PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

September 23, 2016
Report No.: AB7835

Operation Name	THIRD POVERTY REDUCTION SUPPORT DEVELOPMENT POLICY OPERATION
Region	Africa
Country	Republic of Liberia
Sector	General agriculture, fishing and forestry sector (10%);General education sector (10%);General energy sector (10%);General public administration sector (60%); General health sector (10%).
Operation ID	P151502
Lending Instrument	Development Policy Lending
Borrower(s)	Government of Liberia
Implementing Agency	Minister of Finance and Development Planning Broad Street Monrovia Liberia Tel: (231-886) 578-921
Date PID Prepared	September 23, 2016
Estimated Date of Appraisal	September 29, 2016
Estimated Date of Board Approval	November 1, 2016
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Country and Sector Background

1. **Since the return to democratic governance in 2006, Liberia has made notable economic and social progress, despite challenges.** Between 2006 and 2011, gross domestic product (GDP) growth averaged 7 percent with a strong boost from the resumption of iron mining since 2010. The government has maintained prudent fiscal and monetary policies, consequently inflation has been largely maintained in single digits. The relatively large current account deficits, driven mainly by import demands from the initially large contingent of UNMIL personnel have been sustainably financed by inflows of foreign direct investment (FDI) and donor transfers. As a result, the exchange rate has been mostly stable. The incidence of poverty at the national level fell to 56 percent in 2010 from 64 percent in 2007 due mainly to the decline in rural poverty. The overall drop in poverty has reflected economic growth, the sharp fall in inflation, particularly since 2008, as well as steps taken by the government to provide income support to the poor and vulnerable. The comparable data for 2007 and 2010 showed that inequality, as measured by the GINI coefficient was marginally lower in 2010 than in 2007 with the Gini falling from 0.36 in 2007 to 0.35 in 2010.

2. **A relatively peaceful election in 2011 provided a fresh mandate to President Ellen Johnson Sirleaf and in 2012, Liberia launched the AfT as a first step towards its vision of**

achieving middle income country status by 2030. Liberia was in the second year of the implementation of the AfT when the Ebola Virus Disease struck in March 2014. The Ebola crisis has not only impaired the government's capacity to deliver basic services including critical health services, but it has also brought about a sharp disruption of economic activities across all sectors and heightened social and political tensions. Even while the crisis has abated, the fiscal costs of health and other interventions are substantial, while fiscal revenues have fallen, leading to substantial fiscal deficits and a faster rate of accumulation of debt.

3. **The twin shocks of the Ebola epidemic and the subsequent sharp fall in commodity prices have had a severe negative impact on the Liberian economy.** Real gross domestic product (GDP) growth which was estimated at 8.7 percent in 2013 and initially projected at 6 percent in 2014 was 0.7 percent that year and the economy slowed further to an estimate 0.3 percent in 2015. Before the crises, growth had been driven by the expansion in the mining sector (mainly iron ore) as well as increased activities in the construction sector spurred by both public and private investment. Rubber production and exports were already slowing, reflecting protracted low international prices and economic activities in the forestry sector have been adversely affected by weak administrative oversight. Growth in manufacturing continued to be constrained by high inadequate access to competitively priced electricity and the generally weak business environment. The epidemic resulted in disruption of production processes across several sectors, caused not only by illness and death but by fear associated with the outbreak. However, the major shocks have been through the services and agriculture sectors.

II. Operation Objectives

4. **The objectives of the proposed operation include:** (i) strengthening governance with particular emphasis on transparency and accountability as well as budget execution and oversight; (ii) addressing key constraints to growth, including electricity, land tenure and access to credit; and (iii) enhancing human capital development through improved access to education and health. The objectives of the proposed operation remain relevant in the wake of the Ebola and commodity price crises and in fact proposed reforms are intended to build resilience to such shocks in the future.

5. **The proposed operation is fully consistent with the twin goals of the World Bank Group to end extreme poverty and promote shared prosperity through addressing key constraints to broad-based growth as well as promoting equality of opportunity in access to education, health, infrastructure and financial services.** The specific reforms supported by the operation are fully aligned with the three overarching themes of the World Bank Group's Country Partnership Strategy for Liberia: (i) reducing constraints to rapid, broad-based and sustained economic growth to create employment; (ii) increasing access and quality of basic social services and reducing vulnerability; and (iii) improving public sector and natural resource governance. These themes wholly reflect the Government's second poverty reduction strategy—the Agenda for Transformation.

