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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR

A PROPOSED DEVELOPMENT POLICY CREDIT
IN THE AMOUNT OF SDR 14.6 MILLION
(US$20 MILLION EQUIVALENT)

AND

A PROPOSED DEVELOPMENT POLICY GRANT
IN THE AMOUNT OF SDR 14.6 MILLION
(US$20 MILLION EQUIVALENT)

TO THE REPUBLIC OF LIBERIA

FOR A

FIRST INCLUSIVE GROWTH DEVELOPMENT POLICY OPERATION

February 19, 2020

Macroeconomics, Trade and Investment Global Practice
Africa Region

Republic of Liberia

GOVERNMENT FISCAL YEAR

July 1 – June 30

CURRENCY EQUIVALENTS

Exchange Rate Effective as of January 31, 2020

Currency Unit = Liberian Dollar (LD)

US$1.00 = LD 196.2180

US$1.00 = SDR 0.72624278

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
ASA	Advisory Services and Analytics
CBL	Central Bank of Liberia
CET	Common External Tariff
CPF	Country Partnership Framework
CPI	Consumer Price Index
DMC	Debt Management Committee
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
ECOWAS	Economic Community of West African States
EITI	Extractive Industries Transparency Initiative
EPA	Environmental Protection Agency
EU	European Union
EVD	Ebola Virus Disease
FDI	Foreign Direct Investment
FIBLL	First International Bank of Liberia Limited
FIU	Financial Intelligence Unit
FY	Fiscal Year
GAC	General Audit Commission
GDP	Gross Domestic Product
GNI	Gross National Income
GoL	Government of Liberia
GRS	Grievance Redress Service
ICDU	Implementation and Coordination Delivery Unit
IDA	International Development Association
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
IFRS	International Financial Reporting Standards
IGDPO-1	First Inclusive Growth Development Policy Operation
IMF	International Monetary Fund
INDC	Intended Nationally Determined Contributions
LACEEP	Liberia Accelerated Electricity Expansion Project

LD	Liberian Dollar
LDP	Letter of Development Policy
LEC	Liberia Electricity Corporation
MAC	Ministries, Agencies and Commission
MFDP	Ministry of Finance and Development Planning
MT/HA	Metric Tons per Hectare
MTDS	Medium-Term Debt Strategy
MW	Megawatts
NASSCORP	National Social Security and Welfare Corporation
NHSR	National Household Social Registry
NSPPS	National Social Protection Policy and Strategy
NTB	Nontariff Barriers
PAC	Public Accounts Committee
PAPD	Pro-Poor Agenda for Prosperity and Development
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMA	Public Financial Management Act
PPCC	Public Procurement and Concessions Commission
PPP	Purchasing-Power Parity
PRSDPO	Poverty Reduction Support Development Policy Operation
PV	Present Value
REDD++	Reducing Emissions from Deforestation and forest Degradation
SCDCA	Seed Development and Certification Agency
SCF	Standard Credit Facility
SDF	Standard Deposit Facility
SDR	Special Drawing Rights
SOE	State-Owned Enterprise
SOERCU	SOE Reporting and Coordination Unit
STAR-P	Smallholder Agriculture Transformation and Agribusiness Revitalization Project
SSN	Social Safety Net
TA	Technical Assistance
TFA	Trade Facilitation Agreement
TSA	Treasury Single Account
UNMIL	United Nations Mission in Liberia
US$	United States Dollar
USAID	United States Agency for International Development
WTO	World Trade Organization

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REPUBLIC OF LIBERIA

FIRST INCLUSIVE GROWTH DEVELOPMENT POLICY OPERATION

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P168218	Yes	1st 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
Number of licensed private firms in the seed sector (number)	[0][2018]	[5][2023]
Share of domestic rice production in total rice consumption (%)	[30][2018]	[40][2023]
LEC commercial losses (%)	[56][2018]	[30][2023]
Energy tariffs for poor households (c/kwh)	[38.5][2018]	[<25][2023]
Cost to export: Border Compliance (US$)	[1113][2018]	[700][2023]
Cost to import: Border compliance (US$)	[1013][2018]	[700][2023]
Share of tax expenditures in total domestic revenues (%)	[32.6][2018]	[20][2023]
Published Statement of Fiscal Risks from SOEs (Y/N)	[N][2018]	[Y][2023]
Published audited SOE reports (number)	[0] [2018]	8 [2023]
Percent of adults with accounts at financial institutions (%)	[35.7][2018]	[50][2023]
Gender gap in account ownership (percentage points)	[15.5][2018]	[9] [2023]
Number of extremely poor households receiving regular cash transfers, total and by gender of household head: (i) female HH; (ii) male HH (number)	[0][2018]	[20,000; (i) 16000; (ii) 4000][2023]
Share of government SSN spending in total SSN spending (%)	[0][2018]	[15][2023]

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

1. INTRODUCTION AND COUNTRY CONTEXT

1.1. **This program document proposes an SDR 29.2 million (US$40 million equivalent) International Development Association (IDA) financing to the Republic of Liberia for the First Inclusive Growth Development Policy Operation (IGDPO-1).** The proposed operation is the first in a programmatic series of three single-tranche operations designed to support the Government as it implements a structural reform program focused on productivity-driven private-sector-led growth, improved public-sector transparency, and greater economic and social inclusion. It is closely aligned with the objectives of the World Bank Group's Country Partnership Framework (CPF) for Liberia[1] and Liberia's medium-term development plan, the Pro-Poor Agenda for Prosperity and Development (PAPD) 2018-2023. The IGDPO series builds on the unfinished reform agenda supported by the previous series in a selective and targeted manner, and its design reflects the government's acute capacity constraints.

1.2. **Liberia's economic performance over the last four decades has been highly uneven, with a marked deterioration observed in recent years.** After contracting for a quarter century, Liberia's economy grew steadily during 2004-2013 at an average annual rate of 7.4 percent. However, in 2014 the regional outbreak of Ebola Virus Disease (EVD) and a sharp decline in global prices for iron ore and rubber disrupted Liberia's economic recovery, and the real gross domestic product (GDP) growth rate slowed to 0.7 percent in 2014 and 0 percent in 2015. The terms-of-trade shocks persisted longer than expected and were exacerbated by the drawdown of United Nations Mission in Liberia (UNMIL) peacekeeping forces[2], which pushed the economy into recession in 2016. An incipient recovery during 2017-2018 proved anemic and short-lived. Liberia's economy is estimated to have contracted by 1.4 percent in 2019, driven by falling demand as indicated by the evolution of taxes and bank credit. The lingering impact of recent shocks was compounded by the transition to a new political administration in 2018, as the relative inexperience of the incoming officials increased policy uncertainty and weakened macroeconomic management, as evidenced by the delayed policy response to growing macroeconomic imbalances, as well as the stalled structural reform agenda, ongoing governance challenges, and persistently low capacity across the public sector.

1.3. **Poverty remains widespread in Liberia, and progress on poverty reduction has been slow.** With a gross national income (GNI) per capita of just US$600 in 2018, Liberia is among the ten poorest countries in the world. From 2007 to 2014, Liberia's per capita GDP growth rate averaged 3.3 percent per year, which helped reduce the poverty rate[3] from 68.6 percent in 2007 to 38.6 percent in 2014. However, from

[1] World Bank (2018). "Country Partnership Framework for the Republic of Liberia, FY2019-FY2024." Report No. 130753-LR.

[2] The UNMIL was established in Liberia in 2003. The presence of the UNMIL was large as compared to the size of Liberian economy; the annual average budget of UNMIL to GDP ratio was the average annual budget of UNMIL to GDP ratio during FY2007–18 was 23 percent, the second highest among existing Peacekeeping Operations in this period (IMF Country Report No.18/172, June 2018). The economic impact of UNMIL withdrawal on Liberia economy was felt through the following major channels: (i) fall in aggregate demand; (ii) reduction in foreign exchange inflows; (iii) fiscal costs related to security handover.

[3] Liberia's poverty rate is measured as the percentage of the population living below the international poverty line

2014 through 2019 per capita GDP contracted at an average rate of 2 percent per year, causing the poverty rate to rise to an estimated 43.4 percent by 2019. Non-monetary poverty indicators, including access to healthcare, education, and basic utilities, are also low by regional and international standards, with especially acute rural/urban and gender disparities driven by unequal access to land and productive assets, infrastructure, public services, and markets for both goods and labor.

1.4. **The impact of climate change could increase the share of Liberians living below the poverty line by between 2 and 6 percent by 2030.**[4] Liberia's infrastructure is highly vulnerable to climate change, and annual damage to the road network from rainfall and flooding alone could equal as much as 40 percent of GDP by 2030.[5] Liberia's pervasive poverty and dependence on environmentally sensitive sectors such as agriculture, fishing, mining, and forestry exacerbate its vulnerability to climate change. An increase in the frequency and severity of extreme weather events would inflict a heavy toll in human lives and welfare while damaging the country's scarce and valuable capital, and the poorest households and communities will be hit hardest, as income and health shocks will drive them deeper into poverty. Liberia's key climate stressors include increasing average temperatures, prolonged heatwaves, and more frequent and intense 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 Government has been slow to develop national climate-change policies, and their implementation has been limited, especially at the sector level. However, recent national commitments emphasize improved planning, adaptation, resilience, and enhanced disaster-risk management.[6] This operation is designed to address weather- and climate-related risks by supporting adaptation policies in the agriculture and energy sectors, as well as in social protection.

1.5. **Liberia's governance indicators steadily improved from 2005 through 2011, but progress began to slow after the initial post-conflict recovery, and the transition to the new administration has presented additional challenges.** Limited institutional capacity and entrenched patronage systems are major obstacles to reform in Liberia. While the administration of President Ellen Sirleaf Johnson promulgated a new legal framework designed to increase transparency and accountability in the public administration, corruption continued to affect all aspects of public service delivery. The new administration of President George Weah assumed office under enormous pressure from its youthful constituency to deliver jobs and improve public services. The inexperience of the new government, a rush to deliver on election promises, and longstanding weaknesses in administrative capacity have perpetuated key governance challenges, including a lack of rigorous appraisal of external loans and uneven adherence to procurement, reporting, and financial management standards, particularly for donor-financed projects. In addition, the fallout from the flawed process for printing new Liberian dollar (LD) banknotes under the previous administration and a poorly implemented liquidity mop-up exercise under the new administration have revealed serious weaknesses in governance and internal controls at the Central Bank of Liberia (CBL).

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of US$1.90 per day in 2011 purchasing-power-parity (PPP) terms.

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

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

[6] Government of Liberia (2015) "Intended Nationally Determined Contributions (INDC)" United Nations Framework for Climate Change (UNFCCC).

1.6. **Amid these challenges, and after a delay, the Government has taken critical steps to restore macroeconomic stability, promote good governance, and renew progress on the structural reform agenda.** The authorities have: (i) reached an agreement on a new four-year Extended Credit Facility (ECF) arrangement with the International Monetary Fund (IMF) and begun implementing important macroeconomic and fiscal management reforms; (ii) passed a credible budget for fiscal year (FY)2019/2020 that consolidates the public finances, rationalizes the wage bill, and improves domestic revenue mobilization while protecting social spending and strengthening fiscal oversight and control mechanisms; (iii) significantly tightened the monetary policy stance to control inflation; and (iv) passed legislation addressing a variety of governance issues, including the Land Rights Act, the Power Theft Act, the Whistleblower Protection Act, the Freedom of Information Act, the Modernized Customs Code, and the Amended Public Finance Management Act. A renewed policy dialogue with the World Bank and other development partners has laid the groundwork for implementing the reforms supported by the IGDPO-1.

1.7. **Sustainable poverty reduction in Liberia will require robust and inclusive economic growth.** The tepid recovery since the EVD crisis of 2014 underscores the importance of accelerating growth while expanding the distribution of returns. The reforms supported by the proposed development policy financing series are designed to: (i) remove distortions in selected sectors and strengthen public-sector transparency; and (ii) promote economic and social inclusion.

1.8. **Pillar 1 of the proposed 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, trade, tax incentives, oversight of state-owned enterprises (SOEs), and debt transparency. Agricultural 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 input markets. In addition, climate risks—especially higher temperatures and increased flooding—will require the adoption of climate-resilient seeds and the dissemination of adaptive production processes. Meanwhile, a costly and unreliable electricity supply inhibits private investment and growth, particularly in light manufacturing and agro-processing. Strengthening the financial viability of the energy sector while expanding access to affordable electricity will be crucial to improve productivity and boost living standards while mitigating the risks that climate change poses to hydropower production. Reducing trade costs can help increase export competitiveness outside the natural-resource sector and encourage investment in areas that have a high poverty impact and where Liberia has an underexploited comparative advantage (e.g., agriculture and agro-processing). Streamlining tax incentives will reduce rent-seeking behavior, curb fiscal leakages, and provide a level playing field for private investors. Finally, strengthening SOE oversight and improving debt management and transparency would contribute to better governance and responsible borrowing. Together, these reforms are expected to improve productivity, promote economic diversification, enhance transparency and public-sector efficiency, expand employment opportunities, and raise income levels among poor households.

1.9. **Pillar 2 of the proposed series supports measures to promote economic and social inclusion.** Reforms in this area are aligned with the government's objectives for improving public service delivery, especially to the poorest households. Policy actions supported under this pillar focus on institutional reforms in key areas such as financial inclusion and social safety nets (SSN). Strengthening the regulatory framework for financial inclusion, including for digital finance, will improve access to formal financial services among excluded and underserved groups, particularly women, facilitating inclusive economic participation, asset accumulation, and income 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. SSN programs will also help low-income households cope with climate-related shocks, especially those caused by extreme weather events.

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

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

2.1. **Between 2016 and 2018, Liberia's annual GDP growth rate averaged just 1.8 percent.** The Liberian economy is still struggling to fully recover from the effects of multiple shocks, including the regional EVD outbreak, a sustained slump in global prices for major export commodities (including rubber, iron ore, and palm oil), the withdrawal of UNMIL forces, a decline in foreign aid, and policy uncertainty arising from both the political transition and the new government's policy slippages. The real GDP growth rate contracted by 1.6 percent in 2016, then rebounded to 2.5 percent in 2017 following an uptick in international gold and iron ore prices (Table 1). Despite increased mining output, which was bolstered by the opening of a new iron mine and by greater investment in the gold sector, the GDP growth rate slowed to 1.2 percent in 2018, as private consumption, investment, and exports weakened. The non-mining sector, which accounts for about 90 percent of GDP, contracted by 1.3 percent, as the moderate growth of agriculture and fisheries output (3.1 percent) was more than offset by contractions in forestry (-6.3 percent), manufacturing (-5.7 percent), and services (-2.2 percent). Multiple persistent distortions in factor and product markets contributed to low and declining rates of productivity growth, which inhibited structural transformation and slowed job creation. Negative per capita income growth drove an increase in the poverty rate, which rose from 40.7 percent in 2017 to 42.3 percent in 2018.

2.2. **Inflationary pressures have intensified over the past two years.** The headline inflation rate reached an all-time high of 28.5 percent at end-December 2018, driven by a 26 percent year-on-year depreciation of the Liberian dollar against the US dollar combined with supply-side constraints, the monetization of the fiscal deficit and additional money creation resulted from the financing of the CBL's large deficit. Liberia's high levels of import dependency, especially for food and fuel, contributed to the depreciation's pass-through effect on domestic prices. Imported food and fuel account for 20 percent of Liberia's Consumer Price Index (CPI) basket, and in 2018 prices for imported food and fuel rose by 26.8 percent and 39.2 percent, respectively. Meanwhile, domestic food-price inflation reached 35.9 percent, largely due to the poor performance of agriculture. Services prices also increased, especially for catering (37.1 percent) and transportation (35.1 percent), which together accounted for almost a quarter of the CPI basket. Inflationary pressures have persisted through 2019 as the LD has continued to depreciate, and the headline inflation rate is projected to reach 28 percent for the year.

Table 1. Liberia: Selected Economic and Financial Indicators, 2015-2022

	2015	2016	2017	2018	2019	2020	2021	2022
	Act.	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.
(Annual percentage change unless otherwise indicated)								
GDP and Price								
Real GDP	0.0	-1.6	2.5	1.2	-1.4	1.4	3.4	4.2
Real GDP excluding mining sector	2.6	2.6	0.2	-1.3	-3.4	0.0	2.7	3.8
Nominal non-mining per capita GDP (U.S. dollars)	452	724	695	660	621	594	582	589
Nominal GDP (millions of U.S. dollars)	3177	3277	3284	3264	3155	3099	3131	3360
Consumer prices (annual average)	7.7	8.8	13.2	21.2	28.0	21.3	13.5	11.0
(Percent of GDP, fiscal year)								
Central government operations[1]								
Total revenue and grants	20.8	33.3	31.0	25.9	28.2	29.9	29.8	29.3
Total revenue	14.4	14.0	14.3	12.9	14.4	14.9	15.9	16.5
Grants, including Ebola-related support	6.4	19.3	16.7	13.0	13.8	15.1	13.9	12.8
Total expenditure and net lending	27.1	36.0	35.8	30.8	34.3	34.6	33.5	32.7
Current expenditure	20.8	22.9	22.9	21.3	23.3	22.7	22.0	21.2
Capital expenditure	5.6	13.1	12.9	9.5	11.0	11.9	11.5	11.5
Overall fiscal balance, including grants	-6.3	-2.7	-4.8	-4.8	-6.1	-4.7	-3.7	-3.4
Overall fiscal balance, excluding grants	-12.7	-22.0	-21.5	-17.8	-19.9	-19.7	-17.6	-16.2
Public external debt	14.6	18.8	22.7	28.4	34.9	41.7	45.8	48.1
Central government domestic debt	9.7	n.a	n.a	11.7	19.2	19.1	18.3	16.9
(Percent, unless otherwise indicated)								
M2/GDP	22.3	20.5	18.6	19.6	17.1	16.7	16.3	15.5
Credit to private sector (percent of GDP)	12.9	12.8	15.4	16.3	16.8	17.3	17.8	17.3
Credit to private sector (annual percent change)	8.1	2.3	25.3	4.7	-0.3	1.3	3.7	4.5
(Percent of GDP, unless otherwise indicated)								
External sector								
Current account balance								
including grants	-22.7	-18.6	-23.4	-23.4	-21.1	-21.4	-21.9	-19.7
excluding grants	-54.8	-47.2	-43.6	-38.1	-35.6	-35.9	-35.5	-31.7
Trade balance	-28.9	-28.2	-20.2	-18.4	-14.1	-13.4	-12.3	-11.0
Exports	8.0	11.6	13.0	16.6	18.3	20.3	21.9	21.9
Imports	-36.9	-39.8	-33.2	-35.0	-32.5	-33.7	-34.2	-32.9
Grants (donor transfers, net)	32.1	28.6	20.2	14.7	14.5	14.6	13.5	12.0
Gross official reserves (millions of U.S. dollars)	446	453	376	313	279	308	333	354
Months of imports of goods and services[2]	3.0	3.2	2.7	2.4	2.1	2.3	2.4	2.5

Sources : Liberian authorities; IMF and World Bank staff estimates and projections.

