



# Building Financial Management Capacity in Fragile and Conflict-Affected States

*The Case of Liberia*







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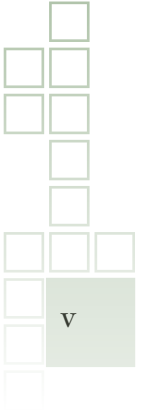
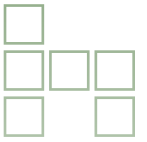


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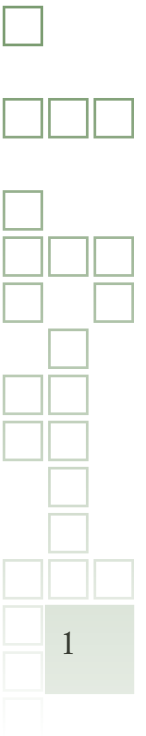


# Abbreviations and Acronyms

ABWA	Accountancy Bodies of West Africa
ASTWA	Accountancy Technician's Scheme of West Africa
CAG	Comptroller and Accountant General
CAGD	Comptroller and Accountant General's Division
CAS	Country Assistance Strategy
CSA	Civil Service Agency
EGIRP	Economic Governance and Institutional Reform Project
EGSC	Economic Governance Steering Committee
FCS	Fragile and Conflict Afflicted States
FM	Financial management
FMTP	Financial Management Training Program
GEMAP	Governance and Economic Management Assistance Project
IDF	Institutional Development Fund
IIU	Infrastructure Implementation Unit
IPFMRP	Integrated Public Financial Management Reform Project
LICPA	Liberia Institute of Certified Public Accountants
LICUS	Low-Income Countries Under Stress
LIPA	Liberia Institute of Public Administration
M&As	Ministries and Agencies
MOF	Ministry of Finance
NTGL	National Transitional Government of Liberia
PFM	Public Financial Management
PFMU	Project Financial Management Unit
SIU	Special Implementation Unit







# I. Introduction

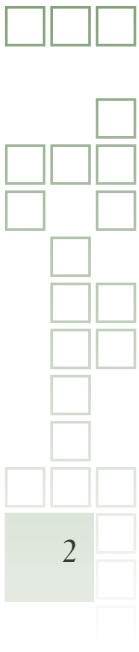
This paper examines Liberia’s financial management (FM) capacity building initiatives from the immediate aftermath of the 14-year civil war to date, and the lessons that could be drawn from such experiences for future efforts in the country and others faced with similar circumstances. The paper focuses on the merits and shortcomings of both donor-supported and country-led initiatives that had FM skills development as a central theme.

Following the 14-year civil conflict, Liberia was confronted with an enormous FM skills deficit as most professionals had fled the country during the war. The prevailing weak fiduciary environment and the significant risks posed did not support the use of country systems for implementing donor-supported programs and those financed from the country’s own budgetary resources.

The challenge then was to rise from the ashes, created by the devastating impact of the civil war, to create a state that has both the capacity and willingness to mobilize resources, exercise political power, control its territory, manage the economy, implement policy, and promote human welfare in an inclusive manner. This capacity would also include delivery of vital services such as justice and security, health care, education, water and sanitation. Against this background, the need to mitigate fiduciary risks was critical if Liberia were to ensure proper usage of its own limited budgetary resources and also assure donor partners that resources provided to support development programs in Liberia would be used as planned. Working with donor partners, Liberia pursued a variety of interventions with a two-fold aim: to mitigate fiduciary risks in the short term and also to offer skills transfer opportunities to nationals to enable them perform critical fiduciary functions.

FM capacity building in Liberia has gradually progressed through three clear phases:

- Phase I (2003–2005) focused on providing support for restarting the then manual accounting system. During this period, the focus was to ensure that the payment process was streamlined, that revenue was actually deposited in the Central Bank, that payments were made only through official channels, and that basic accounting tasks such as bank reconciliations were undertaken. This was essential to enable the Ministry of Finance (MOF) to have information regarding monthly cash balances and for ensuring that cash payments made by the Central Bank were those that had been approved by MOF through normal procedures.
- Phase II (2005–2008) built on the groundwork and processes established in Phase I. Given the concerns regarding widespread corruption documented in various audit reports, this was the phase when the Governance and Economic Management Action Plan (GEMAP) was drafted and operationalized. Under GEMAP, the World Bank had co-signatory authority for all payments made by MOF; USAID experts took over co-signatory functions in the main revenue earning agencies of the Government of Liberia. One World Bank consultant headed the Secretariat that processed all payments and processed payments for the Cash Management Committee that was headed by MOF. Information Technology (IT) was a critical tool applied for improving financial management right from the beginning. Only one World Bank IT consultant working inside MOF developed applications for meeting the emerging needs of the ministry. MOF introduced computerization into its operations through a tailor-made voucher tracking, expenditure reporting, and commitment control



