



**The World Bank**

Liberia Inclusive Growth Development Policy Operation 3 (P176993)

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**The World Bank**

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Report No: PGD322

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED CREDIT  
IN THE AMOUNT OF SDR 35.9 MILLION  
(EQUIVALENT TO US\$47.5 MILLION)  
OF WHICH SDR 5.7 MILLION (US\$7.5 MILLION EQUIVALENT)  
FROM THE IDA20 WINDOW FOR HOST COMMUNITIES AND REFUGEES

AND

A PROPOSED GRANT  
IN THE AMOUNT OF SDR 5.7 MILLION  
(US\$7.5 MILLION EQUIVALENT)  
FROM THE IDA20 WINDOW FOR HOST COMMUNITIES AND REFUGEES

TO THE

REPUBLIC OF LIBERIA

FOR THE

THIRD INCLUSIVE GROWTH DEVELOPMENT POLICY OPERATION

September 2, 2022

Macroeconomics, Trade and Investment Global Practice  
Western and Central Africa Region

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Republic of Liberia  
**GOVERNMENT FISCAL YEAR**  
*January, 1 – December, 31*

**CURRENCY EQUIVALENTS**  
 (Exchange Rate Effective as of July 31)

Currency Unit  
 US\$1.00 = LD 152.75  
 US\$1.00 = SDR 0.75551526

**ABBREVIATIONS AND ACRONYMS**

AfDB	African Development Bank
ASA	Advisory Services and Analytics
CAIT	Climate Analysis Indicators Tool
CARI	Central Agricultural Research Institute
CBL	Central Bank of Liberia
CET	Common External Tariff
CGAP	Consultative Group to Assist the Poor
CILSS	Permanent Interstate Committee for Drought Control in the Sahel ( <i>Comité permanent Inter-Etats de Lutte contre la Sécheresse dans le Sahel</i> )
CLSG	Côte d'Ivoire, Liberia, Sierra Leone, and Guinea
COAFEV	West African Catalogue of Plant Species and Varieties
CPF	Country Partnership Framework
DFID	Department for International Development
DFS	Digital Financial Services
DHS	Demographic and Health Survey
DMU	Debt Management Unit
DPO	Development Policy Operation
DRM	Domestic Revenue Mobilization
DRMS	Domestic Resource Mobilization Strategy
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
ECOWAS	Economic Community of West African States
EPA	Environmental Protection Agency

LHSR	Liberia Household Social Registry
LISGIS	Liberia Institute of Statistics and Geo-Information Services
LRA	Liberia Revenue Authority
LSDCA	Liberia Seed Development and Certification Agency Act
LSSN	Liberia Social Safety Nets Project
MCC	Millennium Challenge Corporation
MFDP	Ministry of Finance and Development Planning
MIS	Management Information System
MSME	Micro, Small and Medium Enterprise
MT	Metric Ton
MT/HA	Metric Ton Per Hectare
MTF	Multi-Tier Framework
NFIS	National Financial Inclusion Strategy
NIR	National Identification Registry
NPL	Non-Performing Loan
NSB	National Seed Board
NSPPS	National Social Protection Policy and Strategy
PAC	Public Accounts Committee
PAPD	Pro-Poor Agenda for Prosperity and Development
PFM	Public Financial Management
PFMA	Public Finance Management Act

EU	European Union
FAO	Food and Agriculture Organization
FCDO	Foreign, Commonwealth and Development Office
FDI	Foreign Direct Investment
FIBLL	First International Bank of Liberia Limited
FY	Fiscal Year
GAC	General Audit Commission
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GOL	Government of Liberia
GRS	Grievance Redress Service
GST	Taxes on Goods and Services
IBRD	International Bank for Reconstruction and Development
ICDU	Implementation and Coordination Delivery Unit
ID	Identification
IDA	International Development Association
IFC	International Finance Corporation
IFRS	International Financial Reporting Standard
IGDPO	Inclusive Growth Development Policy Operation
IMF	International Monetary Fund
IMIS	Identification and Management Information System
kV	Kilovolt
LACEEP	Liberia Accelerated Electricity Expansion Project
LDP	Letter of Development Policy
LEC	Liberia Electricity Corporation
LERC	Liberia Electricity Regulatory Commission
LESSAP	Liberia Electricity Sector Strengthening and Access Project

PFMRIS	Public Financial Management Reforms for Institutional Strengthening
PPA	Policy and Performance Action
PPCC	Public Procurement and Concessions Commission
PPG	Public and Publicly Guaranteed
PRSDPO	Poverty Reduction Support Development Policy Operation
PV	Present Value
RETAP	Rural Economic Transformation Project
RREA	Rural and Renewable Energy Agency
SCT	Social Cash Transfer
SDFP	Sustainable Development Finance Policy
SDR	Special Drawing Rights
SOE	State-owned Enterprise
SSA	Sub-Saharan Africa
SSN	Social Safety Nets
STARP	Smallholder Agriculture Transformation and Agribusiness Revitalization Project
T&D	Transmission and Distribution
TA	Technical Assistance
TSA	Treasury Single Account
WAEMU	West African Economic and Monetary Union
UNHCR	United Nations Refugee Agency
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
USSD	Unstructured Supplementary Service Data
WARET	West Africa Regional Energy Trade Development Policy Financing Program
WBG	World Bank Group
WDI	World Development Indicators
WHR	Window for Host Communities and Refugees

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**REPUBLIC OF LIBERIA**

**THIRD INCLUSIVE GROWTH DEVELOPMENT POLICY OPERATION**

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**SUMMARY OF PROPOSED FINANCING AND PROGRAM**

**BASIC INFORMATION**

Project ID	Programmatic	If programmatic, position in series
P176993	Yes	3rd in a series of 3

**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.

**Organizations**

Borrower: THE REPUBLIC OF LIBERIA

Implementing Agency: Ministry of Finance and Development Planning

**PROJECT FINANCING DATA (US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	<b>55.00</b>
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**DETAILS**

International Development Association (IDA)	55.00
IDA Credit	47.50
IDA Grant	7.50

**INSTITUTIONAL DATA**

**Climate Change and Disaster Screening**

This operation has been screened for short and long-term climate change and disaster risks

**Overall Risk Rating**

**Results**



Indicator Name	Baseline	Target
Quantity of certified rice seeds available to farmers (KG)	[0] [2018]	[2000] [2023]
LEC overall transmission and distribution losses (%)	[63] [2018]	[55] [2023]
Health facilities provided with electricity service from stand-alone solar systems (number)	[0] [2019]	[50] [2023]
Tax expenditures as share of total domestic revenues (%)	[32.6] [2018]	[20] [2023]
SOEs with debt information published in the Public Debt Management reports (number)	[0] [2019]	[8] [2023]
Adults with financial transaction accounts (%)	[35.7] [2018]	[45] [2023]
Gender gap in financial transaction account ownership (percentage points)	[35.5] [2018]	[25.0] [2023]
Extremely poor households receiving regular cash transfers (number)	[0] [2018]	[20,000] [2023]
Refugees whose former status ended on 30 June 2022 who have acquired permanent residence and have appropriate documents permitting their legal stay in Liberia (number)	[0] [2021]	[2000] [2023]



## IDA PROGRAM DOCUMENT FOR A PROPOSED CREDIT/GRANT TO THE REPUBLIC OF LIBERIA

### 1. INTRODUCTION AND COUNTRY CONTEXT

1. This program document proposes an International Development Association (IDA) credit in the amount of SDR 35.9 million (US\$47.5 million equivalent), of which SDR 5.7 million (US\$7.5 million equivalent) is from the IDA20 Window for Host Communities and Refugees (WHR), and an IDA grant in the amount of SDR 5.7 million (US\$7.5 million equivalent) from the IDA20 WHR to the Republic of Liberia for the Third Inclusive Growth Development Policy Operation (IGDPO-3). The proposed operation is the third and last in a programmatic series of three operations in support of the government's structural reform program focused on broad-based private sector-led growth, improved public-sector transparency, and greater economic and social inclusion. The operation is closely aligned with the objectives of the government's *Medium-Term Development Plan* and *Pro-Poor Agenda for Prosperity and Development* (PAPD) 2018-2023, and the World Bank Group's (WBG) Country Partnership Framework (CPF) for Liberia.<sup>1</sup>

2. Liberia's economy is still recovering from a prolonged period of weak economic and social performance. Between 2014 and 2020, per capita gross domestic product (GDP) declined by 12.3 percent cumulatively due to the Ebola outbreak, the collapse of iron ore and rubber prices, the drawdown of United Nations peacekeeping forces, and the COVID-19 pandemic. As a result, the poverty rate rose to an estimated 52 percent by 2021<sup>2</sup>. The authorities have taken significant steps since late 2019 to restore macroeconomic stability and bolster growth prospects, including through the structural reforms supported by this DPO series. The economy rebounded by 5 percent in 2021 and the fiscal deficit declined from 6.9 percent of GDP in 2019 to 3.7 percent in 2020 and 2.9 percent in 2021. Going forward, growth is projected to slow to 3.7 percent in 2022 due to the effects of the war in Ukraine, before averaging 5 percent over 2023-2025.

3. Liberia continues to face complex development challenges, including a highly concentrated export structure, a narrow revenue base, and considerable spending needs. Furthermore, 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. Transitioning to a path of sustained economic growth with 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.

4. Liberia is highly vulnerable to climate shocks. Its economy is dependent on environmentally sensitive sectors such as agriculture, fishery, mining, forestry, energy, and transportation, and a large share of the population is vulnerable to increasing average temperatures, variability in rainfall, prolonged heatwaves, and severe flooding. Like its neighbors along the Atlantic and Gulf of Guinea coast of West Africa, Liberia is threatened in the long run by storm surges and rising sea levels that will exacerbate coastal erosion, directly impacting the large fraction of the population that lives near the coast. The impact

<sup>1</sup> World Bank (2018). "Country Partnership Framework for the Republic of Liberia, FY19-FY24." Report No. 130753-LR, was presented to the Board of Executive Directors on November 27, 2018.



of climate change could increase the share of Liberians living below the poverty line by 2-6 percent by 2030,<sup>3</sup> while damage to the road network alone could reach the equivalent of 40 percent of GDP.<sup>4</sup>

5. **The proposed operation supports critical reforms to bolster economic recovery by (i) removing distortions in selected sectors and strengthening public-sector transparency; and (ii) promoting economic and social inclusion.** The reforms under the first pillar expand access to improved agricultural seeds, boost the supply of affordable electricity (by reducing losses and improving financial viability of the energy state-owned enterprise (SOE), bolster domestic revenue mobilization (DRM) (by streamlining distortive tax waivers), and strengthen SOE oversight and transparency. The reforms under the second pillar strengthen the regulatory framework for financial inclusion and digital finance, improve access to formal financial services for excluded and underserved groups (particularly women and rural residents and marginalized communities hosting refugees), and help create a sustainable and efficient social safety net system. This operation also addresses climate risks through policies toward adaptation in the agriculture and energy sectors, and through better and more inclusive social protection. The Government is also committed to addressing climate change risks through improved planning, adaptation, resilience, and enhanced disaster-risk management.<sup>5</sup>

6. **Liberia is also host of thousands of refugees, with the DPO helping to strengthen resilience and social cohesion among affected populations.** The legacy of large-scale refugee flows and internal displacement that destabilized normal social and economic life in the nineties persists, especially in poorer marginalized regions of the country. The widespread loss of life, the destruction of critical infrastructure, and the collapse of public services like education and health during the civil wars deepened divisions across Liberia's different social and ethnic groups. The rebuilding of trust in public institutions and inter-communal relations remains fragile and in need of further consolidation. In close cooperation with six west African governments, the Government has committed Liberia to a regional policy framework for resolving the longstanding issue of Ivorian refugees. At the height of the refugee crisis, Liberia generously accommodated several hundred thousand refugees from the region. The WBG, in close consultation with the United Nations High Commissioner for Refugees (UNHCR), has determined that Liberia adheres to a framework for the protection of refugees that is adequate for the purpose of the IDA20 WHR. It has also coordinated closely with UNHCR and the Government of Liberia (GOL) to contribute to the development of a local integration program for those 4,887 refugees choosing to remain in Liberia.<sup>6</sup> The prior actions supported by this DPO help create jobs, reduce poverty, and strengthen resilience among the population at large, including refugees and hosting communities. Their contribution to the social protection objectives of the PAPD in underserved peripheral regions recognizes the continuing need to strengthen social cohesion and long-term resilience of all affected populations.

7. **The macroeconomic framework is adequate, although risks remain substantial.** The authorities have taken significant steps since late 2019 to restore macroeconomic stability and sustainable and inclusive growth. Despite significant risks of derailment from the COVID-19 pandemic, the authorities maintained tight monetary policy, reduced inflation significantly, stabilized the exchange rate, and narrowed the fiscal deficit to a level consistent with debt sustainability. On the fiscal side, the Government stepped up efforts to mobilize revenues and reduce the wage bill to ultimately create new fiscal space for

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<sup>3</sup> World Bank (2016) "Shockwaves: Managing the impacts of climate change on poverty." *Climate Change and Development Series*. Washington, DC.

<sup>4</sup> Koi's et al. (2019) "A Global Multi-Hazard Risk Analysis of Road and Railway Infrastructure Assets." *Nature Communications*.

<sup>5</sup> Government of Liberia (2015) "Intended Nationally Determined Contributions (INDC)" UNFCCC.

<sup>6</sup> UNHCR <https://data.unhcr.org/en/situations>, It is estimated that 70 percent are women, youth and children.



public investment. Macroeconomic risks, however, remain significant due to the food and fuel price shocks associated with the war in Ukraine. However, the risks are mitigated by the support of this DPO series and the International Monetary Fund (IMF) Extended Credit Facility (ECF) supported program. The fourth review of the ECF program was completed in August 2022. The authorities have stressed their commitment to implementing the policy measures needed to maintain macroeconomic stability, ensure fiscal sustainability, and strengthen accountability and transparency in the public sector. To support reform implementation, and ensure harmonization among development partners' programs, the World Bank is working closely with the IMF, the European Union (EU), the African Development Bank (AfDB), and other development partners.

## 2. MACROECONOMIC POLICY FRAMEWORK

### 2.1. RECENT ECONOMIC DEVELOPMENTS

9. **Liberia's economy has rebounded after contracting for two consecutive years.** Real GDP is estimated to have expanded by 5.0 percent in 2021 after declining by 2.5 percent in 2019 and 3 percent in 2020. Growth has been driven by the secondary sector<sup>7</sup> (growing at 13.3 percent) with high contributions from mining (17.6 percent) reflecting favorable international commodity prices and demand. Agriculture output increased by 3.3 percent in 2021, faster than in 2020 (2.4 percent) driven by rubber and crude palm oil production growth by 37.7 percent and 12.4 percent, respectively on the back of a recovery in international prices. The service sector, which was severely hit by the COVID-19 pandemic in 2020, because of the lockdown and travel restrictions, rebounded, growing at 3.0 percent.

10. **Inflation has slowed significantly, thanks to exchange rate appreciation, tight monetary policy, and a shortage of Liberian dollar banknotes.** The headline inflation rate has fallen steadily from 31.3 percent in August 2019 to reach a bottom of 4.4 percent in October 2021 before increasing to 5.5 percent in December 2021. The Central Bank of Liberia (CBL) adopted a price based monetary policy framework in November 2019 and set the policy rate above inflation to ensure positive real interest rate. The rate has since been adjusted twice to 20 percent now as inflation declined. On average, the inflation rate declined to 7.8 percent in 2021, down from 17 percent in 2020 thanks to declines in food prices, including for alcohol and beverages. The CBL has not intervened in the foreign exchange market since December 2019, except for limited foreign-exchange purchases to strengthen the international reserve position. The appreciation of the Liberian dollar by 17 percent in 2021 reflects currency shortages and an increase in net remittances.

11. **The overall fiscal deficit was reduced further to 2.9 percent of GDP in 2021.** Liberia's fiscal position improved thanks to domestic revenue gains and spending consolidation. DRM increased to 16.4 percent of GDP in 2021, up from 15.2 percent of GDP in 2020. Mobilization of tax revenue strengthened to 13.8 percent of GDP in 2021, up from 12.4 percent in 2020 and 10.5 percent in 2019. Despite the delay in the ratification of the agreement between the GOL and Arcelor Mittal Limited, nonfiscal revenue remained strong at 2.7 percent of GDP, but decreased slightly (by 0.1 percent of GDP) compared to 2020. At the same time, the Government continued its fiscal consolidation efforts with total expenditure and net lending declining by 1.4 percentage point to 30.2 percent of GDP in 2021. Current expenditure declined by 1.6 percentage point to 21.8 percent of GDP, driving by the wage bill which was reduced from

<sup>7</sup> The production of gold, cement, beverages, diamond, and electricity increased by 78.8 percent, 28.5 percent, 21.0 percent, 15.4 percent, and 11.0 percent respectively.



10.5 percent of GDP in 2020 to 8.5 percent of GDP in 2020 as initially planned. With the shortfall in mining revenue, capital expenditure was cut down to 8.3 percent of GDP in 2021 from 10.1 percent in 2020, reflecting mainly externally financed investment projects. Improvements in cash management have enabled the authorities to contain spending to available resources. Overall, the fiscal deficit was reduced from 3.7 percent of GDP in 2020 to 2.9 percent of GDP in 2021. The fiscal deficit excluding grant also declined from 18.3 percent of GDP to 13.7 percent of GDP, despite a decrease of external grants by 2 percentage point of GDP. As a result, total public debt declined, for the first time since the Ebola outbreak, from 55.8 percent of GDP in 2020 to 53.3 percent of GDP in 2021 with external debt representing 71 percent of the total and domestic debt 29 percent. As in 2020, the Government executed a budget without CBL financing, except for on-lending resources from the IMF.

12. **The current account deficit widened in 2021, driven by a wider trade deficit, higher income sent abroad, and lower current transfers.** The rebound in prices for Liberia's main export commodities, on the back of renewed international demand, has boosted export revenues to 25 percent of GDP in 2020, up from 19.1 percent of GDP 2020. Exports of gold totaled 9.8 percent of GDP in 2021 (up from 6.1 percent of GDP in 2020) to near iron ore exports which strengthened to 9.9 percent of GDP 2021 (up from 9.1 percent of GDP in 2020). Other exports, including diamond and rubber, increased by 52 percent to reach 5.4 percent of GDP. However, with the reduction in the trade restriction, imports increased faster than exports to reach 38.2 percent of GDP, yielding a wider trade deficit of 13.1 percent of GDP. In line with the higher exports of commodity, the investment incomes sent abroad increased to widen the deficit in primary income to 5.3 percent of GDP in 2021, up from 4.8 percent in 2020. Despite higher official transfers (including budget support) and an increase in net remittances the surplus in secondary income decreased by 2 percentage point to 12.3 percent of GDP. Overall, the current account deficit widened to 17.7 percent of GDP in 2021, from 15.6 percent of GDP the year before. The deficit was financed by an increase in foreign direct investment (FDI) to 7.3 percent of GDP, thanks to the expansion project of ArcelorMittal steel conglomerate, along with part of the additional SDR 247.7 million allocation (approximately US\$350 million or 7.3 percent of GDP) in August 2021, under the IMF's new General Allocation of SDRs<sup>8</sup>. The SDR allocation also helped the CBL to increase the external reserves to four months of imports.

13. **Monetary and exchange rate policy remained tight in 2021.** In August 2021, the CBL eased its stance, though it kept reserve requirements unchanged, by reducing its policy rate by 500-basis points to 20 percent. Still, with the deceleration of inflation throughout the year, the policy rate has risen sharply in real terms. As a result, broad money (M2) growth is estimated to have slowed down markedly to 11.4 percent in 2021 (from 20.3 percent in 2020). Net claims on Government contracted by 16 percent as the Government tightened fiscal policy allowing credit to the private sector to growth by 4.4 percent in 2021. However, non-performing loans (NPL) increased from 21.6 percent of total loans in December 2020 to 22.7 percent in December 2021, mainly on account of service and hospitality sector borrowers. Bank systemic health is sound, as commercial banks are complying with prudential capital and liquidity requirements, but some of them were reported to be struggling to fulfill their reserve requirements, in the face of strong credit demand. The Government has also stepped in to inject fresh capital into the state-owned Liberian Bank for Development and Investment. However, the CBL's early efforts to rebuild reserves through foreign exchange purchases from the government were set back by Liberian dollar

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<sup>8</sup> bringing its total allocations to SDR 371.6 million (US\$528.6 million, 11 percent of GDP) and its holdings to SDR 384.6 million. Liberia's authorities are planning to draw from these resources to (i) retire some domestic debt; (ii) build foreign reserves to buttress macroeconomic stability; and (iii) make investments to boost commercial agriculture.



shortages. However, the CBL's efforts to reduce operational cost contributed to avoid a drain on foreign exchange while the general SDR allocation to Liberia restored international reserves to adequate levels.

