarter of 2009. The Government has already prepared the comprehensive civil service reform strategy which has been approved by Cabinet in June 2008 and implementation was formally launched in September 2008. The Government has also implemented the LECAP and has in fact gone beyond the LECAP to a more advanced accounting system (SunSystem) which has given it the capability to produce fairly comprehensive budget reports across ministries. The other prior actions are at fairly advanced stage of completion. The objectives of this US$4.0 million grant are to (i) improve the efficiency of budget preparation and execution and enhance revenue administration; (ii) increase the professionalism and improve the human resource management of the civil service; (iii) improve access to basic services; and (iv) improve the business and investment climate. Assuming satisfactory implementation, a subsequent follow-on program – RRSPIII – is also envisioned.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation

43. The objectives, design, and implementation of this operation were highly relevant to Liberia’s development priorities as expressed in the 150-Day Action Plan, the I-PRS, and subsequent PRS. The RRSP’s design and support were appropriate to country circumstances and were necessitated by Liberia’s exceptional status as a post-conflict country with a history of economic mismanagement and poor governance. The operation was consistent with the Bank’s assistance strategy, was complementary with other Bank activities in Liberia, reflected the Bank’s global priorities, and was closely coordinated with the IMF and the AfDB arrears clearance operations and support in the targeted policy areas. Finally, the RRSP anticipated the potential national and regional risks and identified reasonably appropriate mitigating measures.

44. Consistency with Government Priorities: As noted, the RRSP was consistent with the priorities articulated in the I-PRS; the specific reforms supported by the operation were critical elements in that strategy; and these reforms were strongly promoted and advanced by the Government in international fora.
45. **Program Design:** Owing to Liberia’s fragile security and economic circumstances, program design appropriately proceeded under the Bank’s Operational Policy 8.60 on Development Policy Operations. Liberia received exceptional arrears clearance support from IDA (as discussed with the Executive Directors in 2006 and 2007 and endorsed by IDA deputies in June 2007); this exceptional allocation of IDA resources to finance the full amount of Liberia’s IBRD/IDA arrears was warranted given Liberia’s low level of income, very high level of indebtedness, and lack of capacity to mobilize domestic resources. An exception to the arrears clearance policy under OP13.40 which was approved by the Board was necessary to “address the requirement of the bridge lender to effect an intra-day transaction, which requires the maximum amount of time within that day for the process to be undertaken successfully.”

46. **Relationship with Bank Strategy:** The JISN was closely aligned with the Government’s I-PRSP. The overarching strategy of the JISN was to support Liberia’s transition from post-conflict relief to long-term development, while laying the foundations for sustained and shared economic growth. The strategy was underpinned by a three-pronged approach focusing on rebuilding of state capacity, ensuring visible impact, and strengthening donor coordination. This program design reflected the Bank’s lessons learned from other post-conflict countries and what steps would be needed to prevent back-sliding into conflict; principally, a focus on governance reforms and the need to ensure high levels of donor support for critical reform measures focused on PFM and other governance areas within what was typically a narrow window of opportunity.

47. The RRSP supported the full normalization of relations between IDA and Liberia and was therefore a critical element of the JISN. Moreover, the Bank’s support was embedded in the broader strategy for arrears clearance and the HIPC process. As such, the RRSP was part of an integrated, comprehensive, and multi-donor approach to Liberia’s external debt problem, while also providing support sought by the Government for improved governance.

48. **Complementarities with Other Bank Activities:** The RRSP was implemented in close coordination with other Bank interventions including: (i) analytical work through the Public Expenditure Management and Financial Accountability Review (PEMFAR) to develop an Action Plan for the next phase of public financial management (PFM) reforms; and (ii) Technical assistance through: (a) a US$6 million Technical Assistance Grant to provide

---

29 OP 8.60 notes that “countries affected by crisis or conflict may require an unusually quick response from the Bank. There may not be sufficient time or country capacity to adequately address design considerations (such as possible distributional effects, effects on natural resources and the environment, fiduciary arrangements), or a strong policy program developed with stakeholder consultation.”

30 At informal meetings on November 28, 2006 and February 8, 2007, the Executive Directors expressed support for an approach to clearing Liberia’s arrears to IBRD and IDA that relied on an exceptional allocation of IDA resources. A systematic approach to arrears clearance was further discussed by the Executive Directors on June 20, 2007. This approach was also discussed and endorsed by the IDA deputies on June 30, 2007. See IDA 15 policy paper “Further Elaboration of a Systematic Approach to Arrears Clearance”, June 2007.

