

PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

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Operation Name	Poverty Reduction Support Credit II
Region	AFRICA
Country	Liberia
Sector	General agriculture, fishing and forestry sector (10%);General education sector (10%);General energy sector (10%);General public administration sector (60%);Rural and Inter-Urban Roads and Highways (10%)
Operation ID	P146619
Lending Instrument	Development Policy Lending
Borrower(s)	GOVERNMENT OF LIBERIA
Implementing Agency	Minister of Finance and Development Planning Broad Street Monrovia Liberia Tel: (231-886) 578-921
Date PID Prepared	September 16, 2014
Estimated Date of Appraisal	November 10, 2014
Estimated Date of Board Approval	December 18, 2014
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Country and Sector Background

1. **After nearly fifteen years of conflict which destroyed key institutions, infrastructure and the economy, Liberia is now transitioning from post-conflict recovery to long-term development.** Two relatively peaceful elections in 2006 and 2011 have provided the mandate to president, Ellen Johnson Sirleaf whose Unity Party (UP) currently controls 22 of the 73 seats in the House and 11 of the 30 seats in the Senate. The lack of an absolute majority for any one political party in either the House or the Senate poses challenges in the passage of legislation. The generally weak institutional memory in the Legislature combined with limited technical support have contributed to the delays in the passage of legislation as well as other work of the legislature including the ratification of credits from the World Bank and other creditors. However, improved dialogue between the Executive and the Legislature as well as technical support from the World Bank is resulting in notable improvements.

2. **Liberia made notable progress in the reduction of poverty between 2007 and 2010 but poverty remains high.** Based on data from the 2010 CWIQ, the incidence of poverty at the national level is estimated to have fallen to 56 percent from 64 percent of the population in 2007. The overall reduction is due mainly to the decline in rural areas, as urban poverty actually

showed a marginal increase. The overall drop in poverty has been largely the result of economic growth, averaging nearly 7 percent over the period; a sharp fall in inflation, particularly since 2008; and steps taken by the Government to (a) target the agriculture sector under its Poverty Reduction Strategy (PRS)¹; and (b) provide income support to the poor and vulnerable through the Liberia Agency for Community Empowerment (LACE).

3. According to the 2014 Human Development Report (HDR), Liberia is ranked 145th out of 152 countries on the Gender Inequality Index (GII) with a GII score of 0.655. The key factors which contribute to Liberia's gender inequality include low female secondary school completion, high adolescent fertility, and high maternal mortality. The nation's overall HDI rank in 2014 is 175th out of 187, with a HDI score of 0.412, reflecting the low levels of human capital accumulation experienced by both men and women. The ratio of female to male primary school enrollment is 91 percent, and the female primary school completion rate is 60 percent compared with 72 percent for male. As of 2010, the maternal mortality rate was estimated to be 770 maternal deaths per 100,000 live births, the 7th highest in the world and well above the regional average of 500.

4. Liberia's primary development challenges relate to sustaining the peace, achieving economic transformation, human development and improving governance and public institutions. Addressing a history of exclusion, inequality and corruption is critical to sustaining the peace in Liberia. This challenge is complicated by the planned exit of UNMIL which has already begun and the limited fiscal space for scaling up the security apparatus. Economic transformation, including a diversification of the economy is critical for achieving inclusive growth. However, economic transformation is constrained by weak infrastructure including electricity, roads and telecommunication that limits connectivity, including to regional markets, and consequently increases fragility. Liberia's low level of human capital development precipitated by limited access and the poor quality of education and health services also limit access to economic opportunities including employment. Liberia's economic and social development is constrained by weak governance, including of natural resources, and inefficient public institutions.

5. The outbreak of Ebola in March 2014 and its subsequent escalation since July have imposed enormously more challenges for the Government of Liberia. The outbreak with its substantial toll of human lives has not only brought about a sharp disruption of economic activities across all sectors but has also heightened social and political tensions. The outbreak of the Ebola epidemic has brought to the fore underlying governance challenges that continue to affect Liberia, a decade after the end of conflict. This includes increased perception of lack of trust in government, weak coordination, and poor preparation for crisis management. In spite of significant investment in governance programs to support the development of institutions, the effectiveness of public administration system and overall coordination of public sector management remains weak.

¹ Almost one third of the deliverables under Economic Revitalization pillar of the PRS were targeted to the agricultural sector. Important support to the sector included the provision of technical and material inputs to farmers to stimulate increased production.