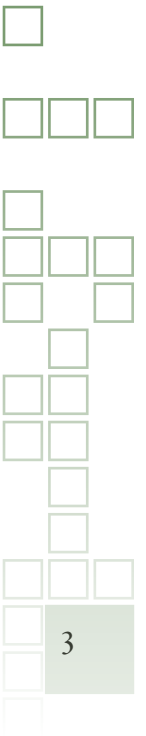
system (LECAP). Two years later, this was replaced by an off-the-shelf standard accounting software—SunSystems, procured from Ghana. The functionality of these packages was limited as they were introduced primarily as stop gap arrangements to meet the short term needs of the MOF for managing commitments and providing basic information regarding monthly expenditures. As staff in MOF became more conversant with the software, the functionality provided by SunSystems was utilized in an incremental manner. MOF therefore started to preform regular bank reconciliations through the system, resulting in a greatly improved commitment control process and variance analysis. The fundamental focus of PFM reform during this period and during the previous period was to build ownership by Government and to introduce changes incrementally, focusing on very few critical tasks.

In order to build sustained capacity to support reforms a Financial Management Training School (FMTS) was established inside MOF. The school provided short term training to Controllers in Line Ministries as well as other staff handling financial management functions. The FMTS also provided intensive training over a two year period to 30 students recruited through a nationwide competitive exam who received attractive salaries from the time they started their training. The focus was on building skills that would help with the implementation of the PFM reform program in the longer term. The curriculum was jointly developed between the World Bank and the University of Liberia, with a heavy emphasis on building skills in accounting, public financial management and information technology. At the end of the two-year period graduates received an MBA degree in Financial Management from the University of Liberia. They were also required to take the examination for the Accountancy Technician qualification of the Association of Accountancy Bodies of West Africa (ABWA) based in Ghana. Graduates sign a bond with the Ministry of Justice to serve the Government for a minimum of four years after graduation. A conscious decision was taken to focus the capacity building initiative through local institutions and not through ones based overseas.

It was during this phase that the Project Financial Management Unit (PFMU) was established in MOF. The role of the PFMU is to provide financial management services to donor funded projects and to avoid the proliferation of Project Implementation Units in Line Ministries. SunSystems was also the software used for project accounting by the PFMU. An assessment of the functioning of the PFMU has been conducted and this has shown that the PFMU has functioned exceptionally well and provided financial management services to agencies such as the African Development Bank, the U.K. Department for International Development (DFID), and the World Bank.

- Phase III (2009 onwards) has seen a major improvement in the professional capacity of staff in MOF. Technical skills have been greatly enhanced and this has resulted in one of the most successful implementations of a world class Integrated Financial Management Information System (IFMIS) in Liberia. This is the “Freebalance” system from Canada that was selected through an international competitive process. Graduates from the FMTS have provided the core skills that enabled the successful implementation of this system.

Similar to Liberia’s experience, most Fragile and Conflict Affected States (FCS) are faced with severe capacity constraints. Key challenges for capacity development in FCS are weak stakeholder ownership, low pay and incentives for staff, high staff turnover, and lack of skilled manpower to manage a system that needs to be rebuilt from the ground up. Liberia’s experience over the last ten years offers an interesting model on how to build sustained capacity in a post-conflict country. It offers an alternative to the conventional approach of using high cost expatriates who are available on short-term, stop-gap basis. More than anything else, what the Liberia experience demonstrates is that it is possible to build sustainable capacity building institutions if the intervention is properly planned.



## II. Background and Historical Causes of Fragility and Conflict in Liberia

Understanding the historical causes of fragility in Liberia and the drivers of instability and conflict provides a valuable starting point for examining the relationships between the post-conflict reform environment, the approaches pursued for rebuilding FM capacity, and the results achieved from those reform efforts.

The exclusion and marginalization of a large proportion of the Liberian population has been a major source of instability throughout Liberia's history. It was the primary cause of the armed conflict that started in 1989 and persisted intermittently until 2003. Antecedents lie in the founding Constitution of Liberia in 1847, which was designed to meet the needs of a settler population comprising freeborn black Americans, freed slaves of African descent and Africans rescued from slave ships. That "caste" of Americo-Liberians dominated the resources of the state and entrenched the subjugation of indigenous people by establishing strong legal and social barriers (UNDP & World Bank, 2009). Land acquired by the American Colonization Society in 1822 continued to play a divisive role, first through the original constitutional link established between voting franchise and freehold ownership and then through the Government's move to assert its ownership of traditionally-owned land and dispose of it to outsiders.<sup>1</sup>

The long-entrenched system of elite-based patronage continued throughout the Tubman and Tolbert eras, with public positions awarded as sinecures and distribution of wealth restricted to Americo-Liberian elites (Clower *et al*, 1966; The Economist, 2003a).<sup>2</sup> The limited land and property rights accorded to the wider population, and the concentration of political power among the elite in Monrovia, ensured that the economic boom from natural resource concessions in the 1940s to 1960s had a narrow set of beneficiaries. Despite enormous growth in primary commodities produced by concessions for export, the developmental impact on Liberia and most Liberians was very limited. Clower *et al* (1966) argued in their economic survey 1961–62 that "the overriding goal of Liberian authority remains . . . to retain political control among a small group of families of settler descent and to share any material benefits of economic growth among its own members." The considerable wealth accruing from the mining and rubber industries largely failed to find its way into investment in roads, agriculture, health and education. Those

<sup>1</sup> Public Financial Management Reforms in Fragile and Conflict-Afflicted States; Liberia case study, Edward Hedger (ODI).

