PROGRAM INFORMATION DOCUMENT (PID)
Appraisal stage

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Operation Name	Fourth Poverty Reduction Support Development Policy Operation
Region	Africa
Country	Liberia
Sector	General public administration (70%); General agriculture, fishing and forestry sector (10%); General energy sector (10%); General health sector (10%).
Operation ID	P162111
Lending Instrument	Development Policy Lending
Borrower(s)	REPUBLIC OF LIBERIA
Implementing Agency	MINISTRY OF FINANCE AND DEVELOPMENT PLANNING
Date PID Prepared	November 17, 2017
Estimated Date of Appraisal	December 6, 2017
Estimated Date of Board Approval	January 11, 2018
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Country and Sector Background

Since the return to democratic governance in 2006, Liberia has made notable economic and social progress, despite challenges. Between 2006 and 2014, gross domestic product (GDP) growth averaged 7 percent with a strong boost from iron ore mining since 2010. The Government has maintained prudent fiscal and monetary policies, consequently inflation has been largely maintained in single digits. The relatively large current account deficits have been sustainably financed by foreign direct investment (FDI) and donor transfers. As a result, the exchange rate has been mostly stable. The incidence of poverty at the national level fell to 54.1 percent in 2014 from 64 percent in 2007 due mainly to the decline in rural poverty. The overall drop in poverty reflects economic growth, lower inflation and government's income support to the poor and vulnerable.

A relatively peaceful election in 2011 provided a fresh mandate to President Ellen Johnson Sirleaf and in 2012, Liberia launched the Agenda for Transformation (AfT) as a first step towards its vision of achieving middle income country status by 2030. Liberia was in the second year of the implementation of the AfT when the Ebola Virus Disease (EVD) struck in March 2014. The Ebola crisis has not only impaired the Government's capacity to deliver basic services including critical health services, but it has also brought about a sharp disruption of economic activities across all sectors and heightened social and political tensions. Even while the crisis has abated, the fiscal costs of health and other interventions are substantial, while fiscal revenues have fallen, leading to substantial fiscal deficits and a faster rate of accumulation of debt.

Liberia's fledgling economy, already weakened by the adverse economic effects of the Ebola crisis, has been hard hit by severe exogenous shocks from the sustained slump in global

commodity prices. The sharp drop and sustained low prices for rubber, iron ore and palm oil and the ensuing crisis have exacerbated the already sharp economic downturn, with GDP estimated to have contracted by 1.6 percent in 2016. The twin shocks and the impact of withdrawal of United Nation Mission in Liberia (UNMIL) have exacerbated the already sharp economic downturn, with severe adverse consequences for employment and fiscal revenues. Additional budget pressures have come from the cost of 2017 presidential and general elections and security handover from UNMIL. The impact of the twin shocks of the EVD outbreak and the slump in commodity prices reversed the post-war trend of decreasing poverty: the poverty headcount increased from 54.1 percent in the first half of 2014 to 61.2 percent in the same period of 2016 nationally using as a base the 2014 poverty line.

II. Operation Objectives

This operation is the fourth in a programmatic series of four Poverty Reduction Support Development Policy Operations (PRSDPO) to support the implementation of the government's medium-term poverty reduction strategy AfT and its long-term vision plan *Liberia Rising 2030.* The aim of *Liberia Rising 2030* is to transform Liberia into a more prosperous and inclusive society and to achieve middle income country status by 2030. Liberia's primary development challenges relate to sustaining the peace, achieving economic transformation, human development and improving governance and public institutions. Specifically, the objectives of the PRSDPO-IV are to: (i) strengthen governance with particular emphasis on transparency and accountability as well as budget execution and oversight; (ii) address key constraints to growth, including electricity; and (iii) improve human capital development particularly through improved access to education and health. The objectives of the proposed operation remain relevant in the wake of the Ebola and commodity price crises and in fact proposed reforms are intended to build resilience to such shocks in the future.

The PRSDPO-IV focuses on three principal areas: (i) governance and civil service reforms; (ii) economic transformation; and (iii) human capital development. Within these three areas, the operation is selective of reforms that directly or indirectly address the issues of fragility and conflict. Consequently, the operation focuses on reforms that are expected to contribute to: (i) improving transparency in key aspects of government operation; (ii) increasing accountability in the management of public assets and reducing opportunity for corruption; (iii) building capacity for equitable service delivery, and (iv) enhancing inclusive growth and employment opportunities.