31 This exceptional approach was consistent with that of the AfDB and the IMF. Under the AfDB’s Post Conflict Country Facility (PCFF) framework, arrears clearance would typically be shared equally between the borrower, the PCFF, and donors. Given Liberia’s limited payment capacity, however, one third of the cost was financed by bilateral donors and two-thirds from PCFF resources; in recognition of Liberia’s weak financial resources, bilateral donor assistance also financed the 1 percent contribution that typically would have been required from Liberia. Likewise, the IMF Executive Board amended the IMF’s PRGF-HIPC Trust Instrument to allow certain SMPs in clearly defined circumstances to count towards the track record under the HIPC initiative, and subsequently agreed that Liberia’s performance under its SMP satisfied this provision.

32 The PEMFAR also includes a Country Financial Accountability Assessment (CFAA), a Country Procurement Assessment Review (CPAR), an assessment of the systems and arrangements for budget planning, and an analysis of public expenditure allocations.
continued support to the government for implementation of the GEMAP and any other needed reforms identified by PEMFAR or to gain the HIPC Completion Point; (b) LICUS and TFLIB grant funding of US$7.2 million to support efforts by the Liberian Agency for Community Empowerment (LACE) to foster local governance; (c) a technical assistance grant for US$11 million through the Economic Governance and Institutional Reform Project (EGIRP) to provide medium-term support to improve the efficiency and transparency in managing financial and human resources focusing on revenue administration, public procurement, budget execution and payroll management, as well as to improve financial management and governance in the mining sector; (d) budget training for members of the new legislature from the World Bank Institute; and (e) statistical capacity building assistance from the Statistical Capacity Building Trust Fund administered by the Bank.

49. **Alignment with Good Practice Principles on Conditionality**: The RRSP was explicitly aligned with the Bank’s five Good Practice Principles on Conditionality. In accordance with these principles, the RRSP reinforced ownership by being embedded in the GEMAP framework and through its alignment with the I-PRS; used the EGSC performance indicators and I-PRS matrices as a coordinated accountability framework; customized the accountability framework by aligning IDA’s support with that of other donors to lower government transaction costs; and used a focused set of prior actions that were chosen in conjunction with the Government and other partners. In addition, transparent progress reviews were made by the EGSC bi-annually, through sessions chaired by the President, and supported by representatives of the administration, donors, and civil society.

50. **Risks and Risk Mitigation**: The RRSP largely recognized the principal domestic and regional threats to the program and realistically identified mitigating measures to address these risks (see Table 3). During the implementation of the operation, these risks to the program either did not transpire or were successfully addressed. However, the operation did not anticipate the macroeconomic risk posed by a possible food or fuel price crisis. In fact, the global surge in food and fuel prices led to a widening of the trade deficit in 2008, and was a primary factor underlying the surge in inflation in the first three quarters of 2008. rice is an important part of the Liberian diet and the approximately 120 percent increase in international rice prices (in the twelve months prior to September 2008) posed a threat to food security. However, the price shock had no material impact on program implementation as it was successfully mitigated through several measures, including an expansion of food aid to vulnerable households and the temporary suspension of the rice import levy. These measures were implemented with financial support of Liberia’s partners (including the World Bank’s provision of US$10 million in support delivered through the Emergency Food Crisis Response Program).

---

33 As measured year-on-year in September 2008.
Table 3: RRSP Anticipated Risks and Mitigating Factors

<table>
<thead>
<tr>
<th>Risk</th>
<th>Mitigating Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Security risk</strong>, from violence in the sub-region</td>
<td>Outside of operation’s scope, but other development partners would remain closely involved</td>
</tr>
<tr>
<td><strong>Political risk</strong>, from the interests represented by the opposition-led legislature</td>
<td>Broad-based and frequent consultation with stakeholders and Parliament to strengthen the case for reform</td>
</tr>
<tr>
<td><strong>Macroeconomic risk</strong>, from a government failure to adhere to a responsible medium-term framework and a relapse into arrears</td>
<td>Close monitoring by the Bank, IMF, and donors; increased access to donor and other resources following arrears clearance; and an acceleration, if warranted by performance, of HIPC timetable</td>
</tr>
<tr>
<td><strong>Fiduciary risk</strong>, from a failure to suppress corruption or make effective use of the fiscal space arising from arrears clearance and budget support</td>
<td>Combination of GEMAP, a PEMFAR, further technical assistance provided through the EGIRP, and capacity building</td>
</tr>
<tr>
<td><strong>Implementation risk</strong>, arising from limited implementation capacity</td>
<td>Capacity building efforts, including an active training program by the Bank (including through the EGIRP) and other partners</td>
</tr>
</tbody>
</table>

3.2 Achievement of Program Development Objectives

51. The RRSP successfully achieved its PDOs by (i) facilitating the clearance of Liberia’s arrears to the IBRD and IDA, thereby normalizing relations between Liberia and the World Bank; and (ii) supporting the government’s efforts to firmly establish the fiscal underpinnings for recovery and for the provision of essential public services in the context of the I-PRS. In addition to clearing Liberia’s arrears, funding provided under the RRSP also enabled the government to remain current on its external debt obligations and fund immediate budgeted fiscal needs including for key social services. Under the RRSP, the World Bank has been one of the government’s key partners in stabilizing the fiscal situation and improving fiscal management through its efforts to improve the budget preparation process; implement an interim commitment control system to prevent the accumulation of domestic arrears; introduce better financial controls in key state-owned enterprises; enact and implement a new procurement law; and introduce regular fiscal reporting. Moreover, these measures have been pursued in the context of public transparency regarding both revenues and expenditures, including extensive civil society participation in the EGSC, the LRDC and the LEITI.