6. **The prior actions under the proposed operation are structured under three broad pillars.** The actions under the first pillar of **Governance and Civil Service Reform** are focused on improving: (i) transparency and accountability; (ii) civil service reform centered on pay

reform; (iii) public financial management focused on accountability and oversight; and (iv) procurement. Under the second pillar of **Economic Transformation**, the prior actions are focused on improving electricity access for both industrial and residential use through expansion of supply based on lower-cost fuel—Heavy Fuel Oil (HFO)—to complement the rehabilitation of the Mount Coffee hydropower plant. The prior action under the third pillar of **Human Capital Development** is focused on planning for the recruitment, training and deployment of teachers across all levels of the education system. In the wake of the Ebola crisis and lessons drawn therefrom, a second action was added under this pillar focus on the effectiveness of budget execution with the health sector.

7. **The overall outcome expected under the governance and civil service reform pillar are transparent, accountable and responsive public institutions that contribute to economic and social development.** The establishment of a Financial Intelligence Unit (FIU) with the attendant regulations and connection with other FIUs are expected to result in increased transparency in financial transactions as well as improved access to international financial markets. An effective Asset Disclosure (AD) unit within the Liberia Anti-corruption Commission (LACC) is expected to result in greater transparency and accountability in the civil service in Liberia as indicated by an increased number of senior civil servants filing asset statements. Accountability and transparency in the civil service will also be reinforced by pay reform, which include the merging of base pay and allowances. The roll-out of IFMIS to Ministries and Agencies is expected to facilitate the accurate and timely preparation of IPSAS compliant financial statements submitted to the GAC for audits, which are then reviewed by the Legislature to complete the cycle of budget accountability. Timely publication of quarterly fiscal out-turn reports will also provide timely signals of fiscal policy to the private sector and civil society as the basis for investment decisions and demand side governance actions. Procurement reform measures are expected to result in improved budget execution.

8. The overall outcomes expected from reforms proposed under the economic transformation pillar in line with the government's AfT include the development of the private sector to provide employment; growth spurred by investments in infrastructure and improvements in agriculture to expand the rural economy and broaden the base of the economy. The least cost power development plan to guide government's investment in the power sector coupled with a clear tariff strategy and policies and regulations for the electricity sector is expected to result in electricity production shift from high cost diesel to lower cost hydro and HFO and consequently reduced cost and greater access to electricity. Lower cost electricity is also expected to spur private sector led growth, increasingly from manufacturing and services, resulting in increased employment.

9. The overall outcome expected under the human capital development pillar is more accessible education and effective execution of both the capital and recurrent budget in the health sector leading to a more robust health system with better access and better health outcomes. A comprehensive implementation plan for teacher recruitment, training and deployment across all levels of the education system as well as a framework for the more equitable allocation of resources is expected to result in higher school enrollments and better education outcomes. Improvement in education and training will allow more Liberians including those in the rural areas to take better advantage of the employment opportunities that are created by the economic

transformation discussed above. A more robust health system, better financed with higher execution rates will result in not only a reversal of the erosion of the gains health indicators from the Ebola crisis but also ensure greater resilience to future shocks.

III. Rationale for Bank Involvement

10. Since 2007, the Government of Liberia has made good progress in implementing reforms in the areas of strengthening governance and economic revitalization with considerable support from the World Bank, the African Development Bank and the European Union as well as under the IMF Poverty Reduction and Growth Facility and Extended Credit Facility.

11. More recently, and despite the adverse effects of the Ebola crisis and the sharp and sustained downturn in commodity prices, the Government has taken some key reform measures supported by the proposed operation. To strengthen transparency and accountability it has issued regulations for the operation of the Financial Intelligence Unit (FIU) following the passage Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Law supported under a previous World Bank operation. The FIU is responsible for receiving, analyzing and transmitting disclosures on suspicious transactions to the competent authorities. The Government has also established an Asset Disclosure Unit within the Liberia Anti-Corruption Commission (LACC) to ensure compliance with the asset disclosure law for civil servants. To rationalize civil service pay scale, the Government has also completed the merger of base-pay and discretionary allowances for the grades 1-4 of the civil service following the adoption of a pay reform strategy for the civil service to improve transparency and productivity within the service. It has also completed the validation of all civil servants through biometric authentication and have linked the HRMIS to the payroll system. To professionalize public procurement and strengthen oversight, the Government has approved and published minimum standards and procurement accreditation system to certify procurement practitioners in Liberia with a view to professionalizing public procurement. It has also approved a Road Map for the reform of the Public Procurement and Concession Commission with a view to strengthening the PPCC. To improve the provision of affordable electricity to industry, MSMEs and households, the Government has taken measures to assure access to lower cost fuel by the Liberia Electricity Corporation. In education, the Government has adopted a comprehensive implementation plan for teacher recruitment, training and deployment across all levels of the education system and in health it has taken measures to improve budget execution to improve service delivery. The Bank’s involvement has been critical in maintaining the reform momentum.

