



The World Bank

Liberia IG DPO 2 (P175570)

Public Disclosure Authorized

Public Disclosure Authorized

Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No: PGD272

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR

A PROPOSED DEVELOPMENT POLICY CREDIT

IN THE AMOUNT OF US\$20 MILLION

AND

A PROPOSED DEVELOPMENT POLICY GRANT

IN THE AMOUNT OF SDR 14 MILLION
(EQUIVALENT TO US\$20 MILLION)

TO THE
REPUBLIC OF LIBERIA

FOR A

SECOND INCLUSIVE GROWTH DEVELOPMENT POLICY OPERATION

May 19, 2021

Macroeconomics Trade and Investment Global Practice
Western and Central Africa Region

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

GOVERNMENT FISCAL YEAR

July, 1 – June, 30

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of date April 30, 2021)

Currency Unit = Liberia Dollar (LD)

US\$1.00 = LD 172.03

US\$1.00 = SDR 0.69638368

ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
AfDB	African Development Bank
ASA	Advisory services and analytics
CBL	Central Bank of Liberia
CCRT	Catastrophe Containment and Relief Trust
CET	Common External Tariff
CPF	Country Partnership Framework
DPO	Development Policy Operation
DRMS	Domestic Resource Mobilization Strategy
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
ECOWAS	Economic Community of West African States
EU	European Union
FDI	Foreign Direct Investment
FY	Fiscal Year
GAC	General Audit Commission
GDP	Gross Domestic Product
HFO	Heavy fuel oil
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
IGDPO	Inclusive Growth Development Policy Operation
IMIS	Integrated Management Information System
IMF	International Monetary Fund
LAA	Liberia Airport Authority
LDP	Letter of Development Policy
LEC	Liberia Electricity Corporation
LERC	Liberia Electricity Regulatory Commission
LHSR	Liberia Household Social Registry
LSDCA	Liberia Seed Development and Certification Agency Act
MAC	Ministries, Agencies, and Commissions
MFDP	Ministry of Finance and Development Planning
NASSCORP	National Social Security and Welfare Corporation

NRF	National Road Fund
PAN	Personnel Action Notice
PAPD	Pro-Poor Agenda for Prosperity and Development
PFMA	Public Finance Management Act
PFM	Public Financial Management
PFMRIS	Public Financial Management Reforms for Institutional Strengthening
PPA	Policy and Performance Action
PRSDPO	Poverty Reduction Support Development Policy Operation
PV	Present Value
RCF	Rapid Credit Facility
SDR	Special Drawing Rights
SDFP	Sustainable Development Finance Policy
SOE	State Owned Enterprise
SSA	Sub-Saharan Africa
SSN	Social Safety Nets
T&D	Transmission and distribution
UAT	User Acceptance Test
USAID	United States Agency for International Development
WB	World Bank
WBG	World Bank Group

Regional Vice President:	Ousmane Diagana
Country Director:	Pierre Frank Laporte
Regional Director:	Abebe Adugna Dadi
Practice Manager:	Francisco Galrao Carneiro
Task Team Leader:	Mamadou Ndione

TABLE OF CONTENTS

SUMMARY OF PROPOSED FINANCING AND PROGRAM	5
1. INTRODUCTION AND COUNTRY CONTEXT	7
2. MACROECONOMIC POLICY FRAMEWORK.....	9
2.1. RECENT ECONOMIC DEVELOPMENTS.....	9
2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY.....	15
2.3. IMF RELATIONS	22
3. GOVERNMENT PROGRAM	22
4. PROPOSED OPERATION	24
4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION	24
4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS	26
4.3. LINK TO CPF, OTHER WORLD BANK OPERATIONS AND THE WBG STRATEGY	44
4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS	44
5. OTHER DESIGN AND APPRAISAL ISSUES.....	45
5.1. POVERTY AND SOCIAL IMPACT	45
5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS	47
5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS.....	48
5.4. MONITORING, EVALUATION AND ACCOUNTABILITY	50
6. SUMMARY OF RISKS AND MITIGATION	51
ANNEX 1: POLICY AND RESULTS MATRIX.....	55
ANNEX 2: IMF RELATIONS ANNEX.....	58
IMF Communications Department	59
ANNEX 3: LETTER OF DEVELOPMENT POLICY.....	60
ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE	69
ANNEX 5: COUNTRY PROGRAMS ADJUSTMENT RESPONDING TO COVID-19 - LIBERIA.....	72

The Liberia Second Inclusive Growth development policy operation (DPO) Credit/Grant was prepared by an IDA team led by Mamadou Ndione (Senior Economist, EAWW2), and that included Errol George Graham (Lead Economist, EAWM2), Gweh Gaye Tarwo (Economist, EAWW2), Adetunji A. Oredipe (Senior Agricultural Economist, SAWA4), Zubair K. M. Sadeque (Senior Energy Economist, IAEE1), Ky Hong Tran (Senior Energy Specialist, IAW4), Joseph Tawiah Quayson (Energy Specialist, IAW4), Siegfried Zottel (Senior Financial Sector Specialist, EAWF2), Kiyotaka Tanaka (Financial Sector Specialist, EAWF2), Vaanii Baker (Operations Officer, CAFA2), MacDonald Nyazvigo (Senior Financial Management Specialist, EAWG2), Smile Kwawukume (Senior Public Sector Specialist, EAWG2), Mack Capehart Mulbah (Senior Social Protection Specialist, HAWS3), Victoria Strokova (Senior Economist, HAWS3), Hiroki Uematsu (Senior Economist, EAWPV), Akhilesh Ranjan (Senior Social Development Specialist, SAWS1), Michael Christian Mahrt (Senior Social Development Specialist, SAWS1), Edward Felix Dwumfour (Senior Environmental Specialist, SAWE4), Lia Mamniashvil (Consultant, HGNDR), Esther Rojas-Garcia (Senior Operations Officer, AWCW1), Nightingale Rukuba-Ngaiza (Senior Counsel, LEGAM), Victoria Ewura Eku Wood (Associate Counsel, LEGAM), Ines Ety (Finance Officer, WFALA), Claudia Rocio Manrique (Program Assistant, EAWM2), Irene Sitienei (Program Assistant, EAWM2), Pinar Baydar (Operations Analyst, EAWM2), and Joseph Massa Koilor (Team Assistant, AWMLR). Abdoulaye Sy (Senior Economist, EEAM2), David Vilar Ferrenbach (Senior Energy Specialist, IAW4), and Hardwick Tchale (Senior Agriculture Economist, SEAAG) served as peer reviewers for the operation. Overall guidance was provided by Francisco Galrao Carneiro (Practice Manager, EAWM2), Abebe Adugna Dadi (Regional Director, EAWDR), Khwima Nthara (Country Manager, AWMLR) and Pierre Laporte (Country Director, AWCW1). The team worked closely with IMF team led by Christoph Klinggen (AFRW2).



SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P175570	Yes	2nd 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: REPUBLIC OF LIBERIA

Implementing Agency: MINISTRY OF FINANCE AND DEVELOPMENT PLANNING

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Financing	40.00
------------------------	--------------

DETAILS

International Development Association (IDA)	40.00
IDA Credit	20.00
IDA Grant	20.00

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

High



Results

Indicator Name	Baseline	Target
Quantity of certified rice seeds available to farmers (Mt)	[0] [2019]	[2000] [2023]
LEC overall transmission and distribution losses (%)	[63] [2018]	[55] [2023]
Share of tax expenditures in total domestic revenues (%)	[32.6] [2018]	[20] [2023]
SOEs with audited annual financial statements and liabilities 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)	[15.5] [2018]	[9.0] [2023]
Extremely poor households receiving regular cash transfers (number)	[0] [2018]	[20,000] [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) grant in the amount of SDR 14 million (US\$20 million equivalent) and an IDA credit in amount of US\$20 million to the Republic of Liberia for the Second Inclusive Growth Development Policy Operation (IGDPO-2).** The proposed operation is the second in the planned IGDPO programmatic series of three single-tranche operations designed to support 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 medium-term development plan, the Pro-Poor Agenda for Prosperity and Development (PAPD) 2018-2023 and the World Bank Group's (WBG) Country Partnership Framework (CPF) for Liberia.¹

2. **The COVID-19 pandemic has compounded weak Liberia's economic performance since the Ebola outbreak in 2014.** Liberia's economy grew strongly at an average annual rate of 7.4 percent over the 2004-2013 period, supported by high commodity prices (rubber, iron ore) and strong support from the international community, as the country reaped the peace dividend.² However, since 2014, the Ebola Virus outbreak, the collapse of iron ore and rubber prices, and the economic impact of the drawdown of United Nations peacekeeping forces resulted in economic stagnation. With the COVID-19 pandemic, the economy weakened further, contracting by 3 percent in 2020, largely driven by supply disruptions due to the general lockdown and falling global demand for Liberia's main exports. With limited fiscal space, the Government was unable to implement counter-cyclical fiscal policy, although some safety nets programs were scaled up and better targeted.

3. **The economic stagnation since 2014 and the COVID-19 crisis have reversed the prior gains in poverty reduction.** The rapid growth episode during 2004-2013 led to a decline in the poverty rate³ from 68.6 percent in 2007 to 38.6 percent in 2014. However, with the economic stagnation from 2014 to 2019, followed by the contraction in 2020, per capita GDP has declined by more than 20 percent cumulatively since 2014, causing the poverty rate to rise to an estimated 52 percent by 2021,⁴ erasing nearly half of the earlier gains. 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 and public services, and to markets for both goods and labor. The COVID-19 pandemic has worsened these negative trends. According to the High-Frequency Phone Monitoring Survey's report launched in August 2020, two out of three households were in a dire food situation, three out of four households reported job losses, and two out of three households reported income losses because of the pandemic.

4. **Liberia is also highly vulnerable to climate shocks.** Liberia is situated in the center of the Upper Guinea Rainforest Region along the West Coast of Africa. This region is one of the most biologically diverse

¹ 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.

² Liberia's second civil war started in 1990 and ended in 2003 with the Accra Comprehensive Peace Agreement.

³ Liberia's poverty rate is measured as percentage of population below the international poverty line of US\$1.9/day in 2011 purchasing-power-parity (PPP) terms.

⁴ https://www.worldbank.org/en/publication/macro-poverty-outlook/mpo_ssa p251



originally covered by continuous, dense tropical rainforest. Its economy is highly dependent on environmentally sensitive sectors such as agriculture, fishery, mining, forestry, energy, and transportation. Liberia's key climate stressors include increasing average temperatures, variabilities in rainfall and local climate, prolonged heatwaves, and more frequent and severe flooding. In the long run, storm surges and rising sea levels will exacerbate coastal erosion, directly impacting the large share of the population that lives near the coast. The impact of climate change could increase the share of Liberians living below the poverty line by 2-6 percent by 2030,⁵ while damage to the road network alone could reach the equivalent of 40 percent of GDP.⁶

5. **Despite the protracted economic, social, and climate-related challenges, Liberia's political situation remains stable.** The National Electoral Commission (NEC) successfully organized the senatorial elections coupled with a referendum on December 8, 2020. This was the second peaceful election organized by a national institution after the December 2017 presidential elections marked the first peaceful transfer of power from one democratically elected government to another in more than 70 years. The Government continues to work under the Long-Term Framework of the Vision 2030 which aims at transforming Liberia into a prosperous and inclusive middle-income country by 2030. The country's Medium-Term National Development Policy Framework is embodied in the PAPD covering the period 2018-2023. The PAPD builds on the Agenda for Transformation (2012-2017) and aims to provide a consistent set of policy objectives and strategies to guide medium-term and annual development plans, as well as budgets at the sector and district levels, towards the government's growth and poverty reduction goals.

6. **This proposed operation, the second in the IGDP series, 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 are intended to help increase access to agricultural seeds, expand access to and affordability of electricity by reducing losses and improving financial viability of the energy state-owned enterprise (SOE), strengthening domestic revenue mobilization by streamlining distortive tax waivers, and reinforcing SOE oversight and transparency. The reforms under the second pillar help strengthen the regulatory framework for financial inclusion and digital finance, to improve access to formal financial services for excluded and underserved groups, particularly women and rural residents, and help create a sustainable and efficient social safety net system. This operation also intends to respond to the climate risks through policies that support adaptation in the agriculture and energy sectors, and in social protection. The Government is also committed to addressing climate change risks through improved planning, adaptation, resilience, and enhanced disaster-risk management.⁷ The authorities are also addressing governance issues through new legislation, including the Land Rights Act, the Power Theft Act, the Freedom of Information Act, the Modernized Customs Code, the Amended Public Finance Management Act (PFMA), and amendments to the Central Bank of Liberia (CBL) Act.

7. **Despite the added economic pressures resulting from COVID-19, the authorities have continued to take steps to reinforce macroeconomic stability.** The economy is expected to recover gradually in

⁵ World Bank (2016) "Shockwaves: Managing the impacts of climate change on poverty." *Climate Change and Development Series*. Washington, DC.

⁶ Koi's et al. (2019) "A Global Multi-Hazard Risk Analysis of Road and Railway Infrastructure Assets." *Nature Communications*.

⁷ Government of Liberia (2015) "Intended Nationally Determined Contributions (INDC)" UNFCCC.



2021-2022 supported by improving commodity prices, the rollout of vaccines, and structural reforms. Policies to improve domestic revenue mobilization and rationalize the wage bill, while protecting social spending in the context of the COVID-19 pandemic are expected to help support fiscal sustainability. Liberia also receives considerable support from development partners, of which a predominant portion is in the form of grants. In FY2021, total financing including grants amounts to 16.1 percent of GDP, including support from the World Bank, African Development Bank, IMF, European Union, USAID, and Germany, among others. The macroeconomic framework also benefits from prudent monetary policy to reduce inflation and stabilize the exchange rate, a narrower fiscal deficit consistent with debt sustainability, and better-coordinated macroeconomic policies. The CBL has stopped the monetization of the fiscal deficit and committed to improving governance and transparency under the IMF ECF program.

8. **Macroeconomic, governance, and implementation risks to this operation are all rated high.** Liberia's macroeconomic situation will remain vulnerable over the near term, and a delayed fiscal adjustment, further external shocks, or domestic policy slippages could significantly worsen the economic outlook. This operation as well as the ongoing International Monetary Fund (IMF) program should help mitigate some of the macroeconomic risks related to shocks. The authorities have acknowledged the importance of sound macroeconomic management and have stressed their commitment to implementing the difficult policy measures needed to restore macroeconomic stability, ensure fiscal sustainability, and strengthen accountability and transparency in the public sector. The World Bank is working closely with the IMF, the European Union (EU), the African Development Bank (AfDB), and other development partners to coordinate financing and harmonize support for reform implementation. While there has been progress over the years, governance risks are substantial due to remaining weaknesses in public financial management (PFM) and procurement systems. Governance and implementation risks are to some extent mitigated by the authorities' measures to improve governance under both the Extended Credit Facility (ECF) program and the proposed IGDP series, by development partners' tailored technical assistance and efforts to strengthen institutions, and by non-government actors working to support better governance.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

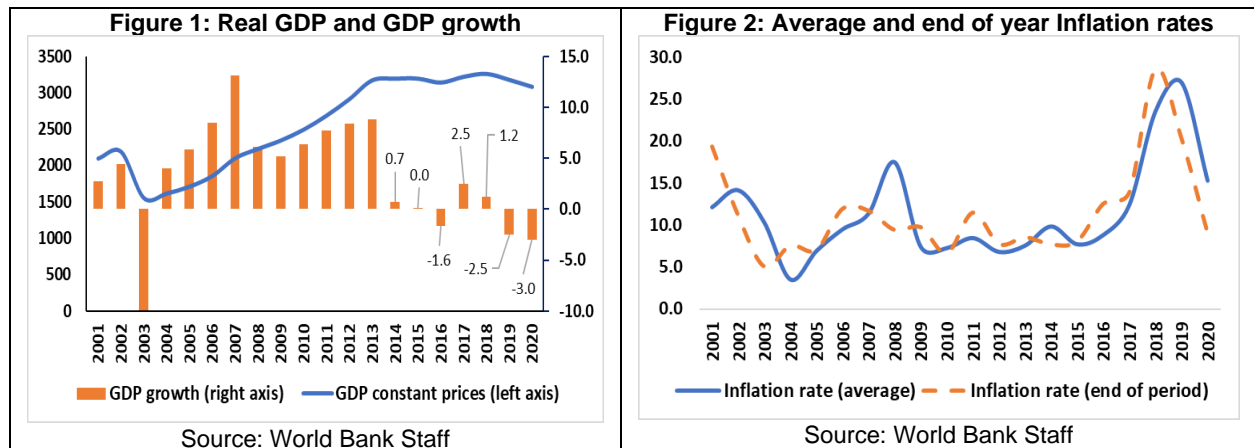
8. **For half a decade before the COVID-19 outbreak, Liberia's economic performance had been weak.** A series of severe shocks, starting with the Ebola Epidemic in 2014, stopped the growth momentum spurred by the August 2003 Accra Comprehensive Peace Agreement which put an end to 15 years of civil strife, and had yielded economic growth averaging 7.4 percent per annum in the subsequent decade. Besides the peace dividend, economic growth was driven by the natural resource sector that benefited from favorable high commodity prices (rubber, iron ore) which triggered significant foreign direct investment (FDI) inflows, and strong financial support from donors to help sustain peace. From 2014, the country's economy was buffeted by the devastating Ebola outbreak, the collapse of global iron ore and rubber prices, collapses, and the economic impact of the drawdown of United Nations peacekeeping forces. Iron ore and rubber prices declined by 70 percent and 50 percent, respectively, in 2014 -2015, FDI inflows decreased by 37.7 percent between 2013 and 2019, and official grants declined from an annual average of 17 percent of GDP in 2015-2017 to 13.3 percent of GDP in 2019. As a result, the contribution to GDP from the services sector declined cumulatively by 9.5 percent between 2014 and 2019. Thanks to some recovery in iron ore and rubber prices in 2017-2019, the cumulative decline of industry was



contained at 1.1 percent between 2014 and 2019, reflecting mainly dynamism in the mining sector. Offsetting these negative effects to some extent, the agriculture sector proved resilient, recording a cumulative growth of nearly 10 percent between 2014 and 2019, consistent with population growth in rural areas.