52. In addition to achieving its PDOs, the RRSP met most of the eight specific results that were expected (in the Program Document) to be achieved by the time of grant closing on September 30, 2008. As detailed in Table 4 these outcomes were achieved with some delay, due to capacity constraints and despite strong government commitment and significant technical assistance provided by the Bank and other donors.
<table>
<thead>
<tr>
<th>Anticipated Result</th>
<th>Actual Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liberia is current with its main official creditors following the HIPC Decision Point.</td>
<td>As of end-February 2009, Liberia was current on its payments to main official creditors.</td>
</tr>
<tr>
<td>The Liberia Expenditure Control and Accounting Program is operational in the Ministry of Finance and the Bureau of the Budget.</td>
<td>In 2007, the Liberia Expenditure Control and Accounting Program (LECAP) was operationalized in the Ministry of Finance and the Bureau of the Budget. This was a transitional step to create a basic system to meet the specific requirements of the Ministry of Finance for budget monitoring, listing of payment vouchers for Cash Management Committee approval, printing of checks and preparation of monthly expenditure statements.</td>
</tr>
<tr>
<td>Liberia continues to qualify as a candidate for the Extractive Industries Transparency Initiative (EITI).</td>
<td>Progress on the EITI process continued satisfactorily. Disclosure and publication of information on payment and revenue transactions covered by EITI was made binding on all government agencies and extractive companies in September 2008. The first EITI report on extractive industry payments and revenues was prepared and made public in February 2009. Specific legislation is planned to deepen commitment to EITI principles.</td>
</tr>
<tr>
<td>Amendments to the Public Procurement and Concessions Act (PPCA) and a new Public Finance Act have been submitted to the Legislature.</td>
<td>Review of PPCA finalized, amended draft PPCC Act was completed in February 2009 and its submission to the Legislature expected in March 2009. Limited procurement capacity and a culture of non-competitive procurement have made procurement reform particularly challenging.</td>
</tr>
<tr>
<td>Regulations, manuals, and instructions to implement the PPCA have been published.</td>
<td>The final draft of the implementing regulations to provide guidance to ministries and agencies on correct procurement procedures was completed and publication is expected in March 2009.</td>
</tr>
<tr>
<td>A comprehensive Civil Service Reform Strategy has been approved by the Cabinet and published.</td>
<td>A Civil Service Reform Strategy was completed in June 2008. The strategy was approved by the Parliament in June 2008 and has been published on the Web.</td>
</tr>
<tr>
<td>Audits targeting the agencies and ministries posing the largest fiduciary and financial risk have been produced for FY05-06 and FY06-07.</td>
<td>External audits for the MoF for FY05-06 and FY06-07 have been completed and the audits for the other four key Ministries of Education; Health; Public Works; and Lands, Mines, and Energy are at an advanced state of completion and are expected to be completed by end-March. The delay in the completion of the audit reflects, in part, the severe capacity constraint in ministries to produce the documentation required for the audits.</td>
</tr>
<tr>
<td>A revised National Investment Code no longer includes provisions for ad hoc tax incentives to individuals and firms.</td>
<td>The Investment Code to ban tax exemptions other than those specified in the Liberia Revenue Code has been finalized, and is expected to be submitted for legislative approval in March 2009.</td>
</tr>
</tbody>
</table>
53. Although it is often difficult to disaggregate the impact of a DPO from that of other Bank projects, other donor efforts, Government initiatives and exogenous shocks, the RRSP clearly had a discernible and unique impact on the restoration of relations between Liberia and its multilateral and bilateral partners, thereby enabling both an increased inflow of lending by the Bank and other donors and setting Liberia on the path toward recovery. Absent the catalytical role played by the RRSP, Liberia would have remained a deeply indebted nation, in arrears to its creditors, and lacking the resources to tackle the immense developmental challenges facing the country.