**Table 1. Liberia Selected Economic Indicators (2015-2023)**

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
							Est.	Proj.	Proj.	Proj.	Proj.
<b>National Accounts (growth rates, %)</b>											
Agriculture	1.3	4.5	2.8	1.2	0.2	2.4	3.3	3.5	5.0	5.5	5.5
Industry	-3.5	-11.7	8.2	4.9	1.0	0.2	13.3	5.8	6.6	6.1	6.1
Services	0.1	-2.9	0.6	-0.8	-6.6	-8.6	3.0	2.8	3.4	4.1	4.7
<b>GDP at market prices</b>	<b>0.0</b>	<b>-1.6</b>	<b>2.5</b>	<b>1.2</b>	<b>-2.5</b>	<b>-3.0</b>	<b>5.0</b>	<b>3.7</b>	<b>4.7</b>	<b>5.0</b>	<b>5.3</b>
Mining	-16.8	-34.8	27.5	24.8	13.1	1.7	17.6	7.1	7.9	6.8	6.9
Non-mining	0.9	0.0	1.7	0.3	-3.2	-3.2	4.3	3.5	4.5	4.9	5.2
Population	2.6	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
<b>Real per capita GDP</b>	<b>-2.6</b>	<b>-4.1</b>	<b>-0.1</b>	<b>-1.3</b>	<b>-4.9</b>	<b>-5.5</b>	<b>2.5</b>	<b>1.2</b>	<b>2.2</b>	<b>2.5</b>	<b>2.8</b>
Annual average inflation	7.7	8.8	12.4	23.5	27.0	17.0	7.8	8.8	9.5	6.0	5.0
End of period inflation	8.0	12.5	13.9	28.5	20.3	13.1	5.5	12.0	7.0	5.0	5.0
GDP deflator	5.1	4.7	-2.6	-0.2	-0.6	-1.4	5.1	8.2	2.8	1.6	1.6
<b>National Accounts (% GDP at current market prices)</b>											
Agriculture	35.9	35.9	35.9	35.5	36.4	39.3	37.5	35.9	35.4	35.7	36.0
Industry	13.3	13.8	15.4	16.9	17.0	16.8	19.1	20.6	21.3	21.7	22.0
Services	50.8	50.3	48.6	47.6	46.6	43.9	43.4	43.4	43.2	42.6	42.0
<b>GDP at market prices</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Mining	2.8	2.9	4.7	6.4	6.5	6.4	8.3	9.8	10.1	10.3	10.5
Non-mining	97.2	97.1	95.3	93.6	93.5	93.6	91.7	90.2	89.9	89.7	89.5
Gross domestic investment	24.8	26.5	19.3	18.0	18.9	17.1	16.7	16.1	18.5	19.3	19.7
Private investment	8.4	7.2	7.1	8.9	8.9	7.0	8.4	8.5	9.7	10.4	10.5
Public investment	16.4	19.4	12.1	9.1	10.0	10.1	8.3	7.6	8.9	8.9	9.2
Gross domestic savings	-26.5	-20.5	-16.2	-13.1	-5.3	-8.1	-8.0	-3.4	-0.7	1.0	2.0
Public	0.5	-0.5	-5.8	-4.1	-7.8	-7.9	-9.5	-8.2	-5.4	-5.1	-2.3
Private	-27.1	-20.1	-10.4	-8.9	2.5	-0.1	1.5	4.8	4.7	6.1	4.4
Net primary income	-8.5	-7.7	-8.9	-8.7	-3.2	-4.8	-5.3	-4.6	-4.1	-4.3	-4.5
Net secondary income	35.4	31.4	21.7	17.7	9.2	14.3	12.3	8.6	8.1	7.7	7.1
Gross national savings	0.4	3.1	-3.4	-4.1	0.7	1.5	-1.0	0.5	3.3	4.4	4.7
Saving - Investment balance	-24.4	-23.4	-22.7	-22.1	-18.3	-15.6	-17.7	-15.6	-15.3	-14.9	-15.0
<b>Balance of Payments (% GDP, except otherwise indicated)</b>											
Current account balance	-24.4	-23.4	-22.7	-22.1	-18.3	-15.6	-17.7	-15.6	-15.3	-14.9	-15.0
Balance in trade and services	-51.4	-47.1	-35.4	-31.1	-24.2	-25.2	-24.7	-19.6	-19.2	-18.3	-17.6
Primary income (net)	-8.5	-7.7	-8.9	-8.7	-3.2	-4.8	-5.3	-4.6	-4.1	-4.3	-4.5
Secondary income (net)	35.4	31.4	21.7	17.7	9.2	14.3	12.3	8.6	8.1	7.7	7.1
Foreign Direct Investment	8.4	7.2	7.1	8.9	8.9	7.0	7.3	7.4	8.4	9.0	9.1
Current account balance excl. grants and FDI related imports	1.2	2.0	0.5	-0.8	3.2	6.0	0.5	0.2	1.1	1.8	1.6
Gross Official Reserves (in months of next year's imports)	2.1	2.7	2.6	2.3	2.2	2.1	4.2	3.9	4.0	4.1	4.1
<b>Government finance (% GDP)</b>											
Current revenue	13.6	13.9	13.7	12.4	12.9	15.2	16.4	16.4	16.1	16.4	16.8
Current expenditure	19.3	18.1	21.5	20.3	22.4	23.5	21.8	21.5	18.4	18.6	18.6
o/w wages and salaries	7.6	7.6	8.5	8.9	9.6	10.5	8.5	7.4	7.0	7.0	7.0
Capital expenditure	16.4	19.4	12.1	9.1	10.0	10.1	8.3	7.6	8.9	8.9	9.2
Overall fiscal balance including grants (commitment basis)	-5.0	-5.3	-3.9	-4.6	-6.9	-3.7	-2.9	-4.3	-3.2	-3.4	-3.5
Overall fiscal balance excluding grants (commit. basis)	-22.2	-23.5	-19.9	-17.0	-19.4	-18.3	-13.7	-12.7	-11.2	-11.1	-11.0
<b>Monetary indicators</b>											
Broad money M2 (% annual growth)	2.3	5.0	-18.4	4.9	0.5	20.3	11.4	13.0	8.0	3.6	6.9
Broad money M2 (% of GDP)	21.6	22.0	18.0	18.7	19.4	24.4	24.6	24.8	24.9	24.1	24.1
Liberian dollar component (in % of M2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to the economy (% annual growth)	9.0	10.2	11.7	4.7	-11.3	5.5	4.4	12.7	9.7	8.1	9.2
Credit to the economy (in % of GDP)	13.2	14.0	15.0	15.5	15.0	16.6	15.0	15.6	15.7	15.8	16.0
Velocity (GDP/M2; end of period)	4.6	4.5	5.5	5.3	5.2	4.1	4.1	4.0	4.0	4.1	4.1
<b>Memorandum items</b>											
<b>GDP at current market prices (USD million)</b>	<b>3,296.2</b>	<b>3,398.4</b>	<b>3,390.7</b>	<b>3,422.8</b>	<b>3,319.6</b>	<b>3,176.1</b>	<b>3,506.5</b>	<b>3,937.1</b>	<b>4,236.1</b>	<b>4,520.3</b>	<b>4,836.5</b>
<b>Per capita GDP (USD current)</b>	<b>737.0</b>	<b>740.9</b>	<b>721.1</b>	<b>710.3</b>	<b>672.3</b>	<b>627.6</b>	<b>676.0</b>	<b>740.5</b>	<b>777.3</b>	<b>809.2</b>	<b>844.7</b>
<b>Exchange rate (per 1\$US, average)</b>	<b>86.2</b>	<b>94.4</b>	<b>112.7</b>	<b>144.1</b>	<b>186.4</b>	<b>191.5</b>	<b>159.0</b>				
<b>Exchange rate (per 1\$US, end of period)</b>	<b>88.5</b>	<b>102.5</b>	<b>125.4</b>	<b>157.6</b>	<b>188.4</b>	<b>164.2</b>	<b>145.4</b>				

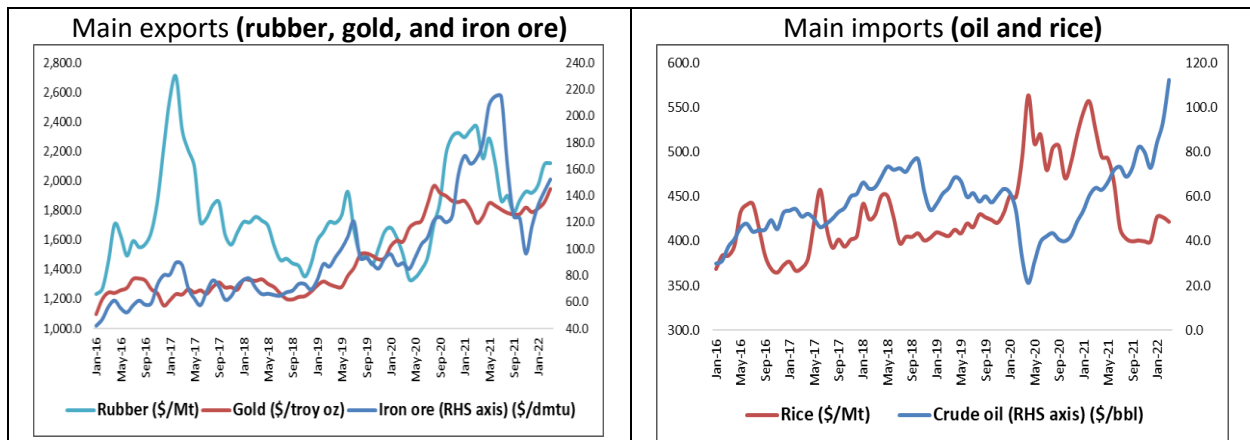
Source: GOL (Ministry of Finance and Development Planning - MFDP and CBL), IMF, and WBG staff, July 2022.



## 2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

14. **The medium-term economic outlook is subject to substantial uncertainty.** The two major factors that will affect the country’s economic outlook for 2022-2023 include: (i) the lingering COVID-19 pandemic; and (ii) fluctuations in the terms of trade. For the first, while the number of COVID-19 cases and deaths has declined globally as well as in Africa, the rate of vaccination remains low at 22 percent in Liberia. As regards to the second factor, the prices of Liberia’s main export commodities restarted an increasing trend since December 2021. The prices of iron ore, rubber, and gold were respectively 30 percent, 10.4 percent, and 8.8 percent higher in March 2022 than in December 2021. However, the prices of the main imported products also increased with crude oil being 54.2 percent more expensive in March 2022 than in December 2021, exacerbated by the Ukraine war, while the global rice prices increased by 5.5 percent in the period. The Government has already responded to the higher crude oil prices by increasing by 26 percent the retail prices of gasoline to US\$5.7 per gallon and by 32 percent the retail prices of diesel fuel to US\$6.0 per gallon.

Figure 1: Evolution of Liberia’s main exports and imports prices



Source: World Bank Commodity Market Outlook (April 2022).

### Box 1: Impact of Ukraine war on Liberia

**Liberia is vulnerable to the ongoing Ukraine war conflict primarily through any impact on global oil and food prices, but the country could benefit from higher mineral prices.** Despite limited direct exposure to the conflicting countries (1.5 percent of imports and 0.5 percent of exports), fluctuations in global commodity exposes several vulnerabilities of Liberia’s economy through three channels: (i) growth: increase in iron ore, gold, and rubber prices, can affect domestic agriculture and mining production and exports (which account for nearly 20 percent of GDP) and result in both positive gains while increase in oil prices will impact negatively growth through its effect on the demand; (ii) inflation: sharp rise in global rice and fuel prices, which account for 30 percent of imports (10 percent of GDP), poses a risk of higher inflation and potentially food insecurity within the country; and (ii) public finances: higher iron ore and gold prices could increase Government mining revenue but domestic inflation can cause expenditure overruns and put pressure on the government’s ability to subsidize fuel and food and/or protect the most vulnerable.



**Economic growth, through its dependence on mining, is vulnerable to changes in global commodity prices.** The mining sector, particularly iron ore and gold play an important role in the economy, accounting for 7 percent of GDP and nearly 70 percent of merchandise exports. During the last episode of a collapse in commodity prices during 2014-2016, when iron ore prices fell to a low of nearly US\$40/MT, the second phase of the Arcelor Mittal project was postponed, and production reduced to minimum. Mining activity declined by 50 percent cumulatively between 2014 and 2016. With the recent increase in iron ore prices (above US\$100 per Mt), the second phase is expected to restart with an objective of tripling production capacities. An agreement was recently between the mining company and the Government and ratified by the Legislature. Since Ukraine crisis started, iron ore prices and gold prices have risen significantly. Further increase in iron ore and gold prices can significantly affect the mining outlook.

**Rising inflation poses a risk to macro and political stability.** Inflation has been in declining trend since August 2019, but the trend has reversed in November 2021. Headline Inflation has risen to 6.6 percent in January 2022, up from 5.5 percent in December 2021 and 4.4 percent in October 2021 (its lowest point). Domestic food prices increased by 8.5 percent (m-o-m) in January, while imported fuel prices increased by 0.7 percent (m-o-m), following a 3.5 percent (m-o-m) increase in December 2021, reflecting rising global food and fuel prices, as well as the pass-through effect of exchange-rate depreciation. Further increase in food and fuel prices will put significant pressure on inflation. Imported rice represent 7.6 percent of the consumer basket while fuel and transport represent 1.2 percent and 7.5 percent of the consumer basket respectively. However, fuel, rice, and transport prices are regulated by the Government.

The impact on public finances will depend on the commodities most affected by the conflict and can both deteriorate or benefit from price fluctuations. Liberia is a net importer of fuel and rice and an exporter of minerals. Higher mining outturns can improve revenue collection while higher domestic inflation could pose risks of expenditure overruns on wages and goods and services. The 2022 national budget targets significant increase in revenue. Tax and nontax revenue which accounts for a significant share of total revenue and grants (74.6 percent) are projected at 16 percent of GDP with royalties and rents from the mining sector (2.2 percent of GDP) being the major drivers on non-tax revenues. The total expenditure is projected at 30.3 percent of GDP in 2022, compared to 32.2 percent of GDP in 2021. Higher fuel and food prices can cause recurrent expenditure overruns and subsequently capital expenditure cuts. Fuel prices have been rapidly adjusted upward in March 2022, but the Government is planning to subsidize rice to avoid rapid increase in domestic prices.

15. **With the ongoing war in Ukraine and the growing global economic uncertainties, growth is expected to slow in the near term.** Economic growth is expected to slow to 3.7 percent in 2022 and 4.7 percent in 2023 (lower than the 4.7 percent in 2022 and 5.0 percent in 2023 initially projected). Growth will be driven by expansion in the mining sector (underpinned by still high commodity prices<sup>9</sup>) and a continued recovery in services (2.9 percent in 2022-2023) from a severe contraction (-8.6 percent) in 2020

<sup>9</sup> Including iron ore (above US\$100 metric ton (MT) in 2022; The WBG Commodity Market Outlook report (April 2021) projects the iron ore prices to average US\$135 per mt in 2021, US\$100 per mt in 2022, and US\$80 per mt in 2023.



and a modest rebound (3.0 percent) in 2021. Agriculture and manufacturing, the main drivers of diversification, are expected to play a pivotal role in making growth more broad-based, inclusive, and sustainable, thanks to structural reforms, including in key enabling sectors (such as energy, trade, transportation, and financial services). Output in agriculture will be driven by population growth combined with gradual gains in productivity, as access to quality inputs improves while manufacturing will be fueled by greater access to electricity, including for solar systems. Improvements in domestic food supply, cheaper electricity, reduced trade costs, and better public services are expected to boost the country's competitiveness and contribute to more robust economic growth.

16. **The inflation rate is expected to increase in 2022 and 2023, reflecting the effects of the Ukraine war.** The average inflation rate is expected to increase to 8.8 percent in 2022 and 9.5 percent in 2023, up from 7.8 percent in 2021, reflecting pressure from global fuel and food prices. In June 2022, the headline inflation rate increased respectively to 6.3 on a y-o-y basis, up from 5.5 percent in December 2021, driven by higher energy and transport costs. Under the IMF program, the CBL has committed to maintaining a tight monetary stance, refraining from monetizing fiscal deficits, and implementing the new interest-rate-based monetary policy framework. The CBL is also committed to limiting its interventions in the foreign-exchange market solely to operations aimed at smoothing short-term fluctuations and rebuilding reserves. In addition, the CBL will align the reserve requirement ratios for both currencies in circulation with the objective to create the appropriate incentives for saving in Liberian dollars and to restore the store-of-value function for the national currency<sup>10</sup>.

17. **Liberia's external position is projected to improve over the medium term.** The current-account deficit, including grants, is projected to narrow gradually from 17.8 percent of GDP in 2021 to 15.4 percent in 2022-2023 with a continued increase in mining and agricultural export earnings underpinned by high commodity prices. The value of Imports is expected to increase with the higher fuel and food prices but slower than export receipts. Structural reforms for productivity growth and economic diversification, including measures supported by this operation, are expected to boost agricultural exports (especially cocoa, palm oil, and wood) while reducing dependence on imported food (especially rice). The projected growth in mining exports will be driven primarily by gold, diamond, and iron ore, as not only ArcelorMittal as mentioned above, but the other major producer Hummingbird, are both planning new investments to expand mining operations. With capital inflows, especially FDI in agriculture, mining, and infrastructure projected to rise, gross official reserves are expected to stabilize at 4 months of imports as in 2021. Gross external financing requirements are projected at an average of US\$717 million (17.5 percent of GDP) per year in 2022-2023, comprising government external financing needs of an annual average of US\$480 million (11.8 percent of GDP) and net private financing needs of US\$236 million (5.7 percent of GDP), largely covered by FDI inflows (7.9 percent of GDP).

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<sup>10</sup> The supply of Liberian dollars, whose shortfall caused disorder in late-2019, will also be improved with the implementation of the recent Amendment and Restatement of the Act Establishing the CBL 1999. In October 2020, the Legislature approved amendments to the CBL Act to strengthen the independence of the central bank while enhancing transparency and accountability. Among the changes incorporated are the provisions that grant the CBL the power to seek approvals from the Legislature for the printing of currency notes over a three-year period with flexibility on how the total amount is printed within the approved period.

**Table 2. Balance of Payments Financing Requirements and Sources in % of GDP (2018-2023)**

	2015	2016	2017	2018	2019	2020	2021	2022	2023
							Est.	Proj.	Proj.
<b>Gross external financing requirements</b>	<b>25.2</b>	<b>24.2</b>	<b>21.0</b>	<b>21.4</b>	<b>18.7</b>	<b>19.4</b>	<b>29.6</b>	<b>16.8</b>	<b>18.2</b>
Current account deficit, excl. official transfers	24.4	23.4	22.7	22.9	18.6	16.8	19.5	16.6	16.2
Amortization and debt service	0.2	0.1	0.1	0.4	0.2	0.5	0.3	0.4	0.6
Accumulation of international reserves	0.6	0.6	-1.8	-1.9	-0.2	2.1	9.8	-0.2	1.4
Other outflows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Available external financing</b>	<b>25.2</b>	<b>24.0</b>	<b>21.1</b>	<b>21.4</b>	<b>18.7</b>	<b>19.4</b>	<b>29.6</b>	<b>16.8</b>	<b>18.2</b>
FDI (net)	8.4	7.2	7.1	8.9	8.9	7.0	7.3	7.4	8.4
Official financing (net)	3.5	4.1	2.2	3.2	4.1	4.9	14.3	6.6	5.1
Of which WBG budget support	0.0	0.0	0.0	0.0	0.0	1.3	1.1	2.8	0.9
Private financing (net)	8.0	11.3	9.9	7.6	-2.1	-3.4	1.4	-2.1	0.0
Capital account (net)	1.6	1.5	1.6	1.8	7.5	7.6	5.9	4.6	4.4
Other inflows (incl. errors and omissions)	1.3	0.0	0.3	0.0	0.0	1.0	0.9	-0.6	0.0
IMF credit (net)	2.4	0.0	0.0	-0.1	0.3	2.2	-0.3	0.9	0.3

Source: GOL (MFDP and CBL), IMF, and WBG staff, July 2022.

18. **Fiscal policy is expected to remain prudent but challenged by the rising global commodity prices.** The overall fiscal deficit is projected to widen to 4.3 percent of GDP in 2022 before declining to 3.2 percent of GDP in 2023, with the primary deficit averaging 2.9 percent of GDP in the period. Domestic revenue is expected to stabilize to 16.4 percent of GDP in 2022, at its level in 2021, reflecting mainly higher revenue from the mining sector, including royalties and signature bonuses. The Government will continue implementing its ambitious *Domestic Resource Mobilization Strategy* (DRMS) which includes reforms to excise tax laws, a transition to the Economic Community of West African States (ECOWAS) Common External Tariff (CET) regime, a review of tax waivers, and a boost to the collection of tax arrears, especially those owed to the road fund. The total tax waived on imports declined recently by more than a fifth (22 percent) from 2019 to 2020, even before the amendment of the revenue code intended to further streamline tax expenditure. Despite these efforts, the projected reduction in external grants should translate in an overall decline in total revenue and grants, from 27.3 percent of GDP in 2021 to 24.8 percent of GDP in 2022 and 24.1 percent of GDP in 2023. On the expenditure side, current expenditures are expected to decline from 21.8 percent of GDP in 2021 to 21.5 percent in 2023, as the wage bill remains flat in nominal terms, and the procurement and payment processing of goods and services are better controlled.

19. **This said, the fiscal framework is still financed by considerable support from development partners, of which a large portion is in the form of grants.** Fiscal financing needs (excluding grants) in 2022 are estimated at US\$504 million (12.8 percent of GDP) which are expected to be met through a combination of disbursements from project grants and of budget support. In addition to project grants from a range of development partners, budget financing sources also include the IMF (US\$38 million), and this proposed World Bank IGDPO3 (US\$55 million).

**Table 3. Liberia Government Fiscal in percentage of GDP (2015-2023)**

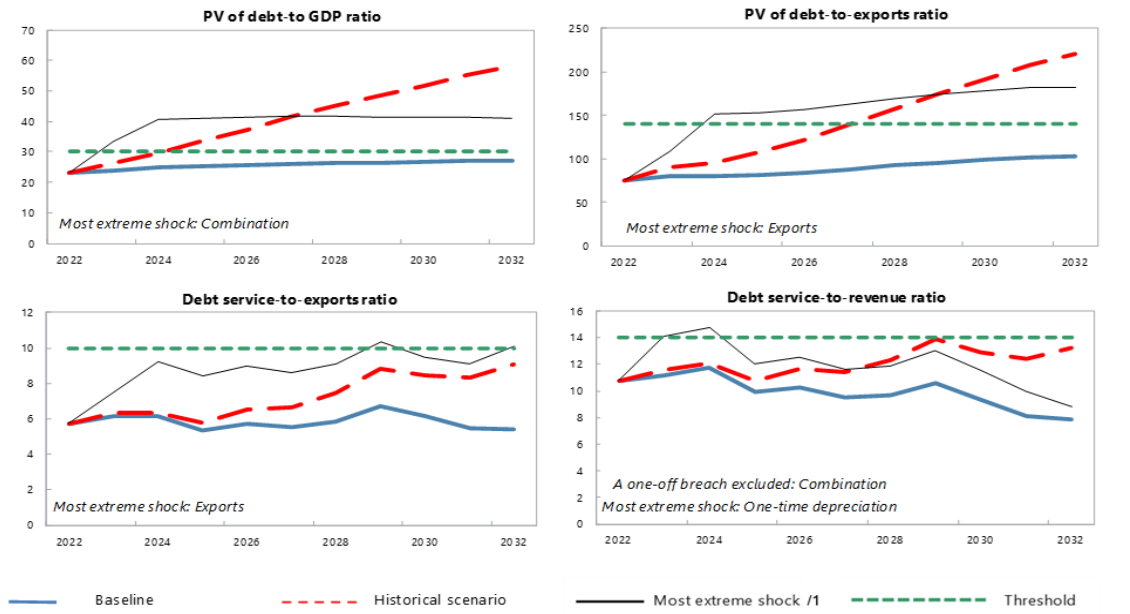
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
							Est.	Proj.	Proj.	Proj.	Proj.
<b>Total revenue and grants</b>	<b>30.8</b>	<b>32.2</b>	<b>29.7</b>	<b>24.8</b>	<b>25.4</b>	<b>29.9</b>	<b>27.3</b>	<b>24.8</b>	<b>24.1</b>	<b>24.1</b>	<b>24.3</b>
<b>Domestic revenue</b>	<b>13.6</b>	<b>13.9</b>	<b>13.7</b>	<b>12.4</b>	<b>12.9</b>	<b>15.2</b>	<b>16.4</b>	<b>16.4</b>	<b>16.1</b>	<b>16.4</b>	<b>16.8</b>
Tax revenue	11.2	11.7	11.4	11.0	10.5	12.4	13.8	12.5	12.9	13.1	13.4
Nontax revenues	2.4	2.2	2.3	1.4	2.3	2.8	2.7	3.9	3.2	3.3	3.4
<b>External grants</b>	<b>17.2</b>	<b>18.3</b>	<b>16.0</b>	<b>12.4</b>	<b>12.5</b>	<b>14.7</b>	<b>10.9</b>	<b>8.4</b>	<b>8.0</b>	<b>7.7</b>	<b>7.5</b>
Program			2.0	0.9	0.4	1.2	1.8	1.0	0.9	1.0	1.0
Project			14.0	11.5	12.2	13.5	9.1	7.4	7.0	6.7	6.5
<b>Total expenditure and net lending</b>	<b>35.7</b>	<b>37.5</b>	<b>33.6</b>	<b>29.4</b>	<b>32.3</b>	<b>33.6</b>	<b>30.2</b>	<b>29.1</b>	<b>27.3</b>	<b>27.5</b>	<b>27.8</b>
<b>Current expenditure</b>	<b>19.3</b>	<b>18.1</b>	<b>21.5</b>	<b>20.3</b>	<b>22.4</b>	<b>23.5</b>	<b>21.8</b>	<b>21.5</b>	<b>18.4</b>	<b>18.6</b>	<b>18.6</b>
Wages and salaries	7.6	7.6	8.5	8.9	9.6	10.5	8.5	7.4	7.0	7.0	7.0
Goods and services	8.1	6.9	10.7	9.4	10.0	10.7	10.2	9.9	7.8	8.0	8.0
Subsidies and transfers	3.4	3.3	1.9	1.4	1.7	0.9	2.2	2.9	2.4	2.3	2.3
Interest payments	0.2	0.3	0.3	0.6	1.0	1.2	0.8	0.9	0.8	0.7	0.7
<b>Capital expenditure</b>	<b>16.4</b>	<b>19.4</b>	<b>12.1</b>	<b>9.1</b>	<b>10.0</b>	<b>10.1</b>	<b>8.3</b>	<b>7.6</b>	<b>8.9</b>	<b>8.9</b>	<b>9.2</b>
Domestically financed		2.1	1.5	0.2	0.3	0.0	0.1	1.9	1.1	1.1	1.2
Externally financed		17.3	10.6	8.9	9.7	10.1	8.2	5.7	7.8	7.3	7.2
<b>Overall balance incl. grants (commitment basis)</b>	<b>-5.0</b>	<b>-5.3</b>	<b>-3.9</b>	<b>-4.6</b>	<b>-6.9</b>	<b>-3.7</b>	<b>-2.9</b>	<b>-4.3</b>	<b>-3.2</b>	<b>-3.4</b>	<b>-3.5</b>
<b>Overall balance excl. grants</b>	<b>-22.2</b>	<b>-23.5</b>	<b>-19.9</b>	<b>-17.0</b>	<b>-19.4</b>	<b>-18.3</b>	<b>-13.7</b>	<b>-12.7</b>	<b>-11.2</b>	<b>-11.1</b>	<b>-11.0</b>
<b>Primary fiscal balance</b>	<b>-4.7</b>	<b>-5.0</b>	<b>-3.7</b>	<b>-4.0</b>	<b>-5.9</b>	<b>-2.4</b>	<b>-2.0</b>	<b>-3.4</b>	<b>-2.5</b>	<b>-2.7</b>	<b>-2.8</b>
<b>Total public debt</b>	<b>22.2</b>	<b>24.8</b>	<b>29.5</b>	<b>32.6</b>	<b>46.7</b>	<b>55.8</b>	<b>53.3</b>	<b>51.6</b>	<b>51.5</b>	<b>50.8</b>	<b>50.5</b>

Source: GOL (MFDP and CBL), IMF, and WBG staff, July 2022.