The prior actions under the PRSDPO-IV are structured under three broad pillars. The actions under the first pillar of **Governance and Civil Service Reform** are focused on improving: (i) transparency and accountability; (ii) civil service reform centered on pay reform; (iii) customs and tax administration; (iv) public financial management focused on accountability and oversight; and (v) procurement. Under the second pillar of **Economic Transformation**, the prior actions are focused on improving operation and management of electricity sector and land. The prior action under the third pillar of **Human Capital Development** is focused on fostering efficiency of use of domestic and external resources for health sector.

III. Rationale for Bank Involvement

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

More recently, and despite the adverse effects of the twin shocks and UNMIL withdrawal the Government has taken some key reform measures supported by the proposed operation. To strengthen transparency and accountability it has issued regulations supporting the Financial Intelligence Unit (FIU) with its AML/CFT obligations, and promoting a more efficient sanctions regime. The Liberia Anti-Corruption Commission (LACC) has issued Asset Disclosure (AD) regulations and started the collection of AD forms pursuant to mandatory regulations that provides for the imposition of sanctions to address non-compliance. To rationalize civil-service pay scale, the Government has also completed the merger of base-pay and discretionary allowances of the civil service following the adoption of a pay reform strategy for the civil service to improve transparency and productivity within the service. To strengthen revenue administration and make Liberia's Customs Code more compliant with the WTO obligations, the Government developed and submitted to the Legislature for enactment into Law a Modernized Customs Code. To professionalize public procurement and ensure sustainability of the professional training, the Government has approved the transition plan for the transfer of procurement program to the University of Liberia. To ensure an efficient delivery of electricity services to users, the Government signed the management service contract with a competitively selected firm, which will take over from the management of the Liberia Electricity Company (LEC) from January 2018. The Government has made the Liberia Land Authority operational through the appointment of commissioners and provision of budgetary resources for its operation in its National Budget for FY2017/18. In health, the Government has adopted a costed action plan for the implementation of the recommendations of a Joint Financial Management Assessment with a view to improving efficiency in the use of domestic and external resources in the sector, and, thus, support better health outcomes. The Bank's involvement has been critical in maintaining the reform momentum.

Liberia has maintained a relatively good track record of prudent macroeconomic management, despite multiple shocks. The twin shocks have had considerable adverse economic impact, leading to the deterioration of some of the key macroeconomic indicators including the rate of GDP growth, the current account of the balance of payments, the level of non-performing loans in banks and the fiscal balance and consequently a faster accumulation of debt with a consequent increase in the risk of debt distress. Nevertheless, the government's commitment to sound macroeconomic policies and corrective measures to respond to the shocks has been unwavering. Exchange rate adjustment has been complemented by important fiscal policy actions in response to the shocks, including prioritizing and reducing overall expenditure in response to lower than projected revenue inflows, whilst taking actions to boost revenues. The Seventh and Eight Reviews of the ECF IMF program were completed on November 13, 2017.[1] Budget support from the African Development Bank, the European Union and the World Bank has been important in the recovery from the twin shocks and building resilience to future shocks.

IV. Tentative financing

Source:	($m.)
BORROWER/RECIPIENT	0.00

[1] http://www.imf.org/en/News/Articles/2017/11/13/pr17437-imf-executive-board-completes-seventh-and-eighth-ecf-reviews-for-liberia

International Development Association (IDA) Grant		20.00
Liberia Forest Landscape Single Donor Trust Fund[2]		4.67
	Total	24.67

V. Institutional and Implementation Arrangements

The proceeds of the proposed operation totaling US$24.67 million equivalent, consisting of a proposed IDA grant in the amount of SDR 14.2 million (US$20 million equivalent) and a proposed grant of US$4.67 million from the Liberia Forest Landscape Single Donor Trust Fund, would be made available to the GoL, represented by the Ministry of Finance and Development Planning, in a single tranche upon effectiveness. The funds will be deposited into a foreign currency dedicated account designated by the GoL at the Central Bank of Liberia (CBL) that is part of the country's official foreign exchange reserves. The equivalent local currency amount will, upon confirmation of receipt of the proceeds and within five to seven working days, be transferred to the Consolidated Fund of the Government that is used to finance budgeted expenditures and appropriately accounted for in the Government's financial management system. Disbursements from the Consolidated Fund by the Government shall not be tied to any specific purchases and no special procurement requirement shall be needed. The proceeds of the operation shall, however, not be applied to financing expenditures in the negative list as defined in the Schedules of the Financing Agreements. If any portion of the Grant is used to finance ineligible expenditures as defined in the Schedules of the Financing Agreements, IDA shall require the Government to promptly, upon notice from IDA, refund to IDA an amount equal to the amount of the said payment. Amounts refunded to IDA upon such request shall be cancelled from the Grant.

