



The World Bank

Liberia First Inclusive Growth Development Policy Operation (P168218)

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 11-Feb-2020 | Report No: PIDA28598

**BASIC INFORMATION****A. Basic Project Data**

Country Liberia	Project ID P168218	Project Name Liberia First Inclusive Growth Development Policy Operation (P168218)	Parent Project ID (if any)
Region AFRICA	Estimated Board Date 17-Mar-2020	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Republic of Liberia	Implementing Agency Ministry of Finance and Development Planning		

Proposed Development Objective(s)

The program development objectives of these series are: 1) removing distortions in selected sectors and strengthening public-sector transparency; and 2) promoting economic and social inclusion.

Financing (in US\$, Millions)**SUMMARY**

Total Financing	40.00
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DETAILS

Total World Bank Group Financing	40.00
World Bank Lending	40.00

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

1.1. **Liberia's economic performance over the last four decades has been highly uneven, with a marked deterioration observed in recent years.** After contracting for a quarter century, Liberia's economy grew steadily during 2004-2013 at an average annual rate of 7.4 percent. However, in 2014 the regional outbreak of Ebola Virus Disease (EVD) and a sharp decline in global prices for iron ore and rubber disrupted Liberia's economic recovery, and the real GDP growth rate slowed to 0.7 percent in 2014 and 0 percent in 2015. The terms-of-trade shocks persisted longer than expected and were exacerbated by the drawdown of United Nations Mission in Liberia (UNMIL) peacekeeping forces, which pushed the economy into recession in 2016. An incipient recovery during 2017-18 proved anemic and short-lived. Liberia's economy is estimated to have contracted by 1.4 percent in 2019, driven by falling demand as indicated by the evolution of taxes and bank credit. The lingering impact of recent shocks was compounded by the transition to a new political administration in 2018, as the relative inexperience of the incoming officials increased policy uncertainty and weakened macroeconomic management, as evidenced by the delayed policy response to growing macroeconomic imbalances, as well as the stalled structural reform agenda, ongoing governance challenges, and persistently low capacity across the public sector.

1.2. **Poverty remains widespread in Liberia, and progress on poverty reduction has been slow.** With a gross national income (GNI) per capita of just US\$600 in 2018, Liberia is among the ten poorest countries in the world. From 2007 to 2014, Liberia's per capita GDP growth rate averaged 3.3 percent per year, which helped reduce the poverty rate¹ from 68.6 percent in 2007 to 38.6 percent in 2014. However, from 2014 through 2019 per capita GDP contracted at an average rate of 2 percent per year, causing the poverty rate to rise to 43.4 percent by 2019. Non-monetary poverty indicators, including access to healthcare, education, and basic utilities, are also low by regional and international standards, with especially acute rural/urban and gender disparities driven by unequal access to land and productive assets, infrastructure, public services, and markets for both goods and labor.

Relationship to CPF

The entire programmatic IGDPO series, including this proposed operation, are fully aligned with the World Bank's Country Partnership Framework (CPF) for FY19-24 for Liberia. The overarching goal of the CPF is to support Liberia as it strives to achieve pro-poor, private sector-led growth underpinned by human-capital development, institutional capacity-building, infrastructure development, and economic diversification. The CPF also seeks to support Liberia to address drivers of fragility and conflict, such as weak governance, inadequate economic and social inclusion, breakdown of social cohesion, youth unemployment, gender inequality, and regional disparities. The CPF pillars are: (i) strengthening institutions and creating an enabling environment for inclusive and sustainable growth; (ii) building human capital to seize new economic opportunities and (iii) narrowing the infrastructure gap to foster more equitable nationwide development. Other World Bank Group operations in agriculture, energy, trade, financial inclusion, digital economy, social protection, macro-fiscal management and governance are linked to the proposed series and provide valuable technical assistance.

C. Proposed Development Objective(s)

The program development objectives of these series are: 1) removing distortions in selected sectors and strengthening public-sector transparency; and 2) promoting economic and social inclusion. To achieve these objectives, the proposed

¹ Liberia's poverty rate is measured as the percentage of the population living below the international poverty line of US\$1.90 per day in 2011 purchasing-power-parity (PPP) terms.



operation focuses on two strategic pillars and seven policy areas. The choice of pillars and policy areas reflects a combination of factors, including poverty-reduction potential, available analytical evidence to underpin reforms, current World Bank engagement (including complementarity with other World Bank projects), coordination with the IMF and other development partners, and the government's expressed priorities and reform momentum.