20. **Liberia's debt is sustainable, but the country remains at a high risk of overall public debt distress.** In the ongoing Debt Sustainability Analysis (DSA) (to be approved before June 2022), Liberia is assessed to be at moderate risk of external debt distress and high risk of overall public debt distress. The total stock of public and publicly guaranteed (PPG) debt reached 53 percent of GDP as of December 2021. External public debt accounted for about 71 percent of the total and was mainly due to multilateral creditors (64.8 percent of total public debt), mainly the World Bank (32.9 percent), the IMF (15.2 percent), and the AfDB (10.5 percent). Domestic public debt was at 15.5 percent of GDP in 2021 (29 percent of the total public debt), constituted mainly of government bonds owed to the Centrale Bank of Liberia (CBL) and estimated at 12.4 percent of GDP (23.3 percent of total public debt). Under the baseline scenario of the external DSA, the present value (PV) of debt-to-GDP and the PV of debt-to-export ratios both remain below the respective thresholds of 30 and 140 percent in the medium-to-long term. However, under several standard stress tests, the thresholds of the PV of debt-to-GDP ratio are projected to be breached, calling for continued prudent external debt management. The public DSA indicates that Liberia remains at high risk of public debt distress, with a 3-year breach of the PV of the public debt-to-GDP ratio. While the PV of public debt to GDP ratio is expected to decline to 34.9 percent in 2022, it is projected to breach the 35-percent threshold in 2023 and remain above it until 2026. Nevertheless, public debt is assessed to be sustainable as most of the domestic debt is owed to the CBL at favorable terms, the breach is small, and the PV of public debt-to-GDP is projected to be on a downward trend.

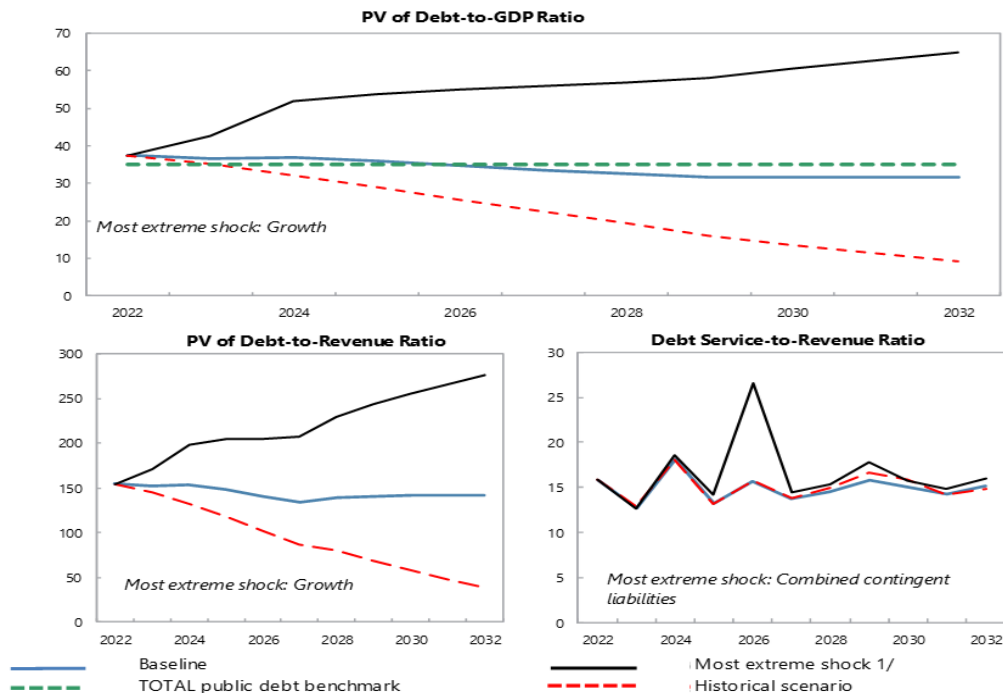


Figure 2: Liberia: Indicators of PPG External Debt under Alternatives Scenarios, FY2022–2032



Source: Joint WBG/IMF Debt Sustainability Analysis (DSA - August 2022).

Figure 3: Liberia: Indicators of Public Debt Under Alternative Scenarios, FY2022–2032



Source: Joint WBG/IMF Debt Sustainability Analysis (DSA - August 2022).

21. Overall, the macroeconomic policy framework is considered adequate for the proposed operation. The authorities have taken significant steps – since late 2019 – to ensure macroeconomic



stability and to return Liberia to a sustainable and inclusive growth path. Despite significant risks of derailment from the COVID-19 pandemic, the Government was able to maintain a tight monetary policy, reduce inflation significantly, stabilize the exchange rate, and narrow the fiscal deficit to a level consistent with debt sustainability. On the fiscal side, the Government has stepped up efforts to increase revenue mobilization and reduce the wage bill so as to ultimately create new fiscal space for public investment. With respect to monetary policy, the CBL has maintained a tight stance, refrained from monetizing the fiscal deficit, and committed to improving governance and transparency under the IMF ECF program. Complementary reforms supported by this operation will reinforce the ECF's program objectives in the areas of macroeconomic stability and good governance, while supporting inclusive growth. The IMF and the World Bank will continue to coordinate on issues of macroeconomic management and structural policy reforms to help the Government achieve its medium-term goals of macroeconomic stabilization and growth.

### 2.3. IMF RELATIONS

22. **A four-year ECF arrangement, with a total access of SDR 155 million (60 percent of quota or about US\$214.30 million) was approved by the IMF Executive Board on December 11, 2019.** The program aims to: (i) restore macroeconomic stability and rebuild external buffers; (ii) promote a balanced, fiscally sustainable accumulation of physical and human capital; and (iii) address weaknesses in governance and strengthen public institutions, especially the central government and the CBL. The program also supports efforts to address governance issues among SOEs and systemically important banks. The structural benchmarks and performance criteria included in the ECF program are consistent with the prior actions supported by the proposed IGDPO series, as well as other World Bank investment operations and advisory services and analytics (ASA).

23. **The IMF's Executive Board completed the fourth review under the ECF and Article IV for Liberia on August 24, 2022.** The decision allowed for a disbursement of SDR 17 million (about US\$22.1 million), bringing total disbursements under the ECF arrangement to SDR 85 million (about US\$110.7 million).

## 3. GOVERNMENT PROGRAM

24. **Liberia's Medium-Term National Development Policy Framework is embodied in the PAPD<sup>11</sup> covering the period 2018-2023.** The Government's PAPD has two overarching objectives. The first objective is to build more capable and trusted state institutions that will lead to a stable, resilient, and inclusive nation. The second objective is to provide greater income security to an additional one million Liberians and reduce absolute poverty by 23 percent across five of the six regions - through sustained and inclusive economic growth driven by scaled-up investments in agriculture, infrastructure, human resource development, and social protection. To achieve these objectives, the PAPD's strategies and interventions are built around four pillars: (i) Power to the People; (ii) The Economy and Jobs; (iii) Sustaining the Peace; and (iv) Governance and Transparency.

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<sup>11</sup> The PAPD was discussed in the first and second IGDPO program documents.



#### 4. PROPOSED OPERATION

##### 4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

25. The proposed operation is the third and last in a programmatic series of three, designed to support key reforms that are critical to enabling inclusive growth in line with the strategic priorities of the PAPD (Table 4). The programmatic series supports the government’s program and is well aligned with the World Bank’s CPF. This operation builds on the gains made under the first and second operations and the previous programmatic Poverty Reduction Support Development Policy Operation (PRSDPO) series concluded in 2018.

Table 4. Link between the Proposed DPO Series and the PAPD

PAPD Priorities	IGDPO Series Policy Areas
I. (i) Empowering women and girls	Financial inclusion, social safety nets (SSN)
I. (iii) Ensuring social protection for all, including refugees	SSNs, energy
II. (i) Expanding the available fiscal space	Tax waivers, SOEs
II. (iii) Ensuring prudent debt management	SOEs oversight and transparency
II. (v) Expanding financial inclusion	Financial inclusion
II. (vi) Improving access to electricity	Energy
II. (vii) Increasing competitiveness	Agriculture, energy, tax waivers
III. (i) Addressing the root causes of conflict	SSNs
IV. (i) Expanding public-sector capacity and improving service delivery nationwide, including to refugee hosting communities	Energy, trade, financial inclusion, SOEs, SSNs
IV. (iii) Reforming SOEs	Energy, SOEs
IV. (vii) Enhancing public financial management (PFM)	SOEs oversight and transparency
IV. (viii) Improving fiscal discipline and reducing corruption, waste, and abuse	Energy, tax waivers, SOEs
IV. (ix) Creating a national biometric registry for all citizens	SSNs
Other priorities	Addressed by other World Bank operations, the IMF ECF program, and activities of other development partners

Source: World Bank.

26. 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 six policy areas. Pillar 1 focuses on removing distortions in selected sectors and strengthening public-sector transparency to support inclusive growth. Policy areas supported under this pillar span agriculture, energy, tax incentives, and SOEs oversight and transparency. Pillar 2 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, including refugees and refugee hosting communities. Policy actions include reforms in key areas such as financial inclusion and SSN.

27. **The design of the IGDP series reflects lessons learned from previous DPOs<sup>12</sup> and international experience in addressing refugees’ needs.** The IGDP is grounded in strong national ownership, and it supports reforms that enjoy broad political consensus as reflected in the PAPD. It is selective (**only seven prior actions across two broad pillars**), taking into account the government’s still limited institutional capacity. To address this constraint, and to ensure the implementation and sustainability of legal and regulatory reforms, ongoing technical assistance (TA) is being provided to the authorities. This includes supporting the Government to address administrative and financial barriers to the sustainable socio-economic integration of refugees within marginalized hosting communities. The sequencing of prior actions is designed to facilitate incremental progress, with each supported measure laying the groundwork for subsequent actions. The first operation focused on measures to strengthen the legal framework, while later operations, including this proposed IGDP3, concentrate on supportive regulatory provisions to support implementation.

#### 4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

28. **The proposed operation includes seven prior actions.** They were identified in close coordination with the authorities and following consultations with development partners and civil society. Each prior action is also underpinned by a substantial body of analytical work (Table 5). The change to the triggers as compared to those proposed in the IGDP2 program document (P175570) presented to the Board on June 17, 2021 are summarized in annex 5.

**Table 5. IGDP-3 Prior Actions and Analytical Underpinnings**

IGDP-3 Prior Actions	Analytical Underpinning	Key Findings and Recommendations
<b>Pillar 1: Removing Distortions in Selected Sectors and Strengthening Public-Sector Transparency</b>		
<b>Prior Action 1:</b> The Recipient has through its Ministry of Agriculture’s National Seed Board (NSB): (a) issued a Resolution on National Catalogue of Crop Varieties Released and Registered in Liberia dated April 6, 2022; and (b) published on-line, the National Catalogue for Plant Species and Varieties dated 2022 in accordance with the ECOWAS Regulation on Harmonization of the Rules governing quality control, in the ECOWAS.	Enabling the Business of Agriculture (2017) Policy Engagement Note for the New Government (Agriculture) (2018) Agriculture Value Chain Analysis (2018) Agriculture Public Expenditure Review (2019)	Productivity growth in agriculture is constrained by inadequate access to improved seeds and agro-chemical inputs and by weak incentives for private-sector participation in the seed market.
<b>Prior Action 2:</b> The Recipient has through the Liberia Electricity Regulatory Commission (LERC),	Trimble et al. (2018) “Financial Viability of Electricity Sectors in SSA:	Limited electricity access and high tariffs severely constrain Liberia’s competitiveness. Liberia’s utility costs are

<sup>12</sup>World 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 Supplementals for the Second and the Third Operations. Report No: ICR00004767. December 23, 2019.



<p>approved the publication of the new tariff rates for end users to further address affordability barriers for poorer population and disincentivize power theft, as evidenced by the Order dated December 10, 2021.</p>	<p>Quasi-Fiscal Deficits and Hidden Costs.” Policy Research Working Paper, WPS7788</p> <p>Policy Engagement Note for the New Government (Energy) (2018)</p> <p>Economic Growth and Diversification Study (2019)</p> <p>Beyond Connections: Energy Access Diagnostic Report Based on the Multi-Tier Framework (MTF 2020)</p> <p>Liberia fiscal impact study for quality verified off-grid solar products (2019)</p>	<p>the highest in SSA, and large commercial losses (i.e., power theft) are the major source of hidden costs. Reducing commercial losses will be critical to strengthen the financial sustainability of the LEC and enable the provision of reliable and affordable electricity.</p> <p>A lower price for off-grid products resulting from a duty waiver makes these products more affordable, and hence increases access to off-grid energy for Liberian households.</p> <p>The negative revenue implications for introducing a duty waiver range between US\$0.1 million to US\$0.4 million, depending on the market scenario being considered.</p>
<p><b>Prior Action 3:</b> The Recipient has granted duty waiver for Quality-verified Solar Products to facilitate private investment in solar mini-grid to make off-grid solutions affordable to remote rural population, as evidenced by Executive Order No. 107 dated April 27, 2022.</p>	<p>Programmatic Public Finance Review: Liberia Revenue Mobilization Policy Note (2019)</p> <p>IMF TA Reports</p>	<p>Addressing deficiencies in the legal and institutional framework for fiscal management and rationalizing tax expenditures will increase transparency and discourage corruption and rent-seeking. The supported reforms will also positively impact revenue mobilization by reducing fiscal leakages, which will help create new fiscal space to enable the improved provision of public services, especially for the poor, including former refugees who stayed in Liberia.</p>
<p><b>Prior Action 4:</b> The Recipient through its MFDP, has in accordance with the Amended Revenue Code streamlined and consolidated duty and tax waivers by limiting the sectors and business activities qualifying for incentives; as evidenced by Administrative Regulation No. 02.16-1/MFDP/27 OCTOBER 2021.</p>	<p>IMF (2017). Liberia. Advancing PFM Reforms: Treasury Single Account (TSA) Implementation, Cash Management, and Oversight of State-Owned Enterprises</p> <p>IMF SOEs TA reports (2018 and 2019)</p>	<p>Liberia’s SOE sector is a key source of fiscal risk. Gaps in the legal and institutional framework for SOE oversight and weak compliance with reporting requirements make it difficult for the government to clearly assess fiscal risks or estimate the true budgetary burden of the SOE sector. Amending the PFM Act to require the quantification and disclosure of quasi-fiscal activities by SOEs will be critical to mitigate the fiscal risks posed by the SOE sector.</p>
<p><b>Prior Action 5:</b> The Recipient through its MFDP has: (a) instructed all SOEs to submit, on a quarterly basis, data on all debt (guaranteed and non-guaranteed, direct and on-lent) to the SOE, Financial Reporting and Coordination Unit and the Debt Management Unit (DMU) at MFDP, as evidenced by Circular dated May 12, 2022; and (b) published the validated and verified said debt information in its quarterly Public Debt Management Report.</p>	<p>IMF (2017). Liberia. Advancing PFM Reforms: Treasury Single Account (TSA) Implementation, Cash Management, and Oversight of State-Owned Enterprises</p> <p>IMF SOEs TA reports (2018 and 2019)</p>	<p>Liberia’s SOE sector is a key source of fiscal risk. Gaps in the legal and institutional framework for SOE oversight and weak compliance with reporting requirements make it difficult for the government to clearly assess fiscal risks or estimate the true budgetary burden of the SOE sector. Amending the PFM Act to require the quantification and disclosure of quasi-fiscal activities by SOEs will be critical to mitigate the fiscal risks posed by the SOE sector.</p>



<b>Pillar 2: Promoting Economic and Social Inclusion</b>		
<p><b>Prior Action 6:</b> The Recipient has through the CBL Board, authorized the use of digital credit to promote access to digital financial services (DFS); as evidenced by Resolution No. BR-05-/2022 dated March 17, 2022.</p>	<p>Policy Engagement Note for the New Government (Financial Sector) (2018)</p> <p>Economic Growth and Diversification Study (2019)</p> <p>PAPD (2018-2023)</p>	<p>Financial inclusion is limited in Liberia, and a substantial gender gap in access to finance constrains economic participation of women. The development of DFS will help expand financial access and reduce costs, especially for poor, remote, and underserved populations, including former refugees who stayed in Liberia.</p>
<p><b>Prior Action 7.</b> The Recipient has authorized: (a) all beneficiaries of social assistance and safety net programs enrolled in the Liberia Household Social Registry (LHSR), including eligible refugees, to receive at no cost national identification (ID) cards and (b) refugees whose refugee status is about to end and who wish to stay as permanent residents in Liberia after June 30, 2022 following the entry of the UNHCR Refugee Cessation Requirements to: (i) enable their continuing access to basic services; and (ii) early regularization of their long-term status as permanent resident, as evidenced by Executive Order No 108 dated April 27, 2022.</p>	<p>Developing a National Social Protection Delivery System (2017)</p> <p>Policy Engagement Note for the New Government (Social Protection) (2018)</p>	<p>Liberia’s social protection and SSN systems are still at a nascent stage. Given the country’s high and rising incidence of extreme poverty, accelerating efforts to strengthen social protection and expand the national SSN infrastructure is a key priority.</p>

Source: World Bank.

**Pillar 1. Removing Distortions in Selected Sectors and Strengthening Public-Sector Transparency**

**Policy Area 1: Agriculture**

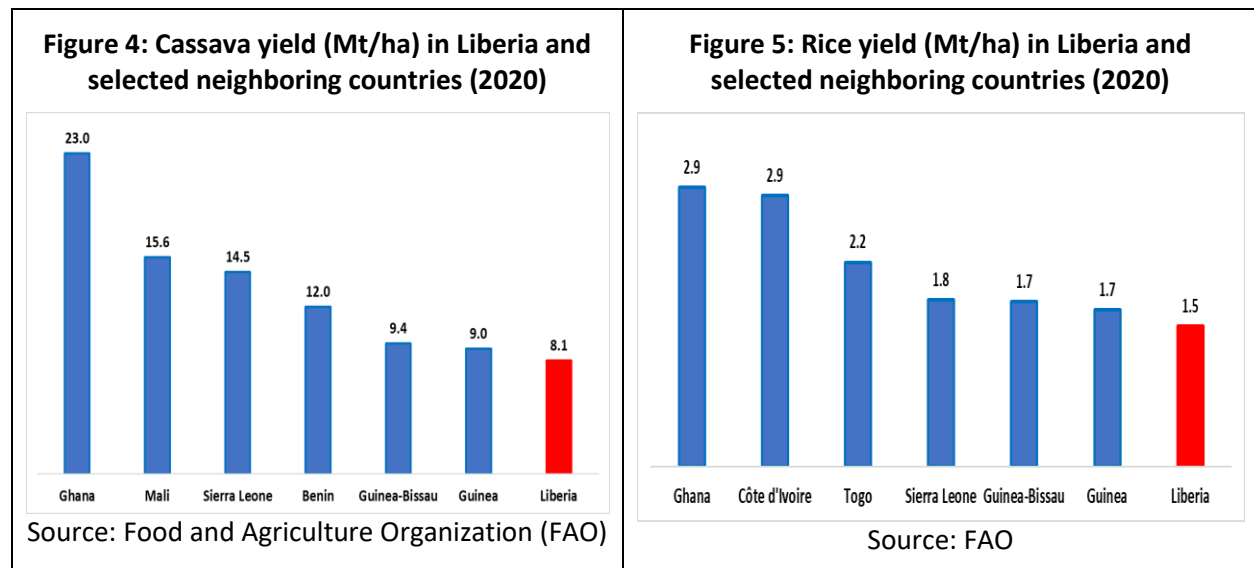
**DPO-3 Prior Action #1.** The Recipient has through its Ministry of Agriculture’s NSB: (a) issued a Resolution on National Catalogue of Crop Varieties Released and Registered in Liberia dated April 6, 2022; and (b) published on-line, the National Catalogue for Plant Species and Varieties dated 2022 in accordance with the ECOWAS Regulation on Harmonization of the Rules governing quality control, in the ECOWAS.

**Status:** Completed

29. **Context and Issues:** Liberia enjoys a favorable climate and fertile soils for a large variety of crops, but agricultural productivity is very low on account of insufficient access to key inputs. Agriculture is the primary source of livelihood for more than 70 percent of the population. Rice and cassava are staple foods in Liberia. Rice (107 kg per capita per year) alone accounts for half of all calories and close to 95 percent of the cereals consumed in the country in 2020. Rice production increased by 2.9 percent per year between 2017 and 2020, to 181,000 Mt of milled rice equivalent, covering only 30 percent of the national



consumption<sup>13</sup> (591,000 Mt). Rice yields increased by 2 percent per annum in the period while the area harvested increase by only 0.9 percent. Nevertheless, rice yields<sup>14</sup> (1.48 metric ton per hectare - Mt/ha) are particularly low in Liberia compared to neighboring countries, standing at 10 percent below the yields in Guinea (1.7 Mt/ha), 15 percent below Sierra Leone (1.8 Mt/ha) and only half of the yields in Côte d'Ivoire (2.9 Mt/ha) and Ghana (2.9 Mt/ha) in 2020 (figure 5). Cassava is the second most consumed crop in the country and 60 percent of farmers produce it. Cassava production increased faster than rice by 5.4 percent on average per year between 2017 and 2020, driven by increase in areas harvested. Cassava yields declined by 2.7 percent on average per year in the period to 8.1 Mt/ha, at 9.7 percent below the yields in Guinea (9.0 Mt/ha), 43.9 percent below the yield in Sierra Leone (14.5 Mt/ha), and 64.7 percent below the yields in Ghana (23.0 Mt/ha) (figure 4). Because of low productivity in agriculture, most of the population in rural areas remains poor. According to the Liberian household survey (2016), close to 80 percent of households headed by a person self-employed in agriculture are poor. In turn, productivity in the sector is undermined by low quality of agricultural inputs such as certified seed and limited access to market. The most used seeds are not locally bred (to account for prevailing agro-ecological conditions) and are rarely resistant to pests and diseases. Access to adequate agricultural inputs is particularly constrained for female-headed households that tend to be less productive than male-headed households.