3.3 Justification of Overall Outcome Rating
Rating: Satisfactory

54. This operation is rated satisfactory. The credit’s objectives, design, implementation, and outcomes were highly relevant to Liberia’s development priorities and country circumstances as defined in its I-PRS and subsequent PRS, and as articulated in public statements by the government. The operation’s PDOs were broadly achieved, as were anticipated results essential to the continuation and consolidation of the ongoing reform progress (see Table 4 above). This DPO was appropriately supported by technical assistance provided through complementary Bank activities in the areas of capacity building and PFM strengthening through the Economic Governance and Institutional Reform Project and other grants (see section 3.1). The RRSP was a central element of the Bank’s strategy as outlined in the JISN, as well as of the broader reconstruction and growth strategy supported by the Liberia’s partners. Clearance of Liberia’s arrears to the IBRD/IDA proved catalytical to unlocking additional donor resources and setting the stage for full debt relief under the HIPC and MDRI. Moreover, these outcomes are also highly relevant to Liberia’s and the Bank’s medium-term development priorities in that the reforms achieved under the RRSP have laid the framework for the next stage of reforms in the context of the full PRS developed in March 2008.

3.4 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

55. The operation anticipated positive poverty impacts through the distributional effects from improved public financial management and better targeting of social assistance. In addition, the grant was expected to enhance the country’s capacity to better provide basic services with a high beneficial impact on the poor in the period after arrears clearance. It was also anticipated that IDA support through this operation would have an important signaling role and serve as a catalyst for the other donors to increase and accelerate their support to Liberia. The distributional changes were manifest in the 2008/09 budget where the allocations for the core poverty ministries including Public Works, Education, Health and Agriculture were increased by more than 50 percent over the 2007/08 budget. The increase in expenditures are expected to improve infrastructure, expand access to the Basic Package of Health Services, rehabilitate and construct schools and enhance to country’s capacity to improve agriculture—a sector in which a large proportion of the poor is engaged. The allocation in the 2008/09 budget of resources for development activities in the counties has also increased 300 percent over the 2007/08 budget. This implies, potentially, a better distribution of resources to the poor across the counties.
56. Although there have been some difficulties in tracking donor support in Liberia owing to the fact that such a large share of donor support is outside of the budget, there are indications that donor support to Liberia has increased following the clearance of the arrears. Furthermore, with the improvement in public financial management supported by this operation, the AfDB has since provided direct budget support and the EU is currently considering the provision of budget support.

(b) Institutional Change/Strengthening

57. When the RRSP was prepared, the Liberian Government was characterized by exceptionally weak capacity, even by low income developing countries standards. The prolonged civil conflict resulted in the loss of much institutional capacity and the near-total breakdown of established practices and procedures notably for public financial management. The lack of a reliable debt recording system and a comprehensive public debt database severely limited the government’s capacity to generate reliable debt statistics. Moreover, most of the civil servants recruited over the previous two decades, and a large share of the state-owned enterprise (SOE) staff were unqualified, poorly educated, patronage appointees. This low level of staff education and training made capacity building difficult.

58. The RRSP was accompanied by intensive technical assistance provided by the Bank and other donors in the areas covered by the operation. Bank-supported training has strengthened legislators’ budget oversight capability and improved statistical capacity. An EITI Secretariat was established as part of Liberia’s compliance with the extractive industry initiative (a prior action) with extensive support from the World Bank and other donors. Similarly, although the Cash Management Committee (CMC) existed prior to this operation, it only became active and obtained the authority and capability to monitor and account for transactions in the context of the RRSP (CMC effectiveness was a prior action).

(c) Other Unintended Outcomes and Impacts (positive or negative, if any)

None.

3.5 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

Not applicable.

4. Assessment of Risk to Development Outcome
Rating: Significant

59. The reforms achieved under the operation are likely to be sustained over the long term owing to the strong ownership of and the commitment to these reforms from the Government. Indeed some of these reforms themselves serve to mitigate some of the risks of factors which could themselves serve to undermine the reforms. However, Liberia is a small open economy attempting to embark on a path of sustainable economic growth after 14 years of economic destruction and intra-country and regional conflict and as such is predisposed to extraordinary endogenous and exogenous risks that could threaten the sustainability of the reforms resulting from the operation. These risks and the mitigating measures being employed are discussed below.
60. **Security risks:** The security situation in Liberia remains fragile because a significant number of mostly unemployed ex-combatants have not yet been reintegrated into society. Moreover, there are few strong domestic institutions that can mediate conflicts and enable their resolution without recourse to violence. In addition, the political situation in Liberia’s neighbors, Côte d’Ivoire, Guinea, and Guinea-Bissau remains fragile. Preventing another outbreak of conflict will require the development of effective security institutions based in law and subject to civilian authority, and continued efforts to promote both domestic and sub-regional peace and security.

61. **Institutional, capacity, and governance weaknesses:** Several decades of conflict, conflict-driven emigration, and a legacy of corruption have sharply reduced the pool of basic domestic competence and integrity required for economic management. Despite recent improvements, poor governance – which was a key factor underlying the civil conflict and mismanagement of the past 25 years – remains a problem. Even a modest increase in regional conflict or domestic criminality could adversely affect the return of the diaspora whose skills are required to re-launch the private sector and build government competence. Finally, although the government has made notable improvements in transparency, accountability, and the effectiveness of the country’s financial management systems, additional work is needed and will only be achievable through the sustained engagement of Liberia’s international partners.