Key Results

The key results for this operation are to enhance inclusive growth. Policy areas supported under pillar 1 include agriculture, energy, trade, tax incentives, SOEs oversight and debt transparency. The policy and institutional reforms supported under this pillar will contribute to improving agricultural productivity, facilitate access to affordable and reliable electricity, reduce trade costs to thereby supporting private investment and service delivery. Establishing the proper legal and institutional framework for rationalizing and managing tax expenditures will increase transparency and reduce corruption and rent-seeking. Strengthening SOEs oversight and improving debt transparency will help Liberia to sustainably finance its development and promote prudent debt management. Policy areas supported under pillar 2 focus on institutional reforms in key areas as financial inclusion and social safety nets (SSNs). Strengthening the regulatory framework for financial inclusion, including for digital finance, will improve access to formal financial services among excluded and underserved groups, particularly women, facilitating economic participation, asset accumulation, and inclusive growth. Reforms that increase the efficiency and financial accountability of SSN programs will be necessary to create a sustainable SSN system and maximize its impact on poverty alleviation.

D. Project Description

The proposed DPO series supports key reforms designed to enable inclusive growth in Liberia in line with the strategic country's priorities. In November 2018, the new government launched its Pro-Poor Agenda for Prosperity and Development (PAPD), which covers the 2018-2023 period. The PAPD follows the Agenda for Transformation (Aft) and is the second in a series of five-year national development plans designed to achieve the aspirations expressed in Liberia's Vision 2030 framework. Developed in 2012, Vision 2030 aims to transform Liberia into a prosperous and inclusive middle-income economy by 2030. A programmatic series of three operations will support the government's program, and this structure is well aligned with the World Bank's CPF. The proposed series builds on the gains made under the previous programmatic Poverty Reduction Support Development Policy Operation (PRSDPO) series, which consisted of four operations and concluded in 2018.

Actions under the two pillars and seven policy areas of this proposed operation will be critical to accomplish the goals of the PAPD and advance the broader agenda for inclusive growth.

- *The policies supported under the first pillar aim to promote inclusive growth by removing constraints on productivity and economic diversification, with a special focus on agriculture, access to affordable electricity, trade facilitation, and public-sector transparency.* Improving the policy and regulatory framework for the agricultural sector, and especially for agricultural input markets, will be vital to support broad-based gains in productivity and living standards. The DPO series also supports measures to strengthen the financial viability of the energy sector, which is necessary to expand electricity access and attract private-sector investment. In addition, the series supports measures to improve the business climate by reducing trade costs through trade facilitation and the removal of nontariff barriers (NTBs) and distortive tax waivers. Prior actions to modernize the customs administration, streamline tax exemptions, strengthen SOE oversight, and improve debt transparency will help reduce fiscal leakages and improve public-sector efficiency, which in turn will contribute to increasing productivity and support inclusive growth. These measures, complemented by other ongoing World Bank operations, will catalyze economic transformation and job creation through improvements in productivity and competitiveness, especially in the country's large and developmentally critical agricultural sector.



- *The policies supported under the second pillar aim to promote economic and social inclusion by facilitating financial access and building a viable SSN system.* The DPO series prioritizes the development and implementation of a robust legal and regulatory framework for financial inclusion designed to facilitate the expansion of digital financial services while ensuring appropriate protections for end users, as well as the allocation of additional resources to build the SSN system and ensure its sustainability. These measures, pursued jointly with other World Bank operations and analytical and advisory activities, will help create an inclusive and accountable public sector capable of promoting shared prosperity and sustainable development.

The proposed IGDPO series supports governance and institutional reforms as a cross-cutting issue, building on the experience from the previous PRSDPO series. Under the previous PRSDPO series, World Bank support concentrated on enhancing transparency and accountability among public institutions to reduce corruption. Key prior actions were aimed at strengthening the legal and institutional framework for good governance and anticorruption as well as building the capacity of key public-integrity institutions such as the Liberia Anti-Corruption Commission (LACC), the General Audit Commission (GAC), the Public Procurement and Concessions Commission (PPCC), and the Financial Intelligence Unit (FIU). Under the proposed series, key aspects of institutional reform will include improving the governance of the LEC, reducing rent-seeking behavior by adopting a modern Customs Code, streamlining tax waivers and reducing discretionary incentives, and strengthening SOE oversight and transparency. The proposed series also supports the establishment of digital platforms and services designed to enhance transparency, accountability, and inclusion, such as the Liberia Household Social Registry (LHSR), a national biometric identification system, and innovations in digital banking. These efforts are further complemented by the IMF's ECF program, which also aims to strengthen governance in a significant way.