30. **Climate change is exacerbating the challenges facing Liberia’s highly vulnerable agriculture.** Liberia’s agriculture is largely rainfed. In recent years, unpredictable rainfall patterns have contributed to a decline in agricultural productivity, particularly cassava, and increasing temperatures have affected soil moisture and diminished the availability of water for food production. Pests, disease, and inadequate storage impose high pre- and post-harvest losses, which average about 40 percent per year for food crops. Climate change is exacerbating the risks facing the agricultural sector: warm conditions during the day are important for crop growth cycles, but each crop has an upper-heat threshold beyond which productivity is reduced. Extreme rainfall can damage crops by flooding fields, and excessive water flows can strip soil

<sup>13</sup> Liberia’s rice imports requirements were estimated at 360,000 Mt in 2021 in Cereal supply and demand balances for sub-Saharan African countries published by the FAO in February 2022.

<sup>14</sup> FAO Statistics. Liberia’s average rice yield is roughly half the regional average of 2.5 MT/HA and far below the global average of 4.25 MT/HA



of its nutrients. Key adaptation measures include: (i) the use of climate-resilient seed varieties; (ii) investment in infrastructure and techniques for retaining soil nutrients and preventing soil erosion; (iii) improved water management in the context of warming weather systems; (iv) the use of flood-resilient production systems; and (v) the adoption of efficient pest- and disease-management methods and technologies.

31. **Policy Reforms:** The IGDP0 aims to help increase agricultural productivity and production by enabling farmers to access high-quality and climate-resilient agricultural inputs. To do so, the program supports the strengthening of the regulatory environment of the sector to promote private-sector participation in the seed value chain. As a member of ECOWAS, Liberia is committed to applying the harmonized regulatory framework at the national level, particularly for seed quality control, certification, and variety release. The priority activities that need to be undertaken to implement the ECOWAS guidelines are to create a national seed committee, to put national seed regulations in compliance with the regional agreement and to strengthen the seed-certification and variety-release system. Under the first operation of the programmatic series (IGDP01), the Government enacted the Liberia Seed Development and Certification Agency (LSDCA) Act (IGDP01 Prior Action #1). The NSB which oversees seed policy and regulation has been put in place and made operational. Under the second operation of the series, the NSB approved the implementing regulations for the LSDCA Act (IGDP0-2 Prior Action #1) to upgrade the legal and institutional framework and establish the foundation for a sustainable seed-delivery system and a strong private-sector participation in seed production and marketing<sup>15</sup>. In this proposed operation, the Ministry of Agriculture will develop and publish online a National Catalogue of Plant Species and Varieties (IGDP0-3 Prior Action #1). The catalogue will provide a limitative list of varieties or varietal type whose seed may be produced and commercialized within the country. The objective of the catalogue is to simplify the procedures required for a variety to be commercialized in the country/region, while at the same time guaranteeing the quality of those varieties. It will offer a simple clearinghouse to facilitate easy access and use of those elite and high-yielding genetic resources across the country to improve crop yields and productivity. Also, all the seed varieties included in the catalogue will be climate resilient. In addition, the catalogue will contribute to the West African Catalogue of Plant Species and Varieties (COAFEV) implemented by the ECOWAS, the West African Economic and Monetary Union (WAEMU), and the Permanent Interstate Committee for Drought Control in the Sahel (CILSS). The policy actions under the series are also supported by the Smallholder Agriculture Transformation and Agribusiness Revitalization Project (STARP, P160945) and the Rural Economic Transformation Project (RETAP, P175263). For example, the RETAP will (i) strengthen the critical institutions that are responsible for overseeing the development of the sector and providing key services for producers and processors; (ii) provide support for investment geared toward the adoption of new productivity enhancing technologies and practices; and (iii) improve access to markets by upgrading roads and modernizing rural markets.

32. **Expected Results:** The reforms supported by this operation will strengthen the regulatory environment and incentivize private-sector participation in the seed supply chain. The quantity of certified rice seeds distributed to farmers is expected to increase to 2 MT in 2023 as the number of licensed private firms in the seed sector increases. As of end December 2021, Central Agricultural Research Institute (CARI)

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<sup>15</sup> The regulation defines the range of activities to be carried out by the competent agency to verify that varietal or genetically pure seed, their physiological and health conditions, as well as their technological standards conform with the technical rules applicable in ECOWAS. The regulations also defined the procedure by which the species or varieties intended to be included in the national catalogue of species are registered.



has developed 1.1 MT of foundation seeds. All the seed varieties and plants included in the catalog are high yield and climate resilient with strong adaptability to lowland and harsh environments, strong ability to compete with weeds, resistant to bacteria blast, withstands drought and iron toxicity; and susceptible to lodging. According to the Climate Analysis Indicators Tool (CAIT), local agriculture practices in Liberia contribute to only a limited extent to the emission of Greenhouse Gas (GHG) in the country (about 530ktCO<sub>2</sub>e representing 2.3 percent of its estimated total GHG emissions). The largest GHG emissions are due to land use change and forestry which account for 60 percent of the national GHG emissions (about 13,500 ktCO<sub>2</sub>e). Higher agriculture productivity caused by greater use of certified seeds could slow the increase in harvested areas and reduce deforestation, and thus help reduce GHG emissions and generate climate co-benefits. This prior action also extends earlier efforts to offset the impact of the COVID-19 pandemic on the poor<sup>16</sup>, including on refugees.

**Policy Area 2: Energy**

**IGDPO3 Prior Action #2.** The Recipient has through the LERC, approved the publication of the new tariff rates for end users to further address affordability barriers for poorer population and disincentivize power theft, as evidenced by the Order dated December 10, 2021.

**Status:** Completed

**DPO-3 Prior Action #3.** The Recipient has granted duty waiver for Quality-verified Solar Products to facilitate private investment in solar mini-grid to make off-grid solutions affordable to remote rural population, as evidenced by Executive Order No. 107 dated April 27, 2022.

**Status:** Completed

33. **Context and Issues:** While access to electricity has been gaining pace in Liberia with the access rate tripling between 2014 (9.4 percent) and 2019 (27.6 percent), it is still one of the lowest in the world (figure 6). Out of the population having access, only 8 percent are connected to the Liberia Electricity Corporation (LEC) grid<sup>17</sup> (7 percent in the capital Monrovia) and the remaining 21 percent are connected to off-grid sources, mostly through local privately owned mini-grids (14 percent) and solar lighting (7 percent)<sup>18</sup>, with varying levels of quality. With the support of development partners since the end of the civil war, investments in network reconstruction and generation capacity rehabilitation resulted in the sector achieving adequate generation capacity from Mount Coffee Hydropower Plant (88 megawatt - MW) during the wet season (from May-December). With the regional transmission interconnection project between Côte d'Ivoire, Liberia, Sierra Leone, and Guinea – CLSG nearing completion, Liberia will have access to additional supply for meeting the dry season needs when Mount Coffee capacity is reduced significantly. However, with the recent acceleration in connections and resulting demand increase, the country will face supply constraints, particularly during the dry season, necessitating the need for additional capacity addition in the short to

<sup>16</sup> In 2020, as part of its response to the COVID-19 pandemic, the Government signed several supply contracts with three local private rice-seed producers to distribute quality seed to farmers and awarded contracts to smallholder farmers and food processors for rice and cassava production.

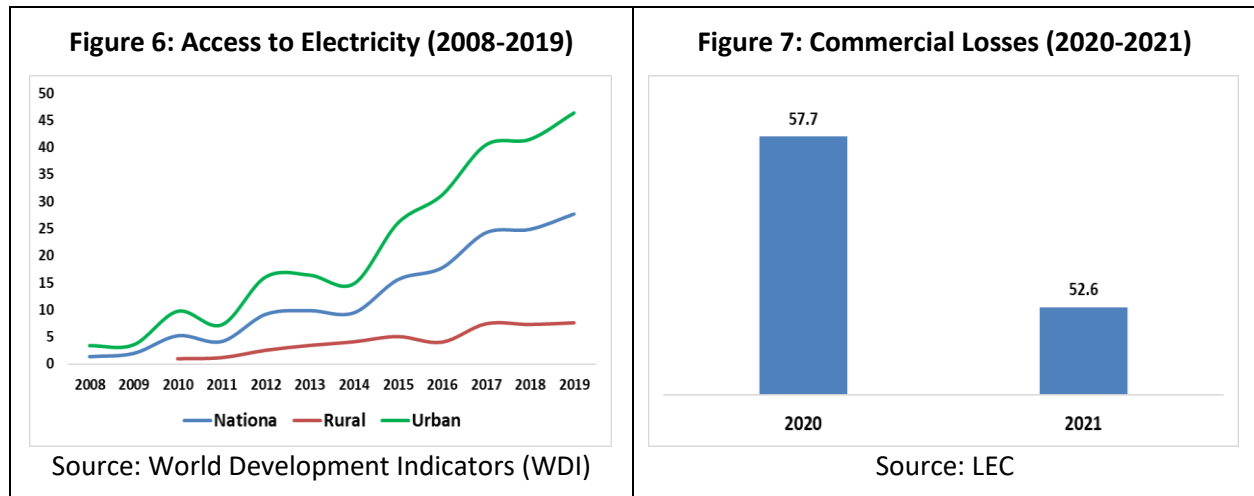
<sup>17</sup> Most of the electricity infrastructural, including the transmission and distribution (T&D) network was looted or destroyed during the civil war and LEC ceased operation in the period.

<sup>18</sup> Source: 2019 MTF Household Survey for Liberia.



medium term, and the options for such capacity additions are being discussed as part of on-going sector dialogue.

34. **Limited T&D infrastructure, high commercial losses, and a precarious financial situation are constraining LEC’s ability to fully utilize available generation capacity to expand access to electricity.** Investments for the reconstruction of the T&D networks had lagged the generation projects. As a result, generation resources were underutilized, especially in the wet season when Mount Coffee is operating at full capacity. Currently, the transmission network consists of radial 66 kilovolt (kV) lines interconnecting four 66/22-kV substations. A few backbones 22-kV lines distribute power from these substations mostly along the main roads and streets without extensive reach within the communities. Limited expansion of the low-voltage network leaves numerous communities without access even though the grid has technically reached them. While the connection base has been increased rapidly in recent time with support from the World Bank and other development partners, the grid footprint is still limited to the capital Monrovia and its surrounding areas. Despite having one of the highest tariffs in the world (US\$0.38/kWh), until mid-2021, LEC remains in a precarious financial situation: The high level of system losses, small customer base, heightened dependence on high-cost thermal plants during the dry season, and relatively high general and administrative expenses all undermine LEC’s financial sustainability. Aggregate Technical and Commercial (AT&C) losses are estimated at a staggering 63 percent currently (of which commercial losses are estimated to be 57 percent). The high tariff created a vicious cycle of incentivizing electricity theft thus contributing to higher losses which in turn require a higher tariff to sustain LEC operations. As a result, the financial performance of LEC had been poor for many years, with sustained operating losses and cash balances dwindling from US\$32.6 million in 2015 to just US\$11.4 million in 2021. Capital transfers from the Government are helping LEC to continue its operations despite its poor financial performance.



35. **The Government has established an electricity regulatory body to create a conducive electricity regulatory environment, attractive to private sector investment.** The LERC was established by the 2015 Electricity Law as the sector regulator with the authority to issue licenses for sector activities and to set cost-reflective tariffs. The Law also defined the role of the Ministry of Mines and Energy (MME) in developing national energy policies and master plans. The Rural and Renewable Energy Agency (RREA) was established in 2011<sup>19</sup> as an autonomous government agency with a mandate to promote, facilitate, and accelerate the

<sup>19</sup> The Act was promulgated and submitted to the legislature in 2011 but passed in 2014 as “RREA Act, 2011”.



provision of sustainable energy services in the rural areas of Liberia. A National Electrification Strategy supported by the World Bank has identified, with the help of geospatial analysis, least cost technology options (grid expansion and intensification, mini-grids and stand-alone solar systems) to achieve universal access to electricity by 2030. Reaching remote rural areas far from the reach of the national grid network with off-grid solutions will require private sector participation. Appropriate regulations are needed to facilitate private investments in the mini-grid while creating a viable market for quality-verified stand-alone solar solutions will require tax exemption to make the solutions affordable to remote rural population. World Bank's on-going support (Liberia Electricity Sector Strengthening and Access Project, LESSAP- P173416) is testing pilot intervention for a sustainable model for mini-grids and stand-alone solar solutions.

36. **Climate change also has important implications for electricity supply and demand.** The energy sector is exposed to multiple impacts of climate variability, which can affect both supply (e.g., by disrupting generation and distribution) and demand (e.g., by altering power needs). Rising temperatures will increase demand for cooling (i.e., air conditioning and refrigeration). Power supply is also tied to water availability. Power plants—both hydroelectric and thermal—require substantial amounts of water to operate, and inadequate water supplies can reduce their output. In addition, flooding can damage transportation lines for fuel, and both excessive heat and extreme weather events can affect power-distribution networks. LEC has plans to make its distribution network climate resilient. To complement domestic hydropower-based generation, grid-tied solar capacity addition is being explored.

37. **Policy Reforms:** The IGDPO series focuses on reforms to improve the financial viability of the LEC and enhance the provision of reliable and affordable power services to a growing customer base, by focusing on actions to reduce commercial losses. To do so, the program supports direct actions by LEC to reduce losses combined with actions to reduce power theft. Under the IGDPO1, the LEC Board approved a five-year Business Plan (2019–2023) (IGDPO-1 Prior Action #2i) and amended the Penal Law was to treat electricity theft as a criminal offense with appropriate penalties. The implementation of the business plan and enforcement of the power theft law is ongoing<sup>20</sup>. Under the IGDPO2, a provisional “lifeline” tariff<sup>21</sup> of US\$0.22 was approved (IGDPO-2 Prior Action #2) by LERC to address affordability challenges among poor households, including former refugees who stayed in Liberia, which would also minimize the incentives for electricity theft. In January 2022, the electricity tariff decrease has been generalized to all individual customer categories and the lifeline tariff reduced further to US\$0.15 (IGDPO-3 Prior Action #2). The average tariff will decline from US\$0.35 to US\$0.24 for residential and US\$0.22 for non-residential. According to government simulations, the LEC's earnings before interest, taxes, depreciation, and amortization (EBITDA<sup>22</sup>) is expected to turn positive two years after the application of the tariff. In addition, and in line with the National Electrification Strategy, the Government is committed to approving a policy framework for mini-grids and duty waiver for quality-verified stand-alone solar systems, in order to open opportunities for private investment and help make off-grid solutions affordable to remote rural populations (IGDPO-3 Prior Action #3). A lower price for off-grid solar products resulting from a duty

<sup>20</sup> From January to November 2021, 114 people were arrested by the police for power theft, 107 people were indicted of which 70 people were sent to Court.

<sup>21</sup> The World Bank supported a cost-of-service study in 2018, which had determined that a marginal reduction of tariff to from US\$0.34 to US\$0.31 (excl. tax) and life-line tariff of US\$0.22 would be feasible for poorer households without impacting the financial viability of LEC.

<sup>22</sup> The main driver on the revenues side is the assumed demand growth based on the customers and consumption growth assumption for residential and in particular Medium Voltage (MV) customers, while reducing losses from the current value of 64 percent in 2019 to 55 percent in 2022.



waiver makes these products more affordable, and hence increases access to off-grid energy for Liberian households. The fiscal impact of the proposed duty waiver is very limited and consistent with the new regulation approved by the MFDP (see prior action #4 below). According to the Liberia fiscal impact study<sup>23</sup> for quality verified off-grid solar products, the negative revenue implications for introducing a duty waiver range between US\$0.1 million to US\$0.4 million, depending on the market scenario being considered, while generating between 24,715 and 88,835 more connected households. This could be considered as a fiscal subsidy of about US\$4.50 per new connected household. Complementarily, the on-going World Bank-supported project (LESSAP, P173416) focuses on upgrading the T&D network, building LEC's capacity to manage operations, and implementing pilots for mini-grids and stand-alone systems in remote areas for private sector participation. The West Africa Regional Energy Trade Development Policy Financing Program (WARET DPF – P171225) is focused on promoting regional electricity trade that will allow Liberia access cheaper regional hydropower resources while also allowing for exporting Liberia's excess electricity in the long-term.

38. **Expected Results:** The actions supported under the IGDPO series are contributing to reducing commercial losses and strengthening LEC's financial sustainability as well as increasing the number of health facilities provided with electricity service from stand-alone solar systems. This will mitigate fiscal risks arising from the energy related SOE and facilitate access to affordable and reliable electricity, thereby bolstering private investment and service delivery. LEC's overall transmission (technical) and distribution (commercial) losses<sup>24</sup> are expected to be trimmed from 63 percent to 55 percent in 2023, which, combined with the reduction in electricity tariffs for poor households from US\$0.385/kWh to US\$0.15/kWh, including former refugees who stayed in Liberia, will allow for an expansion of their access to electricity by end-2023. The general tariff reduction will further promote the switch from the use of charcoal and kerosene to electricity, thus generating additional climate co-benefits, and it will also help mitigate the negative economic and social impacts of the COVID-19 pandemic. Commercial losses already declined by 5.1 percentage points between 2020 and 2021 to 52.6 percent (figure 7). Assuming technical losses are unchanged, the overall transmission (technical) and distribution (commercial) losses are estimated at 58 percent in 2021 compared to a target of 55 percent in 2023. The actions supported under the proposed operation (IGDPO-3) are expected to further address the affordability barrier for electricity while attracting private-sector investment for reaching remote rural areas with cost-effective and climate-friendly solutions for electrification. The duty waiver of quality verified solar products is expected to generate between 24,715 and 88,835 electricity connections, including households and community infrastructures and facilities. With support from United Nations Children's Fund (UNICEF), the Government installed solar refrigerators in 103 health facilities, thereby creating access to lifesaving vaccines for about 40,000 children, most of them in hard-to-reach areas. Complementarily, ongoing World Bank projects, including the Liberia Accelerated Electricity Expansion Project (LACEEP, P133445), the LESSAP (P173416), and the regional Côte D'Ivoire–Liberia–Guinea–Sierra Leone Interconnection Project (CLSG, P113266), will support the expansion of electricity infrastructure, increasing supply and reducing costs.

<sup>23</sup> The study was commissioned by the RREA and the United States Agency for International Development (USAID) in 2019. <https://beyondthegrid.africa/wp-content/uploads/LIB-RREA-Introduction-to-RREA-and-the-Liberian-Power-Sector.pdf>

<sup>24</sup> This is a climate indicator from the approved list. The Climate Indicators Team conducted a Portfolio Review of select World Bank operations (FY17 onwards) with Climate Co-Benefits to glean an illustrative list of Climate Indicators.



**Policy Area 3: Tax Expenditures**

**DPO-3 Prior Action #4.** The Recipient through its MFDP, has in accordance with the Amended Revenue Code streamlined and consolidated duty and tax waivers by limiting the sectors and business activities qualifying for incentives; as evidenced by Administrative Regulation No. 02.16-1/MFDP/27 OCTOBER 2021.

**Status:** Completed

39. **Context and Issues.** DRM has been improving recently in Liberia. Domestic revenue excluding grants increased from 13.9 percent of GDP in 2019 to 16.8 percent of GDP in 2021, thanks to improved collection of both tax and nontax revenues. Tax revenues increased from 11.3 percent of GDP in 2019 to 14.1 percent of GDP in 2021 while nontax revenue reached 2.7 percent of GDP in 2021 up from 2.5 percent of GDP in 2019. Despite these achievements, DRM remains low compared the country’s own aspirations as set out in its DRM Strategy<sup>25</sup>. For a long period of time, the low level of DRM has constrained the government’s ability to provide public services while preserving fiscal balance. The inadequate level of basic infrastructure and weak public service delivery, in turn, hinder productivity growth and hold back improvements in living standards. While higher revenues are crucially needed, weak revenue mobilization reflects both inadequate tax policies and the low capacity of the tax administration. The Government still relies heavily on trade taxes, while income tax and goods and services tax revenues are low.

40. **An extensive array of tax exemptions and waivers further erode the already narrow revenue base and substantially distort economic incentives.** Tax expenditures rose from 20.2 percent of domestic revenue in FY 2015/16 to 34.0 percent in FY 2018/19.<sup>26</sup> Because these estimates exclude nontax fiscal incentives, total foregone revenue is even larger than the data indicate. While deficiencies in tax administration reduce revenue collection, tax incentives—granted with or without legislative oversight—are a major drain on tax revenue. Waivers, preferential rates, and revisions to various tax rules may be granted in a broad variety of ways, through the negotiation of concession agreements (18 percent of tax waivers), through the application to the investment incentive scheme established in Section 16 of the Revenue Code (22 percent of tax waivers), by executive order (24 percent of tax waivers), and via other means. While these incentives are meant to be limited to a five-year period, extensions appear to be relatively common. The share of exemptions granted through concession agreements, as part of the investment incentives program, or through executive orders has grown steadily over the past three fiscal years, accounting for 78 percent of total waivers in 2021, up from only 46 percent in FY15/16. In addition to being fiscally costly, incentives are also unlikely to be effective: while revenue foregone from tax expenditures granted under the investment incentives program grew from US\$15.1 million in FY2015/16 to US\$45.1 million in FY2020/21, an analysis suggests that more than half of the granted waivers were not meeting the expectations set forth in their application criteria.

41. **Policy Reforms:** The Government has taken significant steps to reduce tax exemptions. Under the IGDP01, the Government established an Intergovernmental Tax-Expenditure Committee (IGDPO-1 Prior Action #4 (i)) to revise the incentive regime, streamline tax expenditures, and prevent abuse, fraud, and waste; and suspended the issuance of Investment Incentives Certificates in 2020 (IGDPO-1 Prior Action #4

<sup>25</sup> Liberia Revenue Authority (LRA) (2018) “Domestic Resource Mobilization: Strategy in Liberia. FY18-22.” [https://lra.gov.lr/Admin/Official\\_Files/important\\_documents/d64cdd348ab4afb237a311fb8b72b186.pdf](https://lra.gov.lr/Admin/Official_Files/important_documents/d64cdd348ab4afb237a311fb8b72b186.pdf)

<sup>26</sup> A share of this sharp increase in tax expenditures is attributable to the 2016 increase in general sales tax rates from 7 percent to 10 percent for services, which raised the value of existing exemptions. But after normalizing the data to account for this rate increase, exemptions in FY17/18 were still high at 25.6 percent of domestic revenue.