62. **Macroeconomic:** Current debt levels remain unsustainable and will probably not become manageable until the HIPC completion point is reached, probably in 2010. Accordingly, the country is highly vulnerable to domestic and external shocks and to any negative impact of the global financial crisis on foreign investment flows, exports, or remittances. Moreover, any continued appreciation in the US dollar will contribute to slower growth through its impact on Liberia’s exports. Finally, inadequate infrastructure, particularly roads and ports, and an institutional environment that is still not conducive to private sector development, will continue to affect Liberia’s competitiveness and consequently its ability to attract FDI.

63. **Legislative:** Democratic rule is always fraught with potential limitations on a government’s ability to enact reforms. The Liberian legislature is currently led by the opposition, which means that obtaining legislative approval of the government’s proposed reforms – particularly the PFM, public administration, and investment framework reforms critical to improved governance and growth -- may face considerable hurdles.

These risks are mitigated by the following measures:

64. **Continued strong commitment from Liberia’s partners:** Liberia continues to benefit from the considerable support of the international community, and the UN, the IFIs, and Liberia’s bilateral development partners and NGOs are continuing to provide substantial financial and technical assistance. Economic governance is being strengthened through ongoing financial management technical assistance being provided by the World Bank, US, the AfDB, and other donors in the areas of expenditure management; tax administration; concessions review; institutional reform; revenue administration and accountability; and budget execution and reporting, among other areas. Human resource capacity weaknesses are being addressed through a variety of multi-donor efforts, including the creation of a Senior Executive Service, as well as through the Bank’s Economic Governance and Institutional Reform Project (EGIRP) and follow-
on RRSPII. The United States Government and United Nations Mission in Liberia (UNMIL) has provided strong support to the Government to maintain peace and at the same time provide the necessary technical assistance to train Liberian police and military to take over responsibility for maintaining the peace over the medium-term as the UNMIL forces are drawn down.

65. **Positive macroeconomic trends:** Liberia has continued to demonstrate a strong commitment to fiscal prudence, including adherence to a cash-balanced budget with zero borrowing. Revenue performance is likely to strengthen as timber and iron ore exports recommence. The PRGF program is in its second year and remains on track. Policies for the second year are aimed at continued progress in strengthening PFM, monetary and financial sector policies, and governance, and improving data availability and quality. Close economic monitoring by the IMF, World Bank, and other donors will help keep the program on track. While a strong US dollar may weaken the competitiveness of Liberia’s exports, the country’s high level of dollarization will likely continue to contribute positively to economic stability. Finally, global food and oil prices are falling in response to the world economic downturn.

66. **Legislative strengthening:** The Bank is currently providing training for legislators and legislative staff and technical assistance to help the government explain its programs to legislators and build support for it.

5. **Assessment of Bank and Borrower Performance**

5.1 **Bank Performance**

(a) **Bank Performance in Ensuring Quality at Entry**
Rating: Satisfactory

67. This operation entailed an extensive and wide-ranging effort to ensure quality at entry. Prior to this operation, neither the Bank nor the IMF and AfDB had existing policies to allow for arrears clearance of this scale. Consequently, an exceptional amount of preparation and ingenuity was required by the Bank in order to manage the risks relating to the timing of the operation to ensure that this clearance could take place on a sequential and harmonized basis with the IMF and the AfDB. This preparation, plus that relating to arranging the bridge loan, required a concerted and cross-institutional effort that went far beyond that needed to prepare a typical operation. Owing to the size and complexity of Liberia’s arrears, the arrears clearance aspect of the operation was both unprecedented and structurally complex, and required Bank staff to develop new rules and exceptions to IDA allocation policies to make it possible. As a consequence, this operation provided an important roadmap for subsequent arrears clearance operations within the Bank (e.g., Togo and Côte d’Ivoire), as well for the application of IDA’s exceptional arrears clearance policy.

68. Quality at entry was also ensured through a high level of relevance between the JISN, which provided the operational framework for the RRSP, and the I-PRS; and explicit
incorporation of the Bank’s good practice principles on conditionality into program design and implementation. As noted, the RRSP was highly consistent with Bank and donor priorities and was developed in close concert with the government and Liberia’s partners. Finally, the prior actions were appropriately focused, ensuring that they targeted central reform needs in the country. While the operation failed to identify the potential global macroeconomic risk posed by a possible increase in commodity prices, the increase that did occur did not materially affect the program and successful mitigating measures were implemented rapidly.