9. **With the COVID-19 pandemic, the economy has weakened further, with real GDP contracting by an estimated 3 percent in 2020 compared to a projected growth of 1.6 percent before the outbreak (see Box 1 below).** Liberia reported its first confirmed case of COVID-19 on March 16, 2020. As of May 13, 2021, Liberia, with a population of close to 5 million, recorded 2,114 confirmed cases, of which 1,962 have recovered, 67 remain active and there have been 85 deaths. To contain the spread of the virus, the Government declared a state of emergency between April 10 and July 22, 2020, and imposed lockdown measures. The Government response was swifter than during the Ebola epidemic and compliance with these measures was much higher. Nevertheless, the restrictions put domestic activities on a stand-still for months, causing the urban services economy to contract by an estimated 8.6 percent in 2020. Industry stagnated as the decline in manufacturing and other industries was compensated by a modest growth in mining owing to rising iron ore and gold prices. Agriculture remained resilient with a modest growth of 2.4 percent driven by increased production in the food and non-food crops sectors, mainly cassava, rice, rubber and palm oil. Still, that growth is only in line with demographic growth as productivity virtually stagnated. On the demand side, the contraction was driven by declines in non-mining exports, including services exports (tourism), public spending (both consumption, -11.4 percent, and investment, -11.6 percent), and FDI (-8.7 percent). Private consumption, at 99 percent of GDP, stagnated in real terms, therefore declining by 2.5 percent in per capita terms.

10. **Tight macroeconomic policies led to a sharp moderation in inflation in 2020.** Fuel prices in Liberia, a frequent driver of inflationary pressures, fell only slightly in response to the drop in international oil prices because of the introduction of an excise tax early in the year. But tighter monetary and fiscal policies and ensuing lower aggregate demand pressures and in monetary growth appear to have slowed the self-reinforcing cycle of depreciation-inflation observed in late-2018 through 2019. The inflation rate moderated to 13.1 percent by December 2020, from 20.3 percent in December 2019. The average inflation rate for 2020 is estimated at 17 percent compared with 26.9 percent in 2019. The bilateral nominal exchange rate to the US dollar remained stable around L\$199 per US\$ in the first nine months of 2020, a marked departure from the nearly 40 percent depreciation of the previous three years; the L\$/US\$ exchange rate even appreciated to L\$160 per US\$ in the last quarter of 2020, mainly in response to the continued tightness of macroeconomic policies.





11. The full cumulative effects on poverty and vulnerability of the two consecutive years of dire economic conditions, on top of a prolonged period of stagnation (2014-2018), is yet to be fully assessed.

According to the High-Frequency Phone Monitoring Survey Report launched in August 2020, two out of three households in Liberia are food insecure, three out of four households reported job losses, and two out of three households reported income losses. According to the WBG projections in the Macro Poverty Outlook⁸ (MPO), extreme poverty is on a rising trend since the Ebola epidemic in 2014, and is estimated at 51 percent in 2020, up from 38.6 percent in 2014. Most of the working age population in Liberia is in the labor force and employed, but most workers depend on precarious low wage jobs in the informal sector. The labor force participation rate (those who are employed and unemployed) increased from 69.1 percent in 2007 to 75.3 percent in 2016. Women are significantly less likely (almost 10 percentage points lower) to be in the labor force compared to men. Only 3.2 percent of the labor force are unemployed, underscoring that unemployment is not an issue in Liberia, as most cannot afford to be unemployed. However, most Liberians lack access to good job opportunities which could provide sustainable earnings to lift them out of poverty. Three out of four are self-employed in agriculture (36 percent of all employment) or non-agricultural activities (almost 40 percent). Only 20 percent of workers have access to wage employment, which tends to provide higher and more stable earnings.

12. On the external side, the current account deficit narrowed in 2020 despite the impact of the COVID-19.

The trade deficit is estimated to have widened to 13.2 percent of GDP in 2020, from 11.9 percent of GDP in 2019 despite recent improvements in the terms of trade with the increase in rubber, iron ore and gold prices, and the decrease in oil prices. Merchandise exports stabilized at 17.9 percent of GDP in 2020, thanks to an uptick in sales of gold (5.3 percent of GDP) and iron ore (8.7 percent of GDP) while imports of goods increased to 31.2 percent of GDP in 2020, up from 28.1 percent of GDP in 2019. The balances in services and in primary income widened also in 2020 to 11.1 percent of GDP and 4.5 percent of GDP respectively as exports of services, mainly tourism and transportation, collapsed because of COVID-19. Fortunately, the balance of secondary income improved to 12.5 percent of GDP, thanks to higher official transfers (including budget support) and an increase in net remittances. The continued rise in inward remittances reflects the diaspora's response to the constraints posed by the contraction in domestic economic activity, aided also by the suspension of the surrender⁹ requirement on remittances in banks. Overall, the current account deficit narrowed to 16.4 percent of GDP in 2020, from 17.7 percent of GDP in 2019. The financing of the deficit proved challenging with the declines in both FDI (down to 6.9 percent of GDP), even as the country needed to rebuild its international reserves. However, Liberia benefited from a strong support from the IMF (3.2 percent of GDP), included through the ongoing ECF program (US\$47 million, 1.5 percent of GDP). The gross official reserves position improved to US\$358 million at end-2020 (2.6 months of imports), up from US\$292 million (2.3 months) in 2019.

13. Despite the negative effects of COVID-19, the fiscal stance improved in FY2020, with strong revenue efforts and consolidation on the spending side.

Compared to the other countries in the region, the spread of the COVID-19 was limited in Liberia, but the economic impact was significant. As of March 16, 2021, Liberia recorded 2,042 confirmed cases, of which 1,899 have recovered, 58 remain active and, unfortunately, 85 deaths. Facing limited room to borrow on concessional terms, the Government maintained its efforts to mobilize domestic revenue to respond to the COVID-19 related expenditure

⁸ MPO October 2020 <http://pubdocs.worldbank.org/en/733441492188161968/mpo-lbr.pdf>

⁹ A surrender requirement on inward remittances was introduced in December 2016 but was suspended in November 2019 in light of acute shortages of Liberian dollar banknotes.



pressure. Domestic revenue, at 14.9 percent of GDP, overperformed the recast budget by 1.3 percentage point of GDP, reflecting better performance of the Revenue Authority¹⁰ and the introduction of the 30-percent excise tax per gallon on fuel in May 2020. The total tax waived on imports dropped by an aggregate 22 percent from US\$132.9 million in FY2018/19 to US\$103.4 million in FY2019/20. General Goods for the period accounted for 93 percent while Petroleum and ECOWAS Trade Liberalization Scheme (ETLS) waiver accounted for 4 percent and 2 percent, respectively. Program grants increased to 1.2 percent of GDP in FY2020 from 0.4 percent in FY2019, together with project grants (13.4 percent of GDP) as the Government mobilized higher than expected budget support. Total revenue and grants increased to 29.4 percent of GDP, while total expenditure was kept in line with the FY2020 recast budget at 33.4 percent of GDP in FY2020 compared to 32.2 percent of GDP in FY2019, despite increased COVID-19-related spending pressures. The Government continued to implement fiscal consolidation measures initiated in FY2019, including the payroll reform and wage harmonization aimed at containing the rising trend of the public sector wage bill and facilitating cash management. The number of public employees was reduced from about 74,000 to about 67,100 by the elimination of duplicate and ghost workers, and the retirement of employees past the mandatory retirement age.

14. **As a result of the fiscal consolidation measures, the overall fiscal deficit declined from 6 percent of GDP in FY2019 to 4.0 percent of GDP in FY2020.** The primary deficit also narrowed from 5.8 percent of the GDP in FY2019 to 2.8 percent of GDP in FY2020, slightly above the medium-term debt stabilizing deficit of 2.5 percent. The financing of the deficit was met with no new external non-concessional borrowing, but with a small net contribution from the CBL in the first half of 2020, reflecting the on-lending to the Government of the IMF Rapid Credit Facility (RCF) disbursements and the Catastrophe Containment and Relief Trust (CCRT). Nevertheless, the headline total public debt to GDP ratio showed an increase to 58.8 percent of GDP from 45.3 percent of GDP in FY2019. This reflects mainly the taking on board (recognition¹¹) of past government debt (6 percent of GDP) to the CBL, and some transitory exchange-rate effects on the weight of the external debt.

15. **Monetary and exchange rate policy remained tight in 2020, with the CBL exercising caution in view of uncertainties about the economic impact from COVID-19.** In May 2020, the CBL eased its stance, though keeping reserve requirements unchanged, by reducing its policy rate by 500-basis points to 25 percent. Still, with the sharp deceleration of inflation to 10 percent by end-November, the policy rate has risen in real terms (by 12 percentage points) since December 2019. The trend in the real interest rate, along with a shortening of the tenor of central bank bills, enhanced the attractiveness of holding CBL bills by commercial banks, especially in the context of uncertainty about the liquidity impact of the COVID-19 pandemic. The CBL also suspended its surrender requirement on remittances throughout 2020 and took other prudential and administrative measures to unlock the interest rate transmission channel, enhance the effectiveness of its new monetary policy framework, and increase public confidence in the financial system. Credit to the private sector bottomed out in the first half of 2020 and started to recover, while better coordination between fiscal and monetary policies improved with the Government's strict adherence to zero monetary financing of the fiscal deficit, except for the on-lending of the IMF disbursement. However, non-performing loans (NPL) increased from 17.5 percent in December 2019 to 21.6 percent in December 2020, due mainly to the service and hospitality sectors. Overall, for 2020, the

¹⁰ LRA was allowed to retain 4 percent of revenue collected to fund its operations as opposed to a direct budget allocation. This helped to improve operational efficiency.

¹¹ <https://www.mfdp.gov.lr/index.php/media-center/press-release/brief-on-the-increase-in-gol-debt-stock-between-december-2017-and-march-2020>



growth of monetary aggregates was low, after having slowed in 2019 because of the shortage of Liberian dollar banknotes and a tight monetary policy stance.

Table 1. Liberia Selected Economic Indicators (2015-2025)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Est.	Proj.	Proj.	Proj.	Proj.	Proj.
National Accounts (growth rates, %)											
Agriculture	1.3	4.5	2.8	1.2	0.2	2.4	3.3	4.5	5.2	5.7	5.8
Industry	-3.5	-11.7	8.2	4.9	1.0	0.2	3.9	5.3	5.6	5.9	6.0
Services	0.1	-2.9	0.6	-0.8	-6.6	-8.6	3.4	4.6	4.6	5.1	5.2
GDP at market prices	0.0	-1.6	2.5	1.2	-2.5	-3.0	3.6	4.7	5.0	5.5	5.5
Mining	-16.8	-34.8	27.5	24.8	13.1	1.7	5.0	5.0	5.0	5.0	5.0
Non-mining	0.9	0.0	1.7	0.3	-3.2	-3.2	3.6	4.7	5.0	5.5	5.6
Population	2.6	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Real per capita GDP	-2.6	-4.1	-0.1	-1.3	-4.9	-5.5	1.1	2.2	2.5	3.0	3.0
Annual average inflation	7.7	8.8	12.4	23.5	27.0	17.0	11.8	9.3	7.5	7.0	7.0
End of period inflation	8.0	12.5	13.9	28.5	20.3	13.1	10.5	8.0	7.0	7.0	7.0
GDP deflator	5.1	4.7	-2.6	-0.2	-0.6	-0.6	1.7	4.7	1.0	1.5	1.5
National Accounts (% GDP at current market prices)											
Agriculture	35.9	35.9	35.9	35.5	36.4	39.0	38.9	39.0	39.1	39.4	39.6
Industry	13.3	13.8	15.4	16.9	17.0	16.8	16.9	17.1	17.2	17.4	17.5
Services	50.8	50.3	48.6	47.6	46.6	44.2	44.1	43.9	43.7	43.3	42.9
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Mining	2.8	2.9	4.7	6.4	6.5	6.4	6.5	6.6	6.6	6.6	6.5
Non-mining	97.2	97.1	95.3	93.6	93.5	93.6	93.5	93.4	93.4	93.4	93.5
Gross domestic investment	24.8	26.5	19.3	18.0	18.9	16.7	18.9	19.9	21.4	20.0	20.4
Private investment	8.4	7.2	7.1	8.9	8.9	6.9	8.6	9.6	10.6	8.8	9.0
Public investment	16.4	19.4	12.1	9.1	10.0	9.7	10.4	10.4	10.7	11.2	11.4
Gross domestic savings	-26.5	-20.5	-16.2	-13.1	-5.8	-7.7	-3.5	-1.4	0.2	-1.3	-0.2
Public	0.5	-0.5	-5.8	-4.1	-7.8	-7.9	-9.4	-8.8	-5.7	-3.3	-1.8
Private	-27.1	-20.1	-10.4	-8.9	2.0	0.3	5.8	7.4	5.9	2.0	1.6
Net primary income	-8.5	-7.7	-8.9	-8.7	-2.9	-4.5	-4.4	-4.2	-4.1	-3.9	-3.8
Net secondary income	35.4	31.4	21.7	17.7	9.9	12.5	11.5	10.2	10.0	10.2	9.5
Gross national savings	0.4	3.1	-3.4	-4.1	1.2	0.3	3.5	4.6	6.2	4.9	5.5
Saving - Investment balance	-24.4	-23.4	-22.7	-22.1	-17.7	-16.4	-15.4	-15.3	-15.2	-15.1	-14.9
Balance of Payments (% GDP, except otherwise indicated)											
Current account balance	-24.4	-23.4	-22.7	-22.1	-17.7	-16.4	-15.4	-15.3	-15.2	-15.1	-14.9
Balance in trade and services	-51.4	-47.1	-35.4	-31.1	-24.7	-24.4	-22.4	-21.4	-21.2	-21.3	-20.6
Primary income (net)	-8.5	-7.7	-8.9	-8.7	-2.9	-4.5	-4.4	-4.2	-4.1	-3.9	-3.8
Secondary income (net)	35.4	31.4	21.7	17.7	9.9	12.5	11.5	10.2	10.0	10.2	9.5
Foreign Direct Investment	8.4	7.2	7.1	8.9	8.9	6.9	7.4	8.3	9.3	7.6	7.8
Current account balance excl. grants and FDI related imports	1.2	2.0	0.5	-0.8	3.8	5.1	5.3	4.4	4.6	3.5	3.3
Gross Official Reserves (in months of next year's imports)	2.1	2.7	2.6	2.3	2.3	2.6	2.9	3.1	3.1	3.1	3.2
Debt Indicators (in % of GDP)											
Total Public Debt	22.2	24.8	29.5	32.6	45.3	58.8	58.7	56.2	55.4	53.2	51.4
External	7.7	11.9	21.7	24.8	32.7	38.7	39.9	39.2	39.3	38.2	37.7
Domestic	14.5	12.9	7.9	7.8	12.7	20.1	18.7	17.1	16.1	15.1	13.8
Government finance (% GDP)											
Current revenue	13.6	13.9	13.7	12.4	12.9	14.9	15.2	15.8	16.0	16.3	16.6
Current expenditure	19.3	18.1	21.5	20.3	22.2	23.7	20.9	19.1	17.8	18.1	17.8
o/w wages and salaries	7.6	7.6	8.5	8.9	9.6	10.3	8.8	7.9	7.5	7.2	6.8
Capital expenditure	16.4	19.4	12.1	9.1	10.0	9.7	10.4	10.4	10.7	11.2	11.4
Overall fiscal balance including grants (commitment basis)	-5.0	-5.3	-3.9	-4.6	-6.8	-4.0	-2.9	-2.4	-2.0	-2.1	-2.3
Overall fiscal balance excluding grants (commit. basis)	-22.2	-23.5	-19.9	-17.0	-19.3	-18.6	-16.1	-13.7	-12.5	-13.0	-12.7
Monetary indicators											
Broad money M2 (% annual growth)	2.3	5.0	-18.4	4.9	0.5	20.3	2.8	9.4	12.0	9.5	9.9
Broad money M2 (% of GDP)	21.6	22.0	18.0	18.7	19.4	24.2	23.6	23.6	24.9	25.5	26.1
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	14.5	12.0	12.2	9.5	9.8
Credit to the economy (in % of GDP)	13.2	14.0	15.0	15.5	15.0	16.4	16.9	17.2	18.2	18.6	19.1
Velocity (GDP/M2; end of period)	4.6	4.5	5.5	5.3	5.2	4.1	4.2	4.2	4.0	3.9	3.8
Memorandum items											
GDP at current market prices (USD million)	3,296.2	3,398.4	3,390.7	3,422.8	3,319.6	3,201.2	3,375.5	3,698.1	3,921.7	4,199.0	4,498.6
Per capita GDP (USD current)	737.0	740.9	721.1	710.3	672.3	632.5	650.7	695.5	719.6	751.7	785.7
Exchange rate (per 1\$US, average)	86.2	94.4	112.7	144.1	186.4	191.5					
Exchange rate (per 1\$US, end of period)	88.5	102.5	125.4	157.6	188.4	164.2					

Source: Government of Liberia (MFPD and CBL), IMF, and WBG staff, April 2020.

Box 1: Evolution and socioeconomic impacts of the Ebola and the COVID-19 outbreaks in Liberia

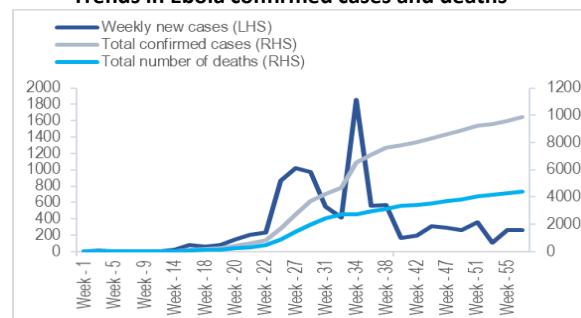
Ebola epidemic. Liberia reported its first confirmed case of Ebola on March 30, 2014. As of July 30, 2014, Liberia recorded 10,672 confirmed cases, of which 5,864 recovered and, unfortunately, 4,808 died. The initial cases were thought to be malaria, an extremely common disease in Liberia, thus leading to doctors being infected with the Ebola virus. It took time to implement containment measures but by end-July 2014, most border crossings were closed, with medical checkpoints set up at the remaining ports and quarantines in some areas, and schools shut down in an attempt to contain the outbreak. There was also weak compliance with the containment measures. For example, in August 2014, residents from a suburb area of Monrovia descended upon an Ebola clinic to protest its presence. The protesters turned violent, threatening the caretakers, removing the infected patients, and looting the clinic of its supplies, including blood-stained bed sheets and mattresses.

The Ebola had devastating socioeconomic impacts on Liberia. According to the Socioeconomic Impact of Ebola Report¹², all sectors were affected and for a long period. About forty percent of household heads reported not working between October 2014 and March 2015, causing economic growth to decline to an estimated 0.7 percent in 2014 compared to a projected growth of 6.8 percent before the epidemic. The inflation rate rose to 9.9 percent compared to 6.6 percent projected before the outbreak. Thank to massive inflow of grants the fiscal deficit was reduced to 1.2 percent of GDP compared to 4.2 percent of GDP projected prior the pandemic. The current account deficit was also lower than expected.

