Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 29-Oct-2019| Report No: PIDC27366

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Liberia	P168218	Liberia First Inclusive Growth Development Policy Operation (P168218)	
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
AFRICA	Feb 27, 2020	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Ministry of Finance and Development Planning	Ministry of Finance and Development Planning		

Proposed Development Objective(s)

The program development objectives of these series are: 1) removing distortions in selected sectors; and 2) promoting economic and social inclusion.

Financing (in US$, Millions)

SUMMARY

Total Financing	40.00

DETAILS

Total World Bank Group Financing	40.00
World Bank Lending	40.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

The proposed operation is the First Inclusive Growth Development Policy Operation (IGDPO-1) in the amount of US$40 million equivalent. The proposed operation is the first in a programmatic series of three single-tranche operations designed to support the government to implement structural reform program focusing on productivity-driven private sector growth and 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 Pro-Poor Agenda for Prosperity and Development (PAPD) 2018-2023.

Liberia's economic performance over the last four decades has remained uneven, with marked deterioration 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. In 2014, the regional Ebola outbreak and a sharp decline in global prices for iron ore and rubber disrupted this recovery. The economy contracted an average rate of 0.8 percent per year during 2014-2016, or 3.2 percent in per capita terms. An incipient recovery then ensued during 2017-2018, which has since proved to be tepid and short-lived. Liberia's economy is projected to contract by 1.4 percent in 2019, owing principally to weak macroeconomic management and delayed policy responses to growing macroeconomic imbalances, stalled structural reforms, weak governance and low capacity. After a slow start, the authorities have recently taken significant steps toward ensuring macroeconomic stability and returning Liberia to a sustainable and inclusive growth path. They have reached a staff level agreement with the IMF on a new four-year ECF program and have engaged with other development partners (World Bank, EU, African Development Bank) to unlock external financing.

Poverty remains widespread in Liberia. According to 2016 Household Income and Expenditure Survey (HEIS) 40.9 percent of the population were living under the international poverty line of US$1.9/day in 2011 purchasing-power-parity (PPP) terms. Negative per capita GDP growth rates during 2017-2018 led to a further increase in poverty incidence, estimated at 42.4 percent of population (US$1.9/day, 2011 PPP) in 2018. Non-monetary poverty indicators, including access to healthcare, education, and basic utility services are also low by regional and international standards, with especially acute rural-urban and gender disparities. Significant urban-rural, and gender disparities in poverty rates are driven, *inter alia*, by unequal access to land and other productive assets, infrastructure and public services, and markets for both goods and labor.

Relationship to CPF

The entire programmatic IGDPO series, including this proposed operation, are fully aligned with the World Bank's Country Partnership Framework (CPF) for FY19-24 for Liberia. The overarching goal of the CPF is to support Liberia as it strives to achieve pro-poor, private sector-led growth underpinned by human-capital development, institutional capacity-building, infrastructure development, and economic diversification. The CPF also seeks to support Liberia to address drivers of fragility and conflict, such as weak governance, inadequate economic and social inclusion, breakdown of social cohesion, youth unemployment, gender inequality, and regional disparities. The CPF pillars are: (i) strengthening institutions and creating an enabling environment for inclusive and sustainable growth; (ii) building human capital to seize new economic opportunities and (iii) narrowing the infrastructure gap to foster more equitable nationwide development. Other World Bank Group operations in agriculture, land, energy, trade, financial inclusion, digital economy, social protection, macro-fiscal management and governance are linked to the proposed series and provide valuable technical assistance.

C. Proposed Development Objective(s)

The program development objectives of these series are: 1) removing distortions in selected sectors; and 2) promoting economic and social inclusion.

[1] World Bank (2018). *Country Partnership Framework for the Republic of Liberia for the period FY19-FY24*. Report No. 130753-LR.

Key Results

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.

D. Concept Description

To achieve the program development objectives, the proposed operation focuses on two strategic pillars.