<sup>2</sup> During his period in office from 1944–71, President Tubman became effectively the "managing director of Americo-Liberian interests."



limited investments in physical and social infrastructure that did take place typically excluded rural areas in favor of a few urban centers populated by settler descendants.<sup>3</sup>

Worsening economic conditions and growing social marginalization of indigenes led to a brutal military takeover of power from the Tolbert-led administration in 1980. Led by Sergeant Samuel Doe, the military regime resorted to tribalism by favoring Krahn, his own tribe, and Mandingos who had shifted their loyalty and support from the Americo-Liberian regime to Samuel Doe.<sup>4</sup> These tribes were rewarded with official positions in government as well as trade privileges. Ethnic divisions, perceived corruption and nepotism became fundamental to the 14-year civil war (1989–2003) which ensued when Charles Taylor’s rebel forces invaded Liberia in 1989 to topple the Doe regime.<sup>5</sup>

Decades of mismanagement of public resources had already eroded most institutional controls, and President Charles Taylor’s rule all but reduced the public sector, and large shares of the private sector, to his personal property. In particular, Liberia’s forests were wildly exploited in arms-for-timber trade. As a result of the war, the civil service became almost nonexistent. Even before the outbreak of the most recent conflict, as rebel factions gained ground in the course of the 1990s, Taylor’s government was able to retain power by directing the gains of the timber- and diamonds-for-weapons trade towards military deployment, at the cost of civil service salaries. As a matter of entitlement, key officials in revenue-generating entities who supported this trade became wealthy through graft. Overall, the national budget contracted from \$300 million in 1980 to US\$48 million in 2003.

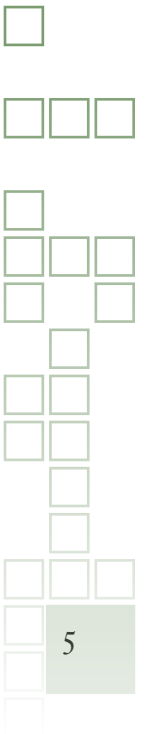
The signing of the Accra Comprehensive Peace Accord (ACPA) and the subsequent departure of ousted President Charles Taylor, ended the civil war between the Government of Liberia (GOL) and the two rebel factions, Liberia United for Reconciliation and Democracy (LURD) and the Movement for Democracy in Liberia (MODEL). The National Transitional Government of Liberia (NTGL) took over rule of the country on October 14, 2003. According to the terms of ACPA each of the three factions—GOL, LURD, and MODEL—was allocated a share of the main leadership positions in Ministries, Agencies, State Owned Enterprises (SOEs), and the National Transitional Legislative Assembly. Civil Society was also allocated a small number of positions. This power-sharing arrangement ensured broad representation of all factions across the government. It is important to note, however, that the transitional government operated under a two-year sunset clause, which prevented any member of the NTGL (with the exception of a few high-level advisers) from participating in the country’s first presidential and legislative elections scheduled for the end of 2005. While necessary to usher in representative government, this clause produced a strong incentive for short-term state capture and corruption within the NTGL, whose top leaders were warlords intent on maximizing their short term returns.

The conflict produced the following state of affairs: Approximately 450,000 Liberians were displaced as refugees or IDPs, and an additional 103,019 registered with the United Nations as combatants, including 11,282 child combatants. The health and education sectors were devastated as facilities were destroyed and staff killed or displaced. The under-five infant mortality rate was estimated as one of the highest in the world, at 196 per 1000 live births. Maternal mortality was likewise one of the highest in the world at an estimated 578 per 100,000 live births. The

<sup>3</sup> Public Financial Management Reforms in Fragile and Conflict-Afflicted States, Liberia case study, Edward Hedger (ODI)

<sup>4</sup> Final Report of the Truth and Reconciliation Commission of Liberia Diaspora Project, 2009.

<sup>5</sup> *Ibid.*



national literacy rate was thought to be 37% and net primary enrolment was around 35%. The widespread destruction of homes and public facilities meant that electricity and water utilities were essentially non-functioning throughout the country. GDP contracted by 30% in 2003, and per capita GDP in 2004 was approximately US\$116.4 Over 85% of Liberia's estimated 3.5 million people were—formally—unemployed.