[1] Central government operation is based on a commitment basis and referes to the budgetary central government operations and off-budget year data and projections refers to July 1 to June 30.

[2] In months of next year's imports excluding imports related to UNMIL operations and FDI projects such as iron-core

2.3. **Rapid inflation, especially food inflation, has markedly eroded the living standards of the most**

vulnerable groups.[7] Imported food makes up 18.7 percent of the CPI basket, 7.6 percent out of which is imported rice. Controlling inflation has proven difficult in the absence of effective monetary policy instruments. The CBL tightened its monetary policy stance in November 2019, and the Government has committed to refrain from CBL deficit financing starting in FY2020.[8] These measures are expected to gradually lower the inflation rate. In addition, structural reforms supported by the proposed IGDPO series and related investment financing (see Sections IV and V) will help address the country's structural imbalances and boost productivity, especially in agriculture, while facilitating trade. Improved access to food and employment opportunities among poor households will contribute to the achievement of the government's medium-term objectives for food security and poverty reduction. Meanwhile, the World Bank-supported program of cash transfers to extremely poor and food-insecure households[9] and the World Food Program-supported school feeding programs will provide targeted assistance to the most vulnerable groups.

2.4. **The government's fiscal position deteriorated significantly in FY2018 and FY2019.** The central government's overall fiscal deficit widened from 2.7 percent of GDP in FY2016 to 4.8 percent in FY2018 and reached 6.1 percent in FY2019, reflecting low domestic revenue mobilization and high levels of public spending (Table 2). The authorities were unable to cut spending despite a sharp decline in aid flows, due in part to the large and increasing budgetary share of non-discretionary expenditure items, especially public-sector salaries and debt service. Non-discretionary expenditures increased from 8.1 percent of GDP in FY2016 to 11.1 percent in FY2019. Meanwhile, discretionary spending, already very modest, has borne the brunt of the expenditure adjustment over the past three years, further undermining the quality of public service delivery. Despite improvements, domestic revenue mobilization has remained weak, and tax revenue accounted for just 12.1 percent of GDP in FY2019. The extensive use of tax waivers narrows and distorts the tax base, and foregone revenue from tax waivers was estimated at 30 percent of total revenue in FY2019. The fiscal deficit was financed by external loans, borrowing from the CBL, and the accumulation of payment arrears. Reconciled end-FY2019 arrears are now estimated at US$52 million, or about 1.6 percent of GDP.[10]

2.5. **Large fiscal deficits have caused a rapid increase in the public debt stock.** Liberia's total public debt stock more than doubled as a share of GDP, rising from 24.3 percent in FY2015 to 54.1 percent in FY2019 as a widening fiscal deficit necessitated new borrowing (Table 1). The public external debt stock rose from 14.6 percent of GDP to 34.9 percent during the period, driven by debt contracted to finance the post-EVD recovery and infrastructure investment. The domestic debt stock reached 19.2 percent of GDP in FY2019 due to government borrowing from the CBL in the form of bridge loans and advances to cover the financing gap for the past two years,[11] an approach that has contributed to high inflation rates. Under

[7] More systematic analysis of impact of food inflation on poor is planned to be done in the context of the *First Liberia Economic Update* (force coming, 2020).
[8] Establishing a ceiling on the CBL's gross direct credit to the central government is a performance criterion under the ECF program.
[9] Liberia Social Safety Net Project (LSSN, P155293). The project will directly benefit about 10,000 extremely poor and food insecure households in four of Liberia's poorest and most food insecure counties (Bomi, Maryland, Grand Kru, and River Gee), or about 17 percent of all food poor households in the nation.
[10] Domestic arrears at end-June for FY2019 totaled US$90 million, or about 2.8 percent of GDP. Roughly half were wage arrears, which the Government cleared at end-September by drawing on the CBL overdraft facility.
[11] Domestic debt figures may be understated because the MFDP's Debt Management Unit does not keep records of

the new ECF program, the Government has committed to implementing a comprehensive arrears-clearance strategy based on: (i) halting the accumulation of new arrears; (ii) verifying the existing stock of arrears; and (iii) approving and implementing a credible repayment plan.[12]

2.6. **SOEs pose significant fiscal risks.** Established in 2013, the SOE Reporting and Coordination Unit (SOERCU) currently identifies 34 SOEs operating in a wide range of sectors, including public utilities, infrastructure, agriculture, manufacturing, and financial services. However, SOERCU only monitors and reports on 15 of Liberia's SOEs. The total liabilities of these 15 SOEs are estimated at US$644.5 million, or 19.8 percent of 2018 GDP. The Liberia Electricity Corporation (LEC) accounts for 74 percent of the SOE liabilities reported by SOERCU. SOE liabilities include large and growing arrears in accounts receivable, particularly payments to the power and water utilities, as well as tax arrears to the Liberia Revenue Authority, payment arrears to the National Social Security and Welfare Corporation (NASSCORP), cross-arrears among SOEs, and payment arrears between SOEs and the Government. The Government has requested TA from the IMF to develop a methodology for assessing SOE-related fiscal risks and design a strategy to mitigate them. The proposed operation supports measures to strengthening SOE oversight and to bolster the financial sustainability of the largest SOE, LEC, which will help reduce the fiscal risks posed by the SOE sector.

domestic debt. Consequently, the emergence of new claims, including court settlements, represents an additional source of fiscal risk.

[12] IMF (2019). "Liberia: Request for a Four-Year Arrangement Under the Extended Credit Facility. Annex V. Public Sector Arrears: Stocktaking and Liquidation Plan." IMF Country Report No.19/381, December 2019. Pp. 50-53.

Table 2. Liberia: Key Fiscal Indicators, FY2016-FY2022 (% of GDP)[1]

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	33.3	31.0	25.9	28.2	29.9	29.8	29.3
Total revenue	14.0	14.3	12.9	14.4	14.9	15.9	16.5
Tax Revenue	12.4	11.9	11.5	12.1	12.5	13.3	13.8
Income, profits and capital gains tax	3.6	3.5	3.5	3.9	4.1	4.3	4.5
Goods and services tax	2.8	2.3	2.1	2.2	2.2	2.5	2.7
international trade tax	5.7	5.7	5.6	5.7	5.9	6.1	6.3
other taxes[2]	0.3	0.3	0.2	0.3	0.3	0.3	0.3
Non-Tax Revenue	1.6	2.4	1.4	2.3	2.4	2.5	2.7
Grants	19.3	16.7	13.0	13.8	15.1	13.9	12.8
Expenditures	35.9	35.1	30.7	34.3	34.6	33.5	32.7
Current expenditure	22.8	22.4	21.3	23.3	22.7	21.9	21.2
Wages and salaries	7.8	8.9	9.4	10.1	9.5	9.5	9.1
Goods and services	12.2	11.2	9.9	10.8	10.6	9.8	9.4
Subsidies and Transfers	2.5	2.0	1.4	1.4	1.6	1.6	1.7
Interest	0.3	0.3	0.6	1.0	1.0	1.0	1.0
Capital Expenditure	13.1	12.7	9.5	11.1	11.9	11.5	11.5
Overall surplus / deficit (incl. grants)	-2.6	-4.1	-4.8	-6.1	-4.7	-3.7	-3.4
Primary surplus/deficit (incl. grants)	-2.3	-3.8	-4.2	-5.1	-3.7	-2.7	-2.4
Identified Financing	2.6	4.1	4.8	6.1	4.7	3.7	3.4
External	3.4	3.6	4.3	4.5	5.2	3.9	3.8
Domestic	-0.8	-0.5	0.8	0.0	-0.5	0.0	-0.1
Change in accounts payable (+ increase/- decrease in arrears)	..	1.0	-0.3	1.6	0.0	-0.2	-0.3
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources : Liberian authorities; and IMF and World Bank staff estimates and projections.

[1] Fiscal table is shown on a commitment basis and refers to the budgetary central government operations and off-budget projects. fiscal year refers to July 1 to June 30.

[2] Including property tax and social contribution by foreign concessions.

2.7. **The CBL approved a new Monetary Policy Operational Framework in July 2019, and in November it significantly tightened its monetary policy stance.**[13] The CBL has announced its plan to transition from an exchange-rate-targeting framework, which proved costly and inefficient, to a new interest-based framework. The new interest-based monetary policy instruments include the standard deposit facility (SDF), the standard credit facility (SCF), the intraday liquidity facility, and marketable central bank bonds for liquidity management, all of which have now been implemented. The SDF policy rate was initially set at 30 percent; the SCF rate was set at 5 percentage points above the SDF rate; and the CBL will auction central bank bonds to commercial banks and the public at tenor-based graduated rates. Draft amendments to the CBL Act, which are expected to be considered by the legislature in February 2020,[14] would support the modernization of the monetary policy framework, define price stability as the CBL's primary mandate, and improve CBL governance.

[13] https://www.cbl.org.lr/2press.php?news_id=189&related=7&pg=sp

[14] A structural benchmark under the ECF.

2.8. **The financial sector is dominated by banks, which are highly exposed to the Government.** The nine commercial banks operating in Liberia hold 85 percent of the financial sector's assets, or about 30 percent of GDP. Nonbank financial institutions include one finance company, two mobile-money operators, 19 insurance companies, one deposit-taking microfinance institution, approximately five non-deposit-taking microfinance institutions, 12 rural community financial institutions, approximately 275 credit unions, and an estimated 1,450 informal village savings and loan associations. The banking sector's total exposure to the Government is US$65 million, or about 2 percent of GDP. To clear its arrears, the Government issued seven-year bonds in May 2019.[15] Liberian banks are now considering discounting these bonds using a bond-discount facility at AFREXIMBANK to expand access to credit, especially for export-oriented activities. At end-December 2018, non-performing loans (NPLs) accounted for 13.8 percent of total loans, exceeding the regulatory threshold of 10 percent. The private-sector-credit-to-GDP ratio is low at 14 percent, and over 90 percent of private-sector credit is denominated in US dollars. The growth rate of private-sector credit slowed from 25.3 percent in 2017 to a modest 4.7 percent in 2018 and it is estimated to be negative in 2019 (-0.3 percent), reflecting weakening economic activity and challenges in the banking sector. With support from the IMF, the CBL has developed an action plan to address financial-sector risks, which prioritizes measures to strengthen banking supervision, bolster the resolution framework, improve data quality, and enforce reporting requirements. The CBL has also committed to completing a diagnostic of the banking system based on banks' internal data by end-December 2019. If this diagnostic does not yield a clear assessment of the sector's status, the CBL will undertake an asset-quality review.

Table 3. Balance of Payments Financing Requirements and Sources, 2017-2022

In million U.S. dollars, unless otherwise is indicated	2017 Act.	2018 Est.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
Gross external financing requirements	**1381**	**1204**	**1116**	**1188**	**1202**	**1161**
Current account deficit, excl. official transfers	1432	1244	1122	1114	1110	1066
Amortization and debt service	10	22	28	45	67	74
Accumulation of international reserves	-61	-62	-34	29	25	21
Other outflows	0	0	0	0	0	0
Available external financing	**1381**	**1204**	**1116**	**1188**	**1202**	**1161**
Donor transfers	664	479	457	452	423	403
FDI (net)	242	286	253	282	313	350
Official financing (net)	76	58	140	141	133	137
Private financing (net)	334	309	177	198	208	145
Capital account (net)	55	52	52	51	42	41
Other inflows (incl. errors and omissions)	10	23	28	45	68	74
IMF credit (net)	0	-3	9	19	15	11

Sources : Liberian Authorities; IMF and World Bank Staff estimates and projections.

2.9. **Despite improvements in the trade balance, external vulnerabilities persist, and foreign-exchange reserves are dwindling.** The current-account deficit widened from 18.6 percent of GDP in 2016 to 23.4 percent in 2018 and improved moderately to an estimated 21.1 percent in 2019 but remains high (Table 1 and Table 3). The trade balance modestly improved, driven by rising exports (particularly gold and iron ore), while imports declined following the completion of the UNMIL withdrawal and a decline in service imports improved the services balance. However, these gains were undermined by falling net income and net transfers, especially donor inflows, which contracted from 28.6 percent of GDP in 2016 to 14.7 percent in 2018. Net foreign direct investment (FDI) remained broadly stable at about 8 percent

[15] Seven banks hold these bonds, which pay a coupon of 4 percent per year and amortize in seven equal payments over seven years.

of GDP in 2019. The CBL's gross international reserves declined from US$453 million (or 3.2 months of imports) at end-2016 to US$313 million (or 2.4 months of imports) by end-2018, reflecting the combined effects of lower foreign-exchange inflows, CBL interventions in the foreign-exchange market, the drawdown of government deposits, and the CBL's provision of credit to the Government. Gross international reserves continued falling in 2019 to an estimated US$279 million (or 2.1 months of import coverage), significantly below the level generally regarded as adequate to withstand external shocks (3.3 months of imports).

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

2.10. **While Liberia's short-term growth outlook is challenging, its medium-term growth prospects are expected to improve as macroeconomic stabilization and structural reforms take hold.** Adjustments in fiscal and monetary policy will be necessary to restore macroeconomic stability and control inflation. The costs of this adjustment will be felt in the short term, with an estimated contraction in 2019 followed by a slow projected recovery in 2020 (Table 1). This recovery will be supported by the continued growth of the mining sector (primarily iron ore and gold), while aggregate non-mining sector growth is projected to be negligible due to the continued contraction in services combined with sluggish growth in agriculture and manufacturing (primarily cement production). The real GDP growth rate is projected to rise from 3.4 percent in 2021 to 4.2 percent in 2022, supported by the improving performance of the non-mining sectors and a continued expansion in the mining sector, albeit at a slowing pace. The agriculture, forestry, trade, transportation, and financial services sectors are projected to make the largest contributions to growth, as structural reforms will help improve productivity, increase investment, and boost the competitiveness of Liberian products. Improvements in the domestic food supply, lower electricity tariffs, reduced trade costs, and better public services are expected to contribute to more robust and inclusive economic growth. Meanwhile, macroeconomic stability and improvements in the business environment should positively affect savings, investment, and private consumption.

2.11. **The average inflation rate is expected to moderate to 11 percent by 2022, supported by the CBL's tighter monetary policy stance, the implementation of the new monetary policy framework, and fiscal consolidation.** Under the ECF program, the CBL is expected to maintain a tight monetary stance, curb the monetization of fiscal deficits, and implement the new interest-rate-based monetary policy framework. The CBL is also expected to adhere to exchange rate flexibility by allowing the exchange rate to adjust to market fundamentals and by limiting its interventions in the foreign-exchange market to operations aimed at smoothening short-term fluctuations and rebuilding reserves.

2.12. **The overall fiscal deficit is projected to narrow from 6.1 percent of GDP in FY2019 to 3.4 percent in FY2022, underpinned by improved revenue and expenditure management.** The projected fiscal consolidation assumes a series of credible, realistic and executable budgets, starting from FY2020 budget, and the implementation of additional revenue and expenditure measures over the medium term. On the revenue side, the Government approved an ambitious Domestic Resource Mobilization Strategy and enhanced domestic revenue-mobilization efforts, including 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 the collection of certain tax arrears, especially those owed for the road fund tax. A full transition to the CET, the expansion of the base for consumption taxes, and a reduction in tax waivers will help boost domestic revenue from an estimated 12.1 percent of GDP in FY2019 to 13.8 percent in FY2022. Meanwhile, total expenditures are projected to fall from 34.3 percent of GDP in FY2019 to 32.7 percent in FY2022 as the Government implements reforms to the public-service payroll. The Government has taken steps to reduce the wage bill by US$25 million, or 7.8 percent, between FY2019 and FY2020 and reprioritizing social and capital expenditures to enhance public service provision. As a result, the primary deficit is projected to narrow from 5.2 percent of GDP in FY2019 to 2.4 percent in FY2022 despite rising debt-service payments. The Government plans to continue reforming public financial management (PFM), with support from World Bank and other development partners.[16]

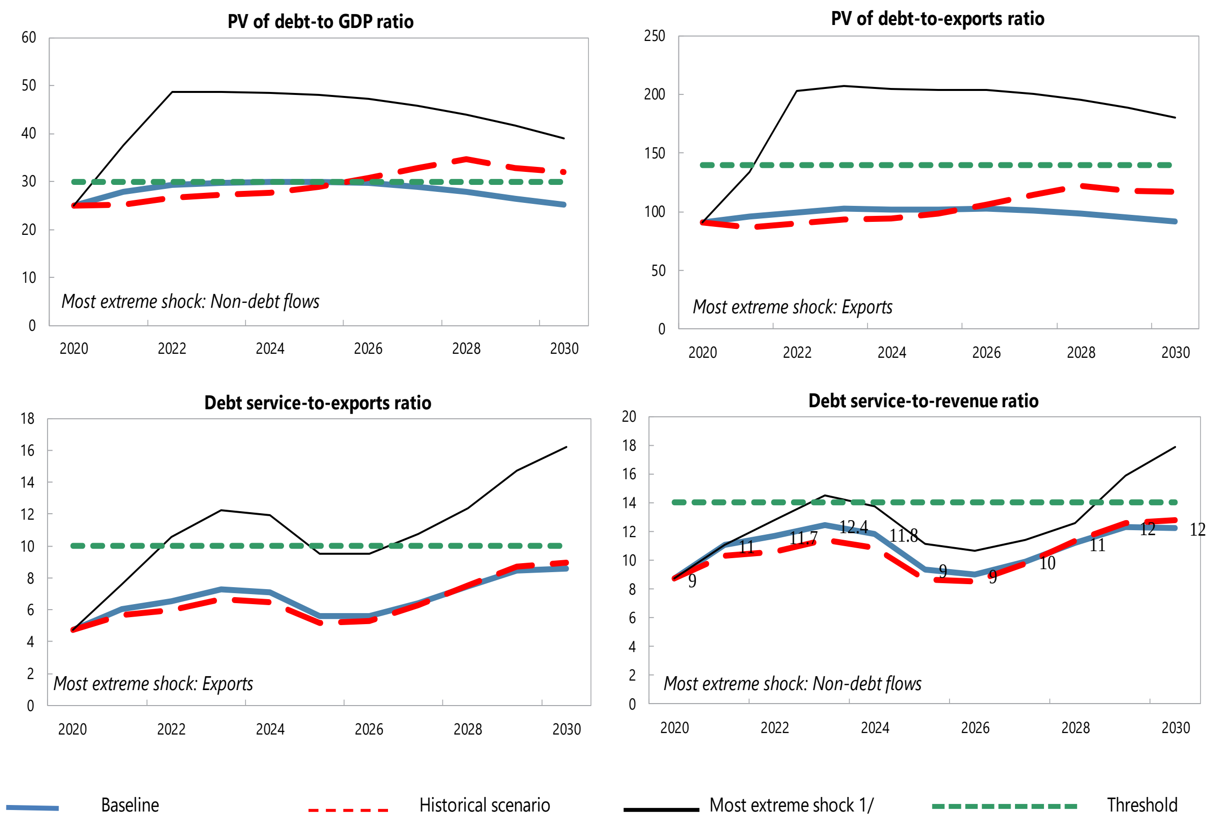
2.13. **Liberia's external position is projected to improve over the medium term.** The current-account deficit, including grants, is projected to narrow from 21.1 percent of GDP in 2019 to 19.7 percent in 2022 due to the anticipated increase in mining and agricultural exports. The growth of mining exports will be largely driven by gold and iron ore, as both Hummingbird and ArcelorMittal are planning to expand mining output. Structural reforms designed to alleviate constrains 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). As a result, the trade deficit is expected to narrow from 14.1 percent of GDP in 2018 to 11.0 percent in 2022. The current-account deficit will be increasingly financed by capital inflows, especially FDI in agriculture, mining, and infrastructure. FDI are projected to increase following their drop due to the protracted period of uncertainty prior and post elections and macroeconomic instability during 2018-19 but will remain below the pre-Ebola level. Gross official reserves are expected to decline in the near term before gradually recovering to US$354 million, or 2.5 months of import coverage, by 2022.