(ii)). The Committee identified various loopholes in the incentive scheme and proposed ways to consolidate and streamline them through amendments to the Revenue Code. In line with the Committee’s recommendations, the Revenue Code was amended (IGDPO-2 Prior Action 3) to set out a new and clearer framework for granting exemptions. The main changes introduced to streamline tax expenditures are: (i) exemptions from taxes on goods and services (GST) and import duty are limited to equipment, material, supplies and other critical inputs for use directly in qualifying sectors (to be identified in regulation); (ii) all investments activities are subject to a minimum capital requirement of US\$500,000 for both Liberian and foreign-owned business and must be limited to a list of sectors and business activities. The next step for the new framework to become operational is for the Minister of Finance and Development Planning to issue an implementation regulation of the amended Revenue Code, limiting the sectors and business activities qualifying for Section 16 incentives of the said Code to streamline and consolidate duty and tax waivers (IGDPO-3 Prior Action #4 and Sustainable Development Finance Policy (SDFP) Policy and Performance Action (PPA) #2). From a list of twenty (20) sectors broadly defined in the previous regulation, the Government is committed to limit incentives to eight (8) specific subsectors within three (3) sectors. Agriculture, especially climate resilient seeds, and energy, including quality verified solar products, are qualify sectors for tax incentives under the new regulation to further promote private sector investment and contribute to climate adaptation in these sectors. The IDA’s Public Financial Management Reforms for Institutional Strengthening (PFMRIS) Project (P165000) and Ghana, Liberia, and Sierra Leone Tax Reform TA will support these reforms. The PFMRIS Project will address financial management and governance issues while deepening and institutionalizing PFM reforms. TA activities in this area will focus on improving tax-expenditure management and streamlining tax exemptions.

42. **Expected Results:** Establishing the proper legal and institutional framework for rationalizing and managing tax expenditures will increase transparency and reduce corruption and rent-seeking. These reforms will also improve revenue mobilization and create fiscal space to enhance the provision of public services, especially for poor households, including former refugees who stayed in Liberia. Accordingly, they are expected to reduce tax expenditures from 34 percent of total domestic revenue in FY2018/19 to no more than 20 percent in 2023. The indicator in fact declined to 23.7 percent in 2020 during the COVID19 pandemic but increased again to 28.9 percent in FY2020/21 with the recovery in the economy and imports. The new incentive framework has already helped the Government reduce the number of investment incentive certificates, which will help trim the actual number of outstanding tax waivers, given that the certificates already issued are set to expire in the coming two years. According to the Government, if the new regulation were applied in 2021, instead of the previous regulation, the duty and GST waivers under the section 16 of the Revenue Code would have been 54 percent lower. The new regulation is expected to bring the tax expenditures back on track to be reduced to 20 percent by 2023. The policy supported in this operation will also promote climate adaptation in energy and agriculture by providing limited tax incentives for climate resilient seeds and quality verified solar products.

**Policy Area 4: SOEs Oversight and Debt Transparency**

**DPO-3 Prior Action #5.** The Recipient through its MFDP has: (a) instructed all SOEs to submit, on a quarterly basis, data on all debt (guaranteed and non-guaranteed, direct and on-lent) to the SOE, Financial Reporting and Coordination Unit and the DMU at MFDP, as evidenced by Circular dated May 12, 2022; and (b) published the validated and verified said debt information in its quarterly Public Debt Management Report.

**Status:** Completed.



43. **Context and Issues:** SOEs represent a source of significant fiscal risk in Liberia. According to the Government's own diagnostic, SOE performance remains weak due to uncontrolled expenditure across the entire sector reflecting the lack of fiscal discipline, poor budget planning, weak mechanisms for monitoring and evaluation (M&E), management capacity gaps and shortcomings, and non-existent or weak oversight. As of December 31, 2021, SOEs domestic debt amounted to US\$166.7 million (4.8 percent of GDP). Sixty-seven (67) percent of the SOE domestic debt were owed to suppliers, 18 percent to the Government (mainly tax arrears), 9 percent to commercial banks, and 6 percent to social security (NASSCOR) and other SOEs. Only 8 percent of the SOE domestic debt was guaranteed by central government and 92 percent was non-government. The National Port Authority (NPA) owed the highest portion of this debt at 69.7 percent while the LEC and the Liberia Telecommunication Corporation (LIBTELCO) had the second and third largest shares at US\$35.2 million and US\$13.2 million, respectively. A solid financial reporting regime and better oversight are crucial for ensuring that resources are efficiently used and properly accounted. However, the legal framework governing SOEs has evolved in a piecemeal manner, with most entities established by their own Acts in the 1970s. The Public Finance Management Act (PFMA) of 2009 and the subsequent PFM Regulations represented a major effort to establish an overarching legal framework to govern SOEs. The PFMA was recently amended and recast to require a statement on overall SOE performance and fiscal risks to be included in the National Budget and mandate the publication of International Financial Reporting Standards (IFRS)-compliant financial statements for SOEs. Section 41.1 of the Amendment PFMA allows SOEs to incur debt through short- and medium-term borrowing and securities issuance to finance capital and other non-recurrent expenditures with the express authorization of the Board and written approval of the MFDP and the Debt Management Committee. Section 41.6 requires SOEs to submit to the Minister, at the end of each quarter, a detailed report of their borrowing and debt servicing, including government guaranteed debt, as well as any debt they have restructured, and any outstanding arrears to suppliers more than 90 days overdue.

44. **Policy Reforms:** The objective of the programmatic series under this reform area is to strengthen SOEs' oversight and debt transparency. Under the IGDPO1, the PFMA of 2009 was amended in December 2019 to require a statement on overall SOE performance and fiscal risks to be included in the National Budget (IGDPO-1 Prior Action #5 (i)) and mandate the publication of IFRS-compliant financial statements for SOEs (IGDPO-1 Prior Action #5 (ii)). These actions enabled the preparation of SOE's Statement of Fiscal Risks (SFR) and its submission to the legislature along with the draft National Budget for FY2021. In addition, the Government is making efforts to increase the reporting coverage of the SOE monitoring department, which will publish a Public Debt Management Report that expands the coverage of debt recording to at least five critical SOEs' liabilities, debt, guarantees (IGDPO-2 Prior Action #4 and PPA under SDFP for FY21). To strengthen debt transparency, under the proposed IGDPO3, the MFDP will: (a) issue a written instruction to all SOEs to submit to the DMU, on a quarterly basis (i.e., within 10 days following the end of the quarter) and following a template provided by the DMU, data on all debt (guaranteed and non-guaranteed, direct and on-lent; and (b) publish the validated and verified debt related information in its quarterly debt report (IGDPO-3 Prior Action #5 and SDFP PPA #1). The template is expected to include information on i) maturity profile (information on the grace period and maturity loan by loan); ii) cost (average cost, or interest rate/grant element loan by loan); iii) foreign exchange risk (breakdown/share of debt denominated in foreign or local currency); iv) ID of creditors (at least by category of creditors); v) disbursed amount, interest, and principal repayment schedule. Actions under this policy area are supported by the PFM Reforms for Institutional Strengthening (PFMIS) Project (P172654).



45. **Expected Results:** Reforms supported under this area are expected to strengthen SOEs’ oversight and debt management and transparency. The enhanced monitoring and oversight of SOEs, including through the regular publication of statements of fiscal risks and audited reports, is vital for raising awareness of risks emanating from the sector and challenges faced by individual SOEs and taking appropriate actions. The number of SOEs with debt information published in the Public Debt Management reports is expected to increase from 0 in 2019 to 8 in 2023. By mid-May, fifteen (15) SOEs provided their debt information to be included in the debt report.

## Pillar 2. Promoting Economic and Social Inclusion

### Policy Area 5: Financial Inclusion

**DPO-3 Prior Action #6.** The Recipient has through the CBL Board, authorized the use of digital credit to promote access to DFS; as evidenced by Resolution No. BR-05-/2022 dated March 17, 2022.

**Status:** Completed.

46. **Context and Issues:** Making growth more inclusive requires broad access to finance. Due to low levels of financial inclusion, most Liberians lack the financial tools necessary to save, invest, and hedge against risks. In turn, access to credit is also very low: the private-credit-to-GDP ratio was just 16 percent at end-2021 and only 19 percent of firms had a bank loan or line of credit. According to the latest available Findex data, just over a third (35.7 percent<sup>27</sup>) of the population aged 15 and above had accounts at a financial institution or with a mobile money provider in 2017. This is in spite of significant gains since 2011 when only 18.8 percent of the population had access to finance. Mobile money has been the driving force behind these gains, as a fifth (20.8 percent) of all Liberians reported having a mobile-money account and nearly a third (27.6 percent) reported making or receiving digital payments. Since 2017, the number of mobile-money agents has sharply increased. By 2020, for example, it had grown nearly sevenfold to reach almost 25,000. The total number of subscribers or users of mobile money significantly increased over the period from close to 1.9 million in 2017 to almost 5.7 million by December 2021.

47. **While these developments reflect a dynamism of technology adoption that Liberia shares with other countries, they also offer opportunities, like in other countries, to address social legacies that have been proven harder to change.** Digitalization has the potential to help narrow gender gaps. Indeed, Liberian women are less likely to hold transaction account than men (28.2 percent versus 43.7 percent), a gender gap (15.5 percentage points or 35.5 percent) that is in fact wider in Liberia than those observed at the regional level and in most comparator countries. The gender gap is narrower, however—though still significant—when only mobile-money account ownership (18.3 percent for women versus 23.5 percent for men, a 5.2 percentage point gender gap or 21.9 percent) is considered, which illustrates the scope for greater digitalization to help narrow the lingering gender gaps in the economy. Digital credit products differ from traditional forms of credit, as it uses smart and feature phone technology or web platforms to register, score, approve, and distribute loans to borrowers. The Consultative Group to Assist the Poor (CGAP) identifies three unique features that differentiate digital credit products from other DFS or loan services: (i) digital credit loans can be applied for, approved, and disbursed remotely (often without any brick-and-mortar infrastructure); (ii) approval is automatic (minimizing the time and number of steps between registration and the distribution of loans); and (iii) approval is instant (often in less than 72 hours). Digital credit also increasingly considers nontraditional or alternative data to determine

<sup>27</sup> The percentage of respondents who report having an account (by themselves or together with someone else) at a bank or another type of financial institution or report personally using a mobile money service.



creditworthiness, in addition to traditional financial information like credit scores and bank account information. The automatic approval, the remote disbursement, and the use of alternative data will overcome some critical barriers to women access to transaction accounts and credit such as mobility constraints, low little financial literacy, insufficient collateral (such as land title).

48. **Multiple policy and regulatory barriers inhibit financial inclusion and sustain the gender gap in access to finance.** Research by the International Financial Corporation (IFC) indicates that digital credit products have the potential to expand credit to borrowers that would otherwise not be served by the formal financial system, allowing for unbanked and/or low-income populations to access loans and credit. IFC reports that unbanked populations may include those who live in remote areas, have limited time or financial resources to meet formal banking requirements, are without formal documentation, or lack traditional credit scores. The National Financial Inclusion Strategy (NFIS) recognizes that there is a limited range of products and services specifically targeted towards those financially excluded groups including women and those in rural areas. Bolstering the array of financial products, such as those related to credit, which support women entrepreneurs or address their needs, is critical to achieving gender parity in access. The digital-credit framework that is being established will help overcome existing barriers to credit access among women. For those in rural areas, products that leverage digital channels, particularly mobile payments, will be critical to advancing access to credit. While mobile-money regulations authorized digital credit, amendments to the disclosure requirements of the consumer protection and market conduct regulations enabled digital credit to be disbursed on Unstructured Supplementary Service Data (USSD)-capable phones. If digital credit remains solely available via smartphones, many of the poor in rural areas and women, who are most likely to benefit from digital credit, will not be able to access it. In addition, Liberia lacks a modern digital-credit reference system to help financial institutions assess consumers' credit-risk profiles, which undermines their willingness to lend.

49. **Policy Reforms:** The objective of the programmatic series under this reform area is to expand access to financial services in Liberia. This requires a multi-pronged approach to facilitate the digitization of the financial sector. Under the IGDPO1, the CBL developed a NFIS for 2019-2024 (IGDPO-1 Prior Action #6 (i)) and began the process of reviewing and approving e-payment regulations (IGDPO-1 Prior Action #6 (ii)). With World Bank and IMF TA, the CBL amended the Payments System Act (IGDPO-2 Prior Action #5) which was approved by the Legislature in 2021. The amended Payment System Act supports the digitization of payments in the retail payment space where a majority of women operate and, together with the consumer protection regulation, it will significantly increase citizens' participation in the digital-payment ecosystem through increased access to telecommunication networks versus physical access to commercial banks. In particular, this should significantly benefit women, given that they play a significant role in daily commercial transactions. Moreover, it should also benefit people in rural areas with limited access, given the very low levels of financial inclusion amongst these target groups. In addition, the CBL has approved consumer protection regulation with specific provisions against discrimination based on sex, tribal origin, political affiliation, or disability. Finally, to further expand access to finance and strengthen credit-risk profiles, the CBL is committed to approve new guidelines for digital credit to promote access to DFS and reduce the gender gap (IGDPO-3 prior action #6). The adoption of this regulation will complete the legal and regulatory framework and make it operational. The expansion of digital credit is expected to provide thousands of historically unbanked individuals with access to formal loans for the first time by opening the sector to additional service providers. The guidelines will request that all digital credit provider design a credit policy that includes consumer protection as an objective with features to meet the needs of customer segments, gender, or individual customers for whom they are



intended. The guidelines will also require than all digital credit providers maintain minimum credit records on all borrowers to facilitate periodic internal review of borrower and ID of the borrower. The record shall include name of borrower, age, amount, type of business (where applicable), gender, purpose segment and tenure of credit. This reporting requirement will allow a regular monitoring of the gender gap in access to transaction accounts and in access to digital credit.

50. **Expected Results:** Actions supported under this area are expected to strengthen the policy, legal, and regulatory framework for financial services, create an enabling environment for the growth of DFS, and expand financial access for businesses and households. The digitization of financial services will help reduce financing costs and improve the efficiency of service delivery, especially among the poor, remote, and underserved populations, including former refugees, and help reduce the spread of viral diseases, including COVID-19. Expanding access to financial services, including among women, will enable businesses and households to save for the future and invest in income-generating activities, which will contribute to both inclusive growth and poverty alleviation. The supported reforms are expected to increase the share of Liberians over the age of 15 that have financial-transaction accounts from 35.7 percent in 2017 to 45 percent by 2023, while narrowing the gender gap in transaction-account ownership from 35.5 percentage points in 2017 to 25 percentage points by 2023. The World Bank Global Findex database is not available on an annual basis, but estimation from a recent household survey<sup>28</sup> show that the gender gap in access to finance was reduced to 30.4 percent for population aged between 15 and 49 in 2020.

#### **Policy Area 6: SSNs**

**DPO 3 prior action #7.** The Recipient has authorized: (a) all beneficiaries of social assistance and safety net programs enrolled in the LHSR, including eligible refugees, to receive at no cost national ID cards and (b) refugees whose refugee status is about to end and who wish to stay as permanent residents in Liberia after June 30, 2022 following the entry of the UNHCR Refugee Cessation Requirements to: (i) enable their continuing access to basic services; and (ii) early regularization of their long-term status as permanent resident, as evidenced by Executive Order No 108 dated April 27, 2022.

**Status:** Completed.

51. **Context and Issues:** Liberia’s overall social protection framework, and especially its Social Safety Net (SSN) system, is in the early stages of its development. Benefits are low, amounting to just 3.4 percent of the consumption of beneficiary households, and their impact on poverty is very limited. Most social protection programs, including those for refugees, are donor-financed, resulting in program fragmentation and numerous uncoordinated small-scale interventions. Excessive reliance on donor financing also puts the sustainability of Liberia’s social protection system at risk. International experience shows that programs which provide regular and reliable support tend to be most successful at reducing poverty, reinforcing food security, and improving economic welfare. Cash transfers can help poor households mitigate economic shocks, smooth consumption over time, and enable long-term human-capital development.

52. **Social protection is a key aspect of the government’s development agenda.** Liberia Rising 2030 and the PAPD both target improvements in social protection: improvements in the scale, scope, and equity of social assistance, including the use of cash transfers and the expansion of employment opportunities among poor and vulnerable populations. Enabling the social protection system to achieve

<sup>28</sup> <https://dhsprogram.com/publications/publication-FR362-DHS-Final-Reports.cfm>



its full potential will require efficiency improvements, programmatic consolidation, and the creation of delivery platforms (e.g., social registries, interoperable management information systems (MIS), and shared payment systems) to reduce administrative costs and facilitate planning and coordination. In addition, lessons learnt from the COVID-19 pandemic require transitioning all payments to mobile money using existing digital payment service providers for current and future Social Cash Transfer (SCT) program beneficiaries, which can also help promote their financial inclusion. However, there are some barriers to mobile money registration, including lack of a national ID card. The GOL enacted the National Identification Registry (NIR) Act in 2011 to establish national identification in the country. The law called for the setup of a NIR to be responsible for issuing a biometric-based ID card to each citizen and resident in Liberia. Digital identity can help the implementation of effective safety net programs by improving the efficiency and reducing the cost. However, citizens must pay US\$5 dollar for the establishment of an ID card, which is very high for the poorest households. The GOL indicated in the PAPD its commitment to the inclusion of communities in those counties where poverty levels are high. These include those marginalized areas that have previously hosted hundreds of thousands of refugees from the neighboring states.

**53. An important objective for the Government's social protection coverage is the inclusion of communities and areas impacted by the long presence of refugees.** In addition to the development deficits incurred by Liberia's two civil conflicts between 1989-1996 and 1992-2003, counties such as Nimba, Grande Gedeh and Maryland hosted refugees from neighboring Côte d'Ivoire for two decades. Refugees attracted international resources and support to the area. However, the demographic shock of the refugee arrival and protracted presence on the local economy, on weak public services and limited environmental resources was considerable and placed additional pressure on local households themselves struggling to meet their needs in an uncertain development context characterized by deep poverty. Notwithstanding the transition of the present refugee situation into a local integration initiative, the long-term socio-economic effects of protracted displacement remain to be addressed in an equitable manner that strengthens the resilience of all affected communities.

**54. The Government has adopted important policy measures to enable refugee inclusion.** Liberia is presently hosting 4,887 refugees, most of which are from Côte d'Ivoire. They represent the residual population of an overall refugee situation that formerly numbered over quarter of a million persons. The GOL has expressed its commitment to finding solutions to the situation of Ivorian refugees in the region. In close cooperation with the Governments of Côte d'Ivoire, Ghana, Guinea, Sierra Leone, Mauritania, and Togo, the Government participates in the Comprehensive Regional Solutions Strategy for Ivorian refugees which represents the main policy framework for addressing refugee issues in the region and with the international community. Following indications of durable stability in Côte d'Ivoire, regional governments and UNHCR agreed to end refugee status for Ivorian refugees on 30 June 2022. Furthermore, UNHCR has confirmed that the protection framework in place in Liberia meets the key eligibility criteria to benefit from the World Bank's Window for Host Communities and Refugees (WHR). It is anticipated that the majority of remaining Ivorians will choose the GOL's offer to become permanent residents and potentially naturalized citizens. In that context, the Government has also developed a Local Integration Strategy (2018-2023) for those Ivorians who opt to apply for long term residence in Liberia as an important component of its contribution to solutions. It has also drawn on its previous experience of the integration of refugees from Sierra Leone to further inform the policy and programmatic design of its approach to socio-economic inclusion. The Government intends to incorporate the insights and lessons learned from this experience into the future Local Integration Strategy (LIS) that will be prepared for the 2023-2028



period.<sup>29</sup> In particular, it has acknowledged the importance of addressing administrative and financial barriers to the early socio-economic integration of refugees through the timely issuance of appropriate documentation and the waiving of their associated costs.

55. **At the 2019 Global Refugee Forum, Liberia made several pledges including commitments to strengthen laws and policies to improve refugee access to rights and services and support the local integration of an estimated 5,000 Ivorian refugees.** As a positive indicator, the President has issued an Executive Decree on 27th April 2022 that operationalizes both legal and practical measures in support of these commitments.<sup>30</sup> The Government agreed to strengthen the national social protection system and regularize the permanent residence status of those refugees wishing to stay in Liberia following cessation through the timely issuance of the necessary documents and permits. One important component is the waiving of the prohibitive level of costs associated with acquiring official documentation (residence and work permits, national registration cards) to enable their effective integration into national social protection programs. It contributes not only to eliminating a key financial barrier to long term integration but also to transitioning out of dependence on external assistance towards their inclusion within a national protection system.

56. **Poverty levels are high and socio-economic indicators are low among communities in the refugee hosting areas.** Although there is little household level data available, host communities are generally receptive to refugees due to close ethnic and social ties between communities on either side of the Liberian and Côte d'Ivoire border. This enabling situation may partly be attributable to the fact that many Liberians were themselves refugees in adjacent areas in neighboring countries between 1989 and 2003, including Côte d'Ivoire. The GOL attaches considerable importance to addressing fragility and reinforcing social cohesion through the inclusion of marginalized communities in national programs. Through the PAPD, and more recently through the proposed Accelerated Community Development Program (ACDP), it aims to redress the imbalance in the socio-economic indicators between urban and rural areas. Preparation and strengthening institutional capacities to coordinate government policies and actions to assist local households and refugees with meeting their needs will require continuing international, multi-stakeholder engagement. In particular, ensuring that governments' distributional policies make provision for assisting underdeveloped areas hosting refugee populations requires dedicated attention and resource allocation. In that context, the roll out of the Accelerated Community Development Program (ACDP) and REALISE is expected to attract increased donor interest and support for interventions in these areas. Drawing on previous experience in other refugee hosting countries, the WHR financing through the extension of community driven development interventions will also enhance progress to these goals through supporting an equitable approach to assistance and the inclusion of marginalized local and refugee communities in national development programs. By combining both policy (facilitation of legal integration) and operational instruments (strengthening local resilience of poor households through REALISE) WHR resources will make an important contribution to the solution of a protracted refugee situation. The mobilization of these resources in support of the Government's medium

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<sup>29</sup> Letter of 13 May 2022 from the MFDP requesting access to WHR financing.

<sup>30</sup> Executive Order No. 108 'Supporting Integration and Access to Social Services and Safety Nets for Refugees and other vulnerable persons in Liberia' that will enable the regularization of their status and inclusion in national development programs, including social protection of the most vulnerable households.



term local integration strategy will enable a transition out of dependence on humanitarian support and make a contribution to strengthening the resilience of all affected communities.

57. **SSNs can help low-income households cope with shocks caused by extreme weather events, and thus constitute a key building block of adaptation to climate change.** Flooding causes damage to Liberia’s infrastructure, displaces an estimated 60,000 people per year,<sup>31</sup> increases public health risks (e.g., malaria and waterborne diseases), and causes the loss of human lives. Low-income households are especially vulnerable to flooding and other extreme weather events. Shocks to the food supply are particularly damaging: in 2015, for example, at least 15 percent of the population was severely food-insecure, and the persistent inability of the domestic food supply to meet domestic demand may increase food insecurity.<sup>32</sup> Undernutrition among children is a severe challenge in Liberia, where 30 percent of children under the age of five suffer from stunting, while more than half a million are underweight.<sup>33</sup> Health or economic shocks, including those caused or exacerbated by climate change, could drive vulnerable populations deeper into poverty. SSNs can help the extreme poor to better cope with the impact of climate change by helping them to smooth consumption, promote better nutrition and human capital development, use the additional resources to reinforce their homes against extreme weather events, as well as promote alternative livelihood opportunities.