Pillar 1: Removing distortions in selected sectors. The policies supported by the first pillar aim to promote inclusive growth by removing distortions to productivity and economic diversification, with a special focus on agriculture and land reform, access to affordable electricity, and reducing trade costs. Improving the policy and regulatory framework for the agricultural sector, especially regarding agricultural input markets and access to land, will be vital to support broad-based gains in productivity and consequently living standards. Interventions in this area are especially critical for women, as limited access to land is a major constraint on productivity growth and social inclusion. The DPO series also supports measures to strengthen the financial viability of the electricity sector, which is necessary to expand access and attract private-sector investment. In addition, the series supports measures to improve the business climate that will facilitate access to technology and help reduce trade costs through trade facilitation and the removal of nontariff barriers and distortive tax waivers. 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.

Pillar 2: Promoting economic and social inclusion. The policies supported by the second pillar aim to promote economic and social inclusion by reducing the crowding out effect of high wage bill and expanding the fiscal space for productive investment and social spending, facilitating financial inclusion and building viable social safety net system. The DPO series prioritizes reducing the wage bill and improving the efficiency and transparency of public administration; development and implementation of a robust legal and regulatory framework for financial inclusion and expansion of digital finance (while at the same time ensuring proper protection of end users); allocation of additional resources to build the social safety net (SSN) system and ensure that its sustainability. These measures, pursued jointly with other World Bank operations and ASA activities, will contribute to an inclusive and accountable public sector, capable of promoting shared prosperity and sustainable development as articulated in the PAPD.

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

Reforms supported by this operation are expected to have both direct and indirect positive poverty and social effects although not significant in the short term. First, the resources under the operation will increase fiscal space allowing the government to increase public resources towards its PAPD priorities and help mitigate the impact of macroeconomic adjustment on poor. With the substantial slowdown in economic activity, the government's fiscal resources are inadequate to maintain effective service delivery. Second, by design, all measures supported by this IGDPO aim to improve conditions of Liberia's poor. *Agriculture and land reform* (prior actions 1 and 2 and related triggers) are expected to contribute to improved agricultural productivity, private sector development and better opportunities for rural and female-headed households. *Energy sector reform* (prior action 3 and related triggers) is expected to address one of the key binding constraints to productivity-driven growth and poverty reduction: affordability of and access to electricity for households and business. Addressing *non-tariff barriers to trade* and opaque and distortionary *tax waivers* (prior actions 4, 5 and related triggers) will reduce trade costs, rent-seeking behavior and corruption. *Civil service pay reform* (prior actions 6, 7 and related triggers) will reduce the disparities in public sector pay caused by the discretionary allowances, while safeguarding salaries of teachers, health workers, security officers, foreign services officers and those, who are currently paid below their assessed pay grade. The generated savings will be used to finance better provision of public services and to improve pay levels of those who are currently underpaid. Strengthening the regulatory framework and enabling environment for *digital financial services* (prior action 8 and related triggers) will improve financial inclusion and access to financial services for businesses and households, help reduce the costs of and improve the efficiency and ease of financial services' delivery, especially for poor, remote and underserved population. And, finally, *social safety nets* targeted mainly to extreme poor (prior action 9) can increase the resilience of poor and increase their opportunity.

Environmental Impacts

Overall, the reforms and policy actions supported by the proposed operation are not likely to have significant negative effects on the country's environment, forests and other natural resources. Some may have positive environmental effects. Prior actions designed to improve access and quality of seeds, and to enact and implement land right law are expected to have positive impacts on the environment. Improved access to quality seeds may lead to increase in the agricultural productivity thus reducing the rate of deforestation. Similarly, secure land rights may provide incentive for sustainable land use and natural resource management practices that have positive impact on the environment. The potential risk and impacts could be further explored and addressed under the Smallholder Agriculture Transformation and Agribusiness Revitalization Project (STAR-P) and Land Administration Project. The energy sector reforms are expected to largely have a positive environmental effect through the reduction of technical and commercial losses at LEC, improved energy efficiency and raising the share of renewable energy in energy production and consumption.

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APPROVAL

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