2.14. **The latest joint IMF-World Bank Debt Sustainability Analysis (DSA), finalized in November 2019;[17] concluded that Liberia was at moderate risk of external debt distress and at high risk of overall public debt distress.** Liberia's composite indicator for debt-carrying capacity was revised downward from medium to weak.[18] Under the baseline scenario, all external debt sustainability indicators are expected to remain below their respective policy-dependent thresholds. However, all standard stress tests, namely, a shock of one-standard deviation in the primary balance, nominal export growth, other non-debt creating flows, and a one-time depreciation of the size needed to close the real exchange overvaluation will all result in breaching the thresholds on the present value (PV) of debt-to-GDP ratio (Figure 1). A shock to the primary balance, exports, or other debt creating flows will lead to a breaching in the threshold on the PV of debt-to-exports ratio. Public debt indicators highlight Liberia's limited borrowing space, with the most extreme scenario showing an extended breach of the PV of the public-debt-to-GDP ratio. Even under the standard sensitivity analysis for public debt indicators, the PV of the debt-to-GDP ratio breaches its relevant threshold (Figure 2). In addition, a contingent-liability stress test capturing the combined shock of an external debt default by SOEs, public-private partnerships in distress, and financial-market vulnerabilities that are not included in Liberia's debt coverage due to data constraints[19] indicates a one-

[16] World Bank's support is provided through the Public Financial Management Reforms for Institutional Strengthening project (PFMRIS, P165000).
[17] The DSA is being conducted in the context of a request for the IMF ECF and the World Bank IGDPO. The DSA was considered by the IMF Executive Board on December 11, 2019 and subsequently published https://www.imf.org/en/Publications/CR/Issues/2019/12/20/Liberia-Request-for-a-Four-Year-Arrangement-Under-the-Extended-Credit-Facility-Press-Release-48900.
[18] The composite indicator captures the impact of different factors through a weighted average of the World Bank's 2018 Country Policy and Institutional Assessment (CPIA) score, the global economic growth rate, and Liberia's real GDP growth rate, remittance levels, and international reserves.
[19] The default settings were used for this shock, including an SOE shock equal to 2 percent of GDP, a PPP shock equal to 35 percent of GDP, and a financial-markets shock equal to 5 percent of GDP.

off increase in the debt-to-GDP ratio of 13.6 percent. In light of these risks, as well as the extended breach of the PV of the debt-to-GDP threshold, Liberia is assessed to be at high risk of overall public debt distress. Under the ECF program and the proposed IGDPO series, the authorities have committed to prudent debt management policies, including the prevention of new arrears, increased reliance on concessional borrowing, adherence to the annual non-concessional borrowing ceiling (US$44 million on average), and transparency measures designed to help avoid risky collateralized agreements.

Figure 1. Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2019-2029

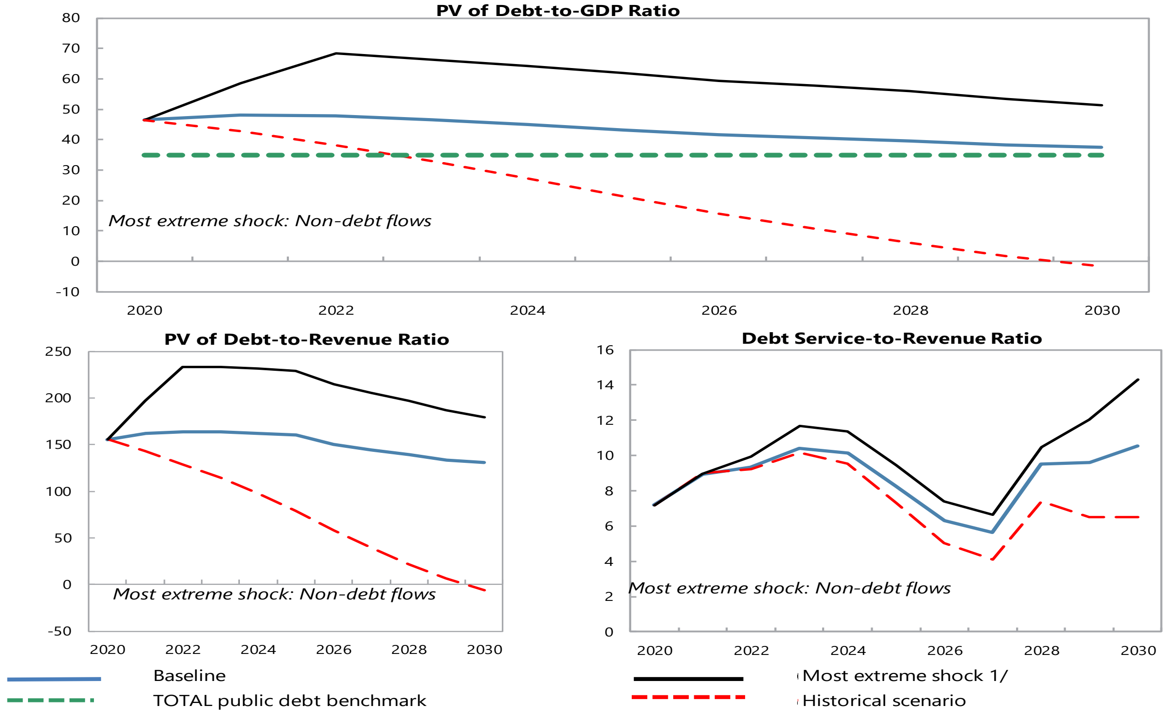


Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Indicators of Public Debt Under Alternative Scenarios, 2019-2029



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2.15. **Risks to the medium-term outlook are significant.** Key downside risks include continued fiscal slippages, slower-than-anticipated progress on structural reforms, and a less favorable external environment. An inadequate fiscal adjustment 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 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. Upside risks include rising commodity prices (especially for iron ore and rubber) or increased donor grants, either of which could improve financing conditions.

2.16. **The macroeconomic policy framework is considered adequate for the proposed operation.** After a slow start, the authorities have recently taken significant steps to ensure macroeconomic stability and return Liberia to a sustainable and inclusive growth path. In the context of negotiating the new ECF program, the Government has stepped up efforts to increase revenue mobilization and reduce the wage bill to narrow the fiscal deficit, contain the debt stock, and ultimately create new fiscal space for public investment. The CBL has committed to stopping the monetization of government fiscal deficits in order to reduce inflation, which is the largest tax on the poor. The CBL has also committed to improving governance and transparency. Complementary reforms supported by this operation will reinforce the ECF program's objectives in the areas of macroeconomic stabilization and good governance while supporting inclusive growth. The IMF and the World Bank will continue to closely coordinate on issues of macroeconomic management and structural policy reform to help the Government achieve its medium-term goals for stabilization and growth.

2.3. IMF RELATIONS

2.17. **Liberia's request for a new four-year ECF arrangement was approved by the IMF Board of Directors 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 SOEs and systemically important banks. The structural benchmarks and performance criteria included in the ECF program are consistent with the prior actions supported by the proposed IGDPO series, as well as other World Bank investment operations and advisory services and analytics (ASA) projects. The IMF concluded its most recent Article IV consultations with the Liberian authorities on May 31, 2019.

3. GOVERNMENT'S PROGRAM

3.1. **In November 2018, the new government launched its PAPD, which covers the 2018-2023 period.** The PAPD follows the Agenda for Transformation and is the second in a series of five-year national development plans designed to achieve the aspirations expressed in Liberia's Vision 2030 framework. Developed in 2012, Vision 2030 aims to transform Liberia into a prosperous and inclusive middle-income economy by 2030. Vision 2030 was informed by nationwide consultations with citizens and stakeholders in all of Liberia's 15 counties. The PAPD is designed to operationalize this vision by focusing on four strategic pillars.

3.2. **Pillar I: Power to the People.** Under this pillar, the government's goal is to leverage human capital development to transform living conditions and enhance wellbeing at the household level. Strategic 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 seven 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; (v) building human capacity; (vi) improving the quality of healthcare services and infrastructure; and (vii) expanding access to healthcare, reducing vulnerability, and mitigating socioeconomic disparities.

3.3. **Pillar II: The Economy and Jobs.** 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.

3.4. **Pillar III: Sustaining the Peace.** The government's primary objective under this pillar is to work collaboratively with all citizens, regardless of social status, to build a more peaceful and unified society that enables economic transformation and sustainable development. 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.

3.5. **Pillar IV: Governance and Transparency.** 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. THE PROPOSED OPERATION

4.1. LINKS TO THE GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

4.1. **The proposed development policy operation (DPO) series supports key reforms designed to enable inclusive growth in Liberia in line with the strategic priorities of the PAPD (Table 4).** A programmatic series of three operations will support the government's program in line with the structure and objectives of the CPF. The proposed series builds on gains made under the previous programmatic Poverty Reduction Support Development Policy Operation (PRSDPO) series, which consisted of four operations and concluded in 2018.

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

PAPD Priorities	IGDPO Series Policy Areas
I. (i) Empowering women and girls	Financial inclusion, SSNs
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 and debt
II. (v) Expanding financial inclusion	Financial inclusion
II. (vi) Improving access to electricity	Energy
II. (vii) Increasing competitiveness	Agriculture, energy, trade, 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 and debt management

IV. (viii) Improving fiscal discipline and reducing corruption, waste, and abuse	Energy, trade, 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 the activities of other development partners

Source: World Bank.

4.2. **The program development objectives of the IGDPO series include: (i) removing distortions in selected sectors and strengthening public-sector transparency; and (ii) promoting economic and social inclusion.** To achieve these objectives, the proposed operation focuses on two strategic pillars and seven policy areas. The choice of pillars and policy areas reflects a combination of factors, including poverty-reduction potential, available analytical evidence to underpin reforms, current World Bank engagement (including complementarity with other World Bank projects), coordination with the IMF and other development partners, and the government's expressed priorities and reform momentum.

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

- *The policies supported under the first pillar aim to promote inclusive growth by removing constraints on productivity and economic diversification, with a special focus on agriculture, access to affordable electricity, trade facilitation, and public-sector transparency.* Improving the policy and regulatory framework for the agricultural sector, and especially for agricultural input markets, will be vital to support broad-based gains in productivity and living standards. The DPO series also supports measures to strengthen the financial viability of the energy sector, which is necessary to expand electricity access and attract private-sector investment. In addition, the series supports measures to improve the business climate by reducing trade costs through trade facilitation and the removal of nontariff barriers (NTBs) and distortive tax waivers. Prior actions to modernize the customs administration, streamline tax exemptions, strengthen SOE oversight, and improve debt transparency will help reduce fiscal leakages and improve public-sector efficiency, which in turn will contribute to increasing productivity and support inclusive growth. These measures, complemented by other ongoing World Bank operations, will catalyze economic transformation and job creation through improvements in productivity and competitiveness, especially in the country's large and developmentally critical agricultural sector.
- *The policies supported under the second pillar aim to promote economic and social inclusion by facilitating financial access and building a viable SSN system.* The DPO series prioritizes the development and implementation of a robust legal and regulatory framework for financial inclusion designed to facilitate the expansion of digital financial services while ensuring appropriate protections for end users, as well as the allocation of additional resources to build the SSN system and ensure its sustainability. These measures, pursued jointly with other World Bank operations and ASA activities, will help create an inclusive and accountable public sector capable of promoting shared prosperity and sustainable development in line with the goals of Pillar IV of the PAPD.

4.4. **The proposed IGDPO series supports governance and institutional reforms as a cross-cutting issue, building on the experience from the previous PRSDPO series.** Under the previous PRSDPO series, World Bank support concentrated on enhancing transparency and accountability among public institutions to reduce corruption. Key prior actions were aimed at strengthening the legal and institutional framework for good governance and anticorruption as well as building the capacity of key public-integrity institutions such as the Liberia Anti-Corruption Commission (LACC), the General Audit Commission (GAC), the Public Procurement and Concessions Commission (PPCC), and the Financial Intelligence Unit (FIU). Under the proposed series, key aspects of institutional reform will include improving the governance of the LEC, reducing rent-seeking behavior by adopting a modern Customs Code, streamlining tax waivers and reducing discretionary incentives, and strengthening SOE oversight and transparency. The proposed series also supports the establishment of digital platforms and services designed to enhance transparency, accountability, and inclusion, such as the National Household Social Registry (NHSR) and innovations in digital banking. These efforts are further complemented by the IMF's ECF program, which also aims to strengthen governance in a significant way (Box 1).

Box 1. Improving Governance and Fighting Corruption: Key Elements of the IMF's ECF Program

The ECF program strives to improve governance and reduce vulnerability to corruption. The program includes measures to improve PFM; strengthen the central bank governance, improve fiscal reporting, SOE activities, and foreign-exchange markets; and enhance tax administration, with a focus on tax collection from SOEs. In addition, the program supports the following actions by the authorities:

- Strengthening the anticorruption regime by amending the Penal Code to criminalize all acts of corruption and establishing a special task force for prosecuting corruption by end-June 2020.
- Using anti-money-laundering tools to combat corruption, issuing new rules for opening and managing accounts on behalf of politically exposed persons, and strengthening regulatory requirements for licensing financial institutions.
- Strictly enforcing asset-declaration requirements by centralizing the submission of asset declarations to the LACC; providing the LACC with the necessary verification powers, including dissuasive and proportionate sanctions for noncompliance; and granting public access to asset-disclosure information in accordance with the current Code of Conduct.

Furthermore, the Government has recently adopted important measures to reverse the recent deterioration in Liberia's compliance with the Extractive Industries Transparency Initiative (EITI) and avoid a potential delisting. These include replacing Liberia's EITI-compliance managerial team with internationally recognized experts and initiating close consultations with the EITI through periodic progress briefings and the provision of regular status updates on mitigation measures. To ensure the timely fulfillment of its reporting obligations, the Government reached an agreement with the EITI that will allow it to combine its overdue 10th and 11th Annual Reports.

Source: IMF Country Report No.19/381. December 2019. P. 19.

4.5. **The design of the IGDPO series integrates lessons learned from previous DPOs.**[20] 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 TA to ensure the sustainability of legal and regulatory reforms. The sequencing of prior actions is designed to facilitate incremental progress, with each supported measure laying the

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

groundwork for subsequent actions. The first operation focuses on measures to strengthen the legal framework, while later operations concentrate on supportive regulatory provisions to support implementation. While several prior actions for the IGDPO-1 involve legislative action, they mostly support the promulgation of laws, rather than their submission for approval by the legislature, to reduce the gap between the drafting of the laws and their implementation. In some areas (e.g. the Modernized Customs Code[21]), the new DPO series picks up on reforms that could not be completed 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

4.6. **The proposed IGDPO-1 includes seven prior actions.** These prior actions were identified in close coordination with the authorities and in consultation with development partners. Each action is underpinned by a substantial body of analytical work (Table 5).

Table 5. DPO-1 Prior Actions and Analytical Underpinnings

IGDPO-1 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 has enacted the Liberia Seed Development and Certification Agency Act to establish a Seed Development and Certification Agency (SDCA) to, *inter alia*, provide for sustainable seeds delivery system and private sector participation in seeds production and marketing.	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 has, through its Liberia Electricity Corporation (LEC), approved the LEC Business Plan (2019-2023) which addresses key operational challenges to reduce commercial losses in the energy sector.	Trimble et al. (2018) "Financial Viability of Electricity Sectors in Sub-Saharan Africa: Quasi-Fiscal Deficits and Hidden Costs." Policy Research Working Paper, WPS7788	Limited electricity access and high tariffs severely constrain Liberia's competitiveness. Liberia's utility costs are the highest in Sub-Saharan Africa, 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.

[21] 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 (IGDPO-1, P168218).