69. The Bank worked closely with the IMF on numerous aspects of this program, including supporting GEMAP from its beginning as well as joint work in a number of areas, including the Debt Sustainability Analysis; arrears clearance and the HIPC process to decision point; monitoring fiscal developments; support to the government’s preparation of its PRS; and support for strengthening Liberia’s statistical capacity. In addition, while both institutions took the lead in their respective areas of strength (e.g., medium-term fiscal framework for the IMF, and public expenditure, financial accountability and governance in the natural resources sectors for the Bank), these were performed in close coordination and collaboration between the two institutions. This close collaboration was institutionalized in the form of a Joint Management Action Plan (JMAP) for FY08/FY09 delineating the respective responsibilities of the Bank and the Fund.

(b) Quality of Supervision
Rating: Satisfactory

70. Supervision was carried out through close and regular consultations with the government and other development partners through the GEMAP, EGSC and the LRDC, which both reduced transaction costs for the government and ensured program adherence to the government’s development priorities. As detailed above, supervision took place in close collaboration with the IMF across a number of areas. Finally, close consultation with other development partners continued in the preparation of the Joint Country Assistance Strategy in 2008, and through regular meetings with the donors and government to confer on strategy and implementation issues. The Bank also provided support on an accelerated basis to the Government to address the impact of the food and oil price increases (Liberia was one of the first countries to benefit from assistance from the Bank under the Bank’s Global Food Crisis Response Program (GFRP)). Bank supervision for RRSP (with the TTL based in the field first half of 2008) was also conducted as part of the preparation of RRSP II. However, an Implementation Status and Results Report (ISR) was not submitted through the operations portal prior to the closing of the operation. This was due primarily to system process failure.

(c) Justification of Rating for Overall Bank Performance
Rating: Satisfactory

71. The RRSP was a well-designed and implemented operation. As Bank performance for both quality at entry and supervision was rated satisfactory, overall Bank performance is rated satisfactory.

5.2 Borrower Performance

Note: According to the ICRR Guidelines, if Government and the implementing agency are indistinguishable, particularly for development policy operations, a rating and justification is provided only for Overall Borrower Performance, as done in Section (a) below.
(a) Government Performance
Rating: Satisfactory

72. The Government of Liberia’s performance during the RRSP operation was satisfactory, as reflected in the government’s ownership of, and commitment to, the reform program; measurable reform progress; extensive civil society participation; and a substantive commitment to improved transparency. Since taking office, the Government has accorded high priority to improving economic governance and strengthening public administration as it sought to rebuild the country and ensure a sustainable peace, and these priorities remained a key focus of the I-PRS. Government ownership of the program was high (as discussed above in Section 2.2 “Major Factors Affecting Implementation”). The reforms supported by the operation were key elements of the Government’s I-PRS and were strongly promoted and advanced by both the President and the Minister of Finance in international fora. In addition, the Government has maintained good coordination with the donor community in the areas covered by the RRSP, including regular dialogue with donors through the LRDC and the GEMAP.

73. As shown in Section 2.1 (“Program Performance”) and Section 3.2 (“Achievement of Program Development Objectives”) above, significant progress was made towards the government’s objectives of stabilizing the fiscal situation and improving fiscal management, including maintaining a solid macroeconomic and fiscal performance; normalization of relations with the IBRD/IDA and satisfactory resolution of Liberia’s external debt, including reaching the HIPC Decision Point; strengthened debt management and the implementation of a number of structural reforms; improved governance notably in the areas of public financial management and the management of natural resources; and adoption of a full PRSP. Notably, the PRSP was a comprehensive document that was prepared in a short amount of time with only limited capacity. This significant progress was achieved despite Liberia’s considerable implementation capacity limitations.

74. Moreover, in sharp contrast to the exclusionary policies of the past, civil society has played a key role in the reform program supported by the RRSP. The I-PRS was the result of a historically unprecedented and comprehensive participatory process with the public and key stakeholders; this process was made more extensive for the development of the PRSP, including the use of nationwide stakeholder consultations to prioritize interventions in the area of infrastructure and basic services. Civil society is also represented on the LEITI Committee, EGSC and the GEMAP technical team and reports freely on GEMAP and its findings, thereby helping to ensure transparency.

75. Finally, the government’s strategy for stabilizing the fiscal situation and improving fiscal management was accomplished in the context of a new regime for public transparency regarding revenues and expenditures. The government’s commitment to transparency is laudable, as shown by the requirement that all ministers declare their assets; the establishment of the LEITI to help ensure transparency in the mineral and forestry sectors; the cancellation of 87 forestry concessions and a review of the contracts concluded under the NTGL; and implementation of other governance measures such as the establishment of the independent Liberia Anti-Corruption Commission. Transparency was also introduced into the budget process, which – in addition to the transparency resulting from the newly established legislative budget

- 24 -
review and approval process\textsuperscript{35} -- includes the posting of the draft annual budget, approved annual budget, budget execution documents, and revenue and expenditure reports on a public website (www.mofliberia.org). Similarly, the PRS was also posted on the Presidential and Finance Ministry websites.