12. **Liberia has maintained a relatively good track record of prudent macroeconomic management, but the twin shocks from the Ebola crisis and sustained, low commodity prices have presented considerable challenges for the government.** The shocks have had considerable adverse economic impact, leading to the deterioration of some of the key macroeconomic indicators including the rate of GDP growth, the current account of the balance of payments, the level of non-performing loans in banks and the fiscal balance and consequently a faster accumulation of debt with a consequent increase in the risk of debt distress. Nevertheless, the government’s commitment to sound macroeconomic policies and corrective measures to respond to the shocks has been unwavering. The Government has taken important fiscal policy actions in response to the shocks, including prioritizing and reducing overall

expenditure in response to lower than projected revenue inflows whilst taking actions to boost revenues. The Government has received augmented funding from the IMF, the African Development Bank, the European Union and the World Bank to support its recovery from the twin shocks.

IV. Tentative financing

Source:		($m.)
Borrower/Recipient		
IDA		32.0
Others (CRW)		8.0
	Total	40.0

V. Tranches *(if applicable)*

	($m.)
First Tranche	40.0
Second Tranche	
Etc.	
Total	40.0

VI. Institutional and Implementation Arrangements

13. The proposed Grant, amounting to US$40 million equivalent, would be made available to the Government of Liberia, represented by the Ministry of Finance and Development Planning, in a single tranche, upon effectiveness of the Grant. The funds will be deposited into an account designated by the Government of Liberia at the Central Bank of Liberia that is part of the country's foreign exchange reserves. The equivalent local currency amount will, within 5 working days, be transferred to the Consolidated Fund (Treasury account) of the Government that is used to finance budgeted expenditures and appropriately accounted for in the financial management system of the Government. Disbursements from the Consolidated Fund by the Government of Liberia shall not be tied to any specific purchases and no special procurement requirement shall be needed. The proceeds of the operation shall, however, not be applied to finance expenditures in the negative list as defined in the Schedule of the Financing Agreement. If any portion of the Grant is used to finance ineligible expenditures as so defined in the Schedule of the Financing Agreement, IDA shall require the Government to promptly, upon notice from IDA, refund an amount equal to the amount of the said payment to IDA. Amounts refunded to IDA upon such request shall be cancelled from the Grant.

14. **The Ministry of Finance and Development Planning will have overall responsibility for the implementation of the reforms supported by the operation.** More specifically, the Aid Management Unit within the Ministry of Finance and Development Planning will have direct responsibility for the implementation of the operation. The government has established, with support from donors, a Monitoring and Evaluation (M&E) department within the Liberia Development Alliance (LDA) to monitor progress on the implementation of the AfT. The Aid

Management Unit within the Ministry of Finance and Development Planning 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 the objectives and indicators of the government's AfT. Furthermore much of the policies from the AFT, including those covered under this operation as well as those covered by other donors including the EU and the African Development Bank (AfDB), are covered in the Common Assessment Framework (CAF). The monitoring of the operation will therefore not create additional burden for the government. Technical assistance is being provided under a Multi-donor Trust Fund for data analysis. The BSWG and the CAF provide a mechanism for 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 BSWG that are results-focused will provide timely feedback on progress and allow the government to take action to ensure that reforms are being completed in a timely manner. On the Bank's side, the implementation of the operation will be monitored and evaluated through continuous dialogue and timely missions. Furthermore, scheduled Implementation Status and Results Reports will be prepared and made public.

VII. Risks and Risk Mitigation

15. **The overall risk rating for the operation is substantial.** Liberia's transition from conflict to long-term development has been set back by the Ebola crisis and the country remains fragile with weak state capacity and vulnerable to economic shocks as demonstrated by impact of the sustained low prices for rubber and iron ore. The country and fiduciary risks and mitigation measures are summarized below:

16. **Ebola epidemic:** Although Liberia was declared Ebola free by the World Health Organization (WHO) in January 2016, there have been subsequent outbreaks and the pandemic has severely weakened the health system, which remains vulnerable to a re-emergence of the EVD or other health crises. In addition, recent research suggests that the Ebola virus has been detected in "recovered" males for up to 18 months after recovery and that generally those recovering from Ebola are likely to have long-term health issues.[1] These represent obvious risk elements for the health sector and consequently, the wider economy. Given the evidence of the economy wide effects of the Ebola crisis, this risk is generally considered to be crossing with possible impact in the political, economic and social domains as well as on the implementation of reforms including those included under the program, including this operation.