VI. Risks and Risk Mitigation

The overall risk rating for the operation is 'substantial'. Liberia's transition from conflict to long-term development has been set back by the twin shocks of Ebola and low commodity prices. The country remains fragile with weak state capacity and high vulnerability to economic shocks. There are five main sources of risk - political and governance, macroeconomic, institutional capacity for implementation and sustainability, fiduciary and Ebola - that could potentially jeopardize the expected outcomes and benefits of this operation. The country and fiduciary risks and mitigation measures are summarized below. The potential benefits of the proposed operation, however, outweigh the residual risks and warrant IDA's assistance to support the implementation of critical policy reforms and provide much needed financial support at this difficult time for Liberia's economic recovery and transition.

Political and governance: Political and governance risks are *high*. The current security situation in Liberia remains fragile, but stable. Given the extremely limited fiscal space, the Government is facing challenges in expanding its security apparatus as it takes over the management of security from the UNMIL. The political situation is currently stable but needs to be monitored closely. Legislative and Presidential elections took place in October 2017 with none of the candidates receiving the majority votes. The run-off, originally scheduled on November 7, 2017 was later postponed by the courts as allegations of election irregularity are being investigated. A new run-off date is set for December 26, 2017 and a peaceful transition is expected. Political risk to the program emanate from uncertainty about the ownership of reforms by the new Administration. The operation includes reforms which are likely to reduce opportunities for

[2] The Single Donor for the Trust Fund is the Kingdom of Norway.

corruption and rent-seeking, which may face resistance political resistance from vested interests who could be losing from such reforms. ***Mitigation:*** A peacebuilding plan has been developed to provide a coherent framework for the support of UN agencies and international partners including the World Bank to the GoL in the wake of two transitions; first the inauguration of a new government in early 2018 and second the end of UNMIL's mandate on March 30, 2018.[3] To help mitigate the security risks, UNMIL and other donors are providing support to expand the training of more local police force to strengthen their presence in key areas. To help mitigate the political and governance risks, the World Bank continues to engage with Liberia in the policy dialogue, including during the preparation of PRSDPO-IV, in coordination with the IMF and other donors. Political and governance risks are also mitigated by: the program's alignment with AfT and Liberia Rising 2030 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 Government, following broad consultations in Spring 2017, has drafted the AfT successor framework for the new administration to ensure the sustainability and continuity of reforms, launched under the AfT .

Macroeconomic: Macroeconomic risks are *high*. Liberia is an open economy, heavily dependent on foreign aid, FDIs 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 to support an efficient functioning of fiduciary institutions. Aid inflows could also fall short of projections, particularly if development partners perceive a weaker Government commitment to reforms. ***Mitigation:*** The government has shown its commitment to adjusting macroeconomic policies as situations warrant. An example is the introduction of austerity measures in the FY2016/17 budget (as revenues fell below the forecast) to keep fiscal policy on track. Continued engagement and policy dialogue with the new Administration, in particular, in the context of a new series of programmatic development policy operations, as well as a new Country Partnership Framework (FY18-22), in close coordination with the International Monetary Fund (IMF), could help mitigate some of these risks. Other ongoing efforts, including through the proposed operation (to broaden the base of the economy through improved access to electricity and the improvement of the business environment as well as improved efficiency and equity of expenditures in health) could support macroeconomic stability and growth.

Institutional capacity for implementation and sustainability: Institutional capacity for implementation and sustainability risks are *substantial*. Every effort has been made to keep the design of this operation relatively simple. Nevertheless, implementation and maintenance of the reforms will require collaboration and coordination amongst state agencies. The already generally weak capacity of the state and the weight of the implementation of the many critical, priority projects under the AfT poses 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

[3] Sustaining Peace and Security. Liberia Peacebuilding Plan. Final Draft, March 28, 2017.

this proposed operation. As outlined above (under 'links to other operations'), there are a number of complementary TA projects and supporting activities being pursued by the World Bank and other donors that would mitigate the implementation and sustainability risks.