(b) Implementing Agency or Agencies Performance
Rating:

(c) Justification of Rating for Overall Borrower Performance
Rating: Satisfactory

76. ICRR Guidelines (Appendix A) identify nine criteria for rating Government performance. Overall Government performance is rated \textit{satisfactory} in accordance with seven of these criteria:

- Government ownership and commitment to achieving the development objectives was strong.
- The enabling environment included supportive macro, sectoral, and institutional policies appropriate to country circumstances.
- Stakeholders and civil society were consulted extensively at the beginning of the I-PRS development, and again -- and more extensively -- in the formation of the PRS—the RRSP supported key reforms of the I-PRS.
- Fiduciary requirements were met satisfactorily.
- Most implementation issues were resolved on a timely basis.
- The relationships and coordination with the Bank and other donors through the EGSC and the LRDC were excellent throughout.
- The I-PRS and the PRS provide a comprehensive framework for continued growth and poverty reduction and transition to the next series of operations.

77. The Government’s performance is rated \textit{moderately satisfactory} with regard to two criteria: (i) the adequacy of the Government’s readiness for implementation and capacity, and (ii) M&E arrangements, including the utilization of M&E data in decision-making and resource allocation. This weaker rating is warranted not because of the government’s unwillingness to perform well in these areas, but simply because the (post-conflict) initial base of Liberia’s human and technical capacity constraints was substantial. Nonetheless, government performance overall is rated satisfactory in light of the satisfactory ratings on seven out of the nine criteria and the significant post-conflict challenges facing the country.

6. Lessons Learned

78. This operation shows the positive gains that can be made in the context of a well designed program with strong Government commitment. The specific lessons that can be learned from the success of this operation include:

\textsuperscript{35} The legislative review of the budget began with the 2006/07 budget preceding this operation, but legislative review in itself was historically new in Liberia.
a) embedding the policy reforms, including the prior actions, in the government’s reform agenda as articulated in the I-PRSP, the RRSP encouraged strong ownership from the operation’s onset. As seen, this strong level of ownership was a key contributor to the successful implementation of the RRSP.

b) in post-conflict countries such as Liberia with limited capacity, it is particularly important to select a focused number of prior actions that are deemed essential to supporting the government’s broader reform program. Such selectivity will not only reduce the transactions costs on a government that is already burdened by multiple management demands, but it will also increase the likelihood that such focused actions are both likely to be enacted and to move the reform program forward. Similarly, the anticipated results of the operation were defined realistically and taking into account the government’s implementation capacity.

c) In countries where base capacity is weak for what ever reasons (post-conflict, small country, etc) it is necessary to ensure that Development Policy Operations are accompanied by a critical mass of technical assistance to ensure that the commitment and willingness to reform is supported by the capacity to reform. This particular lesson is exemplified by the delay in completing the audits in key ministries. Although undoubtedly there was strong commitment to complete these audits, the weak capacity within the ministries hampered the preparation of quality documentation to facilitate the conduct of timely audits. This is also the lesson which is learned from the challenges of reforming procurement—so critical to the implementation of priority projects—in an environment where there is not only weak capacity but also not culture of competitive procurement.

d) The effectiveness of Bank supported policy and institutional reform operations can be enhanced by its complementarities with other Bank financed operation and the efforts of other active donors in the reform areas.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/Implementing agencies

Please see Annex 4

(b) Cofinanciers

(c) Other partners and stakeholders
Annex 1: Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

<table>
<thead>
<tr>
<th>Names</th>
<th>Title</th>
<th>Unit</th>
<th>Responsibility/Specialty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eric Nelson</td>
<td>Sr. Economist</td>
<td>AFTP4</td>
<td>Team Leader</td>
</tr>
<tr>
<td>Eduardo Brito</td>
<td>Sr. Counsel</td>
<td>LEGAF</td>
<td>Legal</td>
</tr>
<tr>
<td>Emmanuel Fiadzo</td>
<td>Sr. Economist</td>
<td>AFPT4</td>
<td>Economist/Team Leader</td>
</tr>
<tr>
<td>Rajiv Sondhi</td>
<td>Sr. Finance Officer</td>
<td>LOAFC</td>
<td>Finance Officer</td>
</tr>
<tr>
<td>Van Vu Nichols</td>
<td>Portfolio Officer</td>
<td>ACTCF</td>
<td>Loan Accounting officer</td>
</tr>
<tr>
<td>Malvina Pollock</td>
<td>Consultant</td>
<td>DECDG</td>
<td>Consultant</td>
</tr>
<tr>
<td>Furzana Banu Jamal Mohamed</td>
<td>Finance Assistant</td>
<td>LOADM</td>
<td>Finance Assistant</td>
</tr>
<tr>
<td>Ivar Anderson</td>
<td>Lead Operations Officer</td>
<td>CFPIR</td>
<td>Operations</td>
</tr>
<tr>
<td>Pilar Maisterra</td>
<td>Country Program Coordinator</td>
<td>AFCW1</td>
<td>Country Program Coordinator</td>
</tr>
<tr>
<td>Gláucia Reis Ferreira</td>
<td>Program Assistant</td>
<td>AFTP4</td>
<td>Program Assistance</td>
</tr>
</tbody>
</table>