58. **Policy Reforms:** Under the first operation of this programmatic series, the Government adopted the LHSR (IGDPO-1 Prior Action #7 (i)) as a mechanism for identifying poor households which can be recipients of SSN programs in the country. The LHSR is critical to foster coordination, harmonize programs and reduce leakages and redundancies. The Ministry of Gender and Children and Social Protection (MGCSP) launched the data-collection process for the LHSR in four counties and provided regular cash transfers to 3,250 extremely poor households (IGDPO-1 Prior Action 7 (ii)) in 2020, using the same eligibility screening tool (Proxy Means Test) as will be used for the LHSR on a pilot basis. To operationalize the LHSR further, the MGCSP developed an identification and management information system (IMIS) that includes two core components: the Social Registry Information System (SRIS) and the MIS. Under IGDPO2, the Government certified that the IMIS is ready for deployment (IGDPO-2 Prior Action #6). Due to the COVID-19 pandemic and the necessity to transition all payments to mobile money, the Government organized cash-out and mobile money SIM card registration events to mitigate issues related to low network coverage and mobile money penetration in remote parts of the country. To ensure that all potential beneficiaries to the SCT program have an ID card, the Government has approved an Executive Order that allows all beneficiaries of social assistance and safety net programs enrolled in the LHSR to receive National ID cards at no cost to the programs or the beneficiaries (IGDPO-3 prior action #7 (i)). Access to national ID cards will allow beneficiary to receive directly cash transfer via mobile money which will speed up the country’s response to urgent needs, which in turn will improve overall adaptive SSN in the context of climate change. The Government will ensure that refugees whose refugee status will end after 30 June 2022 and who wish to stay as permanent residents in Liberia will benefit from (i) temporary stay measures and documentation that enable continuing access to basic services and (ii) early and no cost regularization of their long-term status as permanent residents (IGDPO-3 prior action #7).

59. **The World Bank’s Liberia Social Safety Nets Project (LSSN, P155293 and P173145) supports the Government’s efforts to develop the national SSN system and scale up its cash-transfer program.** The

<sup>31</sup> UN Disaster Risk Response Committee estimates.

<sup>32</sup> Liberia Institute of Statistics and Geo-Information Services (LISGIS). 2016. “Household Income and Expenditure Survey 2014-2015.”

<sup>33</sup> SMART 2016; LISGIS website.



Government aims to deliver cash transfers and complementary support to approximately 12,500 extremely poor and food insecure households, including households with persons with disabilities. To address Liberia's high levels of undernutrition, the cash-transfer program will encourage beneficiary households to improve their food consumption and invest in developing human capital, with a focus on young children, pregnant women, and nursing mothers. The project also provides capacity building to key stakeholders at the central and local government levels. The project is co-financed by USAID and the Foreign, Commonwealth and Development Office (FCDO) of the United Kingdom (formerly DFID).

60. **Expected Results:** The actions supported under this area are expected to contribute to the creation of a sustainable, transparent, and efficient SSN system in Liberia. SSN coverage is expected to increase to approximately 20,000 extremely poor households while the number of refugees whose former status ended on 30 June 2022 who have acquired permanent residence and have appropriate documents permitting their legal stay in Liberia will reach 2,000 by end 2023. By end 2021, 17,500 poor households received cash transfers, in Montserrado, Grand Kru, and Maryland. 1,600 additional poor households will receive cash transfers in 2022 in Bomi county and Maryland, and 4,900 others in 2023 in these counties. Also, cash for work will be provided to 19,000 poor households in 2022-2024. As the cash transfers will be made to the female member of the household with the most knowledge/responsibility for the well-being of the household, the program is expected to have a highly positive impact on nutrition and food security at the household level, as well as human-capital investments in children. All Ivorian refugees wishing to stay in Liberia as permanent residents will continue to benefit from access to basic social services. Once their legal status and documentation has been regularized, eligible refugee households will be included in social assistance and welfare programs through the LHSR.

#### 4.3. LINK TO CPF, OTHER WORLD BANK OPERATIONS AND THE WBG STRATEGY

61. **The IGDP series is fully aligned with the World Bank's Liberia CPF for FY19-24<sup>34</sup>.** The CPF's overarching goal is to support Liberia 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 WBG 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 (micro, small and medium enterprises (MSME) and 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 TA and other forms of complementary support.

#### 4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

62. **The Government has maintained a positive track record of holding regular, broad-based consultations on key policies and strategies.** The formulation of the PAPD, with which the proposed series is closely aligned, involved extensive consultations at the county and district levels involving multiple

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<sup>34</sup> Report No. 130753-LR



stakeholder groups, including representatives from civil society and the private sector. The legislative process requires extensive public consultations and evidence that the feedback received has been incorporated to the extent possible. Similarly, the approval of national strategies requires their validation by relevant stakeholders. The design of the IGDP was informed by a consultative process involving development partners and other stakeholders, including the private sector and civil society.

63. **Collaboration among development partners in Liberia is robust.** Sector-specific donor working groups, especially those focused on energy policy and PFM, hold regular meetings. Together with the Budget Support Working Group, these groups facilitate policy dialogue and donor coordination in support of the Government's medium-term development strategy. In addition, the World Bank held several rounds of consultations with development partners, as well as bilateral meetings with key stakeholders, including the private sector and civil society, to define the priorities of the IGDP series and the sequence of reforms. They have included close coordination with UNHCR over the adequacy of the Government's protection framework and the design of future support for the sustainable socio-economic integration of refugees within host communities. The design of the IGDP series was developed in close coordination with the IMF in the context of the ECF program and the IMF's ongoing provision of technical support in the areas of PFM, tax policy, and debt management. Coordination is also ensured with the AfDB and the U.S. Millennium Challenge Corporation (MCC).

## 5. OTHER DESIGN AND APPRAISAL ISSUES

### 5.1. POVERTY AND SOCIAL IMPACT

64. **The reforms supported under the proposed IGDP series are expected to have moderate to high positive poverty and distributional effects in the medium-to-long term.** Reforms under Pillar 1 aim at removing distortions to productivity-driven growth and economic diversification, by reforming agricultural input markets, energy, trade—and strengthening SOE oversight and transparency. Reforms under Pillar 2 support economic and social inclusion through promoting access to finance and strengthening SSNs.

65. **While the overall poverty and social impact of the prior actions under Pillar 1 is likely to be positive, the individual prior actions will have differential impacts:**

- **Prior Action #1:** The establishment of the regulatory framework for the seed market lays the foundation for seed-market development and is expected to: (i) increase access to improved inputs (seeds) and create conditions for increased yields over the medium term; (ii) promote private sector participation in the provision of these inputs; and (iii) boost productivity in the agriculture sector, which is expected to have substantial positive impact on poverty. Given that most of the poor are active in agriculture, particularly small-scale farmers in rural areas, an increase in agricultural productivity would have a positive effect on income, availability of food and micronutrients, reduction in malnutrition and poverty reduction. A recent study on Agriculture, Rural Livelihoods and Welfare in Liberia as part of the ongoing programmatic ASA work program by the Poverty and Equity Global Practice highlights the importance of increasing agricultural productivity and market participation, as well as crop and income diversification. Private sector participation in the seed market may, however, benefit disproportionately the well-off who have better financial, political, and social capital.
- **Prior Action #2:** In the energy sector, 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 MSME growth and create employment, including through household enterprises. However, only 27 percent of Liberians have access to electricity and the impact on the very poor might still be limited. The reduction in operating costs should allow LEC to proportionately reduce tariffs while remaining financially sustainable. A lifeline tariff of US\$0.15/kWh for household consumers with consumption up to 50kWh per month and an overall residential tariff at US\$0.24 will make the tariff affordable to household consumers and enterprises (tailors, metalworkers, restaurants) that are currently bypassing meters and make the enforcement of anti-theft measures easier.

- **Prior Action #3:** 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. Smaller-size mini-grids and stand-alone solar systems will help inform the scaling-up of off-grid access towards the goal of universal access. This will, in turn, increase access to electricity and spur MSME growth and job creation, including through household enterprises. The negative revenue implications for introducing a duty waiver range between US\$0.1 million to US\$0.4 million, depending on the market scenario being considered, while generating between 24,715 and 88,835 more connected households. This could be considered as a fiscal subsidy of about US\$4.50 per new connected household.
- **Prior Action #4:** The establishment of a proper legal and institutional framework for rationalizing and managing tax expenditures will reduce rent-seeking, increase transparency, and reduce corruption. This action is expected to increase the fiscal space for public investment in physical and human capital as well as enhance the delivery of social services to the poor. Duty waivers on high-yield and climate-resilient seeds, and quality verified solar products will benefit farmers and rural dwellers. This will enable economic growth and foster job creation over the medium term and thus have a positive effect on poverty reduction.
- **Prior Action #5:** While this prior action has only an indirect impact on poverty. The improved oversight and transparency of SOEs can limit public resources spent inefficiently in SOEs and freeing up fiscal space for pro-poor spending.

66. **With a focus on inclusion, the prior actions under Pillar II are expected to have a positive poverty and social impact.**

- **Prior Action #6:** The upgrading of the legal and regulatory framework for digital credit will further facilitate development of DFS, financial access and inclusion. This is expected to increase the percentage of adults with accounts at financial institutions and promote savings and access to credit, including by poor households. It is also expected to reduce the gender gap and the rural/urban gap in access to financial services.
- **Prior Action #7:** Ensuring that all beneficiaries of social assistance and safety net programs enrolled in the LHSR have National ID cards at no cost to the programs or the beneficiaries will improve the effectiveness and efficiency of the programs. This said, the current cash-transfer program is clearly starting out on a small scale and the number of extreme poor households that will be served through regular cash transfers represents only a small fraction of the total eligible population (less than 10 percent not taking into consideration possible increases in poverty since



2016). In addition, the program only covers four out of the 15 counties. Due to capacity gaps, the current cash transfers are often delivered with significant delays. To have meaningful impact on poverty reduction, there is a need to improve regularity of transfers and increase the coverage down the road.

67. **Gender impact. Given the importance of gender issues in Liberia, the second pillar of the operation, on promoting economic and social inclusion, will pay special attention to women and girls, including women and girls with disabilities.** Apart from the likely positive impact of the prior actions on gender, efforts will be made to support more measures that promote gender equality and women's empowerment in subsequent operations. For the current operation, the following prior actions are expected to have positive gender impacts:

- **Prior Action #6:** As already stated above, increased financial access and inclusion is expected to reduce the gender gap in bank-account ownership, from 16 percentage points to not more than 9 percentage points by the end of the program, thus supporting inclusion of women in access to financial services. This could help to promote more women-owned businesses, including household enterprises.
- **Prior Action #7:** The system being supported through strong identification of beneficiaries will help to improve targeting of cash transfers as well as minimize exclusion, to ensure that vulnerable women benefit equally from the transfers and other social protection programs. The current cash-transfer program explicitly focuses on female recipients to empower women. The prior action will also ensure that refugees whose refugee status ends on 30 June 2022 and who wish to stay thereafter as permanent residents in Liberia continue to have access to basic services and employment opportunities and to social assistance and welfare programmes through inclusion in the LHSR. The monitoring of protection adequacy to be carried out in conjunction with UNHCR will provide important and regular indications of progress throughout the implementation period of the DPO and beyond.

## 5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

68. **Liberia's environmental laws, policies, and guidelines are relatively adequate for the assessment of potential environmental risks and impacts.** Article 7 of the 1986 Constitution provides the basis for the protection and management of the environment in Liberia. It also encourages public participation in the protection and management of the environment and the natural resources in Liberia. The National Legislature enacted the Environmental Protection Agency (EPA) Act in 2002. The Act established the EPA of Liberia, the lead agency for environmental protection and management in the country. The Environmental Protection and Management Law of Liberia was also enacted in 2002. This law provides the environmental and social impact assessment requirements for policies and undertakings that may have adverse impact on the biophysical and social environment.

69. **Several of the prior actions do not have a direct negative impact on Liberia's environment, forests, or other natural resources, and contribute to economic development that is more conducive to ensuring effective environmental management.** Specifically, Prior Actions #4 and #5 under Pillar 1 and Prior Actions #6, and #7 under Pillar 2 do not have any negative impact on the environment. For example, Prior Action #6 which supports the implementation of NFIS has no direct adverse bearing on the



environment. Likewise, Prior Action #7 supports the effective implementation of SSNs that can help reduce poverty and increase resilience.

- **Prior Action #1** is 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. The Government intends to implement integrated pest-management approaches using extension-service providers who will educate and sensitize farmers on safe use of agro-chemicals. Also, farmer-to-farmer exchanges will be promoted to help maximize learning from each other. In addition, farmer-field schools have proved to be effective means of getting farmers to practice rational agronomical production methods, including safe use and management of agro-chemicals. Also, implementation of the Fertilizer Law (2019) will help protect the people, animals, plants, and the environment against the potential dangers associated with inappropriate use of inorganic fertilizers.
- **Prior Action #2** helps reduce commercial losses at the LEC, which in turn is expected to improve the financial situation of LEC and increase its capacity to provide better services. By facilitating access to electricity, this has the potential to reduce reliance on charcoal and firewood which are the primary cooking fuels for Liberians, with expected positive effects through curtailing the rate of deforestation and lessening the negative health implications associated with wood fuel as a fuel source for cooking.
- **Prior Action #3** will promote the development of mini-grid solar systems with quality-verified solar products which will increase access to renewable, clean, affordable energy in remote rural areas which has the potential to reduce reliance on charcoal and firewood which are the primary cooking fuels for Liberians. This is also expected to have positive environmental effects through curtailing the rate of deforestation and lessening the negative health implications associated with wood fuel as a fuel source for cooking.
- **Prior Action #7** can help low-income households cope with shocks caused by extreme weather events, and thus constitute a key building block of adaptation to climate change. Flooding causes damage to Liberia's infrastructure, displaces an estimated 60,000 people per year, increases public health risks, and causes the loss of human lives. Low-income households are especially vulnerable to flooding and other extreme weather events.

### 5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

70. **Liberia has continued to make positive, albeit modest, progress in PFM reforms.** Key reforms where some progress has been achieved recently include: the adoption of the PFM Act (PFMA) of 2009 and related regulations; the implementation of an IFMIS; the establishment and full operationalization of the LRA; the enactment of the General Audit Commission (GAC) Law to enhance the GAC's operational independence; the regular publication of fiscal outturn reports and submission of annual consolidated financial reports to the GAC for audit; the improvement in internal audit coverage; and the establishment



of the Public Accounts Committee (PAC) to execute legislative oversight. Overall cash management is also improving, though significant challenges remain. During FY2020, the Government has only spent in line with available resources with no borrowing from the CBL.

71. **Still, substantial PFM challenges remain.** These include: (i) improving financial reporting, including by SOEs; (ii) implementation of a TSA; and (iii) greater disclosure and transparency of public procurement. Capacity constraints are substantial.

72. **Several development partners are providing PFM support to the Government to help improve the fiduciary environment and mitigate the risks.** The World Bank, through its Public Sector Modernization Project (P143064), the recently completed Integrated PFM Reform Project (IPFMRP-P156384) and the new PFMRIS Project (P165000), continues to provide the financial and technical support needed to strengthen the PFM system. This proposed operation complements these efforts by supporting the Amendments to the PFMA of 2009 that require SOE fiscal-risk statements as well the publication of audited financial statements. The new IMF ECF program entails implementation of strong PFM reforms, including: (i) improving the quality and frequency of reporting of reconciled cash flows; (ii) promoting fiscal transparency and accountability of spending; (iii) operationalization of a TSA; and (iv) enhancing SOE monitoring and reporting. Overall, the amendments to the PFMA are expected to bolster PFM reforms and coordinated development partners' assistance is expected to address capacity constraints.

73. **Budget transparency:** The Government's annual budgets, and quarterly and annual financial statements of the consolidated fund accounts, are published at the MFDP website (<https://www.mfdp.gov.lr/>). These annual consolidated financial statements are audited by the GAC. The GAC has been producing financial statements related to the Consolidated Fund starting with the fiscal year that ended 30 June 2011. Audited financial statements are formally submitted to the legislature and are scrutinized by the PAC, a process that includes public hearings.

74. **Central Bank safeguards assessment:** The safeguards framework at the CBL has continued to be weak but the authorities are committed to taking remedial actions to address governance issues and strengthen institutional safeguards. Previous safeguards assessments have highlighted serious governance and control issues at the central bank. Follow-up remedial actions included a forensic audit of CBL losses stemming from the failure of the First International Bank of Liberia Limited (FIBLL), steps to strengthen the investment policy for reserves management, and monitoring of foreign exchange inflows and outflows at the CBL. The 2019 Safeguards Assessment, which was undertaken after two investigative reports on currency operations,<sup>35</sup> found continued weaknesses in governance and accountability. To restore the CBL's internal oversight and accountability framework, the authorities have: (i) updated the CBL Action Plan of reform to include ways in which its currency operations and controls will be improved as informed by the independent forensic audit by Kroll Associates and by the IMF TA; (ii) appointed permanent Board members of the CBL; (iii) appointed a reputable firm to co-source the CBL's key internal audit activity; (iv) continued to undertake the semi-annual external audits of foreign reserves and the submission of foreign exchange data to the IMF on a regular basis. The IMF ECF program is supporting improved governance at the CBL. The amendments to the CBL Act (2019) aim to strengthen CBL's

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<sup>35</sup> Two investigative reports by the Presidential Investigative Team (PIT) and Kroll Associates on currency operations (released in February 2019) did not find hard evidence of large-scale theft of newly printed banknotes, as had been reported in the local media. However, they did note significant discrepancies and weak controls at all stages of the currency procurement and storage process.



independence and governance structure. The CBL has also started working on the quality of foreign-exchange data reporting and has committed to resuming non-discriminatory foreign-exchange auctions in a form fully consistent with Liberia's obligations under Article VIII of the IMF's Articles of Agreement.

75. **Recipient and Financing Agreement:** The proceeds of the proposed DPO, consisting of SDR 35.9 million credit, or US\$47.5 million equivalent, and SDR 5.7 million grant, or US\$7.5 million equivalent would be made available to the Government, represented by the MFDP, in a single tranche upon effectiveness. Equivalent to US\$15 million (in a form of grant and credit, US\$7.5 million equivalent each) of the total financing will be from IDA20 WHR.

76. **Funds Flow and Disbursement Arrangements:** The Recipient shall identify a dedicated foreign exchange account in the CBL (the "Dedicated Account"), into which all withdrawals from the Financing Account shall be deposited upon effectiveness, subject to meeting the agreed prior actions and the adequacy of the macroeconomic framework and refugee protection. This dedicated account will be maintained at the CBL and will form part of the country's foreign exchange reserves. Upon issuance of instructions by the Controller and Accountant General and the Deputy Minister of Fiscal Affairs the CBL shall transfer the US\$ amount<sup>36</sup> into a Government Revenue Account. The financing amount is accounted for in the Recipient's budget management system in a manner acceptable to the World Bank. Disbursements of these proceeds will not be linked to any specific purchases and no procurement requirements must be satisfied, except that Government is required to comply with the standard negative list of excluded items that may not be financed with World Bank credit proceeds, as shall be in the Financing Agreement. If any portion of the Grant/and or Credit is used to finance ineligible expenditures as defined in the Financing Agreement, the World Bank has the right to require the Government to promptly, upon notice from the World Bank, refund the amount equal to such payment to IDA. Amounts refunded to IDA will be cancelled from the Grant.

77. **Assurance Requirements:** The Recipient will report to the World Bank on the DPF amounts deposited in the dedicated foreign-currency account and credited in U.S. dollars to the budget management system. The Recipient shall provide written confirmation to IDA within thirty (30) days of the disbursement that the transfer has taken place and that those proceeds have been credited in a manner satisfactory to the World Bank. The Government will reflect the proceeds of the Grant in its budget and report these as part annual financial statements submitted to the Office of the Auditor General (GAC) for audit. The Government shall equally ensure that the annual audited financial statements of the CBL are publicly available. The World Bank will not require specific tracking of the end use of the DPF funds, except as required by government PFM procedures and budgetary controls.

78. **IDA will retain the option of the Dedicated Account be audited, if deemed necessary, with scope on the following:** (i) the accuracy of the summary of transactions of the dedicated account, including accuracy of exchange rate conversions; (ii) that the dedicated account is used only for the purposes of the operation (i.e., no other amounts are deposited into this account); and (iii) that all payments out of the dedicated account were or were not used for specified purposes. The audit report shall be made available to IDA within six (6) months from the date of receipt of the funds in the designated account.

79. **Closing date:** The expected closing date of the operation is December 31, 2023.

#### 5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

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<sup>36</sup> The conversion in local currency is not required since Liberia's budget is in U.S. dollars.



80. **The 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 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 side, implementation will be monitored and evaluated through continuous dialogue and timely missions. It will include regular monitoring of the continuing adequacy of the protection framework for refugees in close cooperation with UNHCR. 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.

81. **Grievance Redress.** Communities and individuals, including refugees and host communities, who believe that they are adversely affected by specific country policies supported as prior actions or tranche-release conditions under a World Bank Development Policy Operation (DPO) may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and World Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

## 6. SUMMARY OF RISKS AND MITIGATION

82. **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. The program is broadly on track to achieve its expected results. Nevertheless, there are four main sources of risk— political and governance, macroeconomic, institutional capacity for implementation and sustainability, and fiduciary— that could potentially jeopardize the expected outcomes and benefits of this operation. The country and fiduciary risks and mitigation measures are summarized below (Table 6). 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.

83. **Political and governance:** Political and governance risks are *substantial*. The assessment is driven by high governance risk and moderate political risk. The political situation is currently stable but needs to



be monitored closely as the country move toward the presidential elections scheduled in October 2023. The operation includes reforms which are likely to reduce opportunities for corruption and rent-seeking, which may face political resistance from vested interests who could be losing from such reforms. **Mitigation:** To help mitigate the political and governance risks, the World Bank continues its intensive engagement with Liberia on the policy dialogue. Consultations and/or public hearings were organized prior to the adoption of the law and regulations supported by this operation. More broadly, political and governance risks are also mitigated by the program’s alignment with PAPD priorities that benefit from wide popular support and active dialogue with civil society and the private sector to ensure demand-side pressure for reforms.

84. **Macroeconomic:** Macroeconomic risks are *substantial*. Liberia is an open economy, heavily dependent on foreign aid, FDI, and primary exports for fiscal revenues, and foreign-exchange earnings. It is also dependent on imported fuel and food, including the primary staple—rice. These dependencies amplify the country’s vulnerability to external shocks with both fiscal and balance of payments implications. The ongoing Ukraine crisis has increased the volatility in the global commodity market which has already resulted in augmented inflationary pressure. A significant increase in the price of imported rice or a disruption of the rice supply chain leading to shortage of imported rice in the domestic market will increase food insecurity in Liberia. Weaker-than-expected global commodity prices, especially iron ore, could further undermine export earnings, government revenues and force the Government to cut expenditures to sustainable levels, which could crowd out priority social spending, on increase tax exemptions. On the positive side, an increase in fuel and food prices could strengthen the focus on Agriculture and social protection for targeted subsidy. **Mitigation:** The Government has shown a commitment to adjusting macroeconomic policies as situations warrant. The proposed operation and the IMF ECF program will continue to provide an anchor for prudent macroeconomic policies and help to mitigate the macroeconomic risks.

85. **Institutional capacity for implementation and sustainability:** Institutional capacity for implementation and sustainability risks are *substantial*. Every effort has been made to keep the design of this operation simple. Nevertheless, implementation and maintenance of the reforms will require collaboration and coordination amongst state agencies. The already generally weak capacity of the state and the weight of the implementation of the many critical, priority projects under the PAPD poses substantial risks of implementation delays as well as of sustainability of some of the reforms. There are high expectations among the public and with an election due in 2023 failing to deliver could erode the administration’s support base. Delivering effective support in poor, marginalized communities in peripheral, underdeveloped regions including those hosting refugees will be particularly complex for the Government to implement. Given the range of priority issues confronting the Government during the upcoming period, it may accord less importance and leave insufficient time and resources to address the complex but less immediately urgent challenge of refugee inclusion and durable solutions. **Mitigation:** Many of these implementation risks are difficult to mitigate. However, the World Bank has consistently ensured the provision of training and TA for state building as crucial complementary activities to the DPO series, including under this proposed operation. As outlined above, there are several complementary TA projects and supporting activities being pursued by the World Bank and other donors that would help mitigate the implementation and sustainability risks. With respect to the socio-economic integration of refugees, the close cooperation and established partnership with UNHCR to monitor the continuing adequacy of the protection framework will make a critical contribution.