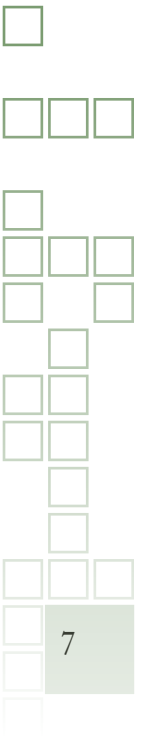
Leveraging a very robust Chapter VII peace enforcement mandate,<sup>6</sup> the UN rapidly mobilized a peacekeeping mission of 20,000 troops, representing the highest troop-to-population ratio ever in the history of peacekeeping. Underpinning this credible security deterrent was a general perception that the small size of the country and the mercenary nature of the conflict that had just ended made the Liberian stabilization and reconstruction challenge difficult yet manageable. The size and caliber of the UNMIL deployment essentially precluded attempts by warring parties to resume violence. Despite the volatile environment, this credible UN Department of Peacekeeping Operations (DPKO) deterrent created the minimal security conditions and balance of power that provided Development Partners the space to build fiduciary systems, improve accountability and help strengthen oversight institutions.

Key institutions and public financial management (PFM) arrangements were destroyed during the war. Prior to the war, budgeting, treasury and accounting functions were centralized in the Ministry of Finance (MOF). Although other line ministries and agencies (M&As) had controller departments, they were mostly tasked with processing vouchers and submitting same for payment at the MOF. Recording and financial reporting activities at the MOF were mostly manual. Most public sector FM professionals, including qualified accountants, who provided the core skills needed to operate the centralized arrangements, fled the country during the war. Moreover, the non-existence of formal education during the war resulted in a generation of uneducated youth without needed skills to assume positions in the public sector after the war ended. Not only had accountancy education at the nation's universities been weakened by the absence of qualified lecturers who fled the country, inadequate accountancy education materials, and poor institutional governance arrangements, but professional accountancy training and development through the Liberia Institute of Certified Accountants (LICPA) was significantly impacted as a result of the war. These factors contributed to the huge FM capacity deficit in Liberia after the war.

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<sup>6</sup> <http://www.un.org/en/documents/charter/chapter7.shtml>





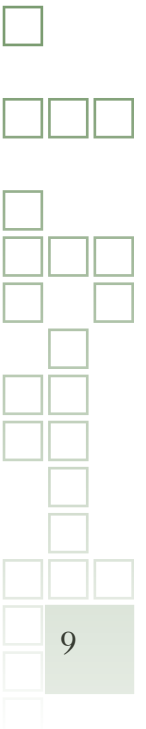
### III. Priorities for Financial Management

The key priorities among needs in the area of financial management that became evident in 2004 were the following:

- Establish institutional structures to ensure that cash was not siphoned out of the Central Bank using “special commitment” procedures. Under these procedures handwritten notes were issued to the Central Bank to withdraw large sums of cash outside of normal procedures. Around \$3.6 million was drawn out from the Central Bank during the period December 2003 to June 2004.
- Ensure that updated regulations and financial procedures are in place.
- Train government staff working in the area of financial management
- Make salary payments across the country.
- Develop the next generation of financial management professionals under a sustainable strategy.
- Introduce a world class integrated financial management systems that had inbuilt financial controls and provided robust accounting and commitment controls services to users of the system.
- Build capacity in the area of concessions negotiations, given the large natural resources in industries such as forestry, iron ore and rubber.







## IV. Building Financial Management Capacity

An incremental approach was followed in addressing FM challenges and building FM capacity.

First, a Cash Management Committee (CMCo) was established. This was chaired by the Minister of Finance and it was agreed that all payments would be routed through the CMCo. The CMC Secretariat was also established. It comprised of ten MOF officials, headed by an international consultant recruited by the World Bank. The job of this secretariat was to process all vouchers and prepare listings for the CMCo. During 2004–2005 the international consultant's role was primarily administrative; he did not have any co-signatory authority. Regular biweekly meetings of the CMCo approved the expenditure of the Government. Expenditure approved by the CMCo involved approximately 80% of the Government's total appropriation; the remainder was payroll salaries under electronic data processing (EDP). Minutes of the CMCo were regularly recorded and circulated to members. The CMCo also:

- Adopted Interim Financial Rules, which were circulated to all Ministries and Agencies and implemented for processing of vouchers;
- Issued and Implemented a Foreign Travel Ordinance and a Domestic Travel Ordinance; and
- Introduced the Commitment Control Procedure for purchases of all goods and services. This procedure involves all payment orders being affixed with the special security seal to indicate Government's obligation to pay.

To address the capacity building needs, a training facility was set up, using ten rooms and a large empty hall initially earmarked for the Revenue Department, in the Ministry of Finance. This accommodation was initially used for short-term training of government staff, particularly controllers in line ministries. About five two-week courses were run on government financial management; and two-week courses were run on budget preparation, budget classification, internal audit, and property management. Staff from the International Monetary Fund (IMF), World Bank and government experts facilitated these courses.

