



The World Bank

Liberia Third Inclusive Growth Development Policy Operation (P176993)

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 11-May-2022 | Report No: PIDA33056



BASIC INFORMATION

A. Basic Project Data

Country Liberia	Project ID P176993	Project Name Liberia Third Inclusive Growth Development Policy Operation (P176993)	Parent Project ID (if any) P175570
Region Western and Central Africa	Estimated Board Date 22-Jun-2022	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Finance and Development Planning	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

Liberia's economy is still recovering from a prolonged period of weak economic and social performance. Between 2014 and 2020, partly as a result of repeated exogenous shocks (the Ebola outbreak, iron ore and rubber prices collapse, the economic impact of the drawdown of United Nations peacekeeping forces, and, last but not least, the COVID-19 pandemic), the economy contracted by 0.4 percent per year on average, while *per capita* GDP declined by 12.3 percent



cumulatively. As a result, the poverty rate rose to an estimated 52 percent by 2021¹, erasing nearly half of the gains achieved in the first decade after the conflict (2004 and 2013). Non-monetary poverty indicators, including access to healthcare, education, and basic utilities, remain low by regional and international standards, with especially acute rural/urban and gender disparities driven by unequal access to productive assets, infrastructure, public services, and markets. Real GDP is estimated to have grown by 4.2 percent in 2021 and, going forward, it is projected to expand by 4.8 percent on average over 2022-23.

Liberia continues to face complex development challenges, including a highly concentrated export structure, a narrow revenue base, and considerable spending needs. Transitioning to an economic path in which GDP growth reliably generates broad-based improvements in poverty and social development will require boosting productivity in agriculture and other informal sector activities, accelerating formal job creation, strengthening socioeconomic resilience, enhancing the quality of governance, and expanding institutional capacity. These priorities are reflected in the country's Medium-Term National Development Policy Framework embodied in the PAPD, which the proposed operation supports.

Relationship to CPF

The IGDPO series is fully aligned with the World Bank's Liberia CPF for FY19-24. The CPF's overarching goal 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 effectively address key drivers of fragility and conflict, such as weak governance, inadequate economic and social inclusion, the breakdown of social cohesion, youth unemployment, gender inequality, and regional disparities. The three pillars of the CPF 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 targeting agriculture (STARP, P160945), land rights (Liberia Land Administration Project, P162893), energy (LACEEP P133445, LESSAP P173416, and CLSG P113266), trade, financial inclusion and the digital economy (MSME & Rural Finance post Ebola Reconstruction P157797), social protection (LSSN P155293), macro-fiscal management, and good governance (PFMIS, P172654) are linked to the proposed series and will provide valuable technical assistance and other forms of complementary support.

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 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

¹ https://www.worldbank.org/en/publication/macro-poverty-outlook/mpo_ssa p251



agriculture, energy, 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 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 program development objectives of the IGDPO series are: (i) removing distortions in selected sectors and strengthening public-sector transparency; and (ii) promoting economic and social inclusion. To achieve these objectives, the proposed 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 own reform momentum.

Pillar 1 of the programmatic series focuses on removing distortions in selected sectors and strengthening public-sector transparency to support inclusive growth. Policy areas supported under this pillar include agriculture, energy, tax incentives, SOEs oversight and debt transparency. In agriculture, productivity growth is constrained by very low rates of access to improved seeds and other agricultural inputs, as weak incentives undermine the private sector's participation in inputs market. Climate risks (especially higher temperatures and increased flooding) will also require the adoption of climate-resilient seeds and the dissemination of adaptive production processes. In energy, a costly and unreliable electricity supply inhibits private investment and growth, particularly in light manufacturing and agro-processing. Strengthening energy affordability and the financial viability of the energy sector will be essential to sustainably expand access as well as mitigate the threat that climate change poses to hydropower production (lower water levels, higher costs). Streamlining tax incentives will reduce rent-seeking behavior and leakages and provide a level playing field for private investments. Finally, strengthening the oversight of state-owned enterprises (SOEs) and transparency would contribute to better governance and responsible borrowing. Together, these reforms can help improve productivity and economic diversification, improve transparency and efficiency of public sector, and expand employment opportunities and incomes for the poor.