E. Implementation

Institutional and Implementation Arrangements

The Ministry of Finance and Development Planning (MFDP) will have the overall responsibility for the implementation of the reforms supported by the operation. More specifically, the Aid Management Unit within the MFDP will be directly responsible for the implementation of the operation. The Government has established, a PAPD Implementation and Coordination Delivery Unit (ICDU) to monitor progress on the implementation of the PAPD. The Aid Management Unit will be responsible for tracking progress (through the indicators) towards the medium-term objectives of the program. The objectives and indicators of the operation are aligned with those of the PAPD. The Budget Support Working Group will provide a mechanism for the Government and donors to engage in transparent and candid review of progress on the policy reform program supported by the operation. Regular meetings of the Budget Support Working Group will provide timely feedback on progress and allow the Government to act to ensure that reforms are being completed in a timely manner. On the World Bank's side, the implementation will be monitored and evaluated through continuous dialogue and timely missions.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

This operation is expected to have an overall positive poverty and social impact. The operation overall is expected to have a positive impact on growth, both through both indirect and direct channels. *First*, reforms in the seed market are expected to increase access to improved inputs (seeds) and create conditions for increased yields over the medium term; and promote private sector participation in the provision of these inputs as well as job creation which are expected to have significant positive impact on poverty. *Second*, the reduction in commercial losses and increased operational efficiency of LEC will allow for improved access and affordability of electricity. Not only will the lower tariffs have positive effects on disposable income of households, but better access might have positive effects on income growth, and in the



medium-term spur SME growth and create employment. *Third*, the establishment of legal basis for the modern, efficient and transparent customs administration and trade facilitation through promulgation of new Customs Code will help reduce cost and improve trade growth in Liberia – which in turn will have a positive impact on poverty. *Forth*, the approval of e-payment regulations will support the implementation of the National Financial Inclusion Strategy (NFIS) and is expected to increase the percentage of adults with accounts at financial institutions, promote savings and access to credit, including by poor households. *Fifth*, the establishment of the National Household Social Registry (NHSR) constitutes early step toward putting in place an effective Social Safety Net system that will serve the poor. *Six*, a positive indirect impact on growth and jobs creation comes from improving public sector transparency with reforms that streamline tax waivers, strengthen SOEs oversight and debt transparency.

Environmental, Forests, and Other Natural Resource Aspects

Measures supported by the proposed operation are expected to have positive or neutral environmental effects. Prior action supporting the enactment of the Seed Development and Certification Agency Act, which in turn could support better and timely availability of seeds and improved small-scale agricultural productivity, may have positive environmental effects. Increases in agricultural productivity resulting from improved seeds may in turn lead to less land used in agriculture, less deforestation, and a positive environmental impact. Prior action to reduce commercial losses at the LEC is expected to improve the financial situation of LEC and increase its capacity to provide better services. This has the potential to reduce reliance on charcoal and firewood which are the primary cooking fuel for Liberians resulting into a positive effect on the rate of deforestation and reducing health implications from using wood fuel as fuel source for cooking. Measures to reduce trade costs, rationalize tax expenditures, strength SOEs oversight and debt transparency, promote financial services and establish SSNs won't directly affect Liberia's environment, forests, or other natural resources, but contribute to economic development that is more conducive to ensuring effective environmental management and strengthen resilience. Overall, measures to strengthen public sector transparency may indirectly provide a more conducive fiscal environment that could lead to improved budgetary allotment to institutions tasked with managing the environment, forests and other natural resources.

G. Risks and Mitigation

1.3. **The overall risk rating for the operation is assessed to be High using the World Bank's Systematic Operations Risk-Rating Tool (SORT).** Macroeconomic, governance, institutional capacity for implementation, and fiduciary risks are all rated high. Liberia's macroeconomic situation will remain weak and vulnerable over the near term, and a delayed fiscal adjustment, external shocks, or domestic policy slippages could significantly worsen the country's economic outlook. Macroeconomic risks are partially mitigated by the IMF program and by the authorities' commitment to implement the difficult policy measures necessary to restore macroeconomic stability, ensure fiscal sustainability, and strengthen accountability and transparency in the public sector. The World Bank is working closely with the IMF, the European Union (EU), the African Development Bank (AfDB), and other development partners to coordinate financing and harmonize support for reform implementation. Governance risks are high due to the possibility of strong vested interests working to frustrate some of the reforms, while high institutional capacity for implementation risks reflect weak capacity at all levels of government. These latter two risks are partially mitigated by the authorities' strong commitment to improve governance under both the ECF program and the proposed IGDPO series. The strong commitment is complemented by tailored technical assistance (TA) and institutional capacity-building efforts by development partners, and by the presence of non-government actors working to improve governance. The fiduciary arrangements under the proposed operation are designed to mitigate fiduciary risks. In addition, the IMF program supports reforms to address control and governance risks at the CBL and measures to improve fiscal cash management and control to prevent the emergence of domestic arrears. The World Bank Public Financial Management Reforms for Institutional Strengthening project (PFMRIS, P165000) is also supporting several reforms to strengthen the fiduciary management system.

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APPROVAL

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Approved By

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