Through excellent liaison with the UN, special permission was obtained to use UN helicopters for carrying MOF paymasters to make salary payments across the country to teachers, health workers and other government staff, thereby helping to reestablish government authority across the country. Initially, UN Headquarters had opposed the idea on the grounds of security risks to UN staff associated with this task.

By early 2005, it became clear that there was widespread abuse of public finance, particularly in the area of contracts and concessions. Several signed contracts did not seem to be in the national interest, in terms of both revenue to the government and recourse against the investor, if that became necessary. One example involved a contract signed with an overseas company for the disposal of state assets at absurdly low prices and the sale of scrap iron ore at a fraction of the market price. A more striking example involved a signed agreement granting a company



the exclusive rights to all minerals extracted from roughly a third of the country’s surface, with an option for the remainder. The NTGL initially denied having signed these contracts, but the officials responsible were later exposed and the contracts voided. EU-funded audits of state-owned enterprises revealed free-for-all corruption throughout the state-owned, productive sector enterprises. This led to the development of the GEMAP, where the World Bank took the lead. The Bank’s international consultant then took over co-signatory powers on the CMC, and a donor-funded financial controller took over co-signatory powers in the main revenue generating agencies.

After 2006, six major FM capacity building initiatives undertaken were:

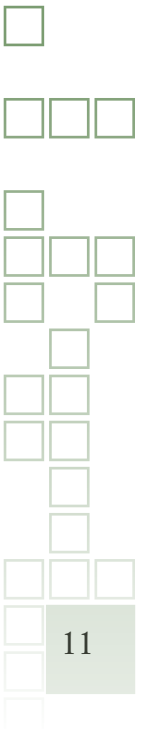
### 1. Establishment of the Financial Management Training School

The Bank’s Liberia Interim Strategy Note of 2006 noted that “Capacity is the binding constraint on Liberia’s reconstruction and development.” This program was designed to respond to, on the FM side, the inadequate implementation capacity identified at the time of the Bank’s re-engagement and later articulated in the CAS. In particular, as Liberia progressed in the transition process, mid- and senior-level public sector cadres lacked well-qualified FM personnel as standard compensation levels were too low to attract the right people.

The establishment of the World Bank-funded Financial Management Training Program (FMTP) under the LICUS Trust Fund was the first effort at building long-term FM capacity in the public sector in Liberia. At the time the school was being conceived several alternative options were considered. A senior expert from the U.K. based Chartered Institute of Public Finance and Accountancy (CIPFA), working as a World Bank consultant, provided a proposal for getting this school to adopt the CIPFA curriculum and qualifications. This was not adopted due to the cost structure involved and the potential difficulty in retaining CIPFA graduates within the civil service once they had completed their training. The program was therefore instituted to train accounting technicians that are essential for improving budget execution, accounting and internal control practices in the line ministries and agencies.

A two-year Master’s degree program was launched in 2006 as a collaborative venture of four partners—the MOF, Civil Service Agency (CSA), Liberia Institute of Public Administration (LIPA) and the University of Liberia (UL)—under the World Bank-funded Low Income Countries Under Stress (LICUS) Trust Fund. For this full-time training of university graduates as junior finance officers in financial management, the CSA conducted a nationwide entrance exam to select the trainees, while the University of Liberia provided the bulk of the faculty and managed the examination and qualification process. At the end of the two year period graduates received the University’s MBA degree with specialization in Financial Management.

The syllabus of the Accountancy Technician’s Scheme of West Africa (ATSWA) exams offered by the Accountancy Bodies of West Africa (ABWA) was integrated into the FMTP program to prepare students to take the ATSWA exams, with a major focus on developing the information technology (IT) skills of trainees. After the close of the LICUS Trust Fund in 2008, funding was provided under the Bank-funded Economic Governance and Institutional Reforms Project (EGIRP) to continue implementation of the program. Since its inception, 83 trainees have completed the program, and have been deployed to key financial management positions in Government. Moreover, the newly-approved World Bank-funded Integrated Public Financial Management Reform Project (IPFMRP) includes a component that will provide continued financing of the program until 2015, when it is expected to be mainstreamed into the University of Liberia.



## 2. Strengthening academic and professional programs

A second set of focus areas targeted for long-term FM capacity development involved the UL accountancy degree program and the Liberia Institute of Certified Public Accountants (LICPA). Without a strong academic foundation in accountancy and allied fields, the task of increasing the number of qualified accountants in Liberia and other FCS will suffer from perennial bottlenecks. Targeted and support aimed at strengthening or re-building both academic and professional accountancy education is therefore fundamental to building a critical mass of qualified accountants for both the private and public sectors in the long term. The World Bank has recently provided two Institutional Development Fund (IDF) grants to Liberia to help strengthen the accountancy degree program of the UL and to strengthen the institutional capacity of the LICPA in order to train professional accountants as steps to help build long term FM capacity in Liberia.