COVID-19 pandemic. Liberia reported its first confirmed case of COVID-19 on March 16, 2020. As of May 13, 2021, Liberia recorded 2,114 confirmed cases, of which 1,962 have recovered, 67 remain active, and there have been 85 deaths. COVID-19 spread faster than Ebola in the first months of the pandemic but was quickly contained. Building on the lessons from the Ebola epidemic, the Government declared a state of emergency between April 10 and July 22, 2020, and imposed lockdown measures to contain the spread of the virus. The number of cases peaked at 300 in early July 2020 before falling to about 20 cases in October. According to the high-frequency household surveys (2020), compliance with the containment measures was high. Virtually all respondents washed hands with soap more often, and 99.0 percent avoided handshakes and groups of more than ten persons such as family gatherings.

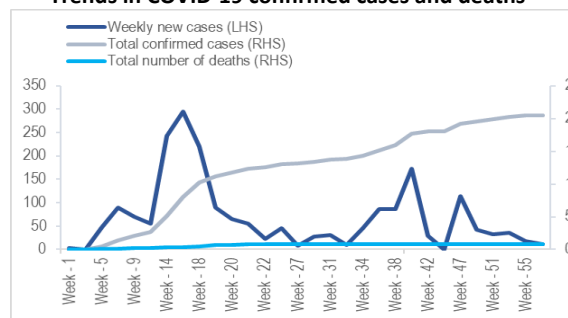
The COVID-19 crisis has negatively impacted the economy. The lockdown measures put domestic activities on a stand-still for months, causing the economy to contract by an estimated 3 percent in 2020 against a projected growth of +1.6 percent before the pandemic. Over 75 percent of businesses closed during the lockdown and over 90 reported lower sales in the Industry and Trade sectors. Thanks to improved macroeconomic policy, the inflation rate was at 17 percent in 2020, lower than the projected 20.5 before the pandemic. The fiscal deficit also improved to reach 4.0 percent of GDP compared to 4.7 percent of GDP projected prior to the pandemic.

Trends in Ebola confirmed cases and deaths



Source: World Health Organization

Trends in COVID-19 confirmed cases and deaths



Source: World Health Organization

Selected economic impact of Ebola

	Growth	Inflation	Current account deficit	Fiscal deficit
Projection	6.8	6.6	56.2	
Actual	0.7	9.9	28.7	
Difference	6.1	-3.3	27.5	

Source: IMF World Economic Outlooks

Selected economic impact of Ebola

	Growth	Inflation	Current account deficit	Fiscal deficit
Projection	1.6	20.5	21	4
Actual	-3.0	17.0	16.4	4
Difference	4.6	3.5	4.6	0

Source: IMF World Economic Outlooks

¹² [https://www.worldbank.org/content/dam/Worldbank/document/Poverty%20documents/Socio-Economic%20Impacts%20of%20Ebola%20in%20Liberia%2C%20April%202015%20\(final\).pdf](https://www.worldbank.org/content/dam/Worldbank/document/Poverty%20documents/Socio-Economic%20Impacts%20of%20Ebola%20in%20Liberia%2C%20April%202015%20(final).pdf)



2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

16. **Liberia's medium-term economic outlook is positive with per capita growth expected to recover in 2021, but COVID-19 and Ebola-related uncertainties remain.** Economic growth is expected to recover to 3.6 percent in 2021, before gradually accelerating to an average of 5.2 percent over 2022-2025. In the near term, growth will be driven by recovery in the mining sector underpinned by the recent recovery in commodity prices. Iron ore prices surged 25 percent in the first quarter of 2021, and prices in April 2021 were almost double those of April 2020. The surge largely reflected robust demand for steel production in China, whose iron ore imports account for two-thirds of seaborne trade¹³. The recovery in the non-mining sector will be driven by a modest rebound in services (3.4 percent) from a severe contraction (-8.6 percent) in 2020, assuming that the vaccine¹⁴ rollout will prevent new general lockdown in 2021-2022 either to contain a new wave of COVID-19 or a new Ebola outbreak. As the global economy recovers over the medium-term and Liberia continues to reform its real sector, including in agriculture and energy supported by the proposed operation and pursue successfully the initiated fiscal consolidation, the contribution of the non-mining is expected to increase to 5.2 percent in 2022-2025. Agriculture and manufacturing, the main sectors of diversification, are expected to play a pivotal role in making growth more broad-based, inclusive and sustainable, as structural reforms, including in key enabling sectors such as energy, trade, transportation, and financial services, help increase productivity-enhancing investments. Improvements in domestic food supply, lower electricity tariffs, reduced trade costs, and better public services are expected to boost the country's competitiveness and contribute to more robust economic growth. Meanwhile, macroeconomic stability and improvements in the business environment should positively affect savings, investment, and private consumption.

17. **The inflation rate is expected to fall to single digits in 2022 and stay in that territory over the 2023-2025 period.** The average inflation rate is expected to decline to 11 percent by 2021, with an end-year inflation rate at 10.5 percent, before falling further to 7 percent in 2022-2025, supported by the continued implementation of the new monetary policy framework and sustained fiscal consolidation. Under the IMF program, the CBL is committed to maintaining a tight monetary stance, stopping the monetization of 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. Also, the CBL plans to reduce the Liberian dollar Reserve Requirement (RR) from 25 to 15 percent and align the U.S. dollar RR from 10 to 15 percent, thereby enhancing the relative attractiveness of holding Liberian dollar deposits in banks.

18. **Liberia's external position is projected to improve over the medium term.** The current-account deficit, including grants, is projected to narrow from 16.4 percent of GDP in 2020 to 14.9 percent in 2025 due to the continued fall in imports and anticipated increase in mining and agricultural exports. Since the drawdown of the United Nations Mission in Liberia (UNMIL), imports of goods and services have adjusted downward, and this is expected to continue. Structural reforms designed to alleviate constraints on 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 growth in mining exports will be driven primarily by gold and iron ore, as both Hummingbird and ArcelorMittal are planning to expand mining output. As a result, the trade

¹³ <https://thedocs.worldbank.org/en/doc/c5de1ea3b3276cf54e7a1dff4e95362b-0350012021/original/CMO-April-2021.pdf>

¹⁴ Liberia received 96,000 doses of vaccine for the COVAX initiative that is being rolled out in the country.

deficit is expected to narrow from 13.2 percent of GDP in 2020 to 10 percent in 2025. The balance of services is also expected to improve as import-related services (maritime transport and insurance) decline and tourism gradually resumes in a post-COVID-19 context. The current-account deficit will be increasingly financed by capital inflows, especially FDI in agriculture, mining, and infrastructure. Gross official reserves are expected to increase to 2.9 months of imports in 2021 and average 3.1 months of imports in 2022-2025. With the projected current account deficits, the amortization of public debt and the need to reconstitute international reserves, the gross external financing requirements are projected at US\$2.0 billion in 2021-2023 with an average of US\$685 million (18.8 percent of GDP) per year composed of government external financing needs averaging US\$544 million (14.9 percent of GDP) and US\$141 million (4 percent of GDP) of net private financing needs largely covered by FDI inflows (8.3 percent of GDP). The prospects for FDI have recently improved with the announcement by ArcelorMittal that its operational, technical, and administrative prerequisites to advance into the next phase of its mining operations have been met.

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

	2018	2019	2020	2021	2022	2023
			Est.	Proj.	Proj.	Proj.
Gross external financing requirements	21.4	18.2	20.1	19.5	18.4	18.4
Current account deficit, excl. official transfers	22.9	18.1	17.6	17.3	16.4	16.3
Amortization and debt service	0.4	0.2	0.5	0.3	0.8	1.2
Accumulation of international reserves	-1.9	-0.2	2.1	1.8	1.2	0.9
Other outflows	0.0	0.0	0.0	0.0	0.0	0.0
Available external financing	21.4	18.2	20.1	19.5	18.4	18.4
FDI (net)	8.9	8.9	6.9	7.4	8.3	9.3
Official financing (net)	3.2	4.1	4.8	5.0	4.4	4.3
Of which WBG budget support	0.0	0.0	1.2	1.2	1.1	0.0
Private financing (net)	7.6	-2.6	-2.4	-1.6	-1.2	-1.9
Capital account (net)	1.8	7.5	7.6	7.3	6.6	6.4
Other inflows (incl. errors and omissions)	0.0	0.0	0.0	0.0	0.0	0.0
IMF credit (net)	-0.1	0.3	3.2	1.3	0.2	0.3

Source: Government of Liberia (MFDP and CBL), IMF, and WBG staff, April 2021.

19. **Monetary and exchange rate policy will continue to aim at achieving low inflation and a reduction in the current account deficit, even as some caution regarding the uncertainties about the economic impact from COVID-19 remains warranted.** The monetary policy stance will remain consistent with CBL's objectives of reducing inflation to single digits while enhancing the store-of-value function of the Liberian dollar. The CBL will continue to strengthen the monetary policy implementation framework by further fine-tuning its operation of the open market instruments over the near term, particularly as government gradually increases its expenditure share in Liberian dollars. The CBL will keep the 14-day tenor of CBL bills to conduct ongoing liquidity management and retain longer-tenor CBL bills—28-days to 90-days— to proactively manage structural liquidity and to ensure that monetary conditions remain consistent with the inflation targets. These refinements will ultimately help the CBL to communicate its monetary policy stance more effectively. In addition, as noted above, 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. The supply of Liberian dollar currency, 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. Overall, broad money is expected to increase by 10 percent on average in the period 2022-2025. Credit to the economy is projected to increase by 11.6 percent per year as the Government improves fiscal policy and limits the domestic financing of the fiscal deficit, leaving more room for private sector credit growth.

20. Fiscal policy, which will remain challenging in the short and medium term, is expected to stay tight. The overall fiscal deficit is projected to narrow from 4.0 percent of GDP in 2020 to an average of 2.3 percent of GDP in 2021-2025, with the primary deficit remaining below 2 percent of GDP compared to a debt-stabilizing level of 2.5 percent of GDP, underpinned by improved domestic revenue and tight expenditure management. Domestic revenue is expected to decline temporarily by a half a percentage point of GDP in FY2021, because of the lingering effects of the COVID-19 pandemic on corporate income tax, before recovering in FY2022. Over the medium term, domestic revenue is expected to increase to 16.6 percent of GDP in 2025, up from 14.9 percent of GDP in 2020, as the government implements its ambitious Domestic Resource Mobilization Strategy (DRMS) and enhances domestic revenue-mobilization efforts. The DRMS 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 an aggregate 22 percent from 2019 to 2020, even before the amendment of the revenue code to further streamline tax expenditure. Despite these improvements and given that external grants are expected to continue the declining trend since the end of the Ebola epidemic, total revenue and grants are projected to decline from 29.4 percent of GDP in 2020 to 27 percent of GDP in 2025.

21. With declining grants, the ratio of public expenditure to GDP is projected to fall over the medium term to ensure fiscal sustainability. The Government has committed to improve budget credibility, realism and execution, starting with the FY2020 budget, along with the implementation of expenditure measures over the medium term. The fiscal consolidation program assumes that total expenditure will decline from 33.4 percent of GDP in 2020 to 29.3 percent of GDP in 2025, reflecting mainly a reduction in current expenditure, as the Government continues implementing its pay and payroll reform¹⁵ and other measures to control expenses. In March 2019, the Government embarked on a pay and payroll reform initiative involving a comprehensive public sector personnel management restructuring and a new pay and grade system to standardize wages and rationalize salaries across all spending entities. Specific measures included elimination of the allowance schedules, formulation and implementation of standardized pay and salary structures, and validation of both the payroll and the employees. The pay and payroll reform initiative has been successfully implemented across all 107 spending entities, including all ministries, agencies, and commissions (MACs), resulting in standardized salary readjustments for all personnel in the workforce and reported salary reductions for many of the higher-income earners. The Government is committed to maintain and sustain the payroll cleaning efforts

¹⁵ The Government already made significant progress in streamlining the wage bill. In addition to the reduction by 6,900 of the total number of public employees, 80 percent of the civil servants have had both national identification registry (NIR) card and skills verified by end-November 2020. The remaining 20 percent were verified in early 2021.

over the medium term, especially in the Public Administration sector. The Government is also committed to reducing expenditure on goods and services associated with the use of consultancy services and specialized materials could potentially reduce overall spending, especially in the Public Administration Sector. This will allow capital expenditure to be maintained at around 11 percent of GDP on average between 2021 and 2025, mainly financed by external resources (grants and loans). The contribution of the national budget to the financing of capital expenditures will remain modest but is projected to increase gradually from 0.4 percent of GDP in 2021 to 1.5 percent of GDP in 2025. For FY2021, the Legislature has approved a credible on-budget spending envelope of US\$570 million (17.1 percent of GDP) that is fully financed. The budget sets the wage bill at US\$292 million (8.8 percent of GDP), contributions to National Road Fund (NRF) at US\$24 million (0.7 percent of GDP), the clearance of FY2019 arrears at US\$10 million (0.3 percent of GDP), and an amount of US\$31 million (0.9 percent of GDP) for the financial sector reform plan.

22. **The fiscal framework is financed through considerable support from development partners, of which a large portion is in the form of grants.** Fiscal financing needs (excluding grants) in FY2021 amounted to US\$558 million (16.5 percent of GDP). In addition to the project grants from a range of development partners (including IDA (40 percent), USAID (20 percent), AfDB (10 percent), and Germany (10 percent)), budget financing sources also include the IMF (US\$38 million), World Bank (US\$ 52.5 million, IGDP02 (US\$40 million) and Regional Energy DPO US\$12.5 million)), other development partners, including, the European Union amounting to US\$13.5 million. Financing needs in FY2022 are expected to amount to US\$537 million, which are expected to be met through a combination of disbursement from project grants and budget supports.

Table 3. Liberia Government Fiscal in % of GDP (2015-2025)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	30.8	32.2	29.7	24.8	25.4	29.4	28.4	27.1	26.6	27.3	27.0
Domestic revenue	13.6	13.9	13.7	12.4	12.9	14.9	15.2	15.8	16.0	16.3	16.6
Tax revenue	11.2	11.7	11.4	11.0	10.5	12.1	12.3	12.7	12.8	13.0	13.2
Nontax revenues	2.4	2.2	2.3	1.4	2.3	2.7	2.9	3.1	3.2	3.3	3.4
External grants	17.2	18.3	16.0	12.4	12.5	14.6	13.2	11.3	10.5	11.0	10.4
Program			2.0	0.9	0.4	1.2	1.9	1.1	1.0	1.0	0.9
Project			14.0	11.5	12.2	13.4	11.4	10.2	9.5	10.0	9.5
Total expenditure and net lending	35.7	37.5	33.6	29.4	32.2	33.4	31.3	29.4	28.6	29.3	29.3
Current expenditure	19.3	18.1	21.5	20.3	22.2	23.7	20.9	19.1	17.8	18.1	17.8
Wages and salaries	7.6	7.6	8.5	8.9	9.6	10.3	8.8	7.9	7.5	7.2	6.8
Goods and services	8.1	6.9	10.7	9.4	9.9	10.5	9.5	8.9	7.9	8.3	8.3
Subsidies and transfers	3.4	3.3	1.9	1.4	1.7	1.5	1.5	1.5	1.7	1.8	1.9
Interest payments	0.2	0.3	0.3	0.6	1.0	1.2	1.0	0.7	0.7	0.6	0.6
Capital expenditure	16.4	19.4	12.1	9.1	10.0	9.7	10.4	10.4	10.7	11.2	11.4
Domestic financed		2.1	1.5	0.2	0.2	0.0	0.5	0.7	0.9	1.0	1.5
Externally financed		17.3	10.6	8.9	9.7	9.7	9.9	9.6	9.8	10.3	10.0
Overall balance incl. grants (commitment basis)	-5.0	-5.3	-3.9	-4.6	-6.8	-4.0	-2.9	-2.4	-2.0	-2.1	-2.3
Overall balance excl. grants	-22.2	-23.5	-19.9	-17.0	-19.3	-18.6	-16.1	-13.7	-12.5	-13.0	-12.7
Primary fiscal balance	-4.7	-5.0	-3.7	-4.0	-5.8	-2.8	-1.9	-1.6	-1.3	-1.4	-1.7
Total Financing	5.0	5.3	5.2	4.4	3.0	4.7	3.3	2.7	2.4	2.5	2.6
Transaction in financial assets	0.0	0.0	0.1	0.7	-0.4	-1.2	0.7	0.0	0.0	0.0	0.0
Transaction in liabilities	5.0	5.3	5.0	3.7	3.4	5.9	2.6	2.7	2.4	2.5	2.6
External	3.4	4.3	3.5	3.2	3.3	6.0	3.9	2.7	2.1	2.3	2.5
Domestic	1.5	1.0	1.6	0.4	0.1	-0.1	-1.3	0.0	0.2	0.2	0.1
Errors & omission, Arrears, Financing gap	0.0	-0.2	3.2	-0.7	-0.9	-0.7	-0.3	-0.4	-0.4	-0.3	-0.3
Total public debt	22.2	24.8	29.5	32.6	45.3	58.8	58.7	56.2	55.4	53.2	51.4

Source: Government of Liberia (MFDP and CBL), IMF, and WBG staff, April 2021.

23. **The most recent Debt Sustainability Analysis (DSA) (December 2020) indicates that Liberia remains at moderate risk of external debt distress and at high risk of overall public debt distress.** The total public and publicly guaranteed (PPG) external debt stock reached US\$1.161 billion (36.7 percent of GDP) at end-FY2020 (June 2020), 90 percent of which consists of multilateral loans, mainly from the World Bank (44.1 percent), the IMF (21.6 percent), and the AfDB (13.9 percent). Domestic public debt increased from 9.9 percent of GDP in FY2019 to 19 percent of GDP in FY2020 because of the restructuring and consolidation of existing government debt to the central bank. This debt is denominated in U.S. dollars and carries an interest rate of 4 percent, with repayments slated to start in 2029. The baseline scenario reflects the Government's new commitment to zero non-concessional borrowing before 2024, and non-concessional loans of only US\$6.6 million in 2024 and US\$20 million in 2025, compared to a total of US\$215 million between FY2021 to FY2025 originally envisaged in the November 2019 DSA. Under the baseline scenario of the external DSA, the present value (PV) of debt-to-GDP and the PV of debt-to-export ratios remains below the respective thresholds of 30 and 140 percent in the medium-to-long term. The debt-service to export and debt-service to revenue ratios remain below their respective thresholds as well. Standard stress tests show that the situation will remain fragile, and that a further deterioration of the macroeconomic outlook could lead to breaches of the policy-dependent thresholds. Specifically, under several standard stress tests, namely, a shock of one standard deviation in the real GDP growth, primary balance, exports, other non-debt-creating flows, ER depreciation, or a combination of all shocks, will all result in breaching the thresholds of the PV of debt-to-GDP ratio, while other thresholds may also be breached under various shock scenarios, calling for continued prudent external debt management. Liberia has recently joined the Debt Service Suspension Initiative (DSSI). With the extension of the initiative to end-2021, savings from the participation in the second half of the year are expected to be US\$1.4 million (0.04 percent of GDP).