Pillar 2 of the programmatic series supports measures to promote economic and social inclusion. Reforms in this area are aligned with the government's objectives for improving public service delivery, especially to the poorest households. Policy actions supported under this pillar focus on institutional reforms in key areas such as financial inclusion and social safety nets (SSN). 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. The SSN programs can help low-income households cope with climate-related shocks, especially those caused by extreme weather events.



The design of the IGDPO series integrates lessons learned from previous DPOs.² The IGDPO is grounded in strong national ownership and supports reforms that enjoy broad political consensus as reflected in the PAPD. It is selective and takes into account the government's limited institutional capacity, while providing technical assistance to ensure the sustainability of legal and regulatory reforms. The sequencing of prior actions is designed to facilitate incremental progress, with each supported measure laying the groundwork for subsequent actions. The first operation focuses on measures to strengthen the legal framework, while later operations concentrate on supportive regulatory provisions to support implementation. While several prior actions for the IGDPO-1 involve legislative action, they mostly support the promulgation of laws, rather than their submission for approval by the legislature, to reduce the gap between the drafting of the laws and their implementation. In some areas (e.g. the Modernized Customs Code³), the new DPO series picks up on reforms that were deferred under the previous DPO series due to vagaries of the political cycle, which had created unpredictable delays in the approval of the legislation.

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 Department of Economic Management within the MFDP will be directly responsible for the implementation of the operation. The Economic Management team 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. The results framework in Annex 1 provides a list of results indicators that form the basis for monitoring progress. Where possible, results indicators will be collected on a gender disaggregated basis to monitor progress.

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

²World Bank (2019). Implementation Completion and Results Report on Three Credits, Five Grants and Three Recipient Executed Trust Funds in the total amount of US\$ 126.34 million equivalent to the Republic of Liberia for the Poverty Reduction Support Operations I, II, III, IV and Supplements for the Second and the Third Operations. Report No: ICR00004767. December 23, 2019.

³ The Modernized Customs Code of Liberia was submitted to the Legislature in June 2017 (prior action #4 PRSDPO-IV), but it was not approved under the previous administration. After some effort, the new administration re-submitted the code to the Legislature (April 2019), aided by the Bank's policy dialogue engagement under the new Inclusive Growth DPO series (IGDPO-1 and 2).



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. Also, the implementation of the policy framework for mini-grids and duty waiver for quality-verified stand-alone solar systems will open opportunities for private investment and help make off-grid solutions affordable to remote rural populations. *Third*, the implementation of the regulatory framework for digital credit 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. *Forth*, 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. *Fifth*, 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. The development of the seed framework and the approval of the seed catalog are expected to enable farmers to adapt to climate change by improving access to high-quality agricultural inputs, especially climate-resilient seed varieties, which in turn could improve small-scale agricultural productivity. 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. However, crowding in the private sector in seed production and increasing farmers' access to certified seeds could increase the use of agro-chemicals, including inorganic fertilizers and pesticides which could have negative impacts on the environment. 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

The overall risk rating for the operation is 'substantial.' Liberia's transition from conflict to long-term development has been set back by multiple shocks and policy slippages. The country remains fragile with weak state capacity and high vulnerability to economic shocks. There are five main sources of risk - political and governance, macroeconomic with the effects of the Ukraine crisis, institutional capacity for implementation and sustainability, fiduciary, and the lingering COVID-19 pandemic - that could potentially jeopardize the expected outcomes and benefits of this operation. The potential benefits of the proposed operation, however, outweigh the residual risks and warrant IDA's assistance to support the implementation of critical policy reforms and provide much needed financial support at this difficult time for Liberia's transition to a sustainable inclusive growth path.

**CONTACT POINT****World Bank**

Mamadou Ndione
Senior Economist

Borrower/Client/Recipient

Ministry of Finance and Development Planning
Augustus J. Flomo
Deputy Minister for Economic Management
ajflomo@mfdp.gov.lr

Implementing Agencies

Ministry of Finance and Development Planning
August Flomo
Deputy Minister
ajflomo@mfdp.gov.lr

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Mamadou Ndione
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Approved By

Country Director:	Khwima Lawrence Nthara	26-Apr-2022
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