	Policy Engagement Note for the New Government (Energy) (2018) Economic Growth and Diversification Study (2019)	
Prior Action 3: The Recipient has enacted a *Modernized Customs Code* which provides for, *inter alia*, greater transparency and accountability of customs decisions and procedures and facilitation of international trade.	*Doing Business* (various years) Diagnostic Trade Integration Study (2016) Policy Engagement Note for the New Government (Trade Facilitation) (2018) Economic Growth and Diversification Study (2019) Trade Transactional Costs Study for Liberia (2019)	Numerous NTBs and a general lack of transparency in the application of both tariffs and NTBs impose additional transaction costs on exporters and importers, which distorts the allocation of resources and undermines competitiveness.
Prior Action 4: The Recipient has, through its Ministry of Finance and Development Planning (MFDP): (a) established an intergovernmental Technical Tax Expenditure Committee; and (b) suspended the issuance of Investment Incentive Certificates until June 2020, all for the purpose of reducing rent-seeking behavior, strengthening transparency, and creating fiscal space.	PPFR: Liberia Revenue Mobilization Policy Note (draft) (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 5: The Recipient has enacted the *Amendment and Restatement of the Public Financial Management Act of 2009* to *inter alia* provide for the: (a) submission of annual statement of fiscal risk from State-owned Enterprises (SOEs) along with the budget proposal for following year; and (b) publication of SOEs financial statements based on International Financial Reporting Standards (IFRS), for the purpose of strengthening transparency and improving oversight of SOEs.	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 clearly assess fiscal risks or estimate the true budgetary burden of the SOE sector. Amending the Public Financial Management 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 6: The Recipient has, through its Central Bank of Liberia, issued *Regulations Concerning Licensing and Operations of Electronic Payment (e-payment) Services* to, *inter alia*, promote financial inclusion and efficient delivery of quality payment services.	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 7. The Recipient has, through its Cabinet, issued the *Cabinet Resolution Concerning National Household Social Registry* (NHSR) which endorses the setting up of the NHSR as the principal mechanism for identifying and targeting beneficiaries of various social protection programs national-wide.	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.

Source: World Bank.

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

Policy Area: Agriculture

DPO-1 Prior Action #1. The Recipient has enacted the Liberia Seed Development and Certification Agency Act to establish a Seed Development and Certification Agency (SDCA) to, *inter alia*, provide for sustainable seeds delivery system and private sector participation in seeds production and marketing.	**DPO-2 Trigger #1.** To strengthen the regulatory framework for the seed market, the Recipient has: (i) approved regulations to implement the Liberia SDCA Act; and (ii) revised the National Seeds Policy. **DPO-2 Trigger #2.** The Recipient's Cabinet has approved the National Rice Development Strategy for 2020-2023.	**DPO-3 Trigger #1.** To strengthen the implementation of the national seed-market regulatory framework, the Recipient has instituted and published on-line the National Catalogue of Plant Species and Varieties. **DPO-3 Trigger #2.** The Recipient has implemented a gradual transition to the ECOWAS Common External Tariff (CET) on rice.

4.7. **Context and Issues:** Despite its declining share in GDP, agriculture continues to play a key role in economic growth, trade, and employment in Liberia. Between 2004 and 2017, agriculture's share in GDP fell from 68 percent to 38 percent. However, the sector employs an estimated 70 percent of the labor force, and an estimated 75 percent of agricultural workers are women. Just over half a million Liberians earn their livelihood through farming or related activities. Farming households comprised 35 percent of all Liberian households in 2016, and the poverty rate reached 79.6 percent among households headed by a person who was self-employed in agriculture. While concession-based agriculture is highly productive, the agricultural sector remains dominated by low-productivity smallholder farms[22] operating at semi-subsistence levels. According to the United Nations Food and Agriculture Organization, 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. Over 50 percent of total crop yields reflects the genetic potential of the crop, which is determined by the seed variety, yet very few Liberian farmers use improved seed varieties. The most commonly used seeds are not locally bred to account for prevailing agro-ecological conditions and are rarely resistant to pests and diseases. 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 on access to agricultural inputs.

4.8. **Due to the low productivity of Liberian agriculture, the country depends largely on imported food.** Imported food makes up 18.7 percent of the CPI basket, and in 2018 food imports accounted for 24 percent of Liberia's overall merchandise imports, or 9.3 percent of GDP. Reducing the food-import bill and strengthening food security are key objectives of the PAPD and achieving these goals will require a substantial increase in agricultural productivity. To strengthen food security through import substitution, Liberia must increase the domestic production of high-yielding, disease- and pest-resistant seed varieties tailored to local ecological conditions. To boost domestic rice production and enhance the competitiveness of Liberian rice, the Government must address multiple market and policy failures that restrict access to inputs, increase the cost of credit, raise production and transportation costs, and create disincentives to invest in rice production.

4.9. **Climate change is magnifying 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 agriculture productivity in recent years and increasing temperatures have affected soil moisture and diminished the availability of water for food production. Pests, disease, and inadequate storage impose high pre- and post-harvest losses, which average about 40 percent per year for food crops. Climate change is exacerbating the risks facing the agricultural sector: warm conditions during the day are important for crop growth cycles, but each crop has an upper heat threshold beyond which productivity is reduced 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 design; and (v) the adoption of efficient pest- and disease-management methods and technologies.

4.10. **Policy Reforms:** 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 seed-delivery system and facilitate private-sector participation in seed production and marketing through the enactment of the Liberia SDCA Act (**IGDPO-1 Prior Action 1**). This measure will be crucial to create an enabling environment for private-sector participation in agricultural input distribution, including the procurement of climate-resilient seed varieties. The next step will be to strengthen the regulatory framework for the seed market through the approval of the implementing regulations for the Liberia SDCA Act and the revision of the National Seed Policy (**IGDPO-2 Trigger 1**). To address constraints on domestic rice production, a comprehensive medium-

[22] The smallholder system supports over 80 percent of the farming population.

term National Rice Development Strategy will be approved (**IGDPO-2 Trigger 2**). To strengthen the implementation of the seed-market regulatory framework, the LSDCA will develop and publish a National Catalogue of Plant Species and Varieties (**IGDPO-3 Trigger 1**). To further support domestic rice production and reaping the benefits of a larger market, the Government will implement a gradual transition to the ECOWAS CET for rice (**IGDPO-3 Trigger 2**), following in-depth poverty and social impact analysis and putting in place social protection measures to mitigate negative impact on poor, if any.

4.11. **Expected Results:** The policy and institutional actions supported under this area will contribute to improving agricultural productivity, accelerating private-sector development, and expanding economic opportunities for rural and female-headed households. The measures supported by this operation will strengthen the regulatory environment and incentivize private-sector participation in the seed supply chain, and the number of licensed private firms in the seed sector is expected to reach at least five by end-2023. The resulting increase in the availability of quality and seed varieties on the domestic market, including climate-resilient varieties, is expected to have a positive impact on farm productivity. Better input access and enhanced incentives are expected to boost domestic rice production, driving the share of domestic rice from 30 percent of total consumption in 2018 to 40 percent by 2023. Medium-term gains in agricultural productivity will reflect the complementary impact of the IGDPO series and IDA's recently approved Smallholder Agriculture Transformation and Agribusiness Revitalization Project (STAR-P, P160945).

Policy Area: Energy

DPO-1 Prior Action #2. The Recipient has, through its Liberia Electricity Corporation (LEC), approved the LEC Business Plan (2019-2023) which addresses key operational challenges to reduce commercial losses in the energy sector.	**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. **DPO-2 Trigger #4.** The Recipient has approved a "lifeline" tariff policy that allows for a progressive tariff regime to address affordability challenges among poor households.	**DPO-3 Trigger #3.** The Recipient has approved mini-grid regulations that, inter alia, open opportunities for private investment in mini-grids and help reduce energy costs.

4.12. **Context and Issues:** In recent years, Liberia has achieved significant progress in narrowing its energy deficit, which has long been a major constraint on inclusive growth and economic transformation. Total installed generation capacity is now 126 megawatts (MW), including 88 MW from the Mount Coffee hydropower plant and 38 MW from thermal plants, while peak demand is about 33 MW. Given the seasonality of hydroelectric power, Liberia depends on costly diesel-fueled thermal plants to meet its power needs in the dry season (January-June). With support from the World Bank, the country now has adequate infrastructure, including storage facilities, to import cheaper heavy fuel oil to power its thermal plants, which will significantly lower total electricity costs. Meanwhile, the anticipated completion of the Côte D'Ivoire–Liberia–Guinea–Sierra Leone electricity connection in early 2020 should provide adequate capacity to meet demand even in the dry season. In early 2018, a Management Service Contract team was created to manage the day-to-day operations of the LEC over the next three years, with the objective of improving the utility's efficiency while training a cadre of local staff to assume responsibility for LEC operations (a prior action under the PRSDPO-IV). The Government has started to clear its existing arrears to the LEC, which exceeded US$6 million in March 2018.

4.13. **Despite these improvements, electricity access and cost continue to represent binding constraints on Liberia's competitiveness and present a major obstacle to improved living standards.** According to the World Bank's Doing Business Surveys, the costs of getting electricity for firms in Liberia are well above those of comparator countries and the average for Sub-Saharan Africa, while the reliability of supply and transparency of tariffs index is 0 on a scale of 0-8. While Liberia's electricity tariffs have been reduced from US$0.55/kWh in 2016 to US$0.385/kWh in 2018, they remain the highest in the world and are clearly unaffordable for most of the population. The 2016 Household Income and Expenditure Survey (HIES) found that only one out of every six households had access to electricity from either the LEC grid or from a private generator. Nearly all of these households were in urban areas, and less than 2 percent of rural households had access to electricity.

4.14. **The LEC's precarious financial situation is a major challenge.** The rising electricity supply is not translating into greater LEC revenue due to the utility's very high levels of commercial losses, which were estimated at 56 percent in the first quarter of 2019.[23] To reduce commercial losses, the LEC has taken over control of the customer-management system from its outsourced vendor, established appropriate billing and collection mechanisms through the World Bank-supported customer-management system, and started disconnecting and regularizing illegal connections. Due to declining generation costs and this concerted effort to reduce commercial losses, tariffs are expected to be reduced. Lower tariffs, coupled with the planned introduction of a "lifeline" tariff for poor households, will help make energy more affordable, boosting productivity and creating new economic opportunities.

4.15. **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^{o}C, which broadly represents a comfortable living environment. Average daily temperatures 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 excessive heat and extreme weather events can affect power-distribution networks. The LEC's management plans incorporate climate-related impacts on supply and demand.

4.16. **Liberia's Intended Nationally Determined Contributions (INDC) lay out national adaptation and mitigation targets, including those related to the energy sector as one of the key sectors to facilitate the Liberia's INDC**.[24] The mitigation targets include improving energy efficiency by at least 20 percent by 2030 and raising share of renewable energy to at least 30 percent of electricity production and 10 percent

[23]According to the LEC, in Q1 2019 aggregate losses were 68 percent, out of which 56 percent were commercial losses and 12 percent were technical losses.
[24]*http://www4.unfccc.int/Submissions/INDC/Published%20Documents/Liberia/1/INDC%20Final%20Submission%20Sept%2030%202015.002.pdf*

of overall energy consumption by 2030. This is expected to be achieved, *inter alia*, through the strengthening of institutional capacity in renewable resource management. Government's objectives of increasing access to quality, reliable, and affordable electricity as well as meeting the INDC targets cannot materialize without significantly improving the operational and financial situation of the LEC.

4.17. **Policy Reforms:** The IGDPO 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. The LEC Board has approved a five-year Business Plan (2019-2023) (**IGDPO-1 Prior Action 2**), with the following strategic objectives: (i) increase access to electricity for the poverty alleviation; (ii) commercial turnaround and sustainable operations of LEC; and (iii) capacity-building of the LEC for achieving long-term sustainability. The plan 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) introducing and enforcement new energy theft legislation. To reduce energy costs and expand electricity access, the Government plans to approve and implement a National Electrification Strategy (**IGDPO-2 Trigger 3**), which will be critical to improve operational efficiency. Meanwhile, the development and approval of a "lifeline" tariff policy will address affordability challenges among poor households (**IGDPO-2 Trigger 4**) and weaken incentives for illegal connections. 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. 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 investments (**IGDPO-3 Trigger 3**).

4.18. **Expected Results:** The actions supported under this area are expected to facilitate access to affordable and reliable electricity, thereby supporting private investment and service delivery. In addition, strengthening LEC's financial sustainability will reduce fiscal risks arising from the energy-related SOEs. The actions are expected to reduce the LEC's commercial losses to 30 percent, which combined with expanded connections will allow for the reduction in electricity tariffs for poor households from US$0.385/kWh to US$0.25/kWh by end-2023. Meanwhile, ongoing World Bank projects, including the Liberia Accelerated Electricity Expansion Project (LACEEP, P133445) 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: Trade

DPO-1 Prior Action #3. The Recipient has enacted a *Modernized Customs Code* which provides for, *inter alia*, greater transparency and accountability of customs decisions and procedures and facilitation of international trade.	**DPO-2 Trigger #5.** The Recipient's Cabinet: (i) approves the implementing regulations for the new Customs Code; and (ii) completes an assessment nontariff barriers (NTBs) to trade and eliminates the most distortionary NTBs.	**DPO-3 Trigger #4.** The Recipient further reduces NTBs in line with the recommendations of the assessment.

4.19. **Context and Issues:** Trade reforms could boost productivity by expanding access to foreign markets and inputs. After nearly ten years of negotiations, Liberia became the 163rd member of the World

Trade Organization (WTO) in July 2016. Within the framework of WTO membership, Liberia has agreed to remove most of its administrative and regulatory barriers to trade and foreign investment, and the Government has committed to ratifying the WTO Trade Facilitation Agreement (TFA). The TFA was ratified in September 2019. However, progress on trade facilitation has been slow and inconsistent. While Liberia's tariff rates are relatively low compared to its peers in West Africa, numerous, opaquely applied NTBs increase the cost of cross-border trade. In the most recent Enterprise Survey (2017), 29.3 percent of Liberian firms cited customs and trade regulations as the biggest obstacle to their operation—the largest share among peer countries and well above the ECOWAS average. The most distortive NTBs cited by Liberian firms are: (i) the import permit declaration system; (ii) price controls on key commodity imports, including petroleum, cement and rice; (iii) the export permit declaration system; and (iv) export bans on foodstuffs (since 2008) and unprocessed rubber (since 2013). In the 2020 *Doing Business* report, Liberia ranked 184th out of 190 countries for trading across borders. The time required to comply with export procedures (193 hours) and the average cost to export (US$1,113) are roughly double the averages for Sub-Saharan Africa (93 hours and US$607, respectively). High export costs severely limit the Liberian private sector's access to regional and international markets.

4.20. **The Modernized Customs Code provides a sound legal basis for the development of a modern and efficient customs administration.** The Modernized Customs Code aims to facilitate trade, increase revenue collection, enhance transparency, promote fairness and accountability in customs actions and decisions, and protect Liberia's people and industries against threats to their safety, security, and economic wellbeing. The Customs Code will align Liberia's customs laws with WTO principles and agreements and with the principles of the World Customs Organization's Kyoto Convention. The new code will significantly improve Liberia's trade environment by simplifying trade procedures and making them more transparent. The new law addresses several NTBs: it changes the methodology for import valuation and establishes an administrative process enabling importers and other persons to appeal decisions by customs officers to an independent authority in the Bureau of Customs. The new code also enhances transparency by requiring the Bureau of Customs to issue and publish legally required forms, notices, and explanations whenever feasible. The Bureau of Customs will also be required to hold regular stakeholder consultations.

4.21. **Policy Reforms:** This operation supports the promulgation of the Modernized Customs Code (**IGDPO-1 Prior Action 3**) to facilitate trade by establishing the legal basis for a modern, efficient, and transparent customs administration. To operationalize the Modernized Customs Code and the TFA provisions, the Government will approve implementing regulations for the Modernized Customs Code (**IGDPO-2 Trigger 5(i)**) and assess and eliminate the most distortive NTBs (**IGDPO-2 Trigger 5(ii)**). The Government will continue to eliminate NTBs over the medium term in line with the findings of the assessment (**IGDPO-3 Trigger 4**).

4.22. **Expected Results:** The full implementation of the Modernized Customs Code and the TFA are expected to accelerate growth by facilitating cross-border trade, improving access to critical information on customs procedures and decisions, harmonizing processes and standards under the Single Window for Trade, and enabling traders to appeal decisions by customs officers. The implementation of these reforms is expected to substantially reduce border-compliance costs and may improve Liberia's trade balance by encouraging exports. Boosting trade is also expected to accelerate economic growth, create jobs, and reduce poverty. These measures complement the domestic revenue mobilization objectives defined in Pillar III of the PAPD, as a significant portion of Liberia's fiscal revenue is generated by international trade. The *Doing Business* indicators for the cost of trading across borders will be used to measure the performance of the trade-policy reforms supported under the IGDPO series. Border-compliance costs are expected to fall from US$1,113 for exports and US$1,013 for imports to about US$700 each.

Policy Area: Tax Expenditures

DPO-1 Prior Action #4. The Recipient has, through its Ministry of Finance and Development Planning (MFDP): (a) established an intergovernmental Technical Tax Expenditure Committee; and (b) suspended the issuance of Investment Incentive Certificates until June 2020, all for the purpose of reducing rent-seeking behavior, strengthening transparency, and creating fiscal space.	**DPO-2 Trigger #6.** The Recipient has streamlined and consolidated all duty and tax waivers in the Revenue Code and submits the amended Revenue Code to the legislature.	**DPO-3 Trigger #5.** A report on tax expenditures is prepared and published in line with the amended Revenue Code.

4.23. **<u>Context and Issues</u>:** Liberia' tax-to-GDP ratio was 11.5 percent in 2018, one of the lowest in ECOWAS, and has been declining since 2012. 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 border were inefficient and unreliable. In 2018, the Government demonstrated its commitment to increasing revenues by developing the Domestic Revenue Mobilization Strategy.[25]

4.24. **An extensive array of tax exemptions further erodes the already narrow revenue base and substantially distorts economic incentives.** Revenue from the general sales tax equaled just 2.3 percent of GDP in FY2017/2018 at a standard rate of 7 percent, while revenue from the corporate income tax stood at 1.7 percent, with rates varying from 25 to 30 percent depending on the sector. 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.

4.25. **Total tax expenditures are large, and their efficiency appears to be low.** Tax expenditures rose from 19.4 percent of domestic revenue in FY 2015/2016 to 32.6 percent in 2017/2018.[26] Because these estimates exclude nontax fiscal incentives, total foregone revenue is even larger than the data indicate.

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[25] Liberia Revenue Authority (2018) "Domestic Resource Mobilization: Strategy in Liberia. FY2018-2022." https://lra.gov.lr/Admin/Official_Files/important_documents/d64cdd348ab4afb237a311fb8b72b186.pdf

[26] 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 FY2017/2018 were still high at 25.6 percent of domestic revenue.

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 FY2015/2016 to 22.1 million in FY2017/2018, a preliminary analysis suggests that more than 50 percent of the waivers granted are not meeting the expectations set forth in their applications criteria.