Table 4. Liberia Debt Service Schedule from July to December 2021

Creditor	DSSI	July-21	August-21	July-22	August-22	July-23	August-23	Total
Total Debt Service Projection (USD)		7,631,003	6,768,030	3,837,182	4,223,789	9,256,892	11,225,396	42,942,292
Domestic Debt		1,591,441	5,705,864	1,471,477	2,723,187	5,162,158	5,976,738	22,630,864
External		4,157,364	1,062,166	2,017,245	1,500,602	3,594,684	4,221,447	16,553,507
Multilateral		4,139,610	543,744	1,891,985	1,209,708	3,571,982	3,827,922	15,184,952
Principal Repayments		3,274,907	101,432	1,228,665	238,750	2,472,492	3,051,377	10,367,623
Interest Payments		864,703	442,312	663,320	970,958	1,099,490	776,545	4,817,329
Bilateral		17,753	518,422	125,260	290,894	22,701	393,525	1,368,555
Principal Repayments		-	518,422	-	-	-	295,859	814,280
Government of China	Yes	-	518,422	-	-	-	-	518,422
Government of Kuwait	Yes	-	-	-	-	-	295,859	295,859
Interest Payments		17,753	-	125,260	290,894	22,701	97,667	554,275
Government of China	Yes	-	-	-	-	-	-	-
Government of Kuwait	Yes	-	-	37,680	-	22,701	97,667	158,048
Saudi Fund	Yes	-	-	87,580	290,894	-	-	378,474
Abu Dhabi Fund for Development	Yes	17,753	-	-	-	-	-	17,753
Subscriptions & Other Payables		1,882,199	-	348,460	-	500,050	1,027,211	3,757,920

Source: Ministry of Finance and Development Planning (MFDP)

24. **The public DSA indicates that Liberia remains at high risk of public debt distress, with an extended breach of the PV of the public debt-to-GDP ratio.** However, public debt is assessed to be sustainable as: (i) both the PV of public debt-to-GDP and the PV of debt-to-revenue ratios are projected to be on a downward trend; and (ii) the high PV of public-debt ratios largely reflect debt to the central bank, for which the interest rate is relatively low but is not discounted in the PV calculations. The



Government is committed to not relying on central bank financing to fill budgetary needs but still borrows to repay past ECF and RCF budget support amounting to US\$107.8 million. The Government will also repay US\$65 million of bonds issued by the banking sector over the 2020-2024 period. The average real interest rate is projected to remain positive in the medium term in line with current levels of nominal rates and with inflation developments. The rollover risk for domestic debt is low as most of the domestic debt is constituted by the government's consolidated debt to the CBL. Still, to keep debt-distress vulnerabilities contained, it will be important to maintain fiscal discipline and rely on concessional financing.

Figure 3: Liberia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, FY2021–31

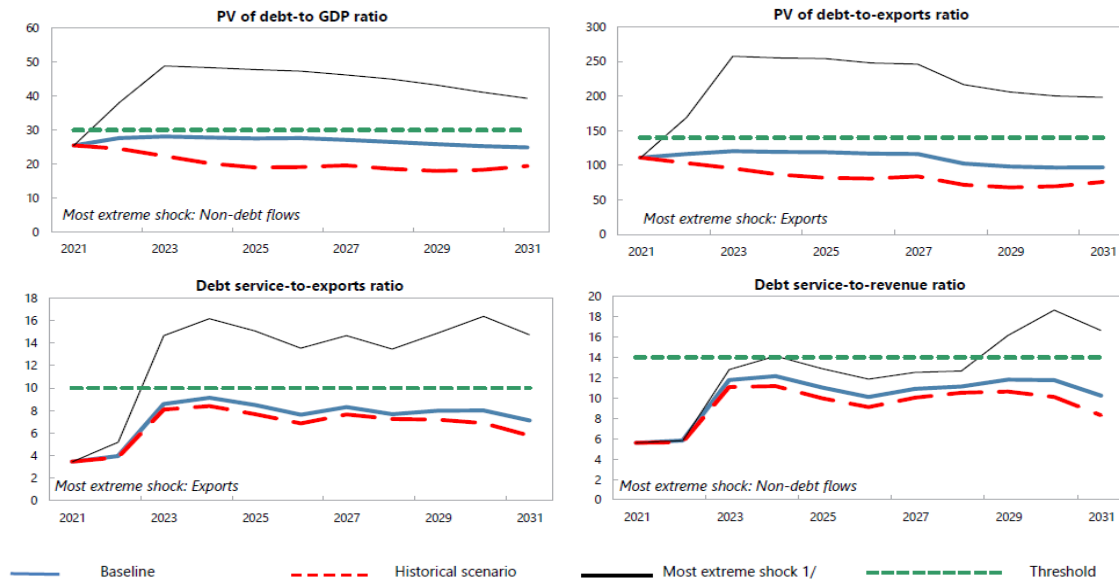
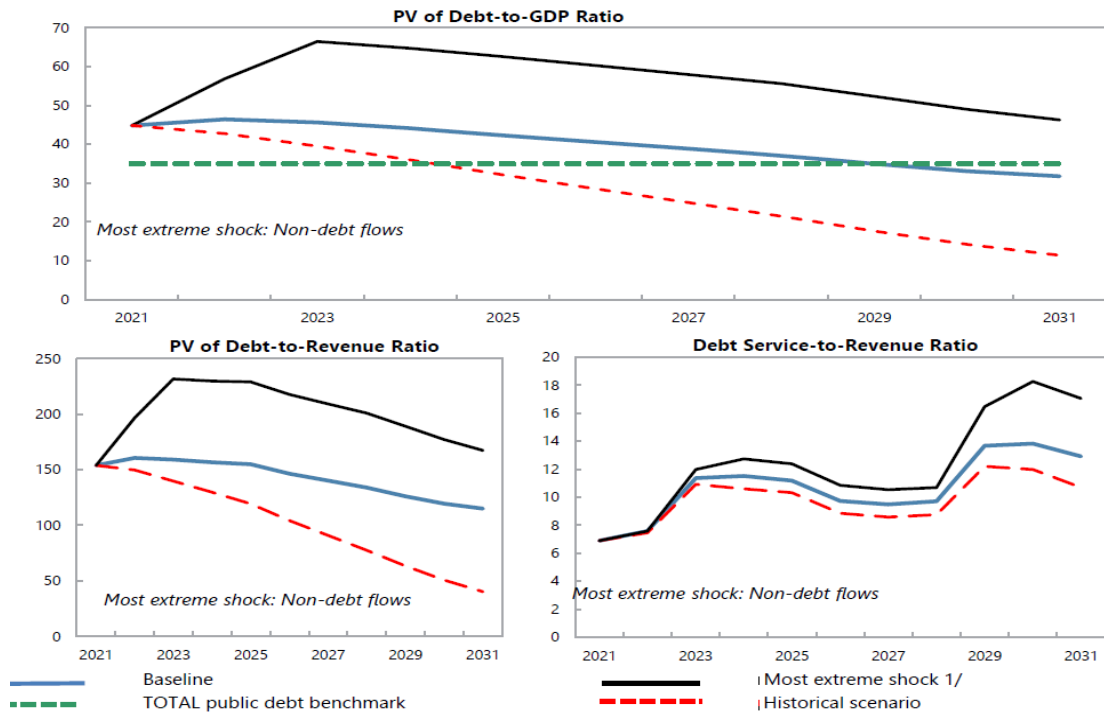




Figure 4: Liberia: Indicators of Public Debt Under Alternative Scenarios, FY2021–31



25. **There are significant downside risks that could affect the medium-term macroeconomic and fiscal outlook.** The most significant near-term risk remains the COVID-19 pandemic and its impact on the global and domestic economies. New or successive wave of cases (domestic or overseas) could lead to a worse and longer-than-anticipated impact of COVID-19, further dampening economic activity, putting additional pressure on the country’s public finance, and further slowing reform implementation. In March 2021, Liberia received 96,000 doses of COVID-19 vaccine through the COVAX initiative and started vaccination, prioritizing frontline health workers and the elderly. Although this covers only 1.9 percent of the population, it contributes to mitigating the risk of a new severe outbreak of the virus. The risks of a new Ebola outbreak have increased recently with the emergence of new cases in Southern Guinea, near the border with Liberia. A swift response by the Guinean authorities and the availability of Ebola vaccine have reduced the risk. On the policy front, fiscal slippage could lead to a rapid increase in the public debt stock, compromising macroeconomic stability and slowing medium-term growth. Insufficient progress on key structural reforms—including improvements in domestic revenue mobilization, the business climate, and public investment efficiency—could undermine medium-term growth prospects and slow economic diversification. On the external side, deteriorating global conditions (including terms-of-trade shocks or slowing growth among major trading partners) could further weaken Liberia’s fiscal and external balances while inhibiting growth. The ECF program and the implementation of the structural reforms supported by this operation will help to mitigate these downside risks. There is also some scope for positive shocks, including rising commodity prices (especially for iron ore and rubber) or increased donor grants, either of which could improve macroeconomic and financing conditions.

26. **The macroeconomic policy framework is considered adequate for the proposed operation.** The authorities have recently taken significant steps to ensure macroeconomic stability and 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, thanks to appropriate and better-coordinated macroeconomic policies. Furthermore, the government has stepped up efforts to increase revenue mobilization and reduce the wage bill to ultimately create new fiscal space for public investment. The CBL has tightened monetary policy, stopped the monetization of 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 program's 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 reform to help the Government achieve its medium-term goals of macroeconomic stabilization and growth.

2.3. IMF RELATIONS

27. **IMF Executive Board completed the first and second reviews under the ECF for Liberia on December 21, 2020.** The 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 will also support efforts to address governance issues among state-owned enterprises (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 IGDP series, as well as other World Bank investment operations and advisory services and analytics (ASA). The completion of the first and second reviews enabled the immediate disbursement of SDR 34 million (US\$48.86 million), bringing total disbursements under the arrangements to SDR 51 million (about US\$72.20 million). On June 5, 2020, the IMF approved the disbursement of US\$50 million under the RCF to support the authorities' response to the COVID-19 pandemic. The IMF concluded its most recent Article IV consultations with the Liberian authorities on May 31, 2019.

3. GOVERNMENT PROGRAM

28. **Liberia's Medium-Term National Development Policy Framework is embodied in the PAPD covering the period 2018-2023.** The PAPD is the second in a series of five-year national development plans designed to achieve the aspirations expressed in Liberia's Vision 2030. The Vision 2030 framework aims to transform Liberia into a prosperous and inclusive middle-income economy by 2030. It was informed by nationwide consultations with citizens and stakeholders in all of Liberia's 15 counties. The PAPD follows and builds on the Agenda for Transformation (2012-2017) with the intent to provide a consistent set of policy objectives and strategies to guide medium-term and annual development plans and budgets at the sector and district levels, towards the government's growth and poverty reduction goals.

29. **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 embracing its triple heritage and anchored in its African identity. 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.

30. **Power to the People.** The objective of this pillar is to empower Liberians with the tools to gain control of their lives through more equitable provision of opportunities in education, health, youth development, and social protection of vulnerable groups, including persons with disabilities. The Government's goal is to leverage human capital development in order to transform living conditions and enhance wellbeing at the household level. A key expected outcome is that by 2023, Liberia's Human Development Index (HDI) will rise from 0.427 to 0.533, the average for Sub-Saharan Africa (SSA). Interventions to achieve this goal focus on expanding education and skills training, improving health indicators, and building the capacity of individuals to make positive life decisions. These interventions encompass six strategic areas: (i) empowering women and girls; (ii) supporting a meaningful transition into adulthood; (iii) ensuring social protection for all; (iv) providing basic education and technical and vocational training, with greater access to information and communication technology (ICT) through the life cycle of Liberians; (v) improving the quality of healthcare services and infrastructure; and (vi) expanding access to healthcare, reducing vulnerability, and mitigating socioeconomic disparities.

31. **The Economy and Jobs.** The objective of this pillar is to stabilize the economy and create jobs through effective resource mobilization and prudent management of economic inclusion. The PAPD emphasize the need to create a stable macroeconomic environment that enables private sector-led economic growth, greater competitiveness, and diversification of the economy. Real GDP is projected to average 5.0 percent per annum over the 2019-2023 period, driven by agriculture, including fisheries and forestry, and manufacturing, in addition to mining that is less intensive in terms of job creation. Actions under this pillar focus on reinforcing macroeconomic stability by promoting economic diversification, investing in infrastructure, enhancing the business climate, and fostering private-sector development. Interventions designed to achieve these goals concentrate on: (i) expanding the available fiscal space; (ii) enhancing revenue mobilization; (iii) ensuring prudent debt management; (iv) promoting a stable monetary system; (v) expanding financial inclusion and accelerating financial-sector development; (vi) improving access to electricity; (vii) increasing competitiveness; (viii) effectively managing natural resources and disaster risks; (ix) fostering the growth of manufacturing and industrial development; and (x) integrating Liberia into regional trade networks. Interventions in these areas will emphasize inclusive economic growth and the expansion of socioeconomic opportunities.

32. **Sustaining the Peace.** The objective of this pillar is to promote a cohesive, peaceful and unified society that enables economic transformation and sustainable development. The Government will work collaboratively with all citizens, regardless of social status, to build a society where justice, rule of law and human rights are maintained. Strategic interventions to achieve this goal include: (i) ending state fragility and addressing the root causes of conflict; (ii) ensuring equal access to justice and human rights; and (iii) strengthening national security and defense. Actions supported under this pillar will be crucial to achieve the government's overall development goals.

33. **Governance and Transparency.** The objective of this pillar is to build an inclusive and accountable public sector for shared prosperity and sustainable development. Actions under this pillar focus on creating robust and responsive public institutions by strengthening accountability, as effective public institutions are necessary for inclusive economic development. Strategic interventions under this pillar include: (i) expanding public-sector capacity and improving service delivery nationwide; (ii) reforming and modernizing the public sector; (iii) reforming SOEs; (iv) promoting leadership training and institutional

development; (v) improving fiscal discipline and reducing corruption, waste, and abuse; (vi) strengthening tax administration; (vii) enhancing PFM; (viii) reinforcing anticorruption mechanisms and institutions designed to promote public-sector integrity; and (ix) creating a national biometric registry for all citizens.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

34. **The proposed operation is the second in a programmatic series of three operations designed to support key reforms critical to enabling inclusive growth in line with the strategic priorities of the PAPD (Table 5).** The programmatic series supports the government’s program and is well aligned with the World Bank’s CPF. This second operation builds on the gains made under the first operation and the previous programmatic Poverty Reduction Support Development Policy Operation (PRSDPO) series concluded in 2018.

Table 5. 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	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	Energy, trade, financial inclusion, SOEs, SSNs
IV. (iii) Reforming SOEs	Energy, SOEs
IV. (vii) Enhancing 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.

35. **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. The choice of pillars and policy areas reflects a combination of factors, including poverty-



reduction potential, available analytical evidence to underpin reforms, current World Bank engagement (including complementarity with other World Bank projects), coordination with the IMF and other development partners, and the Government's expressed priorities and their own reform momentum.

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

37. Pillar 2 of the programmatic series supports measures to promote economic and social inclusion. Reforms in this area are aligned with the Government's objectives for improving public service delivery, especially to the poorest households. Policy actions supported under this pillar focus on institutional reforms in key areas such as financial inclusion and SSN. Strengthening the regulatory framework for financial inclusion, including for digital finance, will improve access to formal financial services among excluded and underserved groups, particularly women and rural residents, facilitating economic participation, asset accumulation, and inclusive growth. Reforms that increase the efficiency and financial accountability of SSN programs will be necessary to create a sustainable SSN system and maximize its impact on poverty alleviation. The SSN programs can help low-income households adapt their homes and businesses to climate-related shocks, especially those caused by extreme weather events. SSN programs can also integrate climate change adaptation awareness and education to these communities.

38. The design of the IGDPO series integrates lessons learned from previous DPOs.¹⁶ The IGDPO is grounded in strong national ownership and supports reforms that enjoy broad political consensus as reflected in the PAPD. It is selective and takes into account the Government's limited institutional capacity, while providing technical assistance to ensure the implementation and sustainability of legal and regulatory reforms. The sequencing of prior actions is designed to facilitate incremental progress, with

¹⁶World 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.

each supported measure laying the groundwork for subsequent actions. The first operation focuses on measures to strengthen the legal framework, while later operations concentrate on supportive regulatory provisions to support implementation. While several prior actions for the IG DPO-1 involve legislative action, they mostly support the promulgation of laws, rather than their submission for approval by the legislature, to reduce the gap between the drafting of the laws and their implementation. In some areas (e.g., the Modernized Customs Code¹⁷), the new DPO series picks up on reforms that were deferred under the previous DPO series due to vagaries of the political cycle, which had created unpredictable delays in the approval of the legislation.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

39. **The proposed operation includes six prior actions.** These prior actions 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 6).

Table 6. IG DPO-2 Prior Actions and Analytical Underpinnings

IG DPO-2 Prior Actions	Analytical Underpinning	Key Findings and Recommendations
Pillar 1: Removing Distortions in Selected Sectors and Strengthening Public-Sector Transparency		
Prior Action 1: The Recipient, through its Ministry of Agriculture’s National Seed Board, 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.	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.
Prior Action 2: The Recipient, through the Liberia Electricity Regulatory Commission (LERC), has pursuant to its letter dated September 21, 2020, provided Provisional Approval of the Liberia Electricity Corporation (LEC)’s “Life-Line Tariff” to address affordability barriers for poorer population and disincentivizes power theft, and LEC has commenced implementation of said tariff as evidenced by its announcement on its website effective May 1, 2021.	Trimble et al. (2018) “Financial Viability of Electricity Sectors in SSA: Quasi-Fiscal Deficits and Hidden Costs.” Policy Research Working Paper, WPS7788 Policy Engagement Note for the New Government (Energy) (2018)	Limited electricity access and high tariffs severely constrain Liberia’s competitiveness. Liberia’s utility costs are 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.