17. ***Mitigation:*** To help mitigate risks of a new Ebola epidemic, many businesses and government ministries and agencies are maintaining the hand-washing protocol. In addition, the Government is working with a number of multilateral and bilateral partners to build more resilient health systems, not just in Liberia but also in the other two most affected countries—Guinea and Sierra Leone. This is a pragmatic approach given the porosity of the borders between these three countries. The Government is also committed to maintaining the share of the FY2016 budget to the health sector, despite reduced revenues. The budget support provided through the proposed operation will also enable the government to better mitigate the risk.

[1] http://www.who.int/mediacentre/news/releases/2016/ebola-zero-liberia/en/

18. **Political and governance:** The current security situation in Liberia remains fragile, but stable. Given the extremely limited fiscal space, the government is facing substantial challenges in expanding its security apparatus to fill the gap created by the phased UNMIL drawdown. The political situation is currently stable but could get increasingly unstable as the 2017 elections approach. The operation includes reforms which are likely to reduce opportunities for corruption and rent-seeking. It may therefore be difficult to secure political commitments from perceived "losers" to ensure effective implementation of the reforms.

19. ***Mitigation:*** To help mitigate the security risks, UNMIL and other donors are providing support to expand the training of more local police force to strengthen their presence in key areas. To help mitigate the political risk the To help mitigate the political risk the Bank will continue to engage with Liberia through, for example, information exchanges on reform, including in coordination with the IMF and other donors.

20. **Macroeconomic:** Liberia is an open economy, heavily dependent on foreign direct investments and primary exports, for its fiscal revenues, foreign exchange and many of the decent jobs. It is also dependent on imported fuel and food, including the primary staple—rice. These dependencies amplify the country's vulnerability to risks of external shocks with both fiscal and balance of payments implications. The substantial negative impact of the sustained low prices for Liberia key exports—rubber and iron ore, serves to highlight the vulnerability to macroeconomic shocks. Fiscal risks, possibly associated with the upcoming presidential elections are considered to be moderate in large part because the current President considers fiscal prudence to be part of her legacy.

21. ***Mitigation:*** The Government's maintenance of prudent macroeconomic management as demonstrated for example by the reduction in the FY2016 budget as revenues fell below forecast for the first half of the fiscal year. Furthermore, the close monitoring of the economy, jointly by the World Bank and the IMF will help to mitigate the macroeconomic risks. There are also ongoing efforts, including through the proposed operation, to broaden the base of the economy through the improvement of the business environment.

22. **Operational design, implementation and sustainability:** Every effort has been made to keep the design of this operation relatively 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 AfT poses risks of implementation delays as well as of sustainability of some of the reforms.

23. ***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 a crucial complementary activity to DPO, including under this proposed operation. As discussed in sections 4.3 and 4.4, there are a number of complementary technical assistance projects and other supporting activities being pursued by the World Bank and other donors that would help to mitigate the implementation and sustainability risks that arise from weak capacity within the Government.

24. **Fiduciary:** The continued engagement by the development partners in the PFM area has resulted in an enhanced fiduciary environment in Liberia including effective capacity. However, despite the notable progress made in improving the fiduciary system, there are still weaknesses that present opportunities for corruption.

25. ***Mitigation:*** To help mitigate the fiduciary risks to this operation, the government is continuing its roll-out of the IFMIS to key ministries and agencies and to expand its coverage to donor resources. This proposed operation will also support strengthening of procurement capacity in the Ministries and Agencies as well as at the PPCC to enhance oversight.

26. **Environmental and social:** Liberia is highly vulnerable to climate change as a large proportion of the coastal community live in poorly constructed housing with little protection from sea or storm surges. Climate change-induced sea level rise combined with increasing storms and sea-surges could have catastrophic effects and hence draw fiscal resources from reforms, including those supported by the proposed operation.