4.26. **Policy Reforms:** Given the magnitude of Liberia's tax exemptions, good governance and transparency are necessary to facilitate accountability and streamline the tax code. The Government has begun modernizing its tax-expenditure management framework, and the MFDP is revising all existing tax exemptions and waivers and developing an appropriate policy for granting waivers. The proposed operation supports the MFDP's establishment of an intergovernmental tax expenditure committee (**IGDPO-1 Prior Action 4 (i)**) and the temporary suspension of the issuance of Investment Incentives Certificates (**IGDPO-1 Prior Action 4 (ii)**). The Committee has two objectives: (i) review and revise Liberia's Incentive Regime to streamline tax expenditures and prevent an abuse, fraud and waste; (ii) derive the effective strategy to prevent an exponential increase in tax expenditures. With respect to Prior Action 4(ii), 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. The next step will be to approve new administrative regulations streamlining and consolidating all duty and tax waivers in the amended Revenue Code, which will be submitted to the legislature with the draft National Budget for FY2021 (**IGDPO-2 Trigger 6**). The Government has committed to preparing and publishing a Tax Expenditure Report in line with the amended Revenue Code (**IGDPO-3 Trigger 5**). The IDA's Public Financial Management Reforms for Institutional Strengthening project (PFMRIS, P165000) and the Ghana, Liberia, and Sierra Leone Tax Reform TA will support these reforms. The PFMRIS Project will address financial management and governance issues while deepening and institutionalizing PFM reforms. TA activities will focus on improving tax-expenditure management and streamlining tax exemptions.

4.27. **Expected Results:** Establishing the proper legal and institutional framework for rationalizing and managing tax expenditures will increase transparency and reduce 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.

Policy Area: SOEs Oversight and Debt Transparency

Prior Action 5: The Recipient has enacted the *Amendment and Restatement of the Public Financial Management Act of 2009* to *inter alia* provide for the: (a) submission of annual statement of fiscal risk from State-owned Enterprises (SOEs) along with the budget proposal for following year; and (b) publication of SOEs financial statements based on IFRS, for the purpose of strengthening transparency and improving oversight of SOEs.	**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. **DPO-2 Trigger #8.** To strengthen debt management and transparency, the Recipient: (i) has publishes its Medium-Term Debt	**DPO-3 Trigger #6.** To strengthen debt transparency, the Recipient: (i) established a comprehensive database of public debt, including the debts of SOEs and public-private partnerships; and (ii) published quarterly debt reports on its website.

	Strategy; and (ii) expanded the coverage of debt recording by including information on SOE liabilities, debts, guarantees.	

4.28. **<u>Context and Issues:</u>** As discussed in the paragraph 2.5 above, SOEs represent a source of significant fiscal risk. A number of large SOEs—particularly those involved in the energy sector, social security and affordable housing development—have long records of poor financial performance and net losses, which pose significant fiscal risks to the government budget. Inadequate monitoring and oversight magnify the fiscal risks posed by SOEs. A solid financial reporting regime and better oversight are necessary to ensure that resources are used and accounted for properly. The legal framework governing SOEs has evolved slowly and unsystematically, with most entities established under individual legislative acts in the 1970s. The 2009 Public Finance Management Act (PFMA) and associated PFM regulations represented a major effort to establish an overarching legal framework for SOEs, but they failed to clearly specify the government's ownership functions, institutional oversight arrangements, and requirements for estimating and disclosing fiscal risks arising from SOEs. Despite references to international standards in the legislation, it remains unclear whether SOEs are required to comply with IFRS, and some SOEs still follow the United States Generally Accepted Accounting Principles instead of the IFRS.

4.29. **The PFMA of 2009 and the PFM Regulations require developing a medium-term debt management strategy (MTDS) document.** The strategy document must be submitted, along with corresponding three-year period budget projections, for the Debt Management Committee's (DMC) approval and the Cabinet's subsequent endorsement. The strategy should be updated on an annual basis and submitted together with the three-year budget projections for approval by the DMC and the Cabinet. The Government has produced several MTDS documents since 2008. The most recent MTDS (2014-2016) covered central government debt and sovereign guarantees, but it was never made public, and the strategy has not been updated due to staff capacity issues and resource constraints. SOERCU currently monitors and reports on the performance of 15 of the 39 registered SOEs, but its reports do not provide any specific information about non-guaranteed SOE debt. Going forward, external debt coverage will be expanded as the government plans to include non-guaranteed SOE debt in estimates of total public-sector debt.

4.30. **<u>Policy Reforms</u>:** The PFMA of 2009 was amended in December 2019 requiring a statement on overall SOE performance and fiscal risks to be included in the National Budget (**IGDPO-1 Prior Action 5 (i)**) and mandates the publication of IFRS-compliant financial statements for SOEs (**IGDPO-1 Prior Action 5 (ii)**). The Government is receiving IMF TA to develop a methodology for assessing SOE-related fiscal risks and design a strategy for addressing them. The IGDPO-2 will support the MFDP's commitment to preparing statement of SOE fiscal risks and submitting them to the legislature along with the draft National Budget for FY2021 (**IGDPO-2 Trigger 7 (i)**), as well as its efforts to increase the reporting coverage of the SOE monitoring department (**IGDPO-2 Trigger 7 (ii)**). The amended PFMA strengthens the requirements for reporting and monitoring of SOE debt, including non-guaranteed debt. With TA from the IMF and the World Bank, the MFDP will develop and publish a new MTDS by end-2020 (**IGDPO-2 Trigger 8 (i)**) and expand the coverage of debt recording to include information on SOE liabilities, including debts and guarantees (**IGDPO-2 Trigger 8 (ii)**). 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 6 (i)**), and publish quarterly reports on its website (**IGDPO-3 Trigger 6 (ii)**).

4.31. **<u>Expected Results</u>:** Actions supported under this area are expected to strengthen SOE oversight, improve debt management, and enhance transparency. Stronger SOE monitoring and oversight, including the regular publication of fiscal risk statements and audited reports, will be vital to raise awareness of the risks emanating from the sector and address the challenges faced by individual SOEs. Enhancing debt transparency by establishing a comprehensive database (including SOE debt) and publishing a new MTDS will improve financial sustainability and promote prudent debt management.

Pillar 2. Promoting Economic and Social Inclusion

Policy Area- Financial Inclusion

DPO-1 Prior Action #6. The Recipient has, through its Central Bank of Liberia, issued *Regulations Concerning Licensing and Operations of Electronic Payment (e-payment) Services* to, *inter alia*, promote financial inclusion and safe and efficient delivery of quality payment services.	**DPO-2 Trigger #8.** The CBL has: (i) approved revised consumer-protection regulations with provisions on digital credit; and (ii) submitted the legislature a revised mended Payment Systems Act.	**DPO-3 Trigger #7.** The CBL established and made operational a digital credit registry with adequate staff and resources.

4.32. **<u>Context and Issues</u>:** Financial inclusion remains limited in Liberia. Only 35.7 percent of Liberians over the age of 15 have access to financial services,[27] which is below the average for low- and middle-income countries in Sub-Saharan Africa average, as well as the rates of regional comparators like Ghana and Nigeria. However, the share of Liberians with access to financial services has nearly doubled since 2011 (18.8 percent), prior to the introduction of mobile money. An estimated 20.8 percent of Liberian adults now have a mobile-money account, which provide only cash-in/cash-out services, while the share with accounts at a financial institution has risen more modestly to 21.6 percent. Liberian women are less likely to have an account than are 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—for mobile-money accounts (18.3 percent versus 23.5 percent). Due to low levels of financial inclusion, most Liberians lack the financial tools necessary to save, invest, and hedge against risks.

4.33. **Multiple policy and regulatory barriers inhibit financial inclusion.** Despite its low rates of financial inclusion, particularly among women, Liberia lacks a national policy framework to expand access to financial services. Meanwhile, 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 USSD[28]-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, the poor, who are most likely to benefit from digital credit, will be least able to access it.

[27] An account with a financial institution or mobile money operator.
[28] USSD (Unstructured Supplementary Service Data) is a Global System for Mobile (GSM) communication technology that is used to send text between a mobile phone and an application program in the network.

4.34. **The private-credit-to-GDP ratio is low at just 14.6 percent.** The 2017 World Bank Enterprise Surveys found that only 19 percent of firms had a bank loan or line of credit, and 38 percent of firm owners cited access to finance as a major constraint. Small firms were less likely than large firms to have a bank loan or line of credit. About 20 percent of firm owners reported using bank financing for investments or working capital. Financial institutions on-lend to consumers through the World Bank's Micro, Small, and Medium Enterprise (MSME) Project. The establishment of a movable collateral registry at the International Finance Corporation (IFC) is an important step toward expanding financial access, but 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 uses Excel and 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 show credit scores. Both positive and negative credit data are available, but not historical data.

4.35. **Policy Reforms:** Expanding access to financial services in Liberia will require a multi-pronged approach to facilitating the digitization of the financial sector. To promote digital financial inclusion, 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 and publicly launched in December 2019. The CBL has started the implementation of the NFIS as evidenced by the approval of Regulations Concerning Licensing and Operations of Electronic Payment (e-payment) Services to, *inter alia*, promote financial inclusion and safe and efficient delivery of quality payment services (**IGDPO-1 Prior Action 6**). With World Bank TA, 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 is expected to approve the new regulations and submit the amended Payments System Act to the legislature in 2020 (**IGDPO-2 Trigger 9**). To 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 7**).

4.36. **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 poor, remote, and underserved populations. 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 accounts from 35.7 percent in 2017 to 45 percent by 2023 while narrowing the gender gap in account ownership from 15.5 percentage points in 2017 to 9 percentage points by 2023.

Policy Area: Social Safety Nets

DPO-1 Prior Action #7. The Recipient has, through its Cabinet, issued the *Cabinet Resolution Concerning National Household Social Registry* (NHSR) which endorses the setting up of the NHSR as the principal mechanism for identifying and targeting beneficiaries of various social	**DPO-2 Trigger #10.** The Recipient has: (i) approves 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.	**DPO-3 Trigger #8.** To sustain SSN system and expand its scope nationwide, the Recipient approves a transition plan that includes adequate financing from the National Budget for 2023.

protection programs national-wide.		

4.37. **<u>Context and Issues</u>:** Liberia's overall social protection framework, and especially the 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 almost negligible, contributing just 3.4 percent to the consumption of beneficiary households, and their impact on poverty is very limited. Most social protection programs are donor-financed, resulting in programmatic fragmentation and numerous uncoordinated small-scale interventions. Excessive reliance on donor financing also puts the sustainability of Liberia's social protection system at risk. The 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. Given the depth and severity of poverty in Liberia, closing the extreme poverty gap would require approximately US$50 million per year—or about 1.6 percent of Liberia's 2016 GDP. Cash transfers can help poor households mitigate economic shocks, smooth consumption over time, and enable long-term human-capital development.

4.38. **Social protection is a key aspect of the government's development agenda.** Liberia Rising 2030 and the PAPD both target aspects of social protection. 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.

4.39. **SSNs can help low-income households cope with shocks caused by extreme weather events**. In Liberia, annual flooding damages infrastructure, displaces an estimated 60,000 people per year,[29] 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. In 2015, 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 over time.[30] Undernutrition among children is a severe challenge, and 30 percent of Liberian children under the age of five suffer from stunting, while more than half a million are underweight.[31] Physical or economic shocks, including those caused or exacerbated by climate change, could drive vulnerable populations deeper into poverty.

4.40. **<u>Policy Reforms</u>:** To address Liberia's high and rising incidence of extreme poverty, the Cabinet has endorsed the NHSR (**IGDPO-1 Prior Action 7**), a consolidated database that will enable the Government to efficiently target households in need of support. The NHSR will be critical to harmonize programs and reduce leakages and redundancies. The Ministry of Gender and Social Protection has commenced data collection for the NHSR in four counties and provided regular cash transfers to 3,250 extremely poor households during Q4 2019 using a proxy means test, the same eligibility screening tool that will be used

[29] UN Disaster Risk Response Committee estimates.
[30] LISGIS. 2016. "Household Income and Expenditure Survey 2014-2015."
[31] SMART 2016; LISGIS website.

for the NHSR on a pilot basis. The previous National Social Protection Policy and Strategy (NSPPS) expired in 2017, and a new NSPPS is pending approval (**IGDPO-2 Trigger 10 (i)**). The new NSPPS will account for recent developments, especially post-EVD outbreak efforts to establish an effective, sustainable, and resilient social protection system that is capable of responding to future shocks, including through the NHSR. Expanding the NHSR's coverage and scaling up support to extremely poor households will require establishing a monitoring and information system (**IGDPO-2 Trigger 10 (ii)**). This system will help to strengthen financial accountability, identify efficiency gains, and reduce overhead costs, which often exceed 40 percent of benefits delivered, by facilitating program monitoring, tracking, and reporting. To ensure the sustainability of the SSN system and expand its coverage nationwide, the Government will approve a transition plan that includes an adequate level of financing to be allocated in the FY2023 National Budget **(IGDPO-3 Trigger 8)**.

4.41. **The World Bank's Liberia Social Safety Net 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 10,000 extremely poor and food insecure households. 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 the United States Agency for International Development (USAID).

4.42. **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 (or 1/3 of all extremely poor and food insecure households), including 16,000 that are female-headed, and the budget allocated for SSN programs is expected to increase from 0 percent of total financing in 2018 to at least 15 percent by FY2023. As cash transfers will be made to the female household member with the greatest competence and responsibility for household spending,[32] the program is expected to have a highly positive impact on household nutrition and food security, as well as human-capital investment in children. The NHSR will allow the use of biometric identification, which will decrease the risk of duplication of beneficiaries across and within programs. In addition, maintaining programmatic 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. LINKS TO THE CPF, OTHER WORLD BANK OPERATIONS, AND THE WORLD BANK GROUP STRATEGY

4.43. **The IGDPO series is fully aligned with the World Bank's Liberia CPF for FY19-24.** The CPF's overarching goal is to support Liberia as it strives to achieve pro-poor, private-sector-led growth underpinned by human-capital development, institutional capacity-building, infrastructure development, and economic diversification. The CPF also seeks to enable 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

[32] In the Liberian context, it is expected that this will typically be the oldest female household member.

the infrastructure gap to foster more equitable nationwide development. Other World Bank Group operations targeting agriculture, land rights, energy, trade, financial inclusion, the digital economy, social protection, macro-fiscal management, and good governance are linked to the proposed series and will provide valuable TA and other forms of complementary support.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

4.44. **The Government has maintained a positive track record of holding regular, broad-based consultations on key policies and strategies.** In January 2018, President Weah reaffirmed the government's commitment to an inclusive consultative process. The formulation of the PAPD, with which the proposed series is closely aligned, involved extensive participation 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 IGDPO was informed by a consultative process involving development partners and other stakeholders. Priority reforms were outlined in a series of policy notes prepared for the new government, which were discussed with development partners in May and June of 2018.

4.45. **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, to define the priorities of the IGDPO series and the sequence of reforms. The design of the IGDPO 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.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

5.1. **The prior actions and other reforms supported under the proposed IGDPO series are expected to have positive poverty and distributional effects over the medium and long term.** Reforms under Pillar 1 are designed to remove distortions to productivity-driven growth and economic diversification by reforming agricultural input markets, expanding the energy supply, facilitating trade, streamlining tax waivers and strengthening SOE oversight and transparency. Reforms under Pillar 2 support economic and social inclusion by promoting access to finance and strengthening SSNs. The following section describes how the prior actions contribute to poverty reduction.

5.2. **While the prior actions supported under Pillar 1 are expected to have a positive overall poverty and social impact, individual measures will have different effects:**

- **Prior Action #1**: The passage of legislation establishing a SDCA will lay the groundwork for a sustainable seed-delivery system and enable private-sector participation in seed production and marketing. Reforms to the seed market are expected to: (i) increase access to improved seed varieties and create the conditions for increased yields over the medium term; and (ii) promote private-sector engagement in seed supply and create new jobs, which are expected to have significant positive impact on poverty. Given the extremely high rates of poverty and malnutrition in rural Liberia, increased agricultural productivity would positively affect incomes among poor households, while also boosting the availability of food and micronutrients. A recent study on agriculture, rural livelihoods, and welfare in Liberia prepared 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 diversifying crop production and income streams. Although agricultural producers are overwhelmingly poor, increased private-sector participation in the seed market may disproportionately benefit relatively wealthy households, which have greater financial, political and social capital.

- **Prior Action #2**: Reducing the LEC's commercial losses and increasing its operational efficiency will improve electricity access and affordability. Lower tariffs will have positive effects on the disposable income of households, and while these benefits will likely favor wealthier households that have metered electricity connections, greater affordability is expected to expand electricity access, with positive effects on income growth and employment creation, especially among SMEs. Nevertheless, only 21.5 percent of Liberians have access to electricity, and thus the direct positive impact of these reforms on the poorest households is expected to be limited.
- **Prior Action #3**: Establishing the legal basis for a modern, efficient, and transparent customs administration through the promulgation of a new Customs Code will facilitate trade and help reduce import prices and promote export growth, both of which will positive affect poverty indicators. Reducing the costs of border compliance will increase export volumes, raising average incomes among export producers—including cash-crop farmers—and encouraging investment in new export-oriented sectors. Meanwhile, lower trade costs will make imported products more affordable. As poor households rely on many imported products, including farm inputs, manufactured goods, and technology, the supported reforms are expected to have a positive impact on productivity, income levels, and poverty reduction. Similarly, streamlining tax waivers could have a direct positive impact on poverty by improving the administration of waivers targeting poor households and a positive indirect impact by levelling the playing field for domestic and foreign companies.
- **Prior Action #4**: Temporarily suspending the issuance of Investment Incentives Certificates is a stopgap measure that, over the medium term, will be complemented by a proper legal and institutional framework for rationalizing and managing tax expenditures. This framework will reduce rent-seeking, increase transparency, and reduce corruption. These actions will have a positive effect on poverty reduction over the medium term by enabling economic growth, fostering job creation, and improving fiscal revenue generation.
- **Prior Action #5**: Amending the Public Financial Management Act of 2009 to require the publication of annual SOE fiscal risk statements and IFRS-based SOE financial statements will help strengthen transparency and improve oversight of SOEs, though this reform is not expected to have a major direct effect on poverty.

5.3. **In line with their focus on inclusion, the prior actions supported under Pillar 2 are expected to positively impact poverty and social indicators.**

- **Prior Action #6**: The CBL's approval of e-payment regulations will facilitate the development of digital financial services, expand financial access, and promote inclusion. This measure is expected to increase the share of adults with accounts at a financial institution from 35.7 percent to over 45 percent, promoting savings and access to credit, including by poor households. The approval of e-payment regulations is also 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, reflecting important gains in women's access to financial services.