¹⁷ The Modernized Customs Code of Liberia was submitted to the Legislature in June 2017 (prior action #4 PRSDPO-IV), but it was not approved under the previous administration. After some effort, the new administration re-submitted the code to the Legislature (April 2019), aided by the World Bank’s policy dialogue engagement under the new Inclusive Growth DPO series (IG DPO-1, P168218).

	Economic Growth and Diversification Study (2019)	
Prior Action 3: The Recipient, through its Ministry of Finance and Development Planning (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.	PPFR: Liberia Revenue Mobilization Policy Note (2019) IMF TA Reports	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.
Prior Action 4: The Recipient, through its MFDP, has issued a letter dated May 3, 2021, to the Debt Management Unit instructing it to include the liabilities, debt, and guarantees of at least five critical SOEs into the quarterly Public Debt Management Report; and the Debt Management Unit has incorporated and published said information its initial quarterly report dated March 2021 (as revised on May 3, 2021).	IMF (2017). Liberia. Advancing PFM Reforms: Treasury Single Account Implementation, Cash Management, and Oversight of State-Owned Enterprises. IMF SOEs TA reports (2018 and 2019).	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.
Pillar 2: Promoting Economic and Social Inclusion		
Prior Action 5: 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 digital financial services, as evidenced by the letter from the Deputy Chief Clerk of Parliament dated May 4, 2021, acknowledging receipt of said draft Amendment.	Policy Engagement Note for the New Government (Financial Sector) (2018) Economic Growth and Diversification Study (2019) PAPD (2018-2023)	Financial inclusion is limited in Liberia, and a substantial gender gap constrains economic participation among women. The development of digital financial services will help expand financial access and reduce costs, especially for poor, remote, and underserved populations.
Prior Action 6. The Recipient, through its Ministry of Gender, Children and Social Protection (MoGCSP), has operationalized an Integrated Management Information System (IMIS) to implement and coordinate the social programs of participating institutions, as evidenced by its issuance of a User Acceptance Test (UAT) and the MIS generation of MIS	Developing a National Social Protection Delivery System (2017) Policy Engagement Note for the New Government (Social Protection) (2018)	Liberia's social protection and SSN systems are still at the 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.

Deployment Notes.

Source: World Bank.

40. **The COVID-19 pandemic has negatively impacted the implementation of the program.** Because of the general lockdown and the need to socially distance to slow the progress of the COVID-19 pandemic, several activities were not completed in a timely manner, particularly activities such as the preparation and adoption of a new strategy that required stakeholder consultations in large groups. Also, to streamline the program and reduce the level of dispersion of the program, the policy area on trade was dropped. However, the Government has continued to implement the original program with the drafting of 22 regulations to implement the new Customs Code. The trigger on Medium-Term Debt Strategy has also been dropped. Table 7 below summarizes the change to the triggers as proposed in the IGDP01 program document presented to the Board. Half of the prior actions supported by this operation respond directly to the impacts of the COVID-19 pandemic.

Table 7. Summary of Triggers, Prior Actions and Rationale for changes

Triggers for IGDP02	Prior Actions under IGDP02	Rationale for changes
Pillar 1: Removing Distortions in Selected Sectors and Strengthening Public-Sector Transparency		
<p>DPO-2 Trigger #1.: To strengthen seeds regulatory framework, the Recipient has: (i) approved regulations to implement LSDCA Act; and (ii) has revised the National Seeds Policy.</p>	<p>IGDP02 Prior Action 1: The Recipient, through its Ministry of Agriculture’s National Seed Board, 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>The preparation of the National Seeds Policy was delayed by the COVID-19 pandemic as the required national consultations could not be held. This part is therefore dropped from the prior action.</p>
<p>DPO-2 Trigger #2. The Recipient’s Cabinet has approved the National Rice Development Strategy for 2020-2023.</p>	<p>Dropped</p>	<p>The revision of the National Rice Development Strategy for 2020-2023. was delayed by the COVID-19 pandemic as the required national consultations could not be held.</p>

Triggers for IGDP02	Prior Actions under IGDP02	Rationale for changes
<p>DPO-2 Trigger #3: To reduce energy costs and expand electricity access, the Recipient has approved a National Electrification Strategy, which includes both on-grid and off-grid technology options.</p>	<p>Dropped</p>	<p>This is dropped to streamline the program and to reduce its dispersion. The National Electrification Strategy was nevertheless prepared and is pending Government's adoption.</p>
<p>DPO-2 Trigger #4: The Recipient approved a "lifeline" tariff policy, allowing for a progressive tariff regime, addressing affordability barriers for poorer population.</p>	<p>IGDP02 Prior Action 2: The Recipient, through the LERC, has pursuant to its letter dated September 21, 2020, provided Provisional Approval of the Liberia Electricity Corporation (LEC)'s "Life-Line Tariff" to address affordability barriers for poorer population and disincentivizes power theft, and LEC has commenced implementation of said tariff as evidenced by its announcement on its website effective May 1, 2021.</p>	<p>The action is reformulated.</p>
<p>DPO-2 Trigger #5: The Recipient's Cabinet: (i) approves the implementing regulations for the new Customs Code; and (ii) completes an assessment of nontariff barriers (NTBs) to trade and eliminates the most distortionary NTBs.</p>	<p>Dropped</p>	<p>The policy area on trade is dropped to streamline and to reduce the dispersion of the program. However, the LRA have prepared and adopted 22 regulations to implement the Customs Code. The assessment of the nontariff barriers (NTBs) to trade was delayed by the COVID-19 outbreak.</p>
<p>DPO-2 Trigger #6: To reduce tax expenditures, the Recipient has streamlined and consolidated duty and tax waivers in the Revenue Code and submitted the amended Revenue Code to the Legislature.</p>	<p>IGDP02 Prior Action 3: 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.</p>	<p>This action is slightly reformulated for greater clarity.</p>

Triggers for IGDP02	Prior Actions under IGDP02	Rationale for changes
<p>DPO-2 Trigger #7. To strengthen the oversight and reduce fiscal risks SOE, the Recipient's MFDP: (i) submitted the SFR to the legislature along with the draft National Budget for FY2021; and (ii) expanded the coverage of SOEs reporting by the SOE monitoring department.</p>	<p>IGDP02 Prior Action 4: The Recipient, through its MFDP, has issued a letter dated May 3, 2021, to the Debt Management Unit instructing it to include the liabilities, debt and, guarantees of at least five critical SOEs into the quarterly Public Debt Management Report; and the Debt Management Unit has incorporated and published said information its initial quarterly report dated March 2021 (as revised on May 3, 2021).</p>	<p>This action is slightly reformulated.</p>
<p>DPO-2 Trigger #8. To strengthen debt management and transparency, the Recipient: (i) has published its Medium-Term Debt Strategy; and (ii) expanded the coverage of debt recording by including information on SOE liabilities, debts, and guarantees.</p>	<p>Dropped</p>	<p>The action is dropped to streamline and reduce the dispersion of the program. The MFDP has drafted the Medium-Term Debt Strategy for the period FY2021-2023.</p>
<p>Pillar 2: Promoting Economic and Social Inclusion</p>		
<p>DPO-2 Trigger #9. To expand access to formal financial services, including to digital financial services, the Recipient's CBL has: (i) revised the consumer protection regulations with provisions on digital credit; and (ii) submitted to the Legislature a revised Payment Systems Act.</p>	<p>IGDP02 Prior Action 5: 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 digital financial services, as evidenced by the letter from the Deputy Chief Clerk of Parliament dated May 4, 2021, acknowledging receipt of said draft Amendment.</p>	<p>This action is slightly reformulated.</p>
<p>DPO-2 Trigger #10. The Recipient has: (i) approved new medium-term National Social Protection Strategy; and (ii) established a monitoring and information system to collect data on the provision of social protection services.</p>	<p>IGDP02 Prior Action 6: 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</p>	<p>The preparation of the medium-term National Social Protection Strategy was delayed by the COVID-19 outbreak. This part of the policy action was therefore dropped. However, the Government is committed to completing the strategy before end-June 2021.</p>

Triggers for IGDP02	Prior Actions under IGDP02	Rationale for changes
	generation of MIS Deployment Notes.	

Source: World Bank.

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

Policy Area: Agriculture

<p>DPO-1 Prior Action #1. 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>Status: Completed.</p>	<p>DPO-2 Prior Action #1. The Recipient, through its Ministry of Agriculture’s National Seed Board, 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>Status: Completed.</p>	<p>DPO-3 Trigger #1. To strengthen the implementation of the national seed-market regulatory framework, the Recipient has completed the National Catalogue of Plant Species and Varieties and published it online.</p>
--	---	---

41. **Context and Issues: Liberia has favorable climate and fertile soils for a large variety of crops.** Agriculture is the primary livelihood for more than 70 percent of the population and provides subsistence for over a million of people engaging in cassava, rubber, rice, oil palm, or cocoa production. More households engage in cassava production than any other crop. Because of low productivity,¹⁸ most of the population in rural areas is trapped in poverty. According to the Liberian household survey (2016), close to 80 percent of households headed by a person self-employed in agriculture are poor. The sector is poorly integrated into the rest of the economy and lacks basic infrastructure such as machines, farming equipment/tools, farm-to-market roads, food storage capacity, and more importantly quality inputs such as certified seed. The most commonly used seeds are not locally bred to account for prevailing agro-ecological conditions and are rarely resistant to pests and diseases. Also, rice is among the traditional crops cultivated by women, but female-headed households tend to be less productive than male-headed households, as they often face constraints with access to agricultural inputs. The country imports more than 60 percent of its rice consumption needs, making it vulnerable to global food-price volatility.

42. **Climate change is exacerbating the challenges facing Liberia’s highly vulnerable agriculture sector.** Liberian agriculture is largely rainfed, and due in part to the small scale of agricultural production, climate-change adaptation technologies are not widely used. Unpredictable rainfall patterns have contributed to a decline in agricultural productivity in recent years and increasing temperatures have

¹⁸ Liberia’s average rice yield is 1.26 metric tons per hectare (MT/HA), roughly half the regional average of 2.5 MT/HA and far below the global average of 4.25 MT/HA.



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 or wiped out entirely. Extreme rainfall can damage crops by flooding fields, and excessive water flows can strip soil of its nutrients or wash away soil mass itself. 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.

43. **Policy Reforms:** The IGDPO aims to help increase agricultural productivity and production by enabling farmers to access high-quality and climate-resilient agricultural inputs, especially seeds, which are identified as a binding constraint to productivity growth. 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. Liberia is also committed to reducing the vulnerability of agricultural systems to risks related to climate change through direct and indirect support to farmers, including the setting up of a robust monitoring system to detect early changes that will affect agriculture production. The setting up of seed banks to collect different varieties of crops in order to preserve local diversity and provide farmers with the opportunity of making informed choices based on suitability is a key priority of the National Policy and Response Strategy on Climate Change (NPRSCC 2018). 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 (IGDPO1), the Government enacted the Liberia Seed Development and Certification Agency (LSDCA) Act (IGDPO1 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. The next step is to strengthen the regulatory framework for the seed market through the approval of the implementing regulations for the LSDCA Act (IGDPO-2 Prior Action #1). 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 will also define the procedure by which the species or varieties intended to be included in the national catalogue of species are registered. The Ministry of Agriculture will develop and publish a National Catalogue of Plant Species and Varieties (IGDPO-3 Trigger #1). In addition, the Government will assess the poverty and social impact of eliminating the waiver on rice-import duties and the application of the ECOWAS CET for rice before taking a decision. The policy actions under the series are also supported by the Smallholder Agriculture Transformation and Agribusiness Revitalization Project (STARP, P160945).

44. **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 2,000 metric tons in 2023 as the number of licensed private firms in the seed sector increases. This prior action responds directly to the COVID-19 impacts. In 2020, as part of its response to the COVID-19 pandemic, the Government signed several supply



contracts with three private rice-seed producers to distribute quality seed to farmers and awarded contracts to smallholder farmers and food processors for rice and cassava production.

Policy Area: Energy

<p>DPO-1 Prior Action #2. 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 criminal offense with punitive measures.</p> <p>Status: Completed.</p>	<p>DPO-2 Prior Action #2. The Recipient, through the LERC, has pursuant to its letter dated September 21, 2020, provided Provisional Approval of the Liberia Electricity Corporation (LEC)’s “LifeLine Tariff” to address affordability barriers for poorer population and disincentivizes power theft, and LEC has commenced implementation of said tariff as evidenced by its announcement on its website effective May 1, 2021.</p> <p>Status: Completed.</p>	<p>DPO-3 Trigger #2. 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 populations.</p>
--	--	--

45. **Context and Issues:** Only about 29 percent of the population of Liberia have access to electricity, with 8 percent connected to the Liberia Electricity Corporation (LEC) grid¹⁹ (7 percent in Monrovia and 1 percent through cross-border connections in three rural counties) and 21 percent connected to off-grid sources mostly through local privately owned mini-grids (14 percent) and solar lighting (7 percent)²⁰ with varying levels of quality. With the support of development partners, the Mount Coffee Hydropower Plant (88 MW), three heavy fuel oil (HFO) thermal plants (38 MW), and 16,200 m³ of HFO storage and transport facilities have been completed. This has increased the total installed generation capacity in the country from the 22 MW (now partly decommissioned) to 126 MW in the wet season (from May-December) when the Mount Coffee hydro plant is fully operational. With the expected completion of the regional transmission interconnection project between Côte d’Ivoire, Liberia, Sierra Leone and Guinea – CLSG in early-2021, there would be an opportunity to import at least 27 MW of electricity from Côte d’Ivoire to complement local generation in the medium term particularly in the dry season (January-April), when Mount Coffee available capacity is reduced to about 48 MW. The peak distribution capacity during the 2020 dry season was about 46 MW (up from 30 MW in 2019). Now, Liberia has adequate generating capacity to meet its short-to-medium-term needs.

46. **Limited T&D infrastructure 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 lagged the generation projects, resulting in the underutilization of generation resources especially in the wet season when Mount Coffee is operating at full capacity. Currently, the transmission network consists of radial 66-kV lines interconnecting four 66/22-kV substations. A few backbone 22-kV lines

¹⁹ 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.

²⁰ Source: 2019 MTF Household Survey for Liberia



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 a substantial part of the communities without access even though the grid has technically arrived in those communities. LEC currently has only 65,000 legal connections, with its grid footprint limited to the capital Monrovia and its surrounding areas. Despite having one of the highest tariffs in the world (US\$0.38/kWh), the financial situation of LEC is precarious, propelled by a vicious cycle of a high tariffs that incentivize electricity theft, which subsequently necessitates a higher tariff. The high level of system losses, small customer base, dependence on high-cost thermal plants during the dry season and the relatively high general and administrative expenses undermine LEC's financial sustainability. Aggregate Technical and Commercial (AT&C) losses increased from about 35 percent (in December 2017) to a staggering 63 percent currently (of which commercial losses are estimated to be 48 percent). As a result, the financial performance of LEC has been worsening, with sustained operating losses and cash balances dwindling from US\$32.6 million in FY2015 to just US\$1.8 million in FY2019. Subsidies and capital transfers from the Government are helping LEC to continue its operations despite the poor financial performance. At US\$0.38/kWh, LEC has one of the highest overhead costs per unit of electricity sold compared to other utilities in Africa (e.g., US\$0.26/kWh in Madagascar and US\$0.13/kWh in Kenya).

47. **The Government has also 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 2011²¹ as an autonomous government agency with a mandate to promote, facilitate, and accelerate the provision of sustainable energy services in the rural areas of Liberia. The capacity of all the sector institutions (MME, LERC, LEC, and RREA) are weak, and will require significant institutional-strengthening support beyond what is currently being provided by the World Bank and other development partners including the Millennium Challenge Corporation (MCC), including the newly established LERC to prepare the required regulatory and monitoring instruments and capacity-building activities for its technical staff. LERC has begun a Cost-of-Service Study to gather information on the generation, transmission, distribution, and sale of electricity within Liberia. The study will enable LERC to determine appropriate tariff regulations more effectively for the electricity sector. The process to determine the final tariff structure will take time. In the meanwhile, the Government will have decided to apply a lifeline tariff for poor consumers.

48. **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), and the impact of heat on electricity demand can be estimated by the number of days above 18°C, which broadly represents a comfortable living environment. Average daily temperatures year-round in Liberia are already above this threshold, and monthly temperature changes indicate likely periods of increased electricity demand. Power supply and demand are also tied to water availability: increasing or decreasing pressure on water resources can directly affect power production and indirectly affect demand for cooling. 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

²¹ The Act was promulgated and submitted to the legislature in 2011 but passed in 2014 as “RREA Act, 2011”



excessive heat and extreme weather events can affect power-distribution networks. The LEC's management plans incorporate climate-related impacts on supply and demand.

49. **Policy Reforms:** The IGDP0 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 IGDP01, the LEC Board approved a five-year Business Plan (2019-2023) (IGDP0-1 Prior Action #2i) which specifies actions that are expected to directly reduce commercial losses, including: (i) customer mapping; (ii) a revenue-protection program for the largest customers that includes the installation of tamper-proof smart meters; (iii) the implementation of reengineered commercial processes and enhanced post-payment and pre-payment processes as part of the Customer Management System; and (iv) the introduction and enforcement of new energy-theft legislation. The Penal Law was also amended under IGDP01 to treat electricity theft as a criminal offense with appropriate penalties, which is expected to be accompanied by enforcement measures, specified in the Business Plan, will support the reduction in commercial losses and speed debt recovery from large customers. The approval and implementation of a "lifeline" tariff²² (IGDP0-2 Prior Action #2), will address affordability challenges among poor households and help to weaken incentives for illegal connections. The implementation of the lifeline tariff will promote the switch from use of charcoal and kerosene to electricity, thus generating additional climate co-benefits. Also, reduction in electricity losses means that less generation will be required and therefore gas emissions will be reduced to serve the same demand, since Liberia's electricity mix is mostly based on thermal generation. In line with the National Electricity Strategy, the Government is committed to approving 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 populations (IGDP0-3 Trigger #2). 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. Leveraging private-sector participation will be critical to ensure sustainable operation of mini-grids, and appropriate regulations will need to be put in place to allow for cost-reflective tariffs and ensure an appropriate return on investment. Complementarily, the Liberia Electricity Sector Strengthening and Access Project (LESSAP) (P173416) focuses on upgrading the T&D network, building LEC's capacity to manage operations, and promote smaller mini-grids and stand-alone systems in remote areas, and the West Africa Regional Energy Trade Development Policy Financing Program (WARET DPF - P171225) is focused on promoting regional electricity trade.