## 3. Establishment of the Project Financial Management Unit (PFMU) in MOF

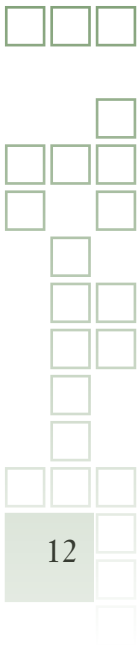
In 2006, as the World Bank was preparing to support infrastructure rehabilitation in Liberia as part of its long term re-engagement plans, the government was compelled to strengthen the fiduciary environment to mitigate inherent risks and to boost implementation capacity for the projects to be supported. This led to the creation of the World Bank-supported Project Financial Management Unit (PFMU) for project implementation at the Ministry of Finance. The main objective of creating the PFMU was to provide quality FM services and fiduciary assurance to donors providing project funds to Liberia. Under the PFMU arrangement, professionally qualified accountants were recruited on contract basis from outside Liberia to handle financial management of donor-financed projects in Liberia. Starting with an initial portfolio of \$ 10 million, the funding handled through the PFMU has grown to more than \$700 million and its services have been used by the World Bank, African Development Bank, and the U.K. Department for International Development among others. Quality services provided by the PFMU have helped curtail the establishment of multiple Project Implementation Units (PIUs) in line ministries, which would have made the situation much worse.

This innovative institutional arrangement has reduced fiduciary risk. Further, it boosted the implementation capacity of the government through first focusing on the establishment of functioning and reliable accounting and internal control systems at implementing entities. As such, the intervention was consistent with the Bank's rapid response financial management arrangements in the immediate aftermath of conflict or emergency situations as defined in Bank's Operational Policy (OP) 8.0.<sup>7</sup>

## 4. Instituting GEMAP and Co-signatory authority

GEMAP gave extraordinary authority to international financial controllers over the expenditure and revenue management system of the Government of Liberia. As a program that was endorsed by the UN Security Council in 2006 and approved by ECOWAS, GEMAP sent a strong signal to the Liberian public that economic governance concerns mattered to reform-minded Liberians and to the international community. After years of imperial presidencies propped up by corruption, the public welcomed the direct involvement of the international community in economic governance, particularly in light of ECOWAS' endorsement of the

<sup>7</sup> <http://go.worldbank.org/BR1TQI7OJO>

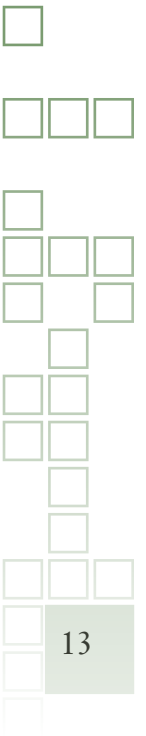


program. To many, GEMAP restored (or instilled) the hope that the public sector could start targeting the public interest.

At the heart of GEMAP was the controversial introduction of co-signing authority, which could be—and often was exercised across public agencies (the Central Bank, select ministries, other agencies and state-owned enterprises) by the international experts mobilized under the program. By allowing international experts to co-sign with the responsible Liberian official, actionable instruments approving expenditures and other operations subject to corrupt practices, GEMAP introduced a bold, credible enforcement instrument for transparent economic governance. While co-signing authority was not systematically enforced, its very existence defined the program and its potential for success. Though co-signing authority ultimately depended on the support and cooperation of the Liberian government and the responsible Liberian official, instances when co-signing authority was not enforced were reported to the Economic Governance Steering Committee (EGSC) through a technical working group. In parallel, as the ultimate objective of GEMAP was long-term institutional reform towards better governance, the program funded institutional development and capacity-building components. This ensured that the plan could evolve in response to improvements in economic governance and progressively transition from its control functions (notably, co-signing-authority) to supporting traditional, national ownership of public management. This transition did in fact occur, on an incremental basis, between 2007 and early 2010, when GEMAP was dismantled.

With expatriate co-signing authority as its main enforcement measure (the teeth of the program), GEMAP’s provisions targeted key junctures along the entire revenue-expenditure stream, from collection to auditing, in an attempt to enhance the credibility of the state by bringing the country’s public finances under control, while introducing a modicum of transparency and predictability in expenditures. Key measures included:

- Strengthening financial management and accountability: Protect the funds flowing into the government accounts from key revenue-generating institutions, as well as customs charges, fees, and taxes, through the establishment of transparent and accountable financial systems and procedures; building capacity, and reinforcing transparency with internationally recruited technical assistance and oversight.
- Improving budgeting and expenditure management: Strengthen and clarify budget formulation and execution procedures as well as the financial management processes of government expenditure by building capacity, introducing reliable systems, and making information on the budget and on spending publicly available.
- Improving procurement practices and granting of concessions: Ensure that all government procurement, concessions, contracts, and licensing are undertaken openly, transparently, and according to international standards, based on value for money.
- Establishing effective processes to control corruption: Establishing an independent Anti-Corruption Commission, and provide technical assistance from the sub-region to help the Liberian judiciary investigate serious fraud and corruption, while rebuilding the capacity of Liberia’s judiciary.
- Supporting key institutions: Strengthen institutions that are key to promoting and sustaining accountable government and good financial management, such as the General Auditing Commission, the General Services Agency, the Governance Reform Commission, and the Public Procurement and Concessions Commission to ensure that good governance reforms are entrenched and sustainable.
- Capacity building: Reform institutional mandates, structures, and incentives, including the civil service and public sector wages, to support the short-term measures described in the above components.