- **Prior Action #7**: The establishment of the NHSR represents an important step toward creating an SSN system that will effectively serve the poor and vulnerable. By developing a targeting approach, the Government aims to focus its limited SSN resources on extremely poor households. However, institutional capacity constraints will limit the scope of SSN programs, and the initial number of extremely poor households that will be reached by regular cash transfers will be small. To meaningfully impact poverty reduction, the authorities will need to increase both the size of the transfers and the coverage of the program.

5.4. **Given the importance of gender issues in Liberia, the second pillar of the operation will devote special attention to the needs of women and girls.** In addition to the likely positive impact of the above-described prior actions on gender equality, further efforts to promote women's empowerment will be included in subsequent operations. Moreover, several specific prior action from the proposed operation will have directly positive gender impacts.

- **Prior Action #6:** As noted above, increased financial access and inclusion are 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.

- **Prior Action #7**: The NHSR will help improve the overall targeting of cash transfers and help ensure that transfers benefit vulnerable women.

5.2. ENVIRONMENTAL ASPECTS

5.5. **Liberia's environmental laws, policies, and guidelines are broadly adequate to enable an assessment of the operation's potential environmental risks and impacts.** Article 7 of the 1986 Constitution provides the basis for environmental protection and management in Liberia. It also encourages public participation in the protection and management of the country's environment and natural resources. In 2002, the Government established the Environmental Protection Agency (EPA) as the lead agency for environmental protection and management in Liberia. The Environmental Protection and Management Law of Liberia, also enacted in 2002, specifies the environmental and social impact assessment requirements for policies and undertakings that may adversely affect the biophysical and social environment.

5.6. **The Government has good track record of safeguards implementation in the areas supported by this DPO.** The authorities continue to strengthen their capacity to implement safeguards in various sectors, including agriculture, energy, and infrastructure, and World Bank support targets units and institutions tasked with implementing Bank-financed projects. The Government is currently implementing several projects in the energy and agricultural sectors, including the World Bank -financed LACEEP Project, the Liberia Renewable Energy Access Project (P149683), and the STAR-P Project. Despite the broadly adequate safeguards capacity among implementing agencies, the experience of previous and ongoing Bank-financed projects reveals inadequate compliance monitoring and safeguards enforcement by the EPA. Limited logistics and inadequate funding hamper the EPA's ability to hire and retain qualified staff, though the number and quality of EPA inspectors are steadily improving.

5.7. **Several of the prior actions are expected to have no direct negative impact on Liberia's environment, forests, or other natural resources, but they will contribute to forms of economic development that are more conducive to effective environmental management.** Prior Actions #3 and #5 under Pillar 1 and prior actions #6 and #7 under Pillar 2 are not expected to have any positive or negative direct or indirect environmental impact, as they deal with financial inclusion, SSN targeting, and other environmentally neutral reforms. However, Prior Actions #1, #2, and #4 are expected to have positive indirect impact on environmental sustainability.

- **Prior action #1** supports the establishment of a Seed Development and Certification Agency, which should help expand the availability of improved seeds and boost agricultural productivity among smallholder farmers. Increased agricultural productivity may reduce the amount of land used in agriculture, slowing deforestation and positively impacting environmental quality. The National Strategy for reducing emissions from deforestation and forest degradation (REDD+) in Liberia (2016) identifies agricultural cultivation as one of the main factors driving deforestation, as declining soil fertility prompts Liberian farmers slash and burn forested lands. The provision of improved climate-resilient seeds could boost marginal agricultural yields and reduce the rate of deforestation.[33]
- **Prior Action #2** helps reduce commercial losses at the LEC, improving its financial situation and increasing its capacity to provide electricity. Facilitating access to electricity may help reduce reliance on charcoal and firewood, further slowing the rate of deforestation and reducing the adverse health consequences of burning wood-based fuels. The national REDD+ Strategy identifies charcoal production as one of the key drivers of deforestation and forest degradation in Liberia, and the country's low electricity access rate contributes to a huge demand for charcoal in both urban and rural areas. The National REDD+ Strategy includes a demand-side approach to combatting deforestation by reducing urban demand for charcoal through the expansion of alternative energy sources, including on-grid electricity, as well as solar panels, liquified petroleum gas, and other technologies.
- **Prior Action #4** supports reducing discretion and rationalizing tax expenditures to enhance transparency and create fiscal space. Improved fiscal management may enable the Government to devote greater funding to institutions tasked with managing the environment, forests, and other natural resources.

5.8. **Liberia is highly vulnerable to climate-change-related risks, which this operation addresses by supporting policies designed to strengthen climate resilience in the agriculture and energy sectors and reinforce social protection systems**.

- In the **agricultural sector**, the operation supports reforms aimed at enhancing productivity and enabling farmers to adapt to climate change. The reforms supported under the proposed

[33] While empirical evidence on the specific role of agriculture in deforestation is mixed, increases in agriculture productivity due to improved seeds (and other technology) has been linked to slower rates of deforestation, especially when forest clearing is driven by subsistence agriculture, as is common in Liberia. For example, Chibwana et al. (2012) found that farmers in the Malawi Farm Input Subsidy Program (FISP) who received a complete FISP package consisting of coupons for improved maize seeds and 100 kg of fertilizer experienced a 60 percent reduction in the probability of engaging in forest clearing.

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 through the enactment of the LSDCA Act (IGDPO-1 Prior Action 1). 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 agriculture productivity in recent years, and increasing temperatures have affected soil moisture and diminished the availability of water for food production. Pests, disease, and inadequate storage impose high pre- and post-harvest losses, which average about 40 percent per year for food crops. Climate change is exacerbating the risks facing the agricultural sector: warm conditions during the day are important for crop growth cycles, but each crop has an upper heat threshold beyond which productivity is reduced or wiped out entirely. The absence of affordable inputs for production means that farmers purchase small quantities of seeds from neighboring countries through an inefficient and unregulated supply chain. In the existing system, Liberia has the highest level of input costs in the region, and input quality is not guaranteed.[34] The proposed operation will address these issues by supporting increased domestic production of high-yielding, disease- and pest-resistant seed varieties tailored to local ecological conditions. Furthermore, expanding access to improved seeds is expected to contribute to climate-change mitigation by slowing the rate of deforestation.

- Liberia's **energy sector** is exposed to multiple dimensions of climate change, which can affect both supply (by disrupting generation and distribution) and demand (by altering power needs). The IGDPO 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, which will contribute to the achievement of the government's INDC targets. The LEC Board has approved a five-year Business Plan (2019-2023) (IGDPO-1 Prior Action 2), which includes efforts to reduce commercial and technical losses, which would minimize the use of costly, pollution-intensive thermal plants during the dry season,[35] thereby contributing to climate-change mitigation. The plan also includes efforts to import cleaner hydropower from neighboring countries starting in 2021, which would further reduce reliance on thermal plants. This plan targets close to 50,000 household connections and 450 commercial and institutional connections, which would greatly reduce reliance on pollution-intensive energy sources.
- In the area of **social protection**, SSN programs can help low-income households cope with shocks caused by extreme weather events. Annual flooding damages infrastructure, displaces an estimated 60,000 people per year, 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. To address Liberia's high and rising incidence of extreme poverty, the Cabinet has endorsed the National Household Social Registry (NHSR) (IGDPO-1 Prior Action 7), a consolidated database that will enable the Government to efficiently target households in need of support including a specific indicator on households that are impacted by extreme events. The NHSR will capture data on households affected by extreme

[34]See, for example: Government of Liberia (2007) Comprehensive Assessment of the Agriculture Sector in Liberia: Volume 1, Synthesis Report; GROW Liberia (2019) Seeds of Change: Challenges and solutions to Liberia's agro-input supply; World Bank (2010) "Liberia Gender-Aware Programs and Women's Role in Agricultural Value Chains: A Policy Memorandum."
[35] During the wet season (May-December) electricity needs are met by cleaner hydropower.

events, such as flooding. Households that receive cash transfers are those with the lowest incomes and with the highest risk of food insecurity. The new data that will be collected under the NHSR will allow the Government to begin systematically assessing the effectiveness of cash transfers as means to cope with extreme weather events. Liberia's vulnerability to climate change is exacerbated by high levels of poverty combined with heavy dependence on climate-sensitive sectors such as agriculture, fishing, and forestry. Over 87 percent of current cash-transfer beneficiaries live in rural areas, and over 68 percent rely on subsistence farming, which particularly vulnerable to the impacts of climate change. Liberian households that receive cash transfers use them to smooth consumption to maintain adequate nutritional intake and to invest in more resilient housing and non-farm economic activities, enabling them to build physical and economic resilience to extreme weather events. National SSN programs are expected to have a more positive impact on climate resilience than small isolated interventions, enabling Liberia to better meet the intensifying challenges associated with climate change.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

5.9. **The Government of Liberia (GoL) has continued to make modest progress in strengthening public financial management.** Key reforms include: the adoption of a PFM act (PFMA) of 2009 and related regulations; the implementation of Integrated Financial Management Information System (IFMIS) in 50 Ministries, Agencies and Commissions (MACs) and its planned expansion to another 35 MACs; the establishment and full operationalization of the LRA; the enactment of the GAC Law to enhance the GAC's operational independence; the regular publication of fiscal outturn reports and the submission of annual consolidated financial reports to the GAC for auditing; improvements in internal audit coverage; and the establishment of the Public Accounts Committee (PAC) to execute legislative oversight. The findings of the 2016 Public Expenditure and Financial Accountability (PEFA) assessment showed some modest progress relative to the previous assessment in 2012, but important PFM challenges remain in key areas, such as: (i) strengthening cash management and expenditure controls; (ii) improving financial reporting, including by SOEs; (iii) implementing a Treasury Single Account (TSA); and (iv) improving disclosure and transparency in public procurement. Significant capacity constrains inhibit progress in these areas.

5.10. **Several development partners are providing PFM support to the GoL to help improve the fiduciary environment and mitigate risks.** The World Bank's ongoing Public Sector Modernization project, the recently completed Integrated Public Financial Management Reform project (IPFMRP) and the new PFMRIS project have provided financial and technical support to strengthen the PFM system. The overarching objectives of the PFMRIS project are to improve domestic revenue mobilization, strengthen financial controls, and improve accountability in PFM by: (a) strengthening integrated tax administration systems and improving tax policy capacity; (b) stabilizing and strengthening performance of financial controls and systems by expanding IFMIS to the remaining 57 MACs; activating the Budget Module; establishing the Electronic Funds Transfer System, which will interface the CBL; operationalizing the Electronic Document Management System; rolling out the CS-DRMS debt-management platform; enhancing the budget framework and preparing to modernize procurement by introducing an electronic procurement system in the public sector; (c) building capacity by providing support to the University of Liberia in the areas of procurement and PFM, as well as providing enhanced support for the development of external and internal audit capacity. The new IMF ECF program also supports important PFM reform objectives, including: (i) improving the quality and the frequency of reporting of reconciled cash flows; (ii) promoting fiscal transparency and expenditure accountability; (iii) operationalizing the TSA; and (iv) enhancing SOE monitoring and reporting. This operation complements these efforts by supporting amendments to the 2009 PFMA that require the publication of SOE fiscal-risk statements and audited financial statements. The amendments to the PFMA are expected to bolster the PFM reform process, while coordinated assistance from development partners is expected to address capacity constraints. Together, these activities will help mitigate the identified risks related to PFM.

5.11. **Budget transparency:** The GoL's annual budgets, as well as the quarterly and annual financial statements of the Consolidated Fund accounts, are published on the MFDP's website (https://www.mfdp.gov.lr/). These annual consolidated financial statements are audited by the GAC, which has been producing financial statements related to the Consolidated Fund since FY2011. Audited financial statements are formally submitted to the legislature and are scrutinized by the PAC via a process that includes public hearings.

5.12. **Central Bank safeguards assessment:** The safeguards framework at the CBL remains weak, but the authorities are committed to taking remedial actions to address governance issues and strengthen institutional safeguards. Previous safeguards assessments highlighted serious governance and control issues at the central bank, and 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 enhanced monitoring of foreign-exchange inflows and outflows at the CBL. The 2019 Safeguards Assessment, which was undertaken after two investigative reports on currency operations,[36] 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 to include measures to improve its currency operations and controls, which were informed by an independent forensic audit by Kroll Associates and by IMF TA; (ii) appointed permanent CBL board members ; (iii) appointed a reputable firm to co-source the CBL's internal audit function, which regularly interacts with the CBL Board Audit Committee; (iv) continued to undertake semiannual external audits of foreign reserves and submit 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), which are expected to be approved by end-February 2020, aim to strengthen the CBL's independence and governance structure. The CBL has also begun working to improve the quality of foreign-exchange data reporting and has committed to resuming nondiscriminatory foreign-exchange auctions in a manner fully consistent with Liberia's obligations under Article VIII of the Fund's Articles of Agreement.

5.13. **Recipient and Financing Agreement:** The proceeds of the proposed Operation, consisting of SDR 29.2 million (US$40 million equivalent), in the form of 50 percent IDA grant and 50 percent IDA credit will be made available to the GoL, as represented by the MFDP, in a single tranche upon effectiveness.

5.14. **Funds Flow and Disbursement Arrangements*:*** The Recipient shall open 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

[36] 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.

and Accountant General and the Deputy Minister of Fiscal Affairs the CBL shall transfer the US$ amount[37] into a GoL Revenue Account. The Financing amount is accounted for 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 GoL 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.

5.15. **Assurance Requirements:** The Recipient will report to the World Bank on the development policy financing 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 proceeds have been credited in a manner satisfactory to the World Bank. The GoL will reflect the proceeds of the Grant in its budget and report these as part annual financial statements submitted to the Office of the GAC for audit. The GoL shall equally ensure that the annual audited financial statements of the CBL are publicly available. Based on the level of fiduciary risk associated with this operation, IDA shall require an independent audit of the designated account as an additional fiduciary arrangement safeguard mechanism. The scope of the audit would cover 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.

5.16. **Closing date:** The expected closing date of the operation is September 30, 2021.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

5.17. **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 the implementation of the operation. The Government has established a PAPD Implementation and Coordination Delivery Unit (ICDU) to monitor progress on the implementation of the PAPD. The Aid Management Unit will be responsible for tracking progress towards the medium-term objectives of the program. The program's objectives and progress indicators are aligned with those of the PAPD. The Budget Support Working Group will provide a mechanism for the Government and donors to undertake a transparent and candid review of progress on the reform program supported by the operation. Regular meetings of the Budget Support Working Group will provide timely feedback on progress and allow the GoL to ensure that reforms are being completed in a timely manner. On the World Bank's side, reform implementation will be monitored and evaluated through continuous dialogue and regular missions. The results framework in Annex 1 lists the results indicators that form the basis for monitoring progress. Whenever possible, results indicators will be collected on a gender-disaggregated basis.

[37] The conversion in local currency is not required since Liberia's budget is in U.S. dollars.

5.18. **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 WB'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 WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB 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 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

6.1. **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; public institutional capacity is weak; and the Liberian economy is highly vulnerable to shocks. Five main sources of risk—political and governance, macroeconomic, institutional capacity for implementation and sustainability, fiduciary, and idiosyncratic (e.g., a recurrence of EVD)—could jeopardize the expected outcomes and benefits of this operation. The country and fiduciary risks and risk-mitigation measures are summarized below (Table 6). However, the potential benefits of the proposed operation outweigh the residual risks and warrant IDA's assistance to support the implementation of critical policy reforms and provide much-needed financial assistance as Liberia strives to transition to a sustainable and inclusive growth path.

Table 6: 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

6.2. **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. Governance risks to the program emanate from the possibility of vested interests working to frustrate some of the reforms. The operation includes some reforms that are likely to reduce opportunities for corruption and rent-seeking, which may face 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. The efficient and timely communication about the reforms is critical.

6.3. **Macroeconomic:** Macroeconomic risks are *high*. Liberia is an open economy, heavily dependent on foreign aid, foreign direct investments 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 risks of external shocks with both fiscal and balance of payments implications. Weaker-than-expected market conditions for commodities could undermine government revenues and force the Government to cut expenditures to unsustainable 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. An example is the approval of the National Budget for FY2020 and the GOL's commitment to re-cast the budget in case of under-performance of revenues, and the CBL's transition to the new monetary policy framework. Importantly, the new IMF ECF program will provide an anchor for prudent macroeconomic policies and helps to mitigate the macroeconomic risks. Other ongoing efforts, including through the proposed operation (e.g. streamlining tax expenditures, strengthening oversight and transparency of SOEs, strengthening financial viability of LEC) will support macroeconomic stability and growth.

6.4. **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 TA for state building as crucial complementary activities to the DPO series, including under this proposed operation. As outlined above, there are several complementary TA projects and supporting activities being pursued by the World Bank and other donors that would help mitigate the implementation and sustainability risks.

6.5. **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. However, despite the progress made in improving the fiduciary system, weaknesses remain, including at the CBL and MFDP, that pose risks to the management of public funds. For example, due to weaknesses in the Government's cash management system and amid a cash flow crunch, some funds from donor project accounts were temporarily used to meet other salary obligations in mid-2019. The GoL has since paid back the funds and, with support from the IMF, cash management and expenditure controls are being strengthened. Furthermore, the capacity of key fiduciary institutions (GAC, LACC, PPCC, FIA) has been weakened over the past twenty months, due to the staff turnover and underfinancing of fiduciary institutions in the context of dwindling fiscal space. This has negatively impacted the financial independence of some of these core accountability institutions. ***Mitigation:*** GoL is aware of these weaknesses and is taking measures to strengthen its control systems, with support from development partners. Measures to address control issues at the CBL were identified by the 2019 IMF Safeguard Assessment reports and implemented as prior actions for the program approval included: (i) appointment of an internationally reputable firm to co-source the CBL's key internal audit activity; (ii) updating its Action plan of reform to include ways in which its currency operations and controls will be improved as informed by the independent forensic audit carried out by Kroll Associates and IMF TA; (iii) improved capacity to monitor foreign exchange inflows and outflows by continuation of semi-annual external audits of foreign reserves and the submission of foreign exchange data on a regular basis. An equally important prior action for the IMF program was to significantly improve fiscal cash management and control to prevent the emergence of domestic arrears. To this end, formal procedures were established to ensure all payment vouchers issued can be paid in time, including: (i) strict segregation of duties between the Budget Department, which is responsible for making allotments, and the Fiscal Affairs Department, which is responsible for cash release schedules based on up-to-date liquidity and revenue information; (ii) regular meetings of the Liquidity Management Committee and the Treasury Management Committees. The MFDP is addressing concerns regarding 'diversion of funds' from donor-financed projects through a number of 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; (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 usage of country systems will be further reviewed. With respect to the broader PFM risks, the World Bank, AfDB, EU 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 the PFMRIS project and other smaller projects and TA 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.