50. **Expected Results:** The actions supported under this area are expected to contribute to reducing commercial losses and strengthening LEC's financial sustainability. This will reduce fiscal risks arising from the energy-related SOE and facilitate access to affordable and reliable electricity, thereby supporting private investment and service delivery. LEC's overall transmission (technical) and distribution (commercial) losses²³ are expected to be reduced 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\$0.22/kWh, will expand access by end-2023. The tariff reduction will help mitigate the negative economic and social

²² 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.

²³ 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.



impacts of the COVID-19 pandemic. The program is also expected to attract private-sector investment in the mini-grid solar sector. Complementarily, ongoing World Bank projects, including the Liberia Accelerated Electricity Expansion Project (LACEEP, P133445), the Liberia Electricity Sector Strengthening and Access Project (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.

Policy Area: Tax Expenditures

<p>DPO-1 Prior Action #3. 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).</p> <p>Status: Completed</p> <p>DPO-1 Prior Action #4. 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.</p> <p>Status: Completed.</p>	<p>DPO-2 Prior Action #3: 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.</p> <p>Status: Completed</p>	<p>DPO-3 Trigger #3. The Recipient has published a report on tax expenditures in line with the amended Revenue Code.</p>
---	---	---

51. **Context and Issues: Liberia’s tax-to-GDP ratio was 10.5 percent in 2019, one of the lowest in ECOWAS.** The low level of domestic revenue mobilization limits the government’s ability to provide public services and maintain sustainable fiscal balances. Inadequate public service delivery, in turn, hinders productivity growth and slows improvements in living standards. Weak revenue mobilization reflects both inadequate tax policies and the low capacity of the tax administration. The Government relies heavily on trade taxes, while income tax and consumption tax revenues are low. A 2016 report based on the Tax Administration Diagnostic Assessment Tool found that tax administration processes across the board were inefficient and unreliable. In 2018, the Government demonstrated its commitment to increasing revenues by developing the Domestic Revenue Mobilization Strategy.²⁴

52. **An extensive array of tax exemptions further erodes the already narrow revenue base and substantially distorts economic incentives.** Tax expenditures rose from 19.4 percent of domestic revenue

²⁴ Liberia Revenue Authority (2018) “Domestic Resource Mobilization: Strategy in Liberia. FY18-22.” https://lra.gov.lr/Admin/Official_Files/important_documents/d64cdd348ab4afb237a311fb8b72b186.pdf



in FY 2015/16 to 32.6 percent in FY 2017/18.²⁵ 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 through the negotiation of concession agreements, through the application to the investment incentive scheme established in Section 16 of the Revenue Code (last amended in 2016), by executive order, 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 and now accounts for over 70 percent of total exemptions. While revenue foregone from tax expenditures granted under the investment incentives program grew from US\$15.1 million in FY2015/16 to US\$22.1 million in FY2017/18, a preliminary analysis suggests that more than 50 percent of the waivers granted are not meeting the expectations set forth in their application criteria.

53. **Policy Reforms:** Given the magnitude of Liberia’s tax exemptions, the Government is modernizing its tax-expenditure management framework and developing an appropriate policy for granting waivers. Under the IGDP01, the Government promulgated the new customs code and ratified the World Trade Organization (WTO)’s Agreement on Trade Facilitation (TFA) (IGDPO-1 Prior Action #3) to facilitate trade by establishing the legal basis for a modern, efficient, and transparent customs administration; 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 Certificates²⁶ (IGDPO-1 Prior Action #4 (ii)). The incentives provided under section 16 of the Revenue Code will expire in June 2021 and need to be revised. To do this, the intergovernmental technical committee on tax expenditure has identified the different loopholes of the incentive scheme and has proposed ways to consolidate and streamline them through an amendment of the Revenue Code and adoption of new regulations. Building on the findings from the temporary suspension of the issuance of investment-incentive certificates decided by the Government and its positive effect on revenue collection in 2020, the Committee on New Tax Incentives will be channeled to selected strategic sectors including agriculture and energy. The Government has submitted the amended Revenue Code to the Legislature for approval (IGDPO-2 Prior Action 3) which is a Policy and Performance Action (PPA) under the Sustainable Development Finance Policy (SDFP). The Government will exercise a good-faith effort to ensure it is passed. The main changes introduced to streamline and consolidate tax expenditures are: (i) all investment activities must be set out in a list of qualifying sectors, subsectors, and/or business activities in a regulation to be issued by the Minister subject to a minimum capital requirement of US\$0.5 million for both Liberian and foreign-owned businesses. (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 qualifying sectors defined and limited in the regulation issued to be placed in service within a one-year period (while incentive waivers on spare parts of machinery and equipment are granted 50 percent instead of 100 percent). Also, except for provision of educational services, automobiles, small trucks (including sedans and SUVs), petroleum products (excluding HFO), water,

²⁵ 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.

²⁶ The initial six-month suspension that took effect on July 15, 2019, has been extended for another six months by an MFDP letter dated December 27, 2019

toiletries and detergents, office supplies, and stationery, as well as furniture, fixtures and all domestically produced and/or manufactured goods are prohibited from exemption. Agriculture and energy are two key strategic sectors that will continue to attract tax incentives for greater private sector investment. The Government has committed to preparing and publishing a Tax Expenditure Report in line with the amended Revenue Code (IGDPO-3 Trigger #3). The IDA’s Public Financial Management Reforms for Institutional Strengthening (PFMRIS) Project (P165000) and Ghana, Liberia, and Sierra Leone Tax Reform Technical Assistance will support these reforms. The PFMRIS Project will address financial management and governance issues while deepening and institutionalizing PFM reforms. Technical Assistance activities will focus on improving tax-expenditure management and streamlining tax exemptions.

54. **Expected Results:** Establishing the proper legal and institutional framework for rationalizing and managing tax expenditures will increase transparency and reduce corruption and rent-seeking. The reforms will also improve revenue mobilization and create fiscal space to enhance the provision of public services, especially for poor households. These reforms are expected to reduce tax expenditures from 32.6 percent of total domestic revenue in 2018 to no more than 20 percent in 2023. The total tax waived on imports dropped by an aggregate 22 percent from US\$132.9 million in FY2018/19 to US\$103.4 million in FY2019/20, representing 21.7 percent of total domestic revenue.

Policy Area: SOEs Oversight and Debt Transparency

<p>DPO-1 Prior Action #5. To strengthen transparency and improve oversight SOEs, the Recipient has enacted amendments to the PFM Act of 2009 requiring: (i) the submission of annual Statements of Fiscal Risks (SFR) from SOEs to the legislature along with the budget proposal for the following year; and (ii) the publication of SOE financial statements based on International Financial Reporting Standards (IFRS).</p> <p>Status: Completed.</p>	<p>DPO-2 Prior Action #4. The Recipient, through its MFDP, has issued a letter dated May 3, 2021, to the Debt Management Unit instructing it to include the liabilities, debt and, guarantees of at least five critical SOEs into the quarterly Public Debt Management Report; and the Debt Management Unit has incorporated and published said information its initial quarterly report dated March 2021 (as revised on May 3, 2021).</p> <p>Status: Completed.</p>	<p>DPO-3 Trigger #4. 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.</p>
---	--	---

55. **Context and Issues:** SOEs represent a source of significant fiscal risk in Liberia. According to the Government, SOE performance remained weak in 2019 due to uncontrolled expenditure across the entire sector reflecting fiscal indiscipline, poor budget planning, weak mechanisms for monitoring and evaluation (M&E), management capacity gaps and shortcomings, and non-existent or weak oversight. At the end of December 2019, aggregate liabilities stood at US\$729 million (22 percent of GDP). Most of the large SOEs, including in the energy sector (LEC), social security and affordable housing development sectors, have recorded protracted poor financial performance and net losses over the last five years, which pose significant fiscal risks to the government’s budget and weaken significantly domestic revenue mobilization. A solid financial reporting regime and better oversight are necessary for ensuring that



resources are efficiently used and properly accounted. The legal framework governing SOEs has evolved in a piecemeal manner, with most entities established by their own Acts in the 1970s. The 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 to 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 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. However, as of December 2020, no information about SOE debt guaranteed by the state is made public.

56. **Policy Reforms:** The objective of the programmatic series under this reform area is to strengthen SOEs' oversight and debt transparency. Under the IGDP01, 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) which is a PPA under SDFP. To strengthen debt transparency, the MFDP will establish a comprehensive public-debt database, encompassing the debts of SOEs and public-private partnerships (IGDPO-3 Trigger #4). Actions under this policy area are supported by the PFM Reforms for Institutional Strengthening (PFMIS) Project (P172654).

57. **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 audited annual financial statements and liabilities information published in the Public Debt Management reports is expected to increase from 0 in 2019 to 8 in 2023. The public debt report published in March 2021 includes liabilities information for 16 SOEs, including LEC, the National Port Authority (NPA), Liberia Airport Authority (LAA), and National Social Security and Welfare Corporation (NASSCORP). Financial statements are unaudited for at least 11 of these SOES.

Pillar 2. Promoting Economic and Social Inclusion

Policy Area- Financial Inclusion

<p>DPO-1 Prior Action #6. To expand access to formal financial services, including to digital financial services, (i) the Recipient’s Cabinet has approved the National Financial Inclusion Strategy for 2019-2024; and (ii) the CBL issued its Regulation Concerning Licensing and Operations of Electronic Payment Services.</p> <p>Status: Completed.</p>	<p>DPO-2 Trigger #5. 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 digital financial services, as evidenced by the letter from the Deputy Chief Clerk of Parliament dated May 4, 2021, acknowledging receipt of said draft Amendment.</p> <p>Status: Completed.</p>	<p>DPO-3 Trigger #5. The Recipient, through its Central Bank has established and operationalized digital credit registry.</p>
--	---	--

58. **Context and Issues:** Making growth more inclusive requires broader access to finance, but financial inclusion remains limited in Liberia. According to the latest available Findex data, little more than a third (35.7 percent) of the population have accounts at a financial institution or with a mobile money provider in 2017, although it almost doubled from 18.8 percent in 2011. Mobile money has been the driving force behind the gains in financial inclusion in Liberia, as 20.8 percent of the Liberian population reported having a mobile-money account and 27.6 percent of Liberians reported making or receiving digital payments. The number of mobile-money agents increased to 13,185 (54 percent active) in 2019 compared to 3,525 (56 percent active) in 2017. The total number of subscribers or users of mobile money significantly increased over the period from 1,868,821 in 2017 to 3,544,045 in December 2019; however, the share of active users is only around 21 percent. The total mobile-money transactions value from January to June 2020 was approximately US\$15.5 million and L\$41.1 billion, representing a 33.2-percent increase in Liberian dollar transactions and a 51.0-percent decline in U.S. dollar transactions compared to the same period in 2019. However, Liberian women are less likely to have a transaction account (including mobile account) than men (28.2 percent versus 43.7 percent), and this gender gap is much wider than those observed at the regional level and in most comparator countries. The gender gap is narrower—though still significant—when only mobile-money account ownerships (18.3 percent versus 23.5 percent) are considered, confirming the opportunity to narrow the gender gap through greater digitalization. However, the gender difference is not as prominent when saving for a farm or business, over 30 percent of both men and women report saving to start, operate, or expand a farm or business. Due to low levels of financial inclusion, most Liberians lack the financial tools necessary to save, invest, and hedge against risks. Access to credit is also very low, with a private-credit-to-GDP ratio at just 14.6 percent and only 19 percent of firms have a bank loan or line of credit. According to the 2017 Enterprise Survey, 38 percent of firm owners cited access to finance as a major constraint, with small firms being less likely to have a bank loan or line of credit than large firms. Only one in five firm owners reported using bank financing for investments or working capital. Rural Community Financial Institutions (RCFI), and Credit Unions are the primary providers of financial services in rural areas outside of Monrovia. However, the latter two institutional categories are weak and face an array of challenges that compromise their development and diminish their contribution to financial inclusion.



59. **Multiple policy and regulatory barriers inhibit financial inclusion and maintain the gender gap in access to finance.** To expand access to financial services, the CBL has developed a National Financial Inclusion Strategy (NFIS) for 2019-2024, with support from the World Bank, which was approved by the Cabinet in December 2019. The 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. The main financial product offered by most non-deposit-taking MFIs, for women, is a standardized group loan. However, some institutions, like Foundation for Women, offer individual loans specifically for women. 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. However, numerous regulatory challenges hinder the growth of digital financial services. For instance, the Payment Systems Act does not account for financial innovations or the introduction of new digital-financial services, such as digital credit via Unstructured Supplementary Service Data (USSD)-capable phones. While pending mobile-money regulations would authorize digital credit, amendments to the disclosure requirements of the consumer protection and market conduct regulations will be necessary to enable digital credit to be disbursed on 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. Liberia lacks a modern digital-credit reference system to help financial institutions assess consumers' credit-risk profiles, which undermines their willingness to lend. The current credit registry cannot be accessed online. It provides lenders with basic information on the credit exposure of prospective borrowers, including both firms and individuals and with no limit on loan amounts, but it does not provide credit scores. Both positive and negative credit data are available, but not historical data.

60. **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 National Financial Inclusion Strategy 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 technical assistance, the CBL is promoting the expansion of digital financial services by amending the Payment Systems Act and developing new consumer-protection regulations to enable the introduction of digital credit. The CBL submitted the amended Payments System Act to the legislature for approval in 2021 (IGDPO-2 Prior Action #5). Digital payments have many advantages. They have the features of speed, less cost, and comfort and discourage robbery and cash-related crimes. An efficient payments system increases the efficiency of the financial system, boosts consumer confidence, and facilitates trade both in goods and services. On the other hand, unsafe and inefficient payment systems hamper the transfer of funds among individuals and economic actors, especially women. 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 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 will benefit 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. In addition, the CBL has approved the consumer protection regulation which has specific provisions against discrimination on the basis of sex, tribe, political affiliation, or disability. To further



expand access to finance and strengthen credit-risk profiles, the CBL is committed to establishing and operationalizing a modern digital-credit registry (IGDPO-3 Trigger #5).

61. **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 digital financial services, 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, and help reduce the spread the COVID-19 pandemic and other similar diseases. 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 who 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 15.5 percentage points in 2017 to 9 percentage points by 2023. The World Bank Global Findex database is not available on an annual basis but the CBL data shows improvement in access to transaction accounts. The total number of subscribers or users of mobile money significantly increased over the period, from 1,868,821 in 2017 to 3,544,045 in December 2020.

Policy Area: SSNs

<p>DPO-1 Prior Action #7. To strengthen SSNs for poor, (i) the Recipient’s Cabinet has endorsed the Liberia Household Social Registry (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>Status: Completed.</p>	<p>DPO-2 Prior Action #6. 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>Status: Completed.</p>	<p>DPO 3 Trigger 6. 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.</p>
---	--	--

62. **Context and Issues:** Liberia’s overall social protection framework, and especially its SSN system, is still in the early stages of its development. Despite the country’s high rates of poverty and vulnerability, the 2016 Household Income and Expenditure Survey found that only 14.4 percent of the population benefits from some form of public support. Moreover, these benefits are negligible, contributing just 3.4 percent of the consumption of beneficiary households, and their impact on poverty is very limited. Most social protection programs 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.

63. **Social protection is a key aspect of the government’s development agenda.** Liberia Rising 2030 and the PAPD both target aspects of social protection for improvement. The first pillar of the PAPD—



Power to the People—defines an effective and efficient social protection system as a critical driver of inclusive growth and poverty alleviation. The PAPD prioritizes 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 its full potential will require efficiency improvements, programmatic consolidation, and the creation of delivery platforms (e.g., social registries, interoperable management information systems, and shared payment systems) to reduce administrative costs and facilitate planning and coordination.

64. **SSNs can help low-income households cope with shocks caused by extreme weather events, health or economic shocks.** Flooding causes damage to Liberia’s infrastructure, displaces an estimated 60,000 people per year,²⁷ 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.²⁸ 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.²⁹ 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.

65. **Policy Reforms:** To address Liberia’s high and rising incidence of extreme poverty, the Cabinet has endorsed 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 will be critical to foster coordination, harmonize programs and reduce leakages and redundancies. The Ministry of Gender and Children and Social Protection (MGCSP) has commenced the data-collection process for the LHSR in four counties and has provided regular cash transfers to 3,250 extremely poor households (IGDPO-1 Prior Action 7 (ii)) using the same eligibility screening tool (Proxy Means Test) as will be used for the LHSR on a pilot basis. Since then, the MGCSP has launched full-scale data collection for the LHSR following COVID-19 protocols and has completed enrollment of approximately 200,000 households (as of April 2021). To operationalize the LHSR further, the MGCSP has made significant progress in the development of an IMIS which includes two core systems: the Social Registry Information System (SRIS) and Management Information System (MIS). Together, these systems support all key business processes for the LHSR and SSN program implementation, including data collection, Proxy Means Test application, program creation, enrollment, payments, grievance redress mechanism, and M&E. The IMIS serves as an important interface between the data collected for the LHSR and program administrators. The Government will provide a UAT document (IGDPO-2 Prior Action #6), certifying that the IMIS is ready for deployment subject to further improvements during the maintenance and defect liability period. This system will help to foster coordination, strengthen financial accountability, identify efficiency gains, and reduce overhead costs, by facilitating program monitoring, tracking, and reporting. It will change dramatically how social protection programs operate and will allow the Government to use its limited resources much more effectively going

²⁷ UN Disaster Risk Response Committee estimates.

²⁸ LISGIS. 2016. “Household Income and Expenditure Survey 2014-2015.”

²⁹ SMART 2016; LISGIS website.



forward and better coordinate development partner support to the sector. 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) that includes an adequate level of financing to be allocated in the FY2022 National Budget (IGDPO-3 Trigger #6). The NSPPS will take into consideration recent developments in post-COVID-19 outbreak efforts to establish an effective and sustainable SP system that builds resilience and can respond to future shocks, including through the LHSR.

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

67. **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. 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. The cash transfer programs will expand existing benefits given increased need due to the impacts of COVID-19. The LHSR will allow the use of biometric identification of beneficiaries to decrease the risk of duplication across and within programs. Maintaining program coordination and interoperability with the National Identification Registry System will facilitate the process of obtaining nationally recognized identification documents among low-income households.

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

68. **The IGDPO series is fully aligned with the World Bank’s Liberia CPF for FY19-24.** The CPF’s overarching goal is to support Liberia 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 (MSME & Rural Finance Post-Ebola Reconstruction P157797), social protection (LSSN P155293), macro-fiscal management, and good governance (PFMIS, P172654) are linked to the proposed series and will provide valuable technical assistance and other forms of complementary support.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS



69. **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 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 IGDPD was informed by a consultative process involving development partners and other stakeholders, including the private sector and civil society.