In terms of structure, GEMAP was overseen and coordinated by the EGSC, supported by a technical team. The EGSC was chaired by the elected President and included ministers and heads of state-owned enterprises, as well as the principals of the international agencies in GEMAP. The technical team was similarly composed, but chaired by a US Government representative. The modalities of implementation were worked out by the technical team, with the EGSC providing final resolution, if needed. It was critical to the negotiation of GEMAP under the NTGL, and to its successive implementation under the elected government, that the EGSC be chaired by the Head of State, thus providing a counter-weight (reassurance regarding ultimate national sovereignty) to the international experts' co-signing authority.

Building on the experience from Afghanistan, capacity building was not one of the objectives of the international financial controllers who exercised co-signatory authority. It was clear that capacity building would have to be through a parallel initiative (as done in Liberia through the FM Training School) as the international experts would not have the time to undertake both fiduciary management and capacity building.

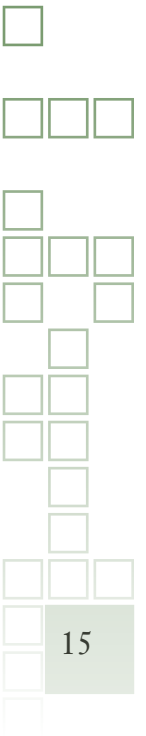
## 5. Strengthening the Concessions Unit of MOF

Given the critical importance of concessions to the Liberian economy and the weak capacity of the Concessions Unit in MOF, an internationally recognized concessions expert was hired for a period of three years to build the capacity of the concessions unit in MOF. He provided hands-on mentoring and training to key staff. He also developed a ten-month course on concessions planning and negotiation at a local academic faculty that has run successfully since 2009. This support has greatly helped Liberia negotiate concession agreements with some of the largest mining and forestry companies in the world.

## 6. Implementing the Freebalance IFMIS system

One major reform initiative that Liberia deserves full credit for is the successful implementation of the Freebalance IFMIS system. This system now serves as the backbone of the FM system in Liberia, providing users with all the tools necessary for modern financial management. It has commitment controls, budget monitoring, cash management, automated bank reconciliation, reporting and accounting functionality built into its operating system. This is a real accomplishment for Liberia, considering the fact that many countries in Africa and across the world have been struggling for years to implement similar systems.





## IV. Lessons Learned from Capacity Building Approaches

The Liberian experience in building FM capacity is an example of how challenging it is to do so in FCS. The lessons learned under the short, medium and long-term approaches are instructive.

### Short term approaches

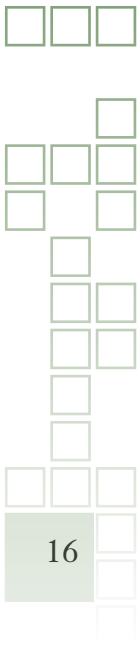
The initial phase of the engagement in Liberia was very low key, with only one international consultant deployed in the secretariat of the CMCo. His task was to streamline the payment process and build the capacity of the ten MOF officials who were part of the team. The impartiality of the CMCo Secretariat and its transparency helped build the reputation of the unit within government as well as with the business community in Liberia. This lean team also helped develop and enforce basic financial management rules for release of payments.

Linked to this was the major impact that a single IT expert had in improving financial management in Liberia. He alone managed the website of MOF and greatly helped move along the FM improvement process. He designed the Liberia Expenditure and Commitment Control Accounting Package (LECAP) that helped automate and streamline the payment process, automated the budget formulation, budget classification and budget approval process that until then had hundreds of multiple entries in it. He compiled a list of claims registered against the Government of Liberia and posted the details on the MOF website to enable local businesses to check if their claims were on this list before verification by KPMG, the accounting firm. He helped automate the CMCo payment listing process and wrote the software package for managing the government payroll. All this happened in a low key manner during the period 2004–2006.

The key lesson from the initial engagement in Liberia was that “small can be more.” Large numbers of expatriate advisers are not needed for effective enforcement of minimal but effective financial discipline and practices. Clear allocation of tasks, immediate follow up on irregularities detected, and excellent co-operation between the WB, IMF, and the UN helped to greatly improve FM in Liberia during the initial phase.

### Medium term approaches

The PFMU approach helped to strengthen implementation capacity for donor-funded projects. It provided fiduciary assurance for donors, with the cost for running the unit around 2–3% of the funding handled by the unit. This is reasonable by international standards. Given the buildup of local capacity, there is need to now plan for an exit strategy (phase-out) for the PFMU so that its functions are now taken over by staff of the Office of the Comptroller and Accountant-General.