Fiduciary: Fiduciary risks are *high*. The continued engagement of the development partners in the PFM area has resulted in an enhanced fiduciary environment in Liberia including improved capacity. The CBL is addressing gaps in its supervisory and regulatory framework exposed by the failure of the First International Bank Liberia Limited (FIBLL). The MFDP is addressing the concerns raised in the audit for the PRSDPO-III. However, despite the notable progress made in improving the fiduciary system, there are still weaknesses that present opportunities for misappropriation of funds. ***Mitigation:*** On the CBL side, with TA from IMF, the CBL is strengthening the regulatory environment through: (i) an emergency liquidity assistance framework; (ii) a special bank resolution regime; and (iii) a deposit insurance scheme. With respect to the broader PFM risks, the Government is continuing its roll-out of the IFMIS to key M&As and to expand its coverage to donor resources including projects. This proposed operation will also support public sector transparency and accountability, improved financial reporting, and strengthening of procurement capacity in the Ministries and Agencies as well as at the Public Procurement and Concession Commission to enhance oversight.

Other risks: The Ebola epidemic. This risk is substantial. Liberia was declared Ebola free by the World Health Organization (WHO) in January 2016, but there have been subsequent outbreaks. In addition, recent research suggests that the Ebola virus has been detected in "recovered" males for up to 18 months after and that those recovering from Ebola are likely to have long-term health issues.4 Given the evidence of the economy wide effects, a new Ebola crisis could have adverse effects on the political, economic and social domains as well as on the implementation of reforms under the program. ***Mitigation***: Continued efforts to fight the disease, including through community engagement and strengthening of health and social protection systems is critical. The World Bank (P159040) (REDISSE2) Project, which was approved on March 1 2017, will help build regional disease surveillance and response capacity. The Liberia Social Safety Net Project, 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 health sector financing reform.

VII. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The prior actions under this operation are expected to have both direct and indirect positive poverty and social effects. First, the resources under this operation will allow the government to increase public resources to finance AfT priorities and help mitigate the impact of the twin shocks. With the substantial slowdown in economic activity and the sustained low prices for rubber and iron ore, the government's fiscal resources from tax and non-tax revenues are well below the levels prior to the crisis and inadequate to maintain effective service delivery. Second, the reforms intended to enhance political and economic governance, support economic transformation, and improve education and health, will foster transparency and accountability and inclusive growth and poverty reduction.

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

The focus on public procurement and asset disclosure will help curb corruption and improve public service delivery. A more transparent procurement system and a strengthened asset disclosure system are expected to improve oversight of public resource management, improve efficiency of public resource management, increase value for money, and reduce opportunities for corruption.

Land issues are both a drag on investment and leading causes of intense conflict among Liberians. The rural poor of Liberia depend almost entirely upon land and other natural resources for their livelihoods, including their food, fuel, shelter, water and medicines. Unequal access to and ownership of land and other resources have contributed significantly to economic and political inequities throughout Liberia's history, and have exacerbated tensions and conflict. Access to land rights in the urban areas is also important for the development of the small and medium enterprise sector. The reforms focused on improving the legal framework for land and improved management and administration are therefore expected to have positive poverty and social impact.

Environmental Aspects

Under Operational Policy 8.60 on Development Policy Lending, the Bank is required to determine whether specific country policies supported under the operation are likely to cause significant effects on the country's environment, and, in the event of such likely effects, assess country systems for reducing any such adverse effects and enhancing such positive effects. In the event of significant gaps in the analysis, or shortcomings in the country systems, the Bank is required to identify how such gaps or shortcomings would be addressed before or during program implementation, as appropriate.

The reforms proposed under the PRSDPO-IV are focused largely on economic governance, economic transformation, and human capital development. These reforms are not expected to have any significant negative direct environmental effects. The improvement in land management is expected to have positive environmental effect. The improved management of energy sector is expected to have indirect positive environmental effects. The implementation of measures to strengthen the management of public finances and improve accountability in the public sector are expected to have no direct effect on the environment. However, there are linkages between environment degradation and weak macroeconomic management and governance. Hence, it is expected that there will be some positive indirect effects on the environment associated with improved macroeconomic management and policy and institutional reforms supported under the program.

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