6.6. **Other risks: The Ebola epidemic.** This risk is *substantial*. Liberia was declared Ebola free by the World Health Organization (WHO) in January 2016. There have not been any subsequent outbreaks. Given the evidence of the economy wide effects, a new EVD crisis 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 epidemiological shocks, including Ebola, has weakened significantly. ***Mitigation:*** The World Bank Regional Disease Surveillance Systems Enhancement Phase II (REDISSE2) project, which was approved on March 1, 2017, will help build regional disease surveillance and response capacity. The Liberia Social Safety Net Project (LSSN), which was approved on April 28, 2016, will support building a basic national safety net delivery system and provide income support to households who are both extremely poor and food insecure. The budget support provided through the proposed operation will also contribute to mitigating the risk both financially and through the reforms, supporting strengthening public service delivery, especially for poor.

ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions and Triggers			Results		
Prior Actions under DPO 1	**Triggers for DPO 2**	**Triggers for DPO 3**	**Indicator Name**	**Baseline**	**Target**
Pillar 1. Removing distortions in selected sectors and strengthening public-sector transparency					
Prior action #1. The Recipient has enacted the Liberia Seed Development and Certification Agency Act to establish a Seed Development and Certification Agency (SDCA) to, *inter alia*, provide for sustainable seeds delivery system and private sector participation in seeds production and marketing.	**(Indicative) Trigger # 1.** To strengthen seeds regulatory framework, the Recipient has: (i) approved regulations to implement Liberia SDCA Act; (ii) revised National Seeds Policy. **(Indicative) Trigger # 2.** The Recipient's Cabinet approved National Rice Development Strategy for Liberia for 2020-2023	**(Indicative) Trigger # 1.** To strengthen implementation of national seeds regulatory framework, the Recipient has instituted and published on-line the National Catalogue for Plant Species and Varieties. **(Indicative) Trigger # 2.** The Recipient has implemented a gradual transition to the ECOWAS Common External Tariff (CET) on rice.	**Results Indicator #1:** Number of Licensed Private Firms in the Seed Sector (number) **Results Indicator #2:** Share of domestic rice production in total rice consumption (%)	0 (2018) 30 (2018)	5 (2023) 40 (2023)
Prior action #2. The Recipient has, through its Liberia Electricity Corporation (LEC), approved the	**(Indicative) Trigger # 3.** To reduce energy costs and accelerate access to electricity, the Recipient has approved	**(Indicative) Trigger # 3.** The Recipient has approved mini-grid regulations that, inter alia, open	**Results Indicator #3.** LEC commercial losses (%)	56 (2018)	30 (2023)

Prior actions and Triggers			Results		
LEC Business Plan (2019-2023) which addresses key operational challenges to reduce commercial losses in the energy sector.	a National Electrification Strategy, which includes both grid and off-grid technology options. **(Indicative) Trigger # 4.** The Recipient approved a "lifeline" tariff policy, allowing for a progressive tariff regime, addressing affordability barriers for poorer population.	opportunities for private investment in mini-grid and help reduce energy cost.	**Results Indicator #4.** Energy tariffs for poor HH (c/kwh)	38.5 (2018)	<25 (2023)
Prior action #3. The Recipient has enacted a *Modernized Customs Code* which provides for, *inter alia*, greater transparency and accountability of customs decisions and procedures and facilitation of international trade.	**(Indicative) Trigger # 5.** The Recipient' Cabinet has: (i) approved implementing regulations for the new Customs Code; (ii) completed assessment of non-tariff barriers (NTBs) to trade and eliminated the most distortionary.	**(Indicative) Trigger # 4.** The Recipient further reduces NTBs in line with the recommendations of the assessment.	**Results Indicator #5.** Cost to export: Border Compliance (US$)	1113 (2018)	700 (2023)
			Results Indicator #6. Cost to import: Border Compliance (US$)	1013 (2018)	700 (2023)
Prior action #4. The Recipient has, through its Ministry of Finance and Development Planning (MFDP): (a) established an intergovernmental Technical Tax Expenditure Committee; and (b) suspended the issuance of Investment Incentive Certificates pending permanent streamlining until June 2020, all for the purpose of reducing rent-seeking behavior, strengthening transparency, and creating fiscal space.	**(Indicative) Trigger # 6.** The Recipient has streamlined and consolidated all duty and tax waivers in the Revenue Code and submitted the amended Revenue Code to the legislature.	**(Indicative) Trigger # 5.** Tax expenditures report is prepared and published in line with the amended Revenue Code.	**Results Indicator #7.** Share of tax expenditures in total domestic revenues (%)	32.6 (2018)	20 (2023)

Prior actions and Triggers			Results		
Prior action 5: The Recipient has enacted the *Amendment and Restatement of the Public Financial Management Act of 2009* to, *inter alia,* provide for the: (a) submission of annual statement of fiscal risk from State-owned Enterprises (SOEs) along with the budget proposal for following year; and (b) publication of SOEs financial statements based on International Financial Reporting Standards (IFRS), for the purpose of strengthening transparency and improving oversight of SOEs.	**(Indicative) Trigger # 7.** To strengthen the oversight of and reduce fiscal risks from SOEs, the Recipient's MFDP: (i) submitted the SFR to the legislature alongside with the National Budget FY2021; (ii) expanded the coverage of SOEs reporting to its SOE monitoring department. **(Indicative) Trigger # 8.** To strengthen debt management and transparency the Recipient has: (i) published Medium-term Debt Management Strategy; and (ii) expanded the coverage of debt recording by including information on SOEs liabilities, debt, guarantees.	**(Indicative) Trigger # 6.** To strengthen debt transparency, the Recipient: (i) established a comprehensive database of public debt, incl. debt of SOEs and public-private partnership; and (ii) published quarterly debt reports on its website.	**Results Indicator #8.** Published Statement of Fiscal Risks from SOEs (Y/N) **Results Indicator #9.** Published audited SOE reports (number)	N (2019) 0 (2019)	Y (2023) 8 (2023)
Pillar 2. Promoting economic and social inclusion					
Prior action #6: The Recipient has, through its Central Bank of Liberia, issued *Regulations Concerning Licensing and Operations of Electronic Payment (e-payment) Services* to, *inter alia*, promote financial inclusion and safe and efficient delivery of quality payment services.	**(Indicative) Trigger # 9.** The CBL has: (i) approved revised the consumer protection regulations with provisions on digital credit; and (ii) submitted to the legislature a revised Payment Systems Act.	**(Indicative) Trigger # 7.** The CBL has established and made operational a digital credit registry with adequate staff and resources.	**Results Indicator #10:** Percent of adults with accounts at financial institutions (%) **Results Indicator #11.** Gender gap in account ownership (percentage points)	35.7 (2018) 15.5 (2018)	45 (2023) 9 (2023)
Prior action #7. The Recipient has, through its Cabinet, issued the *Cabinet Resolution Concerning National Household Social Registry* (NHSR) which	**(Indicative) Trigger # 10.** The Recipient has: (i) approved new medium-term National Social Protection Strategy; and (ii) established a monitoring and	**(Indicative) Trigger # 8.** To sustain SSN system and expand its scope nationwide, the Recipient approves a transition plan that includes adequate financing from the	**Results Indicator #12:** Number of extreme poor households receiving regular cash transfers, total and by gender of HH: (i) female HH;	0 (2018)	20000 (i) 16000 (ii) 4000 (2023)

Prior actions and Triggers			Results		
endorses the setting up of the NHSR as the principal mechanism for identifying and targeting beneficiaries of various social protection programs national-wide.	information system to collect data on the provision of social protection services.	National Budget for 2023.	(ii) male-HH (number)		
			Results Indicator #13: Share of government SSN in total SSN spending (%)	0 (2018)	15 (2023)

ANNEX 2: IMF RELATIONS ANNEX

https://www.imf.org/en/News/Articles/2019/12/11/pr19451-liberia-imf-executive-board-approves-us23-4-million-ecf-arrangement

IMF Executive Board Approves US$213.6 Million ECF Arrangement for Liberia

December 11, 2019

On December 11, 2019, the Executive Board of the International Monetary Fund (IMF) approved a four-year arrangement under the Extended Credit Facility (ECF) for Liberia in an amount equivalent to SDR 155 million (60 percent of quota or about US$ 213.6 million) to help the country restore macroeconomic stability, provide a foundation for sustainable growth, and addressing weaknesses in governance.

After grappling with challenges for over a year, a consensus on the need for broad-based reform has emerged. The program aims to support the authorities' strong adjustment efforts, catalyze significant donor financing, and provide a framework within which to implement the authorities' ambitious reform agenda. The Executive Board's decision will enable an immediate disbursement of SDR 17 million (about US$23.4 million).

At the conclusion of the Executive Board's discussion, First Deputy Managing Director and Acting Chair, Mr. Mitsuhiro Furusawa, stated:

"Liberia's economic situation is challenging and fragile. Inflation and year-on-year exchange rate depreciation are high at 30 percent, and growth is subdued. The authorities are committed to carrying out the prudent macroeconomic policies and ambitious structural reforms necessary to restore macroeconomic stability and to put Liberia on a fiscally sustainable and inclusive growth path under the Fund's four-year Extended Credit Facility arrangement.

"The recent upfront fiscal tightening is welcome. To preserve the gains and to maintain budget credibility, it is important that the recently instituted set of fiscal controls is fully implemented. Moreover, strengthening tax policy and administration over the program period is critical to ensure that the public sector can operate effectively.

"The monetary tightening by the Central Bank of Liberia (CBL) enacted in November 2019 was necessary to reduce inflation. A key prerequisite for success would be full adherence to the program prohibition on government borrowing from the CBL.

"Liberia's external vulnerabilities are significant, and foreign reserve stocks have fallen to low levels. In addition to eliminating the financing of the budget, building resilience will require containing the CBL's operational expenses, and limiting foreign exchange intervention.

"Given that a small worsening of the terms of debt, or failure to sufficiently adjust the fiscal stance could edge Liberia closer to high risk of external debt distress, the authorities are committed to adhere to the ceiling on non-concessional borrowing and to refrain from non-transparent collateralized agreements under the Fund-supported program.

"Ensuring financial sector stability is an important element of the program. Improving data reporting, obtaining an overview of the health of the banking system, and taking decisive measures as needed will help identify and address financial sector vulnerabilities. At the same time, enhancing the legal framework is important to ensure that the CBL has the required instruments should remediation be necessary.

"Structural reforms aimed at improving governance will help reduce vulnerabilities to corruption and promote private-sector led growth.''

Annex

Recent Economic Developments

Over the past period, a decline in external assistance combined with weak domestic revenue generation, limited expenditure adjustments—especially on wages—and an accommodative monetary policy stance led to numerous macroeconomic challenges. These including an unsustainable fiscal stance, the emergence of arrears, excessive central bank financing, depletion of fiscal and external buffers, and pressure on inflation and the exchange rate.

President George Weah launched the Pro-Poor Agenda for Prosperity and Development (PAPD) in October 2018, but its objectives of building roads and improving social services have largely been delayed due to lack of funding. The IMF-supported program would help stabilize the economy – which is a necessary condition for a sustainable transition out of fragility – and catalyze financing for their development plan (the PAPD), ultimately putting Liberia on a sustainable medium-term growth trajectory.

Program Summary

The program will focus on:

• **Restoring macroeconomic stability**, which is a key precondition for a sustainable transition out of fragility, while protecting the poorest segment of the population from the burden of adjustment;

• **Putting Liberia on a fiscally sustainable growth path**, which is the main objective of the PAPD; and

• **Addressing weaknesses in governance and institutions of the public sector**, which will help safeguard scarce resources and facilitate achievement of the first two objectives.

The program also aims to catalyze substantial external support, which is critical to ensure that the programmed adjustment can be contained at levels that are politically and economically feasible while, at the same time, ensuring public and external debt sustainability.

IMF Communications Department

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ANNEX 3: LETTER OF DEVELOPMENT POLICY

REPUBLIC OF LIBERIA
MINISTRY OF FINANCE & DEVELOPMENT PLANNING
P.O. BOX 10-9016
1000 MONROVIA, 10 LIBERIA

OFFICE OF THE MINISTER

GOL/MFDP/2-1/SDT/ymj/11718/'20

February 10, 2020

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

Mr. President:

RE: Liberia Letter of Development Policy

1. On behalf of the Government of Liberia, I express my gratitude for the World Bank's partnership with President George Manneh Weah's administration and for your critical efforts to support our *Pro-Poor Agenda for Prosperity and Development (PAPD), a five-year development agenda generation from desires and needs of the Liberian people* and would like to request the World Bank's First Inclusive Growth Development Policy Operation (IGDPO-1) in the amount of US$40 million equivalent to support the financing of Government's priorities, articulated in the National Budget for 2019/20 and the PAPD. After our government ascendency in 2018, we have closely worked with the World Bank Group, the International Monetary Fund (IMF) and other development partners in developing and implementing critical reforms to generate inclusive income growth, in addressing infrastructure constraints in roads and energy, enhancing macroeconomic and public financial management, among others. In particular, this financing will support the Government's efforts to achieve sustainable and inclusive economic growth through: (i) removing distortions in selected sectors and strengthen public sector transparency; and (ii) promoting economic and social inclusion.

2. This Letter of Development Policy serves to provide you with an update on the recent economic developments and the medium-term macroeconomic outlook, structural reforms being implemented by the Government to support macroeconomic stability and economic recovery and underpin poverty-relieving development going forward, and to outline how the proposed financing will contribute to the achievement of these objectives.

Recent Economic Developments (2018-2019)

3. The macroeconomic environment over the course of 2019 has been very challenging for the country on account of the compounding effect of the adverse impact of the macroeconomic shocks that have beset the country. Our perennial failure to diversify the economy and to add value to exports is now haunting us. As a consequence, real GDP growth slumped to 1.4 percent in 2019[1] down from 1.2 percent recorded in 2018.

[1] Calendar year unless otherwise stated.

1

SDT

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This slow pace of growth constrains job creation and poverty reduction by inhibiting domestic resource mobilization while increasing expenditure outlay.

4. While growth is falling, the prices of goods and services on the domestic market are increasing significantly – 28.0 percent in 2019 up from 21.2 percent in 2018 – on account of the monetization of the fiscal deficit, the pass-through effect of the depreciation of the Liberian dollar and the adverse impact of geo-political tensions that have increased the global prices of food and energy. The rise in the general price level has increased the demand for the domestic currency thereby resulting into liquidity constraints for the banking sector while the rapid depreciation of the exchange which feeds into an increase in the general price level has constrained domestic demand and by extension domestic resource mobilization.

5. Falling domestic economic activities coupled with increasing general price level have constrained the Government's fiscal space by reducing revenues while increasing expenditures. Moreover, it has altered the currency composition of the government's fiscal space; that is, revenue collection in Liberian dollars has increased while expenditure in foreign currency has increased thereby resulting to short-term liquidity issues. Government's revenue and grant as a percentage of GDP for 2019 is projected at 28.2 percent up from 25.9 percent for 2018, driven mainly by increases in both domestic revenue (14.4 percent of GDP in 2019 compared to 12.9 percent in 2018) and grants (13.8 percent in 2019 compared to 13.0 percent in 2018). On the expenditure side, total expenditure and net lending as a percentage of GDP for 2019 is projected at 34.3 percent up from 30.8 percent for 2018; driven mainly by increases in both current expenditure (23.3 percent of GDP in 2019 up from 21.3 percent in 2018) and in capital expenditure (11.0 percent of GDP in 2019 up from 9.5 percent in 2018). Rising recurrent spending, specifically the wage bill, has constrained our ability to finance the implementation of huge infrastructure projects that are essential in narrowing the country's huge infrastructure gap.

6. One consequence of the narrowing of the Government's fiscal space has been the widening of the budget deficit. The overall fiscal balance including grants (excluding grants) as a percentage of GDP is projected at a deficit of 6.1 percent (a deficit of 19.9 percent) in 2019 up from a deficit of 4.8 percent (a deficit of 17.8 percent) in 2018. In times past, we have relied on donor assistance and borrowings to finance the deficit; however, financing the gap on the basis of donor grants has proven challenging in recent times on account of donor fatigue and front-loading of donor assistance during the fight against Ebola. Moreover, the completion of most major donor funded infrastructure projects has also contributed to the reduction in aid inflows. However, we intend to reverse the downward trend in aid inflows by convening a donor roundtable to seek assistance to finance the projects outlined in the PAPD. The fall in aid inflows has exerted significant financing pressures on the government as it has been constrained to absorb the financing of activities that were previously undertaken by donors.

7. Due to the widening of the budget deficit and the absence of aid to bridge the financing gap, the country's debt has increased significantly. The country's public external debt and public domestic debt as a percentage of GDP for 2019 is projected at 34.7 percent and 19.8 percent respectively compared to 28.4 percent and 11.7 percent respectively for 2018.

8. Financing the deficit using borrowing has also been a challenge as the country's debt carrying capacity has been constrained on account of the fall in domestic economic activities. Consequently, the country's risk of debt distress has been downgraded from low to moderate. This provides a worrying situation as the Government has relied on contracting debt to finance the implementation of infrastructure project to narrow

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the country's huge infrastructure gap. As at end-September 2019, the total stock of public debt amounted to US$1,236.59 million of which domestic debt accounts for US$422.01 million while external debt accounts for US$814.59 million.

9. Meeting our debt service obligations is also becoming a challenge as most of the external debts were contracted on concessional terms (long grace periods and longer maturity dates) are becoming due at the time in which we are struggling to resuscitate economic activities. Moreover, the fall in revenue, the currency composition of revenue and the competing expenditure demands are also adversely impacting our ability to service our debts. Total debt service over the course of FY2019/20 is projected at US$46.1 million of which principal repayment will account for US$18.6 million while interest payment will account for US$27.5 million. Debt service payments on domestic debt will amount to US$25.3 million (US$9.9 million principal repayment and US$15.4 million interest payment) while debt service on external debt will amount to US$20.7 million (US$8.7 million for principal repayment and US$12.1 million interest payment).

10. The weak balance sheet of the CBL coupled with the lower level of foreign reserves to intervene on the foreign exchange market to curb the rapid depreciation of the exchange rate threaten the stability of the banking sector and by extension macroeconomic stability. Monetary policy will continue to focus on limiting inflation by containing excess volatility in the foreign exchange market. The primary stance for monetary policy for 2019 remains focused on low inflation, as Government strives to ensure a stable macroeconomic environment through exchange rate stability.