70. **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 IGDPD series and the sequence of reforms. The design of the IGDPD 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

71. **The reforms supported under the proposed IGDPD 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. The analysis below describes the channels through which the actions contribute to poverty reduction.

72. **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 SME growth and create employment, including through household enterprises. However, only 29 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\$0.22/kWh for household consumers with consumption up to 50kWh per month will make the tariff affordable to most household consumers and enterprises (tailors, metalworkers, restaurants) that are currently bypassing meters and make the enforcement of anti-theft measures easier. This will complement the Government's measure to provide electricity for free up to US\$20 per household per month as part of its response to the COVID-19 pandemic.
- **Prior Action #3:** 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. This will enable economic growth and foster job creation over the medium term and thus have a positive effect on poverty reduction.
- **Prior action #4:** While this prior action has only an indirect impact of poverty, as the improved oversight and monitoring of SOEs will help strengthen transparency and enable a better management of the risks emanating from SOEs, it is also expected to limit public resources spent inefficiently in SOEs thus freeing up fiscal space for pro-poor spending.

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

- **Prior Action #5:** The revision of the consumer protection regulations to introduce provisions on digital credit and the revision of the Payment Systems Act will facilitate development of digital financial services, 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 #6:** The establishment of an IMIS is expected to foster coordination and enable the Government to apply a targeted approach to focus on the extreme poor. 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 4 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.

74. **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 #5:** 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 #6:** The system being supported through the establishment of the IMIS 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.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

75. **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 Act in 2002. The Act established the Environmental Protection Agency (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.

76. **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 #3 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 launching and implementation of national financial inclusion strategy has no direct adverse bearing on the environment. Likewise, Prior Action #7 supports the endorsement of LHSR – a basis for a more targeted and more effective 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** is aimed at reducing discretion and rationalizing tax expenditures to enhance transparency and fiscal space. The action is not expected to have any direct adverse effect on the environment. In fact, it may indirectly provide a more conducive fiscal environment that could lead to improved budgetary allotment to institutions tasked with managing the environment, forests and other natural resources.

77. **Liberia is vulnerable to climate change-related risks and this operation intends to respond to these risks through policies that support adaption in the agriculture and energy sectors, and in social protection.** In agriculture the reforms are aimed at enhancing agricultural productivity and enabling farmers to adapt to climate change. The reforms supported under the proposed operation are designed to provide the legal framework necessary to underpin a sustainable and resilient seed-delivery system and facilitate private-sector participation in seed production and marketing. 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). The IG DPO series supports reforms to improve the financial viability of the LEC and enhance the provision of reliable and affordable power services to a growing customer base. In the area of social protection, SSN programs can help low-income households cope with shocks caused by extreme weather events, since these low-income households are especially vulnerable to flooding and other extreme weather events.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

78. **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 Liberia Revenue Authority (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.



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

80. **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 operation complements these efforts by supporting the Amendments to the PFMA of 2009 to 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 Treasury Single Account; 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.

81. **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 Public Accounts Committee (PAC), a process that includes public hearings.

82. **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,³⁰ 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 independence and governance structure. The CBL has also started working on the quality of foreign-

³⁰ 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.



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.

83. **Recipient and Financing Agreement:** The proceeds of the proposed DPO, consisting of SDR 14 million grant and US\$20 million credit, or US\$40 million equivalent in total, would be made available to the Government, represented by the MFDP, in a single tranche upon effectiveness.

84. **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. 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\$ amount³¹ 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 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.

85. **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.

86. **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.

87. **Closing date:** The expected closing date of the operation is December 31, 2022.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

88. **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

³¹ The conversion in local currency is not required since Liberia’s budget is in U.S. dollars.



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. 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.

89. **Grievance Redress.** Communities and individuals 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 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.

6. SUMMARY OF RISKS AND MITIGATION

90. **The overall risk rating for the operation is 'high'.** Liberia's transition from conflict to long-term development has been set back by multiple shocks and policy slippages. The country remains fragile with weak state capacity and high vulnerability to economic shocks. There are five main sources of risk — political and governance, macroeconomic, institutional capacity for implementation and sustainability, fiduciary, and health (COVID-19 and Ebola)— that could potentially jeopardize the expected outcomes and benefits of this operation. The country and fiduciary risks and mitigation measures are summarized below (Table 7). 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.

91. **Political and governance:** Political and governance risks are *high*. The assessment is driven by high governance risk, while political risk is moderate. The political situation is currently stable but needs to be monitored closely. Political risk to the program emanates from uncertainty about the ownership of reforms across the Administration. 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, including during



the preparation of these series, in coordination with the IMF and other donors. 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. Efficient and timely communication about the reforms is critical.

92. **Macroeconomic:** Macroeconomic risks are *high*. Liberia is an open economy, heavily dependent on foreign aid, FDI, and primary exports for fiscal revenues, foreign-exchange earnings and employment. 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 COVID-19 pandemic has exacerbated the situation and further weakened the economy. Weaker-than-expected global conditions for commodities caused by the pandemic could further undermine government revenues and force the Government to cut expenditures to sustainable levels, which could crowd out priority social spending. This could also delay the implementation of important reforms, supported by the program, such as the provision of necessary budgetary resources for social protection programs. Aid inflows could also fall short of projections, particularly if development partners perceive a weak Government commitment to reforms. **Mitigation:** The Government has shown a commitment to adjusting macroeconomic policies as situations warrant. The National Budget for FY2021 and the CBL's new monetary policy framework are relevant examples of policy adjustments. Importantly, 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.

93. **Institutional capacity for implementation and sustainability:** Institutional capacity for implementation and sustainability risks are *high*. 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. **Mitigation:** Many of these implementation risks are difficult to mitigate. However, the World Bank has consistently ensured the provision of training and technical assistance for state building as crucial complementary activities to the DPO series, including under this proposed operation. As outlined above, there are several complementary technical assistance projects and supporting activities being pursued by the World Bank and other donors that would help mitigate the implementation and sustainability risks.

94. **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, 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:** Government is aware of these weaknesses and is taking measures to remedy the control lapses. On the CBL side, with technical assistance from the IMF, the CBL has been addressing gaps in its supervisory and regulatory framework through frequent assessments and engaging with all key stakeholders to ensure that timely actions are taken to tighten controls. The MFDP is addressing concerns regarding 'diversion of funds' from donor-financed projects 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, the World Bank, AfDB, and European Union are working jointly to provide the requisite underlying support to the CBL as led by the IMF; and further reforms are planned to be implemented to strengthen the expenditure management chain through a new PFM Project and other smaller projects and Technical Assistants being provided by the partners. This proposed operation will also 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.

95. **Other risks: The COVID-19 pandemic and Ebola outbreak.** The risks from the COVID-19 epidemic are substantial. Given the evidence of the economy-wide effects, a new wave of COVID-19 cases could have adverse effects on the political, economic and social domains as well as on the implementation of reforms under the program. The Government’s ability to manage shocks has weakened significantly since the Ebola epidemic with a prolonged economic stagnation followed by two years of economic contraction. Also, the implementation of activities supported by the proposed operation may be negatively impacted by new restriction measures such as a general or partial lockdown. **Mitigation:** So far, through March 2021, Liberia has received 96,000 doses of COVID-19 vaccine through the COVAX Facility and started vaccination by prioritizing frontline health workers and elders. Although this covers only 1.9 percent of the population, it contributes to mitigating the risk of new severe spread of the virus. Risks of a new Ebola outbreak has increased recently with the emergence of new cases in Southern Guinea, near the border with Liberia. A swift response by the Guinean authorities and the availability of Ebola vaccine have reduced the risk. The World Bank Regional Disease Surveillance Systems Enhancement Project (P175612) is strengthening the regional disease surveillance and response capacity. Direct support to the extreme poor through the Liberia SSN Project (P155293) will support building a basic national safety-net delivery system and provide income support to households who are both extremely poor and food-insecure, while the Recovery of Economic Activity for Liberian Informal Sector Employment (P174417) will increase access to income-earning opportunities for the vulnerable in the informal sector in response to the COVID-19 crisis. The budget support provided through the proposed operation will also contribute to mitigating these risks both financially and through reforms, supporting better public service delivery, especially for the poor (Pillar 2).

Table 7: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	● High
2. Macroeconomic	● High
3. Sector Strategies and Policies	● Moderate



4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● High
6. Fiduciary	● High
7. Environment and Social	● Moderate
8. Stakeholders	● Substantial
9. Other	● Substantial
Overall	● High



ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions and Triggers		Results			
Prior Actions under DPO 1	Prior Actions under DPO 2	Triggers for DPO 3	Indicator Name	Baseline	Target
<i>Pillar 1. Removing distortions in selected sectors and strengthening public-sector transparency</i>					
Prior action #1. 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.	Prior action # 1. The Recipient, through its Ministry of Agriculture’s National Seed Board, 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.	(Indicative) Trigger # 1. To strengthen implementation of national seeds regulatory framework, the Recipient has instituted and published on-line National Catalogue for Plant Species and Varieties.	Results Indicator #1: Quantity of certified rice seeds available to farmers (number).	0 (2018)	2,000 (2023)
Prior Action #2. 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 criminal offense with punitive measures.	Prior action # 2. The Recipient, through the LERC, has pursuant to its letter dated September 21, 2020, provided Provisional Approval of the Liberia Electricity Corporation (LEC)’s “Life-Line Tariff” to address affordability barriers for poorer population and disincentivizes power theft, and LEC has commenced implementation of said tariff as evidenced by its announcement on its website effective May 1, 2021.	(Indicative) Trigger # 2. 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.	Results Indicator #2 a. LEC overall transmission and distribution losses (%)	63 (2018)	55 (2023)



Prior actions and Triggers		Results			
<p>Prior action #3. 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).</p> <p>Prior action #4. 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.</p>	<p>Prior action # 3. 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 saiddraft Amendment.</p>	<p>(Indicative) Trigger # 3. The Recipient has published a report on tax expenditures in line with the amended Revenue Code.</p>	<p>Results Indicator #3. Share of tax expenditures in total domestic revenues (%)</p>	<p>32.6 (2018)</p>	<p>20 (2023)</p>
<p>Prior action #5. To strengthen transparency and improve oversight of SOEs, the Recipient 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</p>	<p>Prior action # 4. The Recipient, through its MFDP, has issued a letter dated May 3, 2021, to the Debt Management Unit instructing it to include the liabilities, debt and, guarantees of at least five critical SOEs into the quarterly Public Debt Management Report; and the Debt Management Unit has incorporated and published said information its initial quarterly report dated March</p>	<p>(Indicative) Trigger # 4. To strengthen debt transparency, the recipient: (i) established a comprehensive database of public debt, incl. debt of SOEs and PPPs, and (ii) published quarterly reports on its website.</p>	<p>Results Indicator #4. SOE with audited annual financial statements and liabilities information published in the Public Debt Management reports (number)</p>	<p>0 (2019)</p>	<p>8 (2023)</p>



Prior actions and Triggers		Results			
International Financial Reporting Standards (IFRS).	2021 (as revised on May 3, 2021).				
Pillar 2. Promoting economic and social inclusion					
Prior Action #6: To expand access to formal financial services, including to digital financial services, (i) the Recipient' Cabinet has approved the National Financial Inclusion Strategy for 2019-2024; and (ii) the Central Bank of Liberia (CBL) issued its Regulation Concerning Licensing and Operations of Electronic Payment Services.	Prior action # 5. 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 digital financial services, as evidenced by the letter from the Deputy Chief Clerk of Parliament dated May 4, 2021, acknowledging receipt of said draft Amendment.	(Indicative) Trigger # 5. The CBL has established and make operational a digital credit registry with adequate staff and resources.	Results Indicator #5 a: Adults with financial transaction accounts (percentage). Results Indicator #5 b. Gender gap in financial transaction account ownership, percentage points.	35.7 (2018)	45 (2023)
				15.5 (2018)	9 (2023)
Prior Action #7. To strengthen SSNs for poor, (i) the Recipient's Cabinet has endorsed the Liberia Household Social Registry (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.	Prior action # 6. 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.	(Indicative) Trigger # 6. 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.	Results Indicator #6: Extreme poor households receiving regular cash transfers (number).	0 (2018)	20,000 (2023)



ANNEX 2: IMF RELATIONS ANNEX

IMF Executive Board Completes the First and Second Review under the Extended Credit Facility for Liberia, and Approves US\$48.86 Million Disbursement

December 21, 2020

- The completion of the first and second reviews enables an immediate disbursement of US\$48.86 million, of which US\$38 million will fill the fiscal financing gap arising from the impact of COVID-19.
- Restoring macroeconomic stability, providing a foundation for sustainable inclusive growth, and addressing weaknesses in governance remain the main objectives of this program.
- Economic activity is projected to contract by about 3.0 percent in 2020, reflecting the effects and challenges from the COVID-19 disruptions, but signs of recovery are now emerging with growth projected to reach 3.2 percent in 2021.
- While the fiscal stance has been loosened to meet humanitarian needs, tight monetary policy, much improved public financial management, domestic revenue mobilization, and no central bank financing have helped achieve price and exchange rate stability, preserving the purchasing power of the poor.

WASHINGTON, DC: Today, the Executive Board of the International Monetary Fund (IMF) completed the first and second reviews under the Extended Credit Facility (ECF). The four-year ECF arrangement, with a total access of SDR155 million (60 percent of quota or about US\$214.30 million) was approved by the IMF Executive Board on December 11, 2019. Completion of the first and second reviews enables the immediate disbursement of SDR34 million (US\$48.86 million), bringing total disbursements under the arrangements to SDR51 million (about US\$72.20 million).

After mixed program performance initially, the authorities have taken corrective actions to address weaknesses in the program and they continue to make progress in structural reforms. Reflecting the impact from the COVID-19 pandemic, the growth forecast for 2020 has been revised down from 1.4 percent at the program's inception to -3.0 percent. Assuming global conditions gradually normalize, growth is projected to reach 3.2 percent in 2021, but downside risks to the outlook are high. Liberia remains fragile and vulnerable to shocks as both fiscal and external buffers remain low. Liberia continues to be assessed as having a sustainable debt burden, but borrowing space is limited.

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

"The COVID-19 pandemic continues to exert significant strain on Liberia's fragile economy. The authorities have taken the necessary steps to stabilize the economy amid multiple challenges. A modest fiscal loosening is appropriate to meet humanitarian needs during the COVID19 pandemic.

"The authorities are committed to fiscal discipline and further improvements in cash management, transparency and accountability in spending, and domestic revenue mobilization to finance their development agenda. The monetary policy stance is appropriately aligned with the inflation objective,



and significant progress has been made in strengthening central bank independence. In the context of the gradual de-dollarization of fiscal spending, it is important to further refine instruments for open market operations and enhance policy coordination between the central bank and the government.

“Further efforts are needed to contain the central bank’s operational expenses and build up reserves. Rebuilding confidence in the financial sector is critical for financial stability. Priority should be given to addressing risks from weak financial institutions and ensuring the supply and quality of Liberian dollar banknotes. Further improvements in governance are necessary for efficient delivery of public services. Steps are being taken to clear the fiscal audits backlog, further enhance procurement transparency, and upgrade the anti-corruption legal framework. Efforts to increase borrowing space would support sustainable growth. The authorities should continue to work with donors and development partners to secure grants and concessional borrowing, and carefully prioritize the use of public resources.”

IMF Communications Department

MEDIA RELATIONS

PRESS OFFICER: MEERA LOUIS

PHONE: +1 202 623-7100 **EMAIL:** MEDIA@IMF.ORG

[@IMFSpokesperson](#)



ANNEX 3: LETTER OF DEVELOPMENT POLICY



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/12270/21

May 6, 2021

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

Dear President:

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

1. On behalf of the Government of Liberia (Government), I express my gratitude to the World Bank Group for the partnership and your support to the *Pro-Poor Agenda for Prosperity and Development 2018 (PAPD)* through the *Liberia Second 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 *Second Inclusive Growth Development Policy Operation (IGDPO-2)* in the amount of US\$40 million equivalent (comprising US\$20 million Grant and US\$20 million Credit) to support the financing of the Government's priorities as set out in FY2020/21 National Budget 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 and sustained poverty alleviation. It outlines how the proposed financing will contribute to the achievement of these objectives.



OFFICE OF THE MINISTER

REPUBLIC OF LIBERIA
MINISTRY OF FINANCE & DEVELOPMENT PLANNING

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



Recent Economic Development 2020-2021

3. Liberia's economy is expected to recover in 2021 after two consecutive years of contraction in 2019 and 2020. The signs of recovery were already noticeable in the second half of 2020 following the lifting of lockdown measures to contain the spread of the COVID-19 virus in our country. The pandemic had stalled efforts towards job creation, reversed the declining trend in poverty reduction, constrained domestic resource mobilization, and increased Government expenditures. Consequently, real GDP is projected to expand by 3.6 percent in 2021.
4. While growth is recovering, the prices of goods and services on the domestic market are also falling with annual average inflation reaching 17.4 percent in 2020, down from 26.9 percent in 2019. The fall in the general price level in the economy reflects the Central Bank of Liberia's (CBL) tight monetary policy stance in 2020 and lower international oil prices, reaffirming the Government's continued commitment to ensuring macroeconomic stability. With prudent monetary policy, inflation is expected to moderate to 10.5 percent in 2021.
5. Despite the adverse impact of the COVID-19 pandemic, the Government has remained committed to its fiscal consolidation program. The fiscal stance improved in FY2020, with strong revenue efforts and consolidation on the expenditure side. Mobilizing donor grants has remained challenging because of the front-loading of donor assistance during the fight against Ebola. Moreover, the completion of most major donor funded projects has also contributed to the reduction in aid inflows. Nevertheless, Liberia's overall fiscal balance narrowed to a deficit of 4.0 percent of GDP in FY2020, down from a deficit of 6.8 percent in FY2019. The execution of FY2021 budget is well on course as public expenditure has been kept within the limits of revenue collected. The Government continued to implement fiscal consolidation reforms initiated in FY2019, including the payroll reform and wage harmonization aimed at containing the rising trend of the public sector wage bill and facilitating cash management. The public employee payroll was reduced from about 74,000 to about 67,100 by the elimination of duplicates and ghost workers, and the retirement of employees past the mandatory retirement age. However, the country's risk of debt distress remains moderate for external debt and high for overall public debt thereby limiting its debt carrying capacity amid growing financing needs to help narrow the existing infrastructure gap and expand the corridors of growth. By December 2020, Liberia's public debt stock had reached 58.8 percent of GDP. However, planned fiscal consolidation is expected to reduce the public debt ratios overtime. With expressed commitment to meeting our debt service obligations, a total debt service payment in the amount of \$23.6 million (FY19/20) was made in FY2020 while a total of US\$92.5 million (FY20/21) has been projected for debt servicing in FY2021.