27. **Mitigation:** Environment Impact Assessment (EIA) is a legal requirement in Liberia and the EPA has responsibility for their monitoring and enforcement. There are clear procedural guidelines for such EIA and information is available from the EPA. The capacity of the EPA has been improving, for example through the training and deployment of 22 additional environmental inspectors in March 2013. However, it is still well below what is needed for effective monitoring and enforcement. To mitigate the natural disaster risks, the government has revitalized the National Disaster Relief Commission (NDRC) to educate the public and coordinate the disaster response. The UN is also providing support to help assess and plan for the various natural disaster risks. IDA is also flagging disaster risks related to its program of support to help ensure that IDA funded project does not increase environmental related risks.

VIII. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

28. **Prior actions under this operation are expected to have both direct and indirect positive poverty and social effects although not significant.** First, the resources under the operation will increase fiscal space allowing the government to increase public resources towards its Ebola recovery and AfT priorities. With the substantial slowdown in economic activities and the sustained low prices for rubber and iron ore, the government's fiscal resources from tax and non-tax revenues are well below the levels prior to the crisis and inadequate to maintain effective service delivery. Second, the reforms intended to enhance political and economic governance; support economic transformation and improve education and health, will foster more efficient and transparent use of public resources as well as promote inclusive growth to reduce poverty and inequity.

29. **The links between poor economic governance, economic inequities and conflict in Liberia are well documented.** In the past, public resources were utilized to benefit a small group of political elite, which heightened inequality and social instability. Reforms focused on improving economic governance including: anti-corruption and transparency, as well as those covering public financial management, procurement and budget oversight, are intended to strengthen budget planning and execution to ensure that the AfT priorities are achieved. In

addition, strengthening the civil service, through a more transpired and equitable pay system, is expected to result in the more efficient delivery of public service particularly to the poor.

30. **The reforms supporting economic transformation are intended to facilitate both the expansion and diversification of the economy, providing more jobs and reducing poverty.** Reforms, including for energy infrastructure, are expected to transform the economy from one exporting only primary products to a more diversified economy fueled by lower cost energy and with road, port and telecommunication infrastructure to improve competitiveness, including in the manufacturing and services sector leading to more and better jobs.

The reforms supporting human capital development through greater and more equitable access to education and health are expected to benefit the poor. First, through access to services to build valuable personal assets such as good health, education and skills that will better enable them to take advantage of job opportunities, and second through lowering the cost of access to these services. Analysis in the World Bank 2012 poverty report[2] suggest that improved access to education is generally seen to improve the probability of getting better remunerated work, reducing the likelihood of poverty and social exclusion, and providing positive externalities of higher productivity growth and enhanced health.

Environment Aspects

31. **The reforms proposed under this operation are focused largely on economic governance, economic transformation and human capital development.** These reforms are not expected to have any significant negative direct environmental effects. The reforms supporting least cost power development and access by the Liberia Electricity Corporation to HFO, is complementary to the project support being provided by the World Bank under the Liberia Accelerated Electricity Expansion Project (LACEEP) project, which involves the construction of HFO facilities for off-loading, transport and storage, of HFO in support of the least-cost procurement of the fuel under which specific measures to mitigate any adverse environmental effects have been outlined in the Oil Spill Response Plan (OSRP)[3].

32. **The storage and transfer of liquid petroleum products such as HFO carries the risks of leaks or accidental releases from tanks, pipes, hoses and pumps during loading and unloading.** The OSRP establishes a predetermined line of response and action, including lines of authority and responsibility and correct reporting and communication procedures. The OSRP also includes procedures for spill control, isolation and clean up. The plan also includes steps for the development of monitoring and follow-up programs, and root cause assessments to ensure that spill incidents do not recur.

The risks of HFO spill during operation is small and will be largely localized and is mainly related to off-loading the HFO at the port from moored vessels and pumping it through the HFO pipeline (1.5 km) into the HFO rehabilitated or newly constructed storage tanks. To decrease the risks of spills from the HFO tanks to the adjoining environment, the areas surrounding the fuel storage tanks will have concrete flooring and a secondary containment

[2] World Bank, Liberia Poverty Note-Tracking the Dimensions of Poverty. Report No. 69979-LR. November 2012.
[3] The OSRP meets the requirements of Liberia's Environmental Protection Agency (EPA) Act.

retaining wall designed to hold 110 percent of the capacity of the largest tank. In addition, the tanks will be fitted with high-level alarms to minimize over-filling and spillage. Slow migrating spills along the HFO pipeline will be contained with an absorbent material and faster migrating spills will be contained with the use of containment dykes or trenches with a plastic base.

IX. Contact point

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