**86. Fiduciary:** Fiduciary risks are *high*. The continued engagement of development partners in the PFM area has resulted in an enhanced fiduciary environment in Liberia, including improved capacity. Despite the progress made in improving the fiduciary system, there are still weaknesses that present opportunities for misappropriation of funds, as evidenced by weaknesses in the CBL and MFDP internal controls. These weaknesses have recently been manifested in the diversion of donor project funds to meet salary obligations. The Government has since paid back the diverted funds. Furthermore, the capacity of key fiduciary institutions (GAC, LACC, Public Procurement and Concessions Commission (PPCC), FIA) has been weakened over the past twenty months, due to staff turnover and budgetary underfinancing in the context of dwindling fiscal space. This has negatively impacted the financial independence of some of these core accountability institutions. **Mitigation:** The MFDP is addressing concerns regarding ‘diversion of funds’ through measures such as: (a) request for refunds so as to set a corrective precedent; (b) enhanced supervision where IDA Designated Accounts are carefully being reviewed for unusual transactions; and (c) adopting a mitigative stance where all new IDA projects host their IDA Designated accounts in commercial banks pending improvement of the situation when the use of country systems will be further reviewed. With respect to the broader PFM risks, reforms are planned to be implemented to strengthen the expenditure management. These support public sector transparency and accountability, strengthen institutions and underlying internal controls; reducing rent-seeking and corruption related to the provision of tax waivers, using digital platforms. In recognition of these weaknesses, which are also at times exploited for rent-seeking, the Government has developed a concept to host an accountability conference whose resolutions will help strengthen controls within Government and the CBL.

**Table 6: Summary Risk Ratings**

Risk Categories	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● Substantial
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● High
7. Environment and Social	● Moderate
8. Stakeholders	● Moderate
9. Other	
<b>Overall</b>	● Substantial



**ANNEX 1: POLICY AND RESULTS MATRIX**

Prior actions			Results			
Prior Actions under DPO 1	Prior Actions under DPO 2	Prior Actions under DPO 3	Indicator Name	Baseline	Target	Current
<i><b>Pillar 1. Removing distortions in selected sectors and strengthening public-sector transparency</b></i>						
<p><b>Prior action #1.</b> To enable private sector participation in seed production and marketing, the Recipient has enacted the Liberia Seed Development and Certification Agency Act (LSDCA), which provides for a sustainable seed-delivery system.</p>	<p><b>Prior action # 1.</b> The Recipient, through its Ministry of Agriculture’s NSB, has approved the Liberia Seed Development and Certification Regulations, dated April 15, 2021, to inter alia promote private-sector participation in seed production and marketing; as indicated in the Board Minutes dated April 13, 2021.</p>	<p><b>Prior Action 1:</b> The Recipient has through its Ministry of Agriculture’s NSB: (a) issued a Resolution on National Catalogue of Crop Varieties Released and Registered in Liberia dated April 6, 2022; and (b) published on-line, the National Catalogue for Plant Species and Varieties dated 2022 in accordance with the ECOWAS Regulation on Harmonization of the Rules governing quality control, in the ECOWAS.</p>	<p><b>Results Indicator #1:</b> Quantity of certified rice seeds available to farmers (KG)</p>	0 (2018)	2,000 (2023)	0 (2021) (1,100 KG of foundation seeds available)
<p><b>Prior Action #2.</b> To reduce commercial losses in the energy sector the Recipient has: (i) approved the Liberia Electricity Company (LEC) Business Plan (2019-2023); and (ii) enacted the Act to Amend Chapter 15 of the Penal Law to make power theft a</p>	<p><b>Prior action # 2.</b> The Recipient, through the LERC, has pursuant to its letter dated September 21, 2020, provided Provisional Approval of the LEC’s “Life-Line Tariff” to address affordability barriers for poorer population and disincentivizes power theft,</p>	<p>Prior Action 2: The Recipient has through the LERC, approved the publication of the new tariff rates for end users to further address affordability barriers for poorer population and disincentivize power theft, as evidenced by the Order dated December 10, 2021.</p>	<p><b>Results Indicator #2 a.</b> LEC overall transmission and distribution losses (percent)</p>	63 (2018)	55 (2023)	58 (2021)



Prior actions			Results			
criminal offense with punitive measures.	and LEC has commenced implementation of said tariff as evidenced by its announcement on its website effective May 1, 2021.	<b>Prior Action 3:</b> The Recipient has granted duty waiver for Quality-verified Solar Products to facilitate private investment in solar mini-grid to make off-grid solutions affordable to remote rural population, as evidenced by Executive Order No. 107 dated April 27, 2022.	<b>Results Indicator #2b.</b> Health facilities provided with electricity service from stand-alone solar systems (number)	0 (2019)	50 (2023)	0 (2021)
<b>Prior action #3.</b> To reduce trade costs and to facilitate trade, the Recipient has: (i) promulgated the Act to Amend the Revenue Code of Liberia to Adopt a Modernized Customs Code (2018); and (ii) ratified the World Trade Organization Agreement on Trade Facilitation (TFA).  <b>Prior action #4.</b> To reduce rent-seeking behavior, strengthen transparency, and create fiscal space, the Recipient’s Minister of Finance has: (i) established an Intergovernmental Technical Tax Expenditure Committee; and (ii) temporarily suspended the issuance of Investment Incentive Certificates pending permanent streamlining and rationalization.	<b>Prior action # 3.</b> The Recipient through its MFDP, has submitted to the Recipient’s parliament for approval, a draft amendment to the Revenue Code of Liberia, to inter alia streamline and consolidate duty and tax waivers, as evidenced by the letter from the Deputy Chief Clerk of Parliament dated May 4, 2021, acknowledging receipt of said draft Amendment.	<b>Prior Action 4:</b> The Recipient through its MFDP, has in accordance with the Amended Revenue Code streamlined and consolidated duty and tax waivers by limiting the sectors and business activities qualifying for incentives; as evidenced by Administrative Regulation No. 02.16-1/MFDP/27 OCTOBER 2021.	<b>Results Indicator #3.</b> Tax expenditures in total domestic revenues (percent)	32.6 (2018)	20 (2023)	28.9 (2021)
<b>Prior action #5.</b> To strengthen transparency and improve oversight of SOEs, the Recipient	<b>Prior action # 4.</b> The Recipient, through its MFDP, has issued a letter dated May 3, 2021, to the	<b>Prior Action 5:</b> The Recipient through its MFDP has: (a) instructed all SOEs to submit, on	<b>Results Indicator #4.</b> SOEs with debt information published	0 (2019)	8 (2023)	15 (2022)



Prior actions			Results			
has enacted amendments to PFM Act of 2009, requiring: (i) the submission of annual statement of fiscal risks from SOEs to the legislature along with the budget proposal for the following year; and (ii) the publication of SOE financial statements based on IFRS.	DMU instructing it to include the liabilities, debt and, guarantees of at least five critical SOEs into the quarterly Public Debt Management Report; and the DMU has incorporated and published said information its initial quarterly report dated March 2021 (as revised on May 3, 2021).	a quarterly basis, data on all debt (guaranteed and non-guaranteed, direct and on-lent) to the SOE, Financial Reporting and Coordination Unit and the DMU at MFDP, as evidenced by Circular dated May 12, 2022; and (b) published the validated and verified said debt information in its quarterly Public Debt Management Report.	in the Public Debt Management reports (number)			
<b>Pillar 2. Promoting economic and social inclusion</b>						
<b>Prior Action #6:</b> To expand access to formal financial services, including to DFS, (i) the Recipient's Cabinet has approved the NFIS for 2019-2024; and (ii) the CBL issued its Regulation Concerning Licensing and Operations of Electronic Payment Services.	<b>Prior action # 5.</b> The Recipient, through its Central Bank, has submitted to the Recipient's parliament for approval, a draft amendment to the Payment Systems Act, 2014 to inter alia promote access to DFS, as evidenced by the letter from the Deputy Chief Clerk of Parliament dated May 4, 2021, acknowledging receipt of said draft Amendment.	<b>Prior Action 6:</b> The Recipient has through the CBL Board, authorized the use of digital credit to promote access to DFS; as evidenced by Resolution No. BR-05-/2022 dated March 17, 2022.	<b>Results Indicator #5 a:</b> Adults with financial transaction accounts (percentage)  <b>Results Indicator #5 b.</b> Gender gap in financial transaction account ownership (percentage points)	35.7 (2018)	45 (2023)	43.7 (2020)
				35.5 (2018)	25 (2023)	30.4 (2020)



Prior actions			Results			
<p><b>Prior Action #7.</b> To strengthen SSNs for poor, (i) the Recipient’s Cabinet has endorsed the LHSR; and (ii) its Ministry of Gender and Social Protection has: (a) commenced data collection process for the LHSR in four counties; and (b) provided regular cash transfers to 3,250 extremely poor households.</p>	<p><b>Prior action # 6.</b> The Recipient through its Ministry of Gender, Children and Social Protection (MoGCSP) has operationalized an IMIS to implement and coordinate the social programs of participating institutions, as evidenced by its issuance of a UAT and the MIS generation of MIS Deployment Notes.</p>	<p><b>Prior Action 7.</b> The Recipient has authorized: (a) all beneficiaries of social assistance and safety net programs enrolled in the LHSR, including eligible refugees, to receive at no cost national ID cards and (b) refugees whose refugee status is about to end and who wish to stay as permanent residents in Liberia after June 30, 2022 following the entry of the UNHCR Refugee Cessation Requirements to: (i) enable their continuing access to basic services; and (ii) early regularization of their long-term status as permanent resident, as evidenced by Executive Order No 108 dated April 27, 2022.</p>	<p><b>Results Indicator #6 a:</b> Extreme poor households receiving regular cash transfers (number)</p>	0 (2018)	20,000 (2023)	17,500 (2021)
			<p><b>Results Indicator #6.b:</b> Refugees whose former status ended on 30 June 2022 who have acquired permanent residence and have appropriate documents permitting their legal stay in Liberia (number)</p>	0 (2021)	2,000 (2023)	0 (2022)



## ANNEX 2: IMF RELATIONS ANNEX

### IMF Executive Board Completes Fourth Review under the Extended Credit Facility Arrangement and Concludes the 2022 Article IV Consultation for Liberia

August 24, 2022

**Washington, DC:** The Executive Board of the International Monetary Fund (IMF) completed today the 2022 Article IV Consultation and the fourth review under the *Extended Credit Facility* (ECF) with Liberia. The four-year arrangement, with total access of SDR 155 million (60 percent of quota or about US\$214.30 million) was approved by the IMF Executive Board on December 11, 2019. Today's decision allows for an immediate disbursement of SDR 17 million (about US\$22.1 million), bringing total disbursements under the arrangement to SDR 85 million (about US\$110.7 million). In completing the fourth review, the Executive Board granted a waiver of nonobservance of the end-June 2021 quantitative performance criterion on net international reserves, based on corrective action taken by the authorities.

Liberia experienced a strong economic recovery in 2021. Growth is expected to soften to 3.7 percent in 2022, largely due to heightened global uncertainties and commodity price shocks, which are pushing inflation into the double-digits. Liberia's COVID-19 vaccination program has accelerated in recent months, but pandemic-related risks, including a potential outbreak of new variants, remain. The upcoming political cycle with presidential and parliamentary elections, scheduled for September 2023, is another source of uncertainty.

Following the Executive Board discussion, Mr. Bo Li, Deputy Managing Director and Acting Chair, made the following statement:

The Liberian authorities continue to implement sound macroeconomic policies, despite delays with the broad-based reform agenda. The authorities managed to keep the program broadly on track by preserving macroeconomic stability, ensuring a comfortable international reserve position, and maintaining debt sustainability.

The supplementary budget for 2022 aims primarily to mitigate pressures on food prices and stabilize the state-owned electricity company. To limit the temporary widening of the fiscal deficit, the authorities have streamlined non-priority spending, while largely preserving the significant increase of public investment relative to previous years, made possible by partial use of the IMF's 2021 SDR allocation to Liberia.

The authorities should press ahead with fiscal structural reforms to make public services and public enterprises more efficient and to secure more permanent space for adequate public investment while preserving debt sustainability. Progress with mobilizing domestic revenues should be built upon, including by streamlining tax exemptions. Efforts to address capacity constraints that hamper selection, preparation, and execution of public investment projects need renewed impetus.



Macroeconomic stability is set to strengthen further with the planned modernization of Liberia's monetary policy framework and the ongoing currency changeover, provided operational risks are appropriately mitigated.

Stepping up the fight against corruption remains a top priority. The recent adoption of the amended Liberia Anti-Corruption Commission (LACC) Act, the new Whistleblower and Witness Protection Act, and the revised Code of Conduct, is good progress. Swift implementation is now key.

The authorities are strengthening the growth leg of their reform program. In addition to pro-growth fiscal reforms and the fight against corruption, it will be important to fully see-through plans to improve the business climate and enable greater access to credit, including by facilitating the resolution of non-performing loans. Improving educational attainment, adapting to climate change, and addressing gender disparities are also critical.

### **IMF Communications Department**

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#### **MEDIA RELATIONS**


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ANNEX 3: LETTER OF DEVELOPMENT POLICY

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August 16, 2022

Dr. David Malpass  
President  
World Bank Group  
1818 H Street, NW Washington, D.C. 20433  
Washington D.C.

Dear Dr. Malpass:

**RE: Letter of Development Policy for the Liberia Third Inclusive Growth Development Policy Operation**

1. On behalf of the Government of Liberia, I express my gratitude to the World Bank Group for the partnership and your support to the Pro-Poor Agenda for Prosperity and Development (PAPD) through the Third Inclusive Growth Development Policy Operation (DPO). The PAPD is the second in a series of national development plans guided by the Vision 2030, which envisages the transformation of Liberia into a prosperous and inclusive middle-income economy by 2030. With your support, we have embarked on several impactful reforms critical for inclusive growth which underpins our request for a Third Inclusive Growth Development Policy Operation (IGDPO-3) in the amount of US\$55 million equivalent to support the financing of the Government's priorities as set out in our National Budget for the calendar year 2022 and the PAPD. The reform program as well as the financing will support the Government's efforts to achieve sustainable and inclusive economic growth through: (i) removing distortions in selected sectors and strengthening public sector transparency; and (ii) promoting economic and social inclusion.
2. This Letter of Development Policy outlines the recent economic developments and medium-term macroeconomic outlook and structural reforms being implemented by the Government to ensure macroeconomic stability and economic recovery, sustained poverty alleviation and social cohesion. In that perspective, it also references the provisions to support the sustainable socio-economic integration of refugees into local host communities, a legacy of the regional and internal conflicts that have had such damaging consequences for Liberia's economy and people. It sets out how the proposed financing will contribute to the achievement of these objectives.

**Recent Economic Development 2021**

3. Liberia's economy rebounded in 2021 after two consecutive years of contraction in 2019 and 2020. Real GDP is estimated to have expanded by 5.0 percent in 2021 after declining by 2.5 percent in 2019 and 3 percent in 2020. Growth was driven by the secondary sector with high contributions from mining. The production of gold, cement, beverages, diamond, and electricity increased by 78.8 percent, 28.5 percent, 21.0 percent, 15.4 percent, and 11.0 percent respectively, reflecting favorable international commodity prices and demand and stronger domestic consumption. Iron ore production increased by 2.6 percent, reflecting underperformance in the third quarter of the year. Agriculture output increased by 3.3 percent in 2021 driven by rubber and crude palm oil production on the back of a recovery in international prices. The service sector, which was severely hit by the COVID-19 pandemic and the lockdown and travel restrictions in 2020 grew by 3.0 percent.

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4. Inflation has slowed significantly, thanks to exchange rate appreciation, tight monetary policy and a shortage of Liberian dollar banknotes. The headline inflation rate has fallen steadily from 31.3 percent in August 2019 to reach a bottom of 4.4 percent in October 2021, before increasing to 5.5 percent in December 2021. The Central Bank of Liberia (CBL) adopted a price-based monetary policy framework in November 2019 and set the policy rate above inflation to ensure positive real interest rate. The rate has since been adjusted twice to 20 percent now, as inflation declined. On average, the inflation rate declined to 7.8 percent in 2021, down from 17 percent in 2020 thanks to declines in food prices, including for alcohol and beverages. Domestic and imported food prices declined respectively by 11.1 percent and 8.8 percent in December 2021 on a y-o-y basis, despite an increase by 5.7 percent of the prices of imported rice. The CBL has not intervened in the foreign exchange market since December 2019, except for limited foreign-exchange purchases to strengthen the international reserve position. The appreciation of the Liberian Dollar by 17 percent in 2021 reflects currency shortages and an increase in net remittances.
5. Despite the adverse impact of the COVID-19 pandemic, the Government has remained committed to its fiscal consolidation program. Domestic revenue mobilization increased to 16.7 percent of GDP in 2021, up from 15.2 percent of GDP in 2020. Mobilization of tax revenue strengthened to 14.0 percent of GDP in 2021, up from 12.4 percent in 2020 and 10.5 percent in 2019. Despite the delay in the ratification of the agreement between the Government of Liberia and Arcelor Mittal Limited, nonfiscal revenue remained strong at 2.7 percent of GDP, but decreased slightly (by 0.1 percent of GDP) compared to 2020. At the same time, the Government continued its fiscal consolidation efforts with total expenditure and net lending declining by 1.3 percentage point to 32.2 percent of GDP in 2021. Current expenditure declined by 0.7 percentage point to 22.7 percent of GDP, driving by the wage bill which was reduced from 10.5 percent of GDP in 2020 to 8.7 percent of GDP in 2021 as initially planned. With the shortfall in mining revenue, capital expenditure was reduced to 9.5 percent of GDP in 2021 from 10.1 percent in 2020, reflecting mainly externally financed investment projects. Improvements in cash management have enabled the authorities to contain spending to available resources.
6. Overall, the fiscal deficit reduced from 3.7 percent of GDP in 2020 to 2.9 percent of GDP in 2021. The fiscal deficit, excluding grants also declined from 18.3 percent of GDP to 15.5 percent of GDP, despite a decrease of external grants by 2 percentage points of GDP. As a result, total public debt declined, for the first time since the Ebola outbreak, from 55.8 percent of GDP in 2020 to 53 percent of GDP in 2021 with external debt representing 71 percent of the total and domestic debt 29 percent. As in 2020, the government executed a budget without CBL financing, except for on-lending resources from IMF.
7. The monetary policy stance remains focused on limiting inflation, while efforts are underway to ensure financial stability. In August 2021, the CBL eased its stance, though it kept reserve requirements unchanged, by reducing its policy rate by 500-basis points to 20 percent. Still, with the deceleration of inflation throughout the year, the policy rate has risen sharply in real terms. As a result, broad money (M2) growth is estimated to have slowed down markedly to 11.4 percent in 2021 (from 20.3 percent in

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8. 2020). Net claims on Government contracted by 16 percent as the Government tightened fiscal policy allowing credit to the private sector to growth by 4.4 percent in 2021. However, non-performing loans (NPL) increased from 21.6 percent of total loans in December 2020 to 22.7 percent in December 2021, mainly on account of service and hospitality sector borrowers.
9. Related to the country's external position, the rebound in prices for Liberia's main export commodities, on the back of renewed international demand, boosted export revenues to 25.2 percent of GDP in 2020, up from 19.1 percent of GDP 2020. However, with the reduction in the trade restriction, imports increased faster than exports to reach 38.4 percent of GDP, yielding a wider trade deficit of 13.2 percent of GDP. In line with the higher exports of commodity, the investment incomes sent abroad increased to widen the deficit in primary income to 4.8 percent of GDP in 2021, up from 3.2 percent in 2020. Despite higher official transfers (including budget support) and an increase in net remittances the surplus in secondary income decreased by 0.5 percentage point to 13.8 percent of GDP. Overall, the current account deficit widened to 17.8 percent of GDP in 2021, from 15.6 percent of GDP the year before.
10. The deficit was financed by an increase in foreign direct investments (FDI) to 7.3 percent of GDP, thanks to the expansion project of ArcelorMittal steel conglomerate, along with part of the additional SDR247.7 million allocations (approximately US\$350 million or 7.3 percent of GDP) in August 2021, under the IMF's new General Allocation of SDRs. The SDR allocation helped the CBL to increase the external reserves to 4 months of imports.

**Medium Term Macroeconomic Outlook**

11. In the near-term, the macroeconomic outlook seems promising. Growth is expected to slow to 3.7 percent in 2022 because of the effects of the war in Ukraine, before accelerating to 4.7 percent in 2023, and 5.0 percent in 2024 as economic activity picks up in the productive sectors, especially mining, agriculture, construction, and services. Inflation is expected to remain in single digit as the Government strives to maintain price stability through the implementation of restrictive monetary and fiscal policies, but pressures from the global commodity market are growing. The inflation rate was slightly increasing on the onset of the Russia-Ukraine crisis. In January and February 2022, the headline inflation rate increased respectively to 6.6 percent in 7.6 percent on a y-o-y basis, up from 5.5 percent in December 2021 before stabilizing around 6.25 in the second quarter of 2022. The ongoing Russia-Ukraine crisis has further increased the volatility in the global commodity market, which augmented the inflationary pressures, with the price of the barrel of crude oil rising to average US\$112.4 in March 2022, up from US\$72.9 in December 2021. The Government has already responded to the higher crude oil prices by increasing by 26 percent the retail prices of gasoline to US\$5.7 per gallon and by 32 percent the retail prices of diesel fuel to US\$6.0 per gallon. However, a significant increase in the price of imported rice or a disruption of the rice supply chain leading to shortage of imported rice in the domestic market will increase food insecurity and poverty in Liberia.

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**Policy Reforms**

12. The Government's economic and financial policies are anchored on its medium-term development agenda – the *Pro-Poor Agenda for Prosperity and Development (PAPD)* approved in 2018. The PAPD is aimed at building trusted and resilient institutions and providing income security while reducing poverty through sustained and inclusive economic growth driven by investments in the areas of agriculture, infrastructure, human capital, and social protection. To achieve these objectives, the PAPD's strategies and interventions are built around four pillars: (i) Power to the People; (ii) The Economy and Jobs; (iii) Sustaining the Peace; and (iv) Governance and Transparency. We thank the World Bank for its engagement and support, through the programmatic Inclusive Growth DPO series. Structural reforms, supported by the first pillar of the IGDPO series, are designed to unleash productivity-driven economic growth and diversification through removing distortions in selected sectors, expanding employment opportunities and boosting income levels, and supporting Liberia's effort to reduce extreme poverty and promote shared prosperity. The second pillar of the series supports reforms aimed to facilitate economic and social inclusion, and, thereby, to ensure that the poor benefit from the higher growth the most.