REPUBLIC OF LIBERIA
MINISTRY OF FINANCE & DEVELOPMENT PLANNING

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



OFFICE OF THE MINISTER

- The monetary policy stance remains focus on limiting inflation while efforts are underway to ensure financial stability. The financial sector remains shallow with broad money as a share of GDP estimated at 24.2 percent in 2020, up from 19.4 percent in 2019 while credit to private sector as share of GDP stands at 16.4 percent in 2020, compared to 15 percent in 2019. The contraction in the economy in the last two years highlighted the vulnerabilities in the financial sector with non-performing loans ratio reaching 21.6 percent in December 2020, up from 17.2 percent in 2019. The banking sector also faced an acute shortage of Liberian dollars in the latter part of 2020, heightening the risks in the financial sector. However, the CBL has acted quickly to help address the growing local currency demand by submitting to the Legislature for approval a proposal for full replacement of the existing family of banknotes while making efforts to bolster the use of digital financial services.
- The country's external position showed improvement despite the global slowdown due to the pandemic. Liberia's current account deficit narrowed to 16.4 percent of GDP in 2020, from 17.7 percent in 2019. The performance in the external sector was mainly due to improvement in the trade balance on the back of increased iron ore and gold exports couple with increase in net remittances inflows. Liberia's gross reserves in months of imports cover increased slightly in 2020 to 2.5 months, up from 2.3 month in 2019 but remained below the conventional three months of import cover thus the country remains susceptible to external shocks.

Medium Term Macroeconomic Outlook

- In the medium term, the macroeconomic outlook seems promising. Growth is expected to pick up reaching 4.8 percent on average during 2022-23 as economic activity picks up in the productive sectors, especially mining, agriculture, and construction while inflation is expected to moderate further to around 7 percent by 2023 as the Government strives to ensure macroeconomic stability through the implementation of restrictive monetary and fiscal policies. However, the country's current account deficit is likely to remain high amid rising demand for imports to meet the growing development needs. The gross reserves position is expected to improve beyond the conventional benchmark of three months of imports while the public debt ratios are expected to shrink considering continued fiscal consolidation.

Policy Reforms

- The Government's economic and financial policies are anchored on its medium-term development agenda – PAPD. 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)



OFFICE OF THE MINISTER

REPUBLIC OF LIBERIA
MINISTRY OF FINANCE & DEVELOPMENT PLANNING

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



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 IGDP 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

10. **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 will continue to be the lead organ 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 has approved the implementing regulations for the LSDCA Act in April 2021. The Government will 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 implemented to help maximize learning from each other and increase agricultural productivity.
11. Because of the need to adapt to climate change, the national catalogue as well as the regulation will promote the development and release of climate-resilient seeds. The Government acknowledges that 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. Therefore, the Government will 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

National Vision: One People, One Nation united for Peace & Sustainable Development
Ph.: +231-886-611-777 / +231-886-786-185 (Hot Line) / +231-777-309-021



OFFICE OF THE MINISTER

REPUBLIC OF LIBERIA
MINISTRY OF FINANCE & DEVELOPMENT PLANNING

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



- methods, including safe use and management of agro-chemicals. Also, the implementation of the fertilizer law (2019) will help protect the people, animals, plants, and the environment against the potential danger and inappropriate use on inorganic fertilizers.
12. **Energy.** The key medium-term objectives of Government in energy sector is to strengthen Liberia Electricity Corporation (LEC's) financial sustainability, facilitate access to affordable and reliable electricity to promote inclusive growth. Liberia is continuing to expand access to electricity, which has long been a major constraint to inclusive growth and economic transformation. Total installed generation capacity is now 126 megawatts (MW). With the expected completion of the regional transmission interconnection project between Cote d'Ivoire, Liberia, Sierra Leone and Guinea – CLSG in early 2021, there would be an opportunity to import at least 27 MW of electricity from Côte d'Ivoire to complement local generation in the medium term particularly in the dry season (January-April), when Mount Coffee available capacity is reduced to about 48 MW. Despite the increase, electricity access and cost continue to represent binding constraints on Liberia's competitiveness and present a major obstacle to improved living standards. The LEC precarious financial situation remains a major challenge. To reduce commercial losses, the Government approved a five-year LEC business plan (2019-2023); and enacted an *Act to Amend the Penal Law, Chapter 15* which makes power theft a criminal offense with appropriate punitive measures in 2019. In 2020, LEC developed a social "lifeline" tariff policy to address affordability challenges among poor households and weaken incentives for illegal connections which was approved by the Liberia Electricity Regulation Commission (LERC). The lifeline tariff of US\$0.22 per KWH will be implemented starting from May 1, 2021, LEC has already made the announcement in the local media and published a communique on its website. Before March 2022, the Government will approve 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.
13. An amount equivalent of US\$5 million is already planned in the FY2021 budget and executed. The remaining US\$6 million will be planned in the budget covering the period July to December 2021. Going forward, the Government will ensure adequate budgeting of the public sector's electricity consumption. 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. Before March 2022, the Government will approve 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. 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. Liberia is yet to develop guidelines or regulations for the management and safe disposal of used/spent batteries (some elements in solar systems are



OFFICE OF THE MINISTER

REPUBLIC OF LIBERIA
MINISTRY OF FINANCE & DEVELOPMENT PLANNING

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



hazardous) used in aggregate with solar systems. The Environmental Protection Agency will develop these national guidelines/regulations. Meanwhile, the Government will ensure that providers of solar systems commit to ensuring the collection and disposal of used/spent batteries through accreditation by the EPA.

14. **Tax Incentives.** Our interventions 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 key medium-term objectives of the Government are to strengthen Domestic Revenue Mobilization (DRM) 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. 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. Under the first operation of this series, we have: 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 changes to the section 16 of the Revenue Code with an objective of streamlining tax expenditures. The main changes 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 in a regulation to be issued by the Minister subject to a minimum capital requirement US\$0.5 million for both Liberian and foreign-owned businesses. (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 qualifying sectors defined and limited in the regulation issued to be placed in service within a one year period. While incentive waiver on spare parts of machinery and equipment are granted 50 percent instead of 100 percent. Also, except for provision of educational services, automobiles, small trucks (including sedans and SUV), petroleum products (excluding HFO), water, toiletries and detergents, office supplies, and stationery, as well as furniture, fixtures and all domestically produced and or manufacture goods are prohibited from exemption. Agriculture and energy are two key strategic sector that will continue to attract tax incentive for greater private sector investment. The Government has submitted the amended Revenue Code to the Legislature for approval and the Government will exercise a good faith effort to ensure it is passed. The Government is also committed to enhancing 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 2021, which will be published before the end of March 2022.

National Vision: One People, One Nation united for Peace & Sustainable Development
Ph.: +231-886-611-777 / +231-886-786-185 (Hot Line) / +231-777-309-021



OFFICE OF THE MINISTER

REPUBLIC OF LIBERIA
MINISTRY OF FINANCE & DEVELOPMENT PLANNING

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



15. SOEs and Debt. In addition to DRM, we are also 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. Under the first operation of this series, we 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). The amended PFMA (i) requires a statement on overall SOE performance and fiscal risks to be included in the National Budget; and (ii) mandates the publication of IFRS-compliant financial statements for SOEs. We have submitted to the Legislature along with the draft National Budget 2021 statements of fiscal risks from SOEs. The amended PFMA also strengthens the requirements for reporting and monitoring of SOEs debt, including non-guaranteed debt. 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 to be published on a quarterly basis. The MFDP will establish a comprehensive public debt database, encompassing the debts of SOEs and public-private partnerships, and publish quarterly reports on its website by end March 2022. The MFDP will also publish audited financial statements for at least 8 critical SOEs before end December 2023.

Pillar 2: Promoting Economic and Social Inclusion

16. Financial Inclusion. While our interventions in agriculture and energy will make growth more broad-based, the reforms that we are promoting in the financial sector will make growth more inclusive. Our key medium-term objectives are to increase the share of Liberians over the age of 15 who have financial accounts from 35.7 percent in 2017 to 45 percent by 2023 and to narrow the gender gap in transaction account ownership 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. We believe that access to financial services, particularly through digital channels, 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. The Government adopted a new National Financial Inclusion Strategy (NFIS) covering the 2020-2024, which was publicly launched at the Economic Forum on Financial Inclusion on December 11, 2019. The implementation of the strategy started with the approval of the e-payment regulations. With the World Bank technical assistance, the Central Bank of Liberia

National Vision: One People, One Nation united for Peace & Sustainable Development
Ph.: +231-886-611-777 / +231-886-786-185 (Hot Line) / +231-777-309-021



OFFICE OF THE MINISTER

REPUBLIC OF LIBERIA
MINISTRY OF FINANCE & DEVELOPMENT PLANNING

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



(CBL) is promoting the expansion of digital financial services by amending the Payment Systems Act and the adoption of new consumer-protection regulations to enable the introduction of digital credit. To expand access to finance and strengthen credit-risk profiles, CBL is committed to establishing and operationalizing a modern digital credit registry by end of March 2022. The Amendment to the Payment System Act, 2014 to promote digital financial services has been submitted parliament for approval, and the Government will exercise a good faith effort to ensure that the Amendment is passed.

17. **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. Our objective under this series 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. The adoption in 2020 of the Liberia Household Social Registry (LHSR) 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. The Ministry of Gender, Children and Social Protection (MGCSP) continues to build its integrated Management Information System (MIS) to enable the implementation and/or coordination of Social Safety Net (SSN) programs. The key modules of the MIS to support enrollment, payments, monitoring and evaluation, grievance redress mechanism, user management, and program management are completed and tested. The modular structure will enable social protection programs to use the integrated MIS for the implementation of operational processes and delivery of benefits which are critical for targeting and coordination purposes. 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). The Government will endeavor to increase support to the social safety nets program

Conclusion

18. Mr. President, as stipulated above, Government has made significant progress in the implementation of policy reforms under the IGDP-2. We are confident that the effective implementation of the reform measures contained in the program will contribute to meeting the Government's medium-term economic objectives and inclusive growth, jobs and economic transformation.



REPUBLIC OF LIBERIA
MINISTRY OF FINANCE & DEVELOPMENT PLANNING

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




OFFICE OF THE MINISTER

19. However, despite our efforts to improve domestic resource mobilization, the urgent need to improve human and physical capital development and support the poorest, requires additional financial resources. Therefore, while efforts continue to mobilize revenue and increase spending efficiency, the financial assistance, particularly, budget support remains critical to the delivery of public services.
20. Your approval of this disbursement request 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. Tweah, 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
Pillar 1: Removing Distortions in Selected Sectors and Strengthening Public-Sector Transparency		
<p>IGDPO2 Prior Action 1: The Recipient, through its Ministry of Agriculture’s National Seed Board, 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>Positive-neutral: 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>Positive: Higher private sector participation in the seed market is expected to:</p> <ul style="list-style-type: none"> i increase access to improved seeds and create conditions for growth in yield; and ii promote private sector development and job creation both which are expected to have significant positive impacts on poverty.
<p>IGDPO2 Prior Action 2: The Recipient, through the LERC, has pursuant to its letter dated September 21, 2020, provided Provisional Approval of the Liberia Electricity Corporation (LEC)’s “Life-Line Tariff” to address affordability barriers for poorer population and disincentivizes power theft, and LEC has commenced implementation of said tariff as evidenced by its announcement on its website effective May 1, 2021.</p>	<p>Neutral-positive: 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>Positive: A reduction in the lifeline tariff is expected to have positive effect on 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>IGDPO2 Prior Action 3: 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.</p>	<p>Neutral. 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>Neutral-positive. 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>IGDPO2 Prior Action 4: The Recipient, through its MFDP, has issued a letter dated May 3, 2021, to the Debt Management Unit instructing it to include the liabilities, debt and, guarantees of at least five critical SOEs into the quarterly Public Debt Management Report; and the Debt Management Unit has incorporated and published said information its initial quarterly report dated March 2021 (as revised on May 3, 2021).</p>	<p>Neutral. This action is not expected to have any direct environmental effects.</p>	<p>Neutral-positive. This action has medium-term positive effects on poverty reduction by promoting sustainable financing for development and better provision of services.</p>
Pillar 2: Promoting Economic and Social Inclusion		
<p>IGDPO2 Prior Action 5: 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 digital financial services, as evidenced by the letter from the Deputy Chief Clerk of Parliament dated May 4, 2021, acknowledging receipt of said draft Amendment.</p>	<p>Neutral. This action is not expected to have any environmental effects.</p>	<p>Positive. 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>



Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
IGDPO2 Prior Action 6. 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.	Neutral: This action is not expected to have any environmental effects.	Positive. 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.



ANNEX 5: COUNTRY PROGRAMS ADJUSTMENT RESPONDING TO COVID-19 - LIBERIA

Impact of the COVID-19 pandemic on the country and government response

1. **The health and socio-economic impact of the COVID-19 pandemic has been significant, but the Government's response has also been comprehensive.** Since the situation continues to evolve, the full health and socio-economic impact remains fluid. Nonetheless, as of May 13, 2021, Liberia had recorded 2,114 confirmed cases, of which 1,962 have recovered, 67 remain active, and there have been 85 deaths. In terms of socio-economic impact, the main channel of impact has been the disruption of economic activities following the first confirmed case on March 16, 2020, especially when the economy was under a state of emergency and lock-down. As a result, GDP is projected to contract by 3.0 percent in 2020 and the fiscal deficit is expected to widen, while food insecurity and the incidence of extreme poverty are both expected to rise. With support from international development partners, including the World Bank, the Government has adopted a comprehensive approach. Under the health response, it has enhanced its capacity to test, trace contacts, isolate, and treat. In addition, the Government has mobilized domestic and external resources to help mitigate socio-economic impacts. For example, it is implementing a nationwide food distribution program targeting the most vulnerable households; it provided free electricity and water during the lock-down period; it will be providing loan relief to market women and petty traders; and it suspended pre-shipment inspections and import surcharges.

WBG support for responding to the crisis

2. **The World Bank's program of assistance to Liberia since the outbreak of the pandemic has been adjusted in line with the WBG COVID-19 Crisis Response Approach Paper, *Saving Lives, Scaling-up Impact and Getting Back on Track*.** The FY19-FY24 Country Partnership Framework (CPF)³² for Liberia is being adjusted in two ways: first, to support the country in managing the ongoing health, social and economic crisis; and second, to strengthen the institutional foundations for an inclusive and sustainable longer-term recovery. This includes:

- (a) *Saving lives threatened by the virus.* The WBG's package of support to the health response so far amounts to US\$18 million, the largest by a single development partner in Liberia. An existing operation, the Regional Disease Surveillance Systems Enhancement (REDISSE) Project (P159040) has been used to provide US\$9.5 million through an existing component (US\$1.5 million) and through the activation of a Contingent Emergency Response Component (CERC) amounting to US\$8 million. In addition, US\$7.5 million has been provided under the Global MPA Fast-Track Facility, through a stand-alone IPF operation, the Liberia COVID-19 Emergency Response Project (P173812). Finally, Liberia has benefited from US\$1 million disbursed from the Pandemic Emergency Facility (PEF). The support to the health response covers the key pillars of the Government's response plan, mainly surveillance, laboratory testing, case management, community engagement, and support to HR and coordination.
- (b) *Protecting the poor and vulnerable.* The World Bank is accelerating implementation of the existing cash-transfer program under the Liberia Social Safety Nets (LSSN) Project (P173145). This operation originally focused on rural areas but has now been augmented by additional financing (AF) from a trust fund in the amount of US\$8.8 million from the Foreign, Commonwealth, and Development Office

³² The CPF for Liberia was presented to the Board of Executive Directors on November 27, 2018. A Performance and Learning Review (PLR) will be prepared and delivered before the end of FY22.



(FCDO) of the United Kingdom (formerly DFID). The AF will ensure that cash transfers are extended to beneficiaries in urban areas as well. The proposed REALISE operation will fill an existing gap in reaching out to informal businesses that have also been impacted by COVID-19. In addition, a CERC in the amount of US\$10 million under the Smallholder Agriculture Transformation and Agribusiness Revitalization Project (STAR-P) (P160945) was activated, US\$5 million of which was allocated to the Government's COVID-19 Household Food Support Program (COHFSP) co-financed with the IMF. Finally, another CERC in the education sector under the Improving Results in Secondary Education (IRISE) Project (P164932) in the amount of US\$1.5 million was activated to support the safe re-opening of schools.

- (c) *Ensuring sustainable business growth and job creation.* Under this pillar, a new operation in the amount of US\$20 million is currently under preparation, the Economic Recovery and Transformation Project (ERTP) (P171997). ERTP seeks to support financial inclusion, entrepreneurship and the reforms needed to attract job-creating and sustainable private investment in response to COVID-19. In addition, a US\$55-million Scale-up Facility (SUF)-funded operation is also under preparation, the Liberia Rural Economic Transformation Project (RETRAP) (P175263) that will seek to boost sustainable rural agri-businesses by improving agricultural productivity and access to markets.
- (d) *Strengthening policies, institutions, and investment for rebuilding better.* To ensure sustained recovery, the World Bank is deepening support to strengthen key institutions in the health sector as well as in other sectors. In health, the recently approved and SUF-funded Liberia Institutional Foundations to Improve Services in Health (IFISH) Project (P169641) in the amount of US\$54 million seeks to support key investments and institutional reforms in the sector to enable the country to respond more effectively to future pandemics. In addition, two DPOs are also supporting policy and institutional reforms in energy, agriculture, social protection, and PFM. These are the West Africa Regional Energy Trade Development Policy Financing Program (P171225) in the amount of US\$25 million, and the Second Inclusive Development Policy Financing Operation (P173633) in the amount of US\$40 million.

Selectivity, Complementarity, Partnerships

3. **The selected program has been identified based on the World Bank's comparative advantage, and significantly utilizes operations that are fit for purpose.** CERCs have been activated in three existing projects (health, education, and agriculture) to ensure a swift response to the pandemic. In other cases, such as in social protection, implementation of cash-transfer interventions is being accelerated while AF from other partners has been mobilized to expand coverage. DPOs are being implemented to complement IPFs by strengthening policies and institutions with the aim of building back better. Finally, to accelerate implementation, strategic partnerships have been forged. For example, the Bank has facilitated agreements between the Government, UNICEF, and WHO in the health response, as well as an agreement between the Government and the WFP in the implementation of the food distribution program.