One option that could have been considered at the initial phase was to use more local staff, as happened with the CMCo Secretariat. There the approach adopted was the “Sitting-by-Nelly” approach<sup>8</sup> to capacity development until other medium to longer term local capacity development initiatives mature. The World Bank-funded IPFMR project approved in 2011 will support the integration of PFMU into the Comptroller and Accountant General’s Division (CAGD) as part of efforts to build country systems.

### Long term approaches

Along with initiatives to strengthen the accountancy degree program of the UL and the institutional capacity of the LICPA, setting up the Liberia FMTP is probably the program with the best prospect for building FM skills capacity in the public sector over the long run. Effective institutional arrangements, clear definition of roles among collaborating parties and an exit strategy are in place to ensure proper oversight, ownership, and sustainability of results under the program. A Memorandum of Understanding (MoU) spelt out the responsibilities of the partners as follows:

- Ministry of Finance: Provide the initial premises, administrative facilities, and logistical support to the school. The MOF also chairs the school’s Board of Directors.
- University of Liberia: Deliver the training. The school is formally “affiliated” to the UL, which awards a Master’s Degree in Financial Management to successful graduates. The school will be fully transferred to the UL in 2015 to be run as a Master’s degree program.
- Civil Service Agency: Recruit the school’s graduates on the basis of a competitive examination. The students receive a stipend while in school on a full-time basis and remain on probation as civil servants for this duration. Upon graduation, the trainees are bonded, per their signed contracts before admission into the FMTP, to work with the government for four years.
- Liberia Institute of Public Administration: Provide linkage with the broader civil service in-service training programs already underway.
- Accountancy Bodies of West Africa: In collaboration with the LICPA, provide professional accreditation for candidates successfully passing its Accountancy Technician Scheme (ATSWA) examination at the end of the two-year training period. ABWA also provides the course content and training materials for the ATSWA exams.

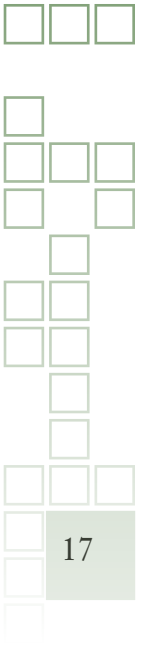
The key longer term initiative that has worked well has been the successful rollout of the IFMIS system in Liberia. It is now being sustained by FMTP graduates who spent two years learning and mastering IT skills that were then translated into the work place.

### Civil Service reforms

Civil service reform is a cross-cutting issue throughout all phases of capacity building. FM capacity built in FCS cannot be retained without broader civil service reforms that define career paths and salary levels for qualified personnel. In Liberia, the CSA is yet to define career paths for PFM professionals. Secondly, Liberia like most FCS faces budget constraints and is therefore not able to provide civil servants with salaries and incentives that are attractive enough to retain them. As a result, essential positions in the civil service have been filled through attracting expatriate

<sup>8</sup> Sitting by Nelly: This is a type of on-the-job learning; a training technique in which technical skills and professional skills are not acquired in the classroom but through observation of and gradual participation in practice. Learning is by doing, rather than through formal instruction.

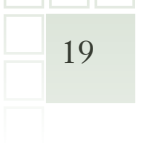
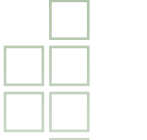
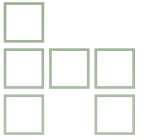




Liberians at dollar salaries that are significantly higher than regular government salaries. This has been facilitated by programs such as the Senior Executive Service (SES) and the Training of Trainers program of the UN Development Program. The issue is not so acute for FMTP graduates who are being absorbed into the regular civil service at salaries that are in the mid-range of the civil service pay scales.

There is need for a civil service reform program that comprehensively deals with the issue of compensation for government employees. The point to underscore here is that, in the early stages of reforms, Liberia needed to decide on what trade-offs it would make to facilitate investments in long-term capacity building. Dealing with this issue upfront would have helped shape the choices to make and the trajectory of civil service reforms needed to help retain employees trained under the various capacity building programs.

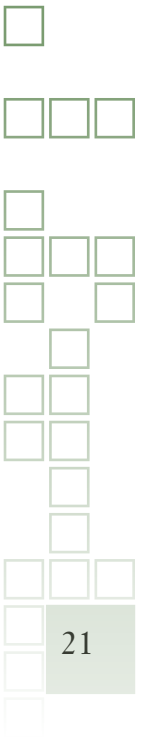




# Conclusion

Emerging out of prolonged conflict, Liberia faced significant challenges in FM capacity building. It has followed a unique path in building FM systems. The approach has been incremental, open and collaborative. During the NTGL period, the Government supported initiating major reforms. Progress has been remarkable after the elected government came into office in 2006. It has been a true and partnership between the government and its development partners in building and strengthening effective systems.





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