11. The country's financial sector remains shallow and conditions are projected to deteriorate over time; the M2/GDP- a measure of financial sector deepening/development- for 2019 is projected at 17.3 percent down from 19.6 percent for 2018. There has been a slight increase in financial resources available to be made at the disposal of the private sector. The credit to the private sector as a percentage of GDP has for 2019 is projected at 17.2 percent up from 16.2 percent for 2018. However, due to the heightening risks inherent in the financial sector, credit growth is projected to decline to 2.5 percent in 2019 down from 4.3 percent in 2018. The velocity of money, the average number of times a dollar changes hands, is projected at 5.4 percent in 2019 up from 5.1 percent in 2018. The amount of money commercial banks generates with each dollar of reserve, as evidenced by the money multiplier, is projected at 2.8 in 2019 up from 2.7 in 2018.

12. The external sector remains vulnerable. Heavy reliance on imports coupled with falling exports on account of the lack of value addition to export commodities is widening the trade balance and depreciating the exchange rate. Significant improvements in the external sector have been projected. The current account balance including grants (excluding grants) as a percentage of GDP over the course of 2019 is projected to improve to a deficit of 21.1 percent (a deficit of 35.6 percent) from a deficit of 23.4 percent (a deficit of 38.1 percent) in 2018. Improvements in the trade balance have also been projected both in the near term and in the medium term. The trade balance as a percentage of GDP for 2019 is projected at a deficit of 14.2 percent compared to a deficit of 18.4 percent for 2018. Donor grants which made up a significant financing source for the government has been declining steadily – 14.3 percent of GDP in 2018 down from 14.7 percent in 2018 – on account of the completion of previously donor funded projects and donor aid frontloading in times past.

13. Heavy reliance on the rest of the world for imports coupled with increased intervention in the foreign exchange market to stabilize the exchange rate is reducing the country's reserves. The gross reserve position

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deteriorated in 2019 to US$279.0 million down from US$313.0 million in 2018 thus the country remains susceptible to external shocks as the reserve position in months of import cover falls below the conventional three months. This could lead to shortages of essential commodities on the domestic market.

Medium Term Macroeconomic Outlook

14. Despite the slump, there are prospects of a rebound in economic activities especially in the mining and panning sector, as growth is projected at 1.4 percent in 2020 and to average about 4.4 percent over the medium term (2021-2024). However, said growth prospects are conditioned upon the policies we pursue during the current challenging macroeconomic outlook; thus, improvements in the current outlook could have a significant positive impact on the medium-term outlook.

15. However, inflationary pressure is projected to moderate over the medium term but to remain in double digits. The ultimate adverse impact of this has been the rapid erosion of our people's income thereby inducing unnecessary hardship on our people and constraining the Government's commitment to reducing poverty as stipulated in the PAPD. This also constrains our commitment towards the ECOWAS single currency project.

16. The rebound in growth coupled with the moderation of inflationary pressures are projected to improve the government's fiscal space over the medium term. Total revenue and grant as a percentage of GDP is projected increase and average around 30.0 percent mostly on account of increase in domestic resource mobilization with some improvements in aid inflows while total expenditure and net lending as a percentage of GDP is projected to peak in 2020 but to decline steadily (averaging around 32.0 percent of GDP) thereafter on account of reduction in current expenditure. Hence, improvements in the government's fiscal space will narrow the fiscal deficit which with grant is projected to average under 4.0 percent of GDP while without grant, it is projected to average around 20.0 percent of GDP. Over the medium term, the public external debt is projected to increase significantly averaging around 45.0 percent while the public domestic debt is also projected to increase over the same period averaging around 18.0 percent of GDP. This provides a major cause of concern for managing public finances and by extension the economy over the medium term.

Government's Fiscal Adjustment Program

17. As a demonstration of our commitment to reverse the downward spiral of the economy and to place it on the trajectory of sustained growth and development that trickles down to the poor consistent with the objectives of the PAPD, we have passed into law a credible budget for FY2019/2020 in which we implemented a wage harmonization policy that has seen the merger of special and general allowances into a single wage for civil servants. Moreover, we are centralizing the hiring of civil servants to the Civil Service Agency (CSA). Thus, we are commitment to the implementation of a credible budget by aligning spending to identifiable available revenue thereby reducing the temptation of deficit financing thus curtailing the increase in debts and the depletion of reserves. Despite the austerity measures being pursued, we have endeavour to protect spending on basic social services. Moreover, to be able to anticipate shocks and to formulate and implement necessary remedial measures, we have put in place measures and systems intended to improve fiscal monitoring and control.

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18. We have successfully re-engaged with the IMF and the new four-year ECF arrangement in an equivalent to SDR 155 million (60 percent of quota) amount was approved by the IMF Board on December 11, 2019. This arrangement will be used to anchor and strengthen the credibility of our policies, act as a catalyst for financial support from our development partners and improve private sector confidence in the future of our economy.

19. We closely monitor and evaluate our fiscal situation on a regular basis to ensure it remains consistent with the three main program's objectives: (i) restoring macroeconomic stability; (ii) putting Liberia on a fiscally sustainable growth path; and (iii) addressing weaknesses in governance and institutions of the public sector. We have implemented strict cash management system and managed to keep expenditures within available resources during the first half of FY2019/2020 despite underperformance in domestic revenue collection. Given the risk of revenue shortfall and anticipated spending pressure in the second half of FY2019/2020, we are committed to submit a recast budget to the Legislature by mid-February 2020 in order to remain within the agreed program parameters and avoid an unfinanced fiscal gap. This will be achieved by the expenditure cuts in the amount of the projected revenue shortfall[2] and by revenue administration measures to ensure that revenues do not fall short the new target. The recast budget will create a credible basis for the preparation of FY2020/2021 budget.

20. While our focus over the near and short-term will, of necessity, be on short-term macroeconomic stability, we also intend to implement simultaneous reforms needed to improve the business climate, strengthen financial sector stability, promote debt sustainability, raise revenue, and improve public financial management. With support of the World Bank Group and other development partners, we plan to revive to revive the public private dialogue (PPD) platform The PPD will help to address government and market failures deriving from structural or economic issues as well as communication failures. The platform will encourage diversity of opinion and allows voices that may often be marginalized to contribute to decision-making, often resulting in increased local ownership and better policy making. All these reforms will be undertaken alongside a concerted drive to strengthen governance and effectively fight corruption in all the institutions and processes of Government, as significant advancement in these areas are essential prerequisites for the growth, development and improvement in living standards that our people so rightfully expect and deserve.

Policy Reforms in 2019-2022

21. Economic and financial policies for the past one year have been anchored in the Government's medium-term development program, the *Pro-Poor Agenda for Prosperity and Development (PAPD)* developed in 2018. The Government's priorities as enshrined in the PAPD are twofold: 1. To build more capable and trusted state institutions that will lead to a stable, resilient, and inclusive nation embracing its triple heritage and anchored on its African identity; and 2. To provide greater income security to an additional one million Liberians, and reduce absolute poverty by 23 percent across 5 out of 6 regions--through sustained and inclusive economic growth driven by scaled-up investments in agriculture, in infrastructure, in human resource development, and in social protection. Going forward, it will be crucial to ensure that growth is not reliant only on extractives and is mainly driven by the private sector. We thank the World Bank for its

[2] An estimated revenue shortfall is US$ 24-26 million. The number is preliminary; subject to further validation. The final number and the exact form of the recast will be defined in consultation with the IMF and the World Bank.

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engagement, and close cooperation with the Government to incrementally develop and support, through the programmatic Inclusive Growth DPO series. Structural reform program, supported by the IGDPO series, are designed to unleash productivity-driven economic growth and diversification through removing distortions in selected sectors, expand employment opportunities and boost income levels, and support Liberia's effort to reduce extreme poverty and promote shared prosperity. The series also support reforms aimed to enhance the efficiency of public spending and delivery of essential public services, especially for the poorest households, and 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***

22. **Agriculture.** The key medium-term objectives of Government in agricultural sector is to improve productivity with a focus on increasing rice production to enable self-sufficiency and security and increase production of cash crops for exports. The Government of Liberia enacted An Act to Establish Seed Development and Certification Agency (SDCA), which inter alia provides for a sustainable seeds delivery system and private sector participation in seeds production and marketing. Once operationalized, the SDCA will be responsible for overseeing the seed production, multiplication and distribution processes. To achieve this, we will approve the implementing regulations for the LSDCA Act and revise the National Seed Policy during 2020-2021. The LSDCA will develop and publish a National Catalogue of Plant Species and Varieties by 2022. To address constraints on domestic rice production, we will approve a comprehensive medium-term National Rice Development Strategy. To further support domestic rice production, we will initiate a transition to the ECOWAS CET for rice, following deep poverty and social impact and political economy analysis, which we will undertake jointly with the World Bank.

23. **Energy.** In recent years, Liberia has achieved significant progress in narrowing its energy deficit, which has long been a major constraint on inclusive growth and economic transformation. Total installed generation capacity is now 126 megawatts (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 Liberia Electricity Corporation (LEC) precarious financial situation is a major challenge. In an effort to reduce commercial losses the Government of Liberia approved a five-year LEC business plan (2019-2023); and enacted the Act to Amend the Penal Law, Chapter 15 which makes power theft a criminal offense with appropriate punitive measures. To reduce energy costs and expand electricity access, we will approve and implement a National Electrification Strategy, which will be critical to improve operational efficiency. Meanwhile, we will develop and approve of a "lifeline" tariff policy to address affordability challenges among poor households and weaken incentives for illegal connections. 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. 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.

24. **Trade.** As a small open economy Liberia is highly dependent on external trade; but it is yet to reap benefits of trade openness and trade facilitation. Trade costs are high by regional standards and customs and traders are faced with inefficient border processing and controls, lack of transparency in requirements, lack of coordination of the activities of national border authorities, and high bureaucracy in international trade. To reduce trade costs and facilitate trade we promulgated the new Modernized Customs Code; and ratified the WTO's Trade Facilitation Agreement (TFA). The full implementation of the Modernized

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Customs Code and the TFA are expected to accelerate growth by facilitating cross-border trade, improving access to critical information on customs procedures and decisions, harmonizing processes and standards under the Single Window for Trade, and enabling traders to appeal decisions by customs officers. The implementation of these reforms is expected to substantially reduce border-compliance costs and may improve Liberia's trade balance by encouraging exports. Boosting trade is also expected to accelerate economic growth, create jobs, and reduce poverty. With support of our development partners, we will focus on the implementation of this critical legislation. We will complete an assessment of non-tariff barriers to trade (NTBs) and phasing out the costliest and the most distortionary NTBs, starting from 2021.

25. **Tax Incentives.** Liberia, with limited infrastructure and/or institutional capacity, uses fiscal incentives to attract and support investment in key sectors of the economy. These incentives often take the form of extended tax holidays, reduced tax rates, complete or partial exemptions from the payment of taxes, favorable loss offset provisions, accelerated depreciation among others. Such targeted and fragmented incentive regime has had serious revenue implications for Liberia's domestic revenue mobilization (DRM) efforts by increasing tax expenditure and/or revenue loss. The Government of Liberia through the Minister of Finance has: (i) established an Inter-governmental Technical Tax Expenditure Committee; and (ii) temporarily suspended the issuance of Investment Incentive Certificates pending further streamlining and codification. The Committee's tasks are two-forl: (i) conduct an assessment of Liberia's Incentive Regime and redesign the regime with an objective of streamlining tax expenditures, preventing fraud, waste and abuse; and (ii) derive an effective strategy on addressing the exponential increase in tax expenditures. The Government is determined to comprehensively and urgently address the issue of tax expenditures and the corresponding impact on the domestic resource mobilization. The Committee is hereby directed to report its findings to the Minister of Finance and Development Planning within sixty (60) days of this communication. Based on the findings of the Committee and with the advice from the IMF and the World Bank, we will approve new administrative regulations streamlining and consolidating all duty and tax waivers in the amended Revenue Code, which will be submitted to the legislature with the draft National Budget for FY2021. Once implemented, we will also start publishing a Tax Expenditure Report in line with the amended Revenue Code.

26. **SOEs and Debt.** We have 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 are receiving IMF technical assistance to develop a methodology for assessing SOE-related fiscal risks and design a strategy for addressing them. We are committed to start preparing statements of fiscal risks from SOEs and submitting them to the legislature along with the draft National Budget, starting from the National Budget for FY2021. We will also step up our efforts to increase the reporting coverage of the SOE monitoring department. The amended PFMA also strengthens the requirements for reporting and monitoring of SOE debt, including non-guaranteed debt. With technical assistance from the IMF and the World Bank, the MFDP will develop and publish a new Medium-Term Debt Strategy by end-2020 and expand the coverage of debt recording to include information on SOE liabilities, including debts and guarantees. To strengthen debt transparency, 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. Improving debt transparency through the establishment of a comprehensive database (including SOEs debt) and publication of a MTDS will help Liberia to sustainably finance its development and promote prudent debt management.

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Pillar 2: Promoting Economic and Social Inclusion

27. **Financial Inclusion.** 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. Over the last few years, there have been many strategic efforts specifically focused on access to financial services. CBL has led the implementation of two financial inclusion strategies from 2009-2013 and then, 2014-2018. The former focused on establishing a sustainable microfinance industry to enhance access to diversified financial services, and the latter helped bolster national efforts to promote access to financial services more broadly. The new National Financial Inclusion Strategy (NFIS) 2020-2024, which was developed with support of the World Bank, had been endorsed by the Cabinet in November 2019 and publicly launched at the Economic Forum on Financial Inclusion on December 11, 2019. The NFIS 2020-2024 supports the government's efforts in achieving the objectives of the PAPD, which is geared towards poverty reduction and achieving inclusive economic growth and development. We have started implementation of the strategy by approving e-payment regulations. 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 is expected to approve the new regulations and submit the amended Payments System Act to the legislature in early 2020. To expand access to finance and strengthen credit-risk profiles, the CBL is committed to establishing and operationalizing a modern digital credit registry.

28. **Social Safety Nets**. 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 to reduce administrative costs and facilitate planning and coordination. On January 9, 2020, the Cabinet endorsed 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. Minister of Gender and Social Protection has commenced data collection process for LHSR in four counties and provided cash transfers to 3,250 extremely poor households during the first quarter of FY2019/20. We are committed to expand the program national-wide and ensure its' sustainability. To this end, we will approve new medium-term National Social Protection Policy and Strategy (NSPPS) to be an effective policy instrument as the previous NSPPS expired in 2017. To expand the LHSR's coverage and scale up support to extremely poor households, we will establish a monitoring and information system. This system will help to strengthen financial accountability, identify efficiency gains, and reduce overhead costs, which often exceed 40 percent of benefits delivered, by facilitating program monitoring, tracking, and reporting. To ensure the sustainability of the SSN system and expand its coverage nationwide, the Government will approve a transition plan that includes an adequate level of financing to be allocated in the FY2023 National Budget.

Conclusion

29. Mr. President, as stipulated above, Government has made significant progress in the implementation of policy reforms under the First Inclusive Growth Development Policy Operation (IGDPO-1). Government is confident that the effective implementation of the reform measures contained in the

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program will contribute to its meeting medium-term economic objectives and inclusive growth, jobs and economic transformation.

30. 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 continue, the financial assistance, particularly, budget support remains critical to the delivery of public services.

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

Please accept the assurances of my highest esteem.

Sincerely,

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Samuel D. Tweah, Jr.
MINISTER

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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
Operation Pillar 1: ***Removing distortions in selected sectors and strengthening public sector transparency***		
Prior action #1. The Recipient has enacted the Liberia Seed Development and Certification Agency Act to establish a Seed Development and Certification Agency (SDCA) to, *inter alia*, provide for sustainable seeds delivery system and private sector participation in seeds production and marketing.	**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.	**Positive:** Higher private sector participation in the seed market is expected to: (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.
Prior action #2. The Recipient has, through its Liberia Electricity Corporation (LEC), approved the LEC Business Plan (2019-2023) which addresses key operational challenges to reduce commercial losses in the energy sector.	**Neutral-positive:** 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 resulting into a positive effect on the rate of deforestation and reducing health implications from using wood fuel as fuel source for cooking.	**Positive:** 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.
Prior action #3. The Recipient has enacted a *Modernized Customs Code* which provides for, *inter alia*, greater transparency and accountability of customs decisions and procedures and facilitation of international trade.	**Neutral**: This action is not expected to have any direct environmental effects.	**Positive.** Reduction in trade costs and trade facilitation will aim to improve the overall growth in trade in Liberia. The reduction in trade costs will further enhance inclusivity of economic activities and potential for meaningful poverty reduction.
Prior action #4. The Recipient has, through its Ministry of Finance and Development Planning (MFDP): (a) established an intergovernmental Technical Tax Expenditure Committee; and (b) suspended the issuance of Investment Incentive Certificates until June 2020, all for the purpose of reducing rent-seeking behavior, strengthening transparency, and creating fiscal space.	**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.	**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.

Prior action 5: The Recipient has enacted the *Amendment and Restatement of the Public Financial Management Act of 2009* to, *inter alia,* provide for the: (a) submission of annual statement of fiscal risk from State-owned Enterprises (SOEs) along with the budget proposal for following year; and (b) publication of SOEs financial statements based on International Financial Reporting Standards (IFRS), for the purpose of strengthening transparency and improving oversight of SOEs.	**Neutral.** This action is not expected to have any direct environmental effects.	**Neutral-positive.** This action has medium-term positive effects on poverty reduction by promoting sustainable financing for development and better provision of services.
Operation Pillar 2: ***Promoting economic and social inclusion***		
Prior action #6. The Recipient has, through its Central Bank of Liberia, issued *Regulations Concerning Licensing and Operations of Electronic Payment (e-payment) Services* to, *inter alia*, promote financial inclusion and safe and efficient delivery of quality payment services.	**Neutral**: This action is not expected to have any environmental effects.	**Positive.** Better access to formal financial services for poor and women.
Prior action #7. The Recipient has, through its Cabinet, issued the *Cabinet Resolution Concerning National Household Social Registry* (NHSR) which endorses the setting up of the NHSR as the principal mechanism for identifying and targeting beneficiaries of various social protection programs national-wide.	**Neutral**: This action is not expected to have any environmental effects.	**Positive**. Direct support to extremely poor. The overall reform aims to institute Social Safety Net system to mitigate impact of shocks on the poor and contribute to long-term human capital development that will have direct positive effect on the poor.