**Pillar 1: Removing distortions in selected sectors and strengthening public-sector transparency**

13. **Agriculture.** This is the most critical sector of the PAPD as the majority of our population depends on it for livelihood, income and jobs. The key medium-term objectives of Government are to improve productivity with a focus on increasing rice and cassava production to enable self-sufficiency and food security and to increase production of cash crops for exports. To this end, the Government of Liberia has promulgated an Act to establish Liberia Seed Development and Certification Agency (LSDCA), which inter alia provides for a sustainable seeds delivery system and private sector participation in seeds production and marketing. Because of the impact of the COVID-19 pandemic, the LSDCA has not been operationalized. The Ministry of Agriculture (MOA) remains the lead agency of the Government to coordinate, regulate, administer, and carry out all the function of the LSDCA as well as the conduct of seed development activities for the seed industry of Liberia. However, the National Seed Board (NSB) has been formed and made operational, as per the ECOWAS Regulation C/REG.4/05/2008, to formulate and provide overall policy guidelines and monitor the development of the National Seed System. The NSB approved the implementing regulations for the LSDCA Act in April 2021. The NSB also approved in March 2022 the National Catalogue of Plant Species and Varieties (NCPSV) for 2022 which was published in compliance with the provisions of the ECOWAS-UEMOA-CILSS regulation on the implementation of harmonized rules governing internal control, certification, and marketing of plant seeds and seedlings within the ECOWAS-UEMOA-CILSS region to expand seed trade across borders. Because of the need to adapt to climate change, the national catalogue as well as the law and regulation will promote the development and release of climate-resilient seeds. The MOA and the Central Agricultural Research Institute (CARI) will conduct a nationwide Seed Survey in 2022 covering all fifteen (15) counties. The results of the survey will be used to update the NCPSV for 2023.

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Only the best performing seeds and plants, in terms of yield, environmental adaptability and other relevant criteria, will qualify for inscription in the catalog. The Government will strengthen the capacity of the [Inspection Unit at the MOA] to enable it to carry out seed certification missions. For rice, 1.1 ton of foundation seeds are available at the CARL. The MOA will select and certify at least three (3) private seed growers which will start the seed multiplication activities before end 2023.

14. **Energy.** The Government aims to strengthen Liberia Electricity Corporation (LEC's) financial sustainability, facilitate access to affordable and reliable electricity to promote inclusive growth. Liberia continues to expand access to electricity, which is a major constraint to inclusive growth and economic transformation. With the interconnection between Cote d'Ivoire, Liberia, Sierra Leone and Guinea – CLSG in early 2022, at least 27 MW of electricity can be imported from Côte d'Ivoire to complement local generation in the medium term particularly in the dry season, when Mount Coffee available capacity is reduced. In an effort to reduce commercial losses, the Government of Liberia approved a five-year LEC business plan (2019-2023); and enacted the Act to Amend the Penal Law, Chapter 15 which makes power theft a criminal offense with appropriate punitive measures in 2019. In May 2021, LEC implemented the "lifeline" tariff approved by the Liberia Electricity Regulation Commission (LERC) to address affordability challenges among poor households and weaken incentives for illegal connections. In January 2022, the LERC approved and published new tariff rates for all end users to further address affordability barriers for poorer population and to disincentive power theft. In line with the national electrification strategy, the use of localized mini-grids based on distributed generation (solar or hydropower) would be the least-cost options for producing electricity in some areas of Liberia. The implementation of the strategy has started with the approval of an Executive Order to grant duty waiver for quality-verified solar products to promote private investment in mini-grid or stand-alone solar systems and help make off-grid solutions affordable to remote rural population. Leveraging private-sector participation will be critical to ensure sustainable operation of mini-grids, and we will put in place appropriate regulations to allow for cost-reflective tariffs and ensure an appropriate return on investments. The Government approved a policy framework for mini grid in July 2022. The Government, through the Environmental Protection Agency (EPA), will also develop guidelines or regulations for the management and safe disposal of used/spent batteries (some elements in solar systems are hazardous) used in aggregate with solar systems.
15. **Tax Incentives.** An effective implementation of the policy reforms in the agriculture and energy sectors are expected to create significant opportunities for our population, especially the poorest in both urban and rural areas. However, they need to be complemented by stronger infrastructure to reduce transportation cost and build an integrated domestic market. To do so, we need to reinforce our revenue collection. The Government aims to strengthen Domestic Revenue Mobilization and increase tax and nontax revenue to above 17 percent of GDP by 2023 to provide more room for capital expenditure, especially for road construction and energy access. So far, we have focused on the establishment of a proper legal and institutional framework for rationalizing and managing tax expenditures to increase transparency and reduce rent-seeking.

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16. The expected result is to reduce tax expenditures from 32.6 percent of total domestic revenue in 2018 to no more than 20 percent in 2023. In 2020, the Government established an Inter-Governmental Technical Tax Expenditure Committee and suspended the issuance of Investment Incentive Certificates pending further streamlining and codification. The Committee assessed the Liberia's Incentive Regime and proposed some amendments to the section 16 of the Revenue Code which were approved in July 2021 by the Legislature. The main amendments introduced to streamline tax expenditures are: (i) All investment activities must be set out in a list of qualifying sectors, subsectors, and or business activities subject to a minimum capital requirement US\$0.5 million. (ii) Exemptions from taxes on goods and services (GST) and import duty are limited to equipment, materials, supplies and other critical inputs for use directly in the qualifying sectors. In October 2021, the Government, through the Minister of Finance and Development Planning (MFDP) issued a regulation that defined the sectors qualifying for tax incentives under the section 16. From a list of twenty (20) sectors broadly defined in the previous regulation, the Government has limited incentives to in eight (8) specific subsectors within three (3) sectors. The direct revenue impact of the new regulation is estimated at US\$54.9 million (10 percent of domestic revenue), of which 42 percent is on of import duty and 58 percent on account of GST. Agriculture and energy are two key strategic sector that will continue to attract tax incentive for greater private sector investment. The Government is committed to enhance the transparency of its tax incentive framework and has decided to publish an annual report on tax expenditure starting from the report on the calendar year 2022, which will be published before end March 2023.
17. **SOEs and Debt.** The Government is strengthening SOE oversight and enhancing public debt transparency. Our objective is to strengthen SOE monitoring and oversight through the regular publication of fiscal risk statements and audited reports to raise awareness of the risks emanating from SOEs. We will establish a comprehensive database on public debt, including debt of SOEs and PPPs and prepare MTDS to enhance debt transparency, improve financial sustainability, and promote prudent debt management. The Government recently enacted amendments to the Public Finance Management Act (PFMA) of 2009 to clearly articulate the requirements for strengthening oversight and reporting of State-Owned Enterprises (SOEs). Specifically, the amendments require a statement on overall SOE performance and fiscal risks to be included in the National Budget and mandate the publication of IFRS-compliant financial statements for SOEs. Section 41.1 of the Amendment allows SOEs to incur debt through short- and medium-term borrowing and securities issuance to finance capital and other non-recurrent expenditures with the express authorization of the Board and written approval of the MFDP and the Debt Management Committee. Section 41.6 requires SOEs to submit to the Minister, at the end of each quarter, a detailed report of their borrowing and debt servicing, including government guaranteed debt, as well as any debt they have restructured, and any outstanding arrears to suppliers more than 90 days overdue. With technical assistance from the IMF and the World Bank, the MFDP has published a public debt report that expanded the coverage of debt recording to include information on SOE liabilities, including debts and guarantees. In January 2022, the MFDP issued letters to all SOEs requesting them to provide detailed information on all loan obligations, guaranteed or non-guaranteed by the Government on a template.

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National Vision: One People, One Nation United For Peace & Sustainable Development  
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OFFICE OF THE MINISTER

**REPUBLIC OF LIBERIA**  
**MINISTRY OF FINANCE & DEVELOPMENT PLANNING**

P.O. BOX 10-9016  
1000 MONROVIA, 10 LIBERIA



GOL/MFDP/2-1/SDT/ymj/12841/22

August 16, 2022

On May 12, 2022, the Ministry of Finance issued a Circular to further institutionalize the written instructions issued earlier. The information collected were verified and included in the debt management report published in the MFDP's website. The information will also help establish a comprehensive public debt database, encompassing the debts of SOEs.

**Pillar 2: Promoting Economic and Social Inclusion**

18. **Financial Inclusion.** While implementation of the policy reforms in agriculture and energy will make growth more broad-based, the reforms in the financial sector will make growth more inclusive. The Government aims at increasing the share of Liberian adults who owe a transaction account from 35.7 percent in 2017 to 45 percent by 2023 and to narrow the related gender gap from 15.5 percentage points in 2017 to 9 percentage points by 2023, by creating an enabling environment for the development of digital financial services. Greater access to financial services, through digital, will improve livelihoods by providing tools to Liberians across all segments of society to borrow, save, make payments, build resilience against shocks, and create an environment for businesses to thrive. Digitization of financial services will help reduce financing costs and improve the efficiency of service delivery, especially among poor, remote, and underserved populations, including among women. In 2019, the Government adopted a new National Financial Inclusion Strategy (NFIS) covering the 2020-2024. The implementation of the strategy started with the approval of the e-payment regulations. In 2021, the CBL amended the Payment System Act (PSA) which was approved by the Legislature the same year. In addition, the CBL has approved consumer protection regulations with specific provisions against discrimination based on sex, tribal origin, political affiliation, or disability. Finally, to further expand access to finance and strengthen credit-risk profiles, the CBL approved new guidelines for digital credit to promote access to digital financial services. The CBL is also committed to establishing and operationalizing a modern digital credit registry by end December 2022.
19. **Social Safety Nets.** Finally, to ensure that no one is left behind, the Government is building a sustainable, effective, and efficient social protection system as a critical driver of inclusive growth and poverty alleviation. The Government's objective is to increase the coverage of the social safety nets programs to approximately 20,000 extremely poor households representing 15 percent of the extremely poor and food insecure households. Achieving this level of coverage requires efficiency improvements, programmatic consolidation, and the creation of delivery platforms to reduce administrative costs and facilitate planning and coordination. In 2020 of the Liberia Household Social Registry (LHSR) was approved as a principal mechanism for identifying beneficiaries of all social protection programs national-wise and as a key instrument in building national social protection system was a critical step. In 2021, an integrated Management Information System (MIS) was built to enable the implementation and/or coordination of Social Safety Net (SSN) programs. Lessons learnt from the COVID-19 pandemic require transitioning all payments to mobile money using existing digital payment service providers for current and future Social Cash Transfer (SCT) program beneficiaries, which can also help promote their financial inclusion.

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However, there are some barriers to mobile money registration, including lack of national ID card. Therefore, the Government has approved an Executive Order that allows all beneficiaries of social assistance and safety net programs enrolled in the Liberia Household Social Registry to receive National ID cards at no cost to the programs or the beneficiaries. To ensure the sustainability of the SSN system and expand its coverage nationwide, the Government will approve a new medium-term National Social Protection Policy and Strategy (NSPPS) before end December 2022.

20. **Refugees and host communities.** An important objective for the Government's social protection coverage is the inclusion of communities and areas impacted by the long presence of refugees. The demographic shock of the refugee arrival and protracted presence on the local economy, on weak public services and limited environmental resources has been considerable. It has placed additional pressure on local households themselves struggling to meet their needs in an uncertain development context characterized by deep poverty. To address these challenges, the Government is maintaining is implementing an adequate refugee protection framework by supporting a transition of the present refugee situation into a local integration initiative designed to assist poor local households as well. Following a regional agreement to resolve refugee displacement, the Government in close consultation with the United Nations High Commissioner for Refugees (UNHCR), has committed itself to ending the refugee status of the remaining 4,887 refugees in Liberia as of 30 June 2022. It has approved an Executive Order to ensure that those refugees from Cote d'Ivoire who wish to remain as permanent residents in Liberia will benefit from (i) temporary stay measures that enable continuing access to basic services and (ii) early regularization of their long-term status as permanent residents. One important component is the waiving of the prohibitive level of costs associated with acquiring official documentation (residence and work permits, national registration cards). The no cost facility for issuing digital identity cards by the National Social Registry is also an important administrative and financial measure to enhance inclusion of poor Liberian households. With respect to refugees, it will contribute not only to eliminating a key financial barrier to long term integration but also to transitioning out of dependence on external assistance towards their effective inclusion within, and access to, national social protection programmes.

**Conclusion**

21. Mr. President, as stipulated above, Government has made significant progress in the implementation of policy reforms under the Inclusive Growth Development Policy Operation (IGDPO) series. We are confident that the implemented reform measures supported by the program will contribute to meeting the Government's medium-term economic objectives and inclusive growth, jobs and economic transformation.
22. However, despite the improved domestic resource mobilization, and reinforced spending efficiency, the urgent need to support the poorest, requires additional financial resources, particularly, budget support which remains critical to the delivery of public services.

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23. Your approval of this disbursement request, therefore, will enable Government to deliver the planned level of services to the people of Liberia. The Government and people of Liberia count on your continued partnership in the years to come.

Please accept the assurances of my highest esteem.

Sincerely,

Samuel D. Twenh, Jr.  
**MINISTER**



**ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE**

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
<b>Pillar 1: Removing Distortions in Selected Sectors and Strengthening Public-Sector Transparency</b>		
<p><b>Prior Action 1:</b> The Recipient has through its Ministry of Agriculture’s NSB: (a) issued a Resolution on National Catalogue of Crop Varieties Released and Registered in Liberia dated April 6, 2022; and (b) published on-line, the National Catalogue for Plant Species and Varieties dated 2022 in accordance with the ECOWAS Regulation on Harmonization of the Rules governing quality control, in the ECOWAS.</p>	<p><b>Positive-neutral:</b> An increase in the agricultural productivity resulting from improved seeds is expected to slow the rate of deforestation for agriculture. The liberalization of seeds market is not expected to have any environmental effects.</p>	<p><b>Positive:</b> Higher private sector participation in the seed market is expected to:</p> <ul style="list-style-type: none"> <li>i increase access to improved seeds and create conditions for growth in yield; and</li> <li>ii promote private sector development and job creation both which are expected to have significant positive impacts on poverty.</li> </ul>
<p><b>Prior Action 2:</b> The Recipient has through LERC, approved the publication of the new tariff rates for end users to further address affordability barriers for poorer population and disincentivize power theft, as evidenced by the Order dated December 10, 2021.</p>	<p><b>Neutral-positive:</b> This has the potential to reduce reliance on charcoal and firewood which are the primary cooking fuel for Liberians reducing the demand for these products which are derived from forests and reducing the exposure to harmful air particulates resulting from burning these products indoors that contribute to respiratory disease. Also, a reduction in commercial losses 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 reducing the demand for these products which are derived from forests and reducing the exposure to harmful air particulates resulting from burning these products indoors that contribute to respiratory disease.</p>	<p><b>Positive: A reduction in the tariff is expected to have positive effect on</b> access to electricity is expected to boost household activities and consumption, improve access to basic services such as digital services, including distance learning, and contribute to poverty reduction and jobs creation. Reduction is commercial losses in expected to improve the financial situation of LEC and increase its capacity to provide better services. Improved access to, reliability and affordability of electricity is expected to boost activities and investments in manufacturing and services, facilitate structural transformation and contribute to poverty reduction and jobs creation.</p>



Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
<p><b>Prior Action 3:</b> The Recipient has granted duty waiver for Quality-verified Solar Products to facilitate private investment in solar mini-grid to make off-grid solutions affordable to remote rural population, as evidenced by Executive Order No. 107 dated April 27, 2022.</p>	<p><b>Positive:</b> This has the potential to reduce reliance on charcoal and firewood which are the primary cooking fuel for Liberians reducing the demand for these products which are derived from forests and reducing the exposure to harmful air particulates resulting from burning these products indoors that contribute to respiratory disease.</p>	<p><b>Positive:</b> The availability of affordable quality-verified stand-alone solar systems will open opportunities for private investment and help make off-grid solutions affordable to remote rural populations. This will, in turn, increase access to electricity and spur SME growth and job creation, including through household enterprises. The negative revenue implications for introducing a duty waiver range between US\$0.1 million to US\$0.4 million, depending on the market scenario being considered, while generating between 24,715 and 88,835 more connected households. This could be considered as a fiscal subsidy of about US\$4.50 per new connected household.</p>
<p><b>Prior Action 4:</b> The Recipient through its MFDP, has in accordance with the Amended Revenue Code streamlined and consolidated duty and tax waivers by limiting the sectors and business activities qualifying for incentives; as evidenced by Administrative Regulation No. 02.16-1/MFDP/27 OCTOBER 2021.</p>	<p><b>Neutral.</b> This action is not expected to have any direct adverse effect on the environment. This action may provide a fiscal environment that could lead to increase in budgetary allotment to institutions tasked with managing the environment, forests and other natural resources.</p>	<p><b>Neutral-positive.</b> This action has medium-term positive effects on poverty reduction by enabling economic growth that foster job creation and better government revenue generation.</p>
<p><b>Prior Action 5:</b> The Recipient through its MFDP has: (a) instructed all SOEs to submit, on a quarterly basis, data on all debt (guaranteed and non-guaranteed, direct and on-lent) to the SOE, Financial Reporting and Coordination Unit and the DMU at MFDP, as evidenced by Circular dated May 12, 2022; and (b) published the validated and verified said debt information in its quarterly Public Debt Management Report.</p>	<p><b>Neutral.</b> This action is not expected to have any direct environmental effects.</p>	<p><b>Neutral-positive.</b> This action has medium-term positive effects on poverty reduction by promoting sustainable financing for development and better provision of services.</p>



Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
<b>Pillar 2: Promoting Economic and Social Inclusion</b>		
<p><b>Prior Action 6:</b> The Recipient has through the CBL Board, authorized the use of digital credit to promote access to DFS; as evidenced by Resolution No. BR-05-/2022 dated March 17, 2022.</p>	<p><b>Neutral.</b> This action is not expected to have any environmental effects.</p>	<p><b>Positive.</b> The amended Payment System Act Supports the digitization of payments in the retail payment space where a majority of women operates. This will significantly increase citizens' participation in the digital payment ecosystem, specifically, women who play a significant role in the buying and selling of goods and those in rural areas with limited access, given the very low levels of financial inclusion amongst these target groups.</p>
<p><b>Prior Action 7.</b> The Recipient has authorized: (a) all beneficiaries of social assistance and safety net programs enrolled in the LHSR, including eligible refugees, to receive at no cost national ID cards and (b) refugees whose refugee status is about to end and who wish to stay as permanent residents in Liberia after June 30, 2022 following the entry of the UNHCR Refugee Cessation Requirements to: (i) enable their continuing access to basic services; and (ii) early regularization of their long-term status as permanent resident, as evidenced by Executive Order No 108 dated April 27, 2022.</p>	<p><b>Neutral:</b> This action is not expected to have any environmental effects. However, an effective SSN can help low-income households cope with shocks caused by extreme weather events, and thus constitute a key building block of adaptation to climate change. Flooding causes damage to Liberia's infrastructure, displaces an estimated 60,000 people per year, increases public health risks, and causes the loss of human lives. Low-income households are especially vulnerable to flooding and other extreme weather events.</p>	<p><b>Positive.</b> Direct support, and therefore direct positive effect, to extremely poor. The overall reform aims to institute a SSN system to mitigate the impact of shocks on the poor and contribute to long-term human capital development that will have direct positive effect on the poor. This action promotes also durable solutions for Ivorian refugees to facilitate the opportunity to seek permanent residency or naturalization in Liberia, notably for those who have formed strong ties to host communities and foster greater social cohesion at local level.</p>



**ANNEX 4: IGDP0-3 CHANGE TO TRIGGERS FOR IGDP03 IN IGDP02 PROGRAM DOCUMENT**

Triggers for IGDP03	Prior Actions under IGDP02	Rationale for changes
<b>Pillar 1: Removing Distortions in Selected Sectors and Strengthening Public-Sector Transparency</b>		
<b>DPO3 trigger #1:</b> To strengthen implementation of the national seeds regulatory framework, the Recipient has instituted and published an on-line National Catalogue for Plant Species and Varieties.	<b>IGDP03 Prior Action #1.</b> The Recipient has through its Ministry of Agriculture’s NSB: (a) issued a Resolution on National Catalogue of Crop Varieties Released and Registered in Liberia dated April 6, 2022; and (b) published on-line, the National Catalogue for Plant Species and Varieties dated 2022 in accordance with the ECOWAS Regulation on Harmonization of the Rules governing quality control, in the ECOWAS.	Reformulated to provide more information on the significance of the policy action and to make an explicit link to the ECOWAS regulation on seeds.
	<b>IGDP03 Prior Action #2.</b> The Recipient has through the LERC, approved the publication of the new tariff rates for end users to further address affordability barriers for poorer population and disincentivize power theft, as evidenced by the Order dated December 10, 2021.	The new prior action was added to strengthen the program’s results and render the lifeline tariff permanent.
<b>DPO3 trigger #2:</b> The Recipient has approved regulations for mini-grids and duty waiver for quality-verified stand-alone solar systems to open opportunities for private investment and help make off-grid solutions affordable to remote rural population.	<b>IGDP03 Prior Action #3:</b> The Recipient has granted duty waiver for Quality-verified Solar Products to facilitate private investment in solar mini-grid to make off-grid solutions affordable to remote rural population, as evidenced by Executive Order No. 107 dated April 27, 2022.	The trigger was slightly revised to focus on the policy side. The mini-grid policy framework was prepared by the Government.
<b>DPO3 trigger #3:</b> The Recipient has published a report on tax expenditures in line with the amended Revenue Code.	<b>IGDP03 Prior Action #4.</b> The Recipient through its MFDP, has in accordance with the Amended Revenue Code streamlined and consolidated duty and tax waivers by limiting the sectors and business activities qualifying for incentives; as evidenced by Administrative Regulation No. 02.16-1/MFDP/27 OCTOBER 2021.	The trigger was changed to ensure alignment with the proposed PPAs for 2022 and to reflect feedback from the SDFP committee to make the actions more policy oriented.
<b>DPO3 trigger #4:</b> To increase debt transparency, the Recipient: (i) establishes a comprehensive database of public debt, including the debts of SOEs and public-private partnerships; and (ii) publishes quarterly debt reports on its website.	<b>IDPO3 Prior Action #5:</b> The Recipient through its MFDP has: (a) instructed all SOEs to submit, on a quarterly basis, data on all debt (guaranteed and non-guaranteed, direct and on-lent) to the SOE, Financial Reporting and Coordination Unit and the DMU at MFDP, as evidenced by Circular dated May 12, 2022; and (b)	The trigger was changed to ensure alignment with the proposed PPAs for 2022 and to reflect feedback from the SDFP committee to make the actions more policy



	published the validated and verified said debt information in its quarterly Public Debt Management Report.	oriented.
<b>Pillar 2: Promoting Economic and Social Inclusion</b>		
<b>DPO3 trigger #5:</b> The Recipient’s CBL has established and made operational, staffed, and resourced a digital credit registry.	<b>IDPO3 Prior Action #6.</b> The Recipient has through the CBL Board, authorized the use of digital credit to promote access to DFS; as evidenced by Resolution No. BR-05-/2022 dated March 17, 2022.	Reformulated to focus on the policy side. The operationalization and the staffing of the digital credit registry was more an implementation of the proposed policy.
<b>DPO3 trigger #6.</b> The Recipient has approved a new medium-term National Social Protection Policy and Strategy (NSPPS) that includes an adequate level of financing to be allocated in the Calendar Year 2022 National Budget	<b>IDPO3 Prior Action #7.</b> The Recipient has authorized: (a) all beneficiaries of social assistance and safety net programs enrolled in the LHSR, including eligible refugees, to receive at no cost national ID cards and (b) refugees whose refugee status is about to end and who wish to stay as permanent residents in Liberia after June 30, 2022 following the entry of the UNHCR Refugee Cessation Requirements to: (i) enable their continuing access to basic services; and (ii) early regularization of their long-term status as permanent resident, as evidenced by Executive Order No 108 dated April 27, 2022..	Reformulated to focus on the policy side and address specific issue related to refugees in Liberia. The preparation of the NSPPS was delayed.

Source: World Bank.