(b) Staff Time and Cost

<table>
<thead>
<tr>
<th>Stage</th>
<th>Staff Time and Cost (Bank Budget Only)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of staff weeks</td>
<td>USD Thousands (including travel and consultant costs)</td>
<td></td>
</tr>
<tr>
<td>Lending</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY08</td>
<td>35</td>
<td>184.10</td>
<td></td>
</tr>
<tr>
<td>FY09</td>
<td>0.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total:</td>
<td>35</td>
<td>184.10</td>
<td></td>
</tr>
</tbody>
</table>

Supervision

<table>
<thead>
<tr>
<th>Stage</th>
<th>Staff Time and Cost (Bank Budget Only)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of staff weeks</td>
<td>USD Thousands (including travel and consultant costs)</td>
<td></td>
</tr>
<tr>
<td>Supervision</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total:</td>
<td></td>
<td>0.00</td>
<td></td>
</tr>
</tbody>
</table>

36 The cost of supervision for the operation was covered under the budgets for related operations/tasks as well as under the budget for the preparation budget for RRSPPII.
Annex 2: Beneficiary Survey Results

Not applicable.
Annex 3: Stakeholder Workshop Report and Results

Not applicable.
Annex 4: Summary of Borrower's ICR and/or Comments on Draft ICR
Government of Liberia
RRSP Implementation Completion Report

(i) Assessment of the operation’s objective, design, implementation, and operational experience

The design, implementation and operational experience were all positive, as evidenced by the program’s success. While Liberia was not servicing any of its debt at the inception of the operation, the benefits have been tangible, with the RRSP a necessary step in the long road to rehabilitating Liberia’s standing with the International Financial Institutions. The combining of arrears clearance with the strengthening of the government’s public financial management program was logical and well-designed.

(ii) Assessment of the outcome of the operation against the agreed objectives

Before the RRSP, the Government of Liberia was in arrears to the IBRD and IDA, among other institutions, and public financial management capacity was extremely limited. At the close of the RRSP, Liberia had reached the Enhanced HIPC Decision Point, and the fiscal authorities had made headway on an ambitious reform program aiming to rebuild Liberia’ public financial management capacity. Although both outcomes were the result of efforts on multiple fronts, the RRSP contributed significantly to the achievement of the goals.

(iii) Evaluation of the borrower’s own performance during the preparation and implementation of the operation, with special emphasis on lessons learned that may be helpful in the future

While many challenges remain in Liberia, that should not discount the rapid progress made during the period of the RRSP. In fact, the high expectations for the next phase of reform are the result of the initial success and extent of reform and progress in Liberia, with an ambitious set of further targets and goals. The attainment of each of the triggers in the Liberian context is a significant achievement. Government revenue performance has been exemplary, and the country has moved forward quickly on the Extractive Industries Transparency Initiative.

During the implementation phase, capacity continued to be the binding constraint given Liberia’s post-conflict difficulties. Striking the proper balance between achievable and ambitious targets continues to be an art that is not always fully appreciated by either those in country or donors. While strong government ownership continues to be a pre-requisite to the success of such programs, the amount of work to be done stretches both human and financial resources.

(iv) Evaluation of the performance of the Bank, any co-financiers, or of other partners during the preparation and implementation of the operation, including the effectiveness of their relationships, with special emphasis on lessons learned

The Bank has been a valuable partner in helping the government during the RRSP period, which was a time marked by a rapidly changing environment. The International Monetary Fund also played a key role. A key lesson learned in terms of the relationships with partners is that in an
environment such as Liberia, a flexible, collaborative approach is not only beneficial but necessary in order to contribute to and achieve the Government’s reform program.

In general, the stronger the in-country presence, the better able the country is to both manage the complexities of the World Bank, and for the World Bank to understand the challenges on the ground and respond to them in a proactive, constructive manner.

(v) **Description of the proposed arrangements for future operation of the project.**

(Not applicable)
Annex 5: Comments of Cofinanciers and Other Partners/Stakeholders

Not Applicable
Annex 6: List of Supporting Documents

**World Bank** (chronological order)


Memorandum and Recommendations of the President of the International Development Association to the Executive Directors on Assistance to the Republic of Liberia under the Enhanced HIPC Debt Initiative, Report no. 42524-LR, February 27, 2008.


International Monetary Fund (chronological order)


Supervision Aide-Memoires of RRSP II
Annex 7: Liberia Map Number 33435R2