6. **The Government of Liberia is currently implementing its second full Poverty Reduction Strategy (PRS)—Agenda for Transformation (AfT) launched in December 2012 after extensive consultations.** The AfT is cast in the context of a long-term vision plan, the aim of which is to transform Liberia into a more prosperous and inclusive society and to achieve middle income country status by 2030. The AfT therefore focuses on the twin objectives of achieving sustained growth and ensuring inclusiveness. Achievement of the twin objectives will require, first, a deepening of the governance reforms initiated under the first PRS focusing particularly on transparency and tackling corruption as well as on enhanced governance of the natural resource sector. Reforms are also needed to not only improve the tax, customs and fiduciary systems but to also ensure that the civil service has the capacity to manage such systems in a coordinated way. Second, to spur and maintain broad-based growth, reforms are needed to address the critical constraints to growth, including the substantial infrastructure deficit (energy and roads); constraint to the agriculture sector including weak land tenure and lack of access to credit and the shortage of skills for emerging sectors. Third, to assure the objective of inclusive growth there need to be emphasis on improving access and the quality of education and training to ensure that a wide cross-section of Liberians can take advantage of the job opportunities created through broad-based growth.

II. Operation Objectives

7. The objectives of the proposed operation are to sustain and deepen government-owned efforts to reform governance and civil service, and to support the broadening of reforms to include economic transformation and human capital development in the context of the implementation of the Government's second Poverty Reduction Strategy—Agenda for Transformation. More specifically, these reforms are focused on: (i) strengthening governance with particular emphasis on transparency and accountability to reduce corruption and improve budget execution and oversight; (ii) creating the environment for economic transformation through addressing infrastructure constraints; agricultural credit; and (iii) improving human capital development particularly through improved access and quality of education.

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

9. The prior actions under the proposed operation are structured under three broad pillars, the actions under the first pillar of **Governance and Civil Service Reform** are focused on improving: (i) transparency and accountability; (ii) civil service reform centered on pay reform; (iii) public financial management focused on accountability and oversight; and (iv) procurement. Under the second pillar of **Economic Transformation**, the two prior actions are focused on improving electricity and road infrastructure through planning, policies and legislative actions to

improve the institutional framework for implementation. The prior action under the third pillar of **Human Capital Development** is focused on planning for the recruitment, training and deployment of teachers across all levels of the education system.

III. Rationale for Bank Involvement

10. Since 2007, the Government of Liberia has made good progress in implementing reforms in the areas of strengthening governance and economic revitalization with considerable support from the World Bank, the African Development Bank and the European Union as well as under the IMF Poverty Reduction and Growth Facility and Extended Credit Facility. More recently, the Government has taken some key reform measures supported by the proposed operation, including the establishment of a Financial Intelligence Unit (FIU) following the passage Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Law supported under a previous World Bank operation. The FIU is responsible for receiving, analyzing and transmitting disclosures on suspicious transactions to the competent authorities. The Government has also completed and adopted a pay reform strategy for the civil service to improve transparency morale and productivity within the service. Importantly too, the Government has established a Collateral Registry to inter alia, improve credit reporting an important step towards facilitating greater access to credit including by the agricultural sector. In education, the Government has adopted a comprehensive implementation plan for teacher recruitment, training and deployment across all levels of the education system. The Bank's involvement has been critical in maintaining the reform momentum.

IV. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	0
International Development Association (IDA)	20.0
Borrower/Recipient	
IBRD	
Others (specifiy)	
	Total
	20.0

V. Tranches (if applicable)

	(\$20.0m.)
First Tranche	
Second Tranche	
Etc.	
Total	20.0

VI. Institutional and Implementation Arrangements

11. The proposed Credit, amounting to US\$20 million equivalent, would be made available to the Government of Liberia, represented by the Ministry of Finance and Development Planning, in a single tranche, upon effectiveness of the credit. The funds will be deposited into an account designated by the Government of Liberia at the Central Bank of Liberia that is part of the country's foreign exchange reserves. The equivalent local currency amount will, within 5 working days, be transferred to the Consolidated Fund (Treasury account) of the Government that is used to finance budgeted expenditures and appropriately accounted for in the financial management system of the Government. Disbursements from the Consolidated Fund by the Government of Liberia shall not be tied to any specific purchases and no special procurement requirement shall be needed. The proceeds of the operation shall, however, not be applied to finance expenditures in the negative list as defined in the Schedule of the Financing Agreement. If any portion of the Credit is used to finance ineligible expenditures as so defined in the Schedule of the Financing Agreement, IDA shall require the Government to promptly, upon notice from IDA, refund an amount equal to the amount of the said payment to IDA. Amounts refunded to IDA upon such request shall be cancelled from the Credit.

12. **The Ministry of Finance and Development Planning will have overall responsibility for the implementation of the reforms supported by the operation.** More specifically, the Aid Management Unit, with fall under the Liberia Development Alliance (LDA) within the Ministry of Finance and Development Planning will have direct responsibility for the implementation of the operation. The Government has established, with support from donors a Monitoring and Evaluation (M&E) department within the LDA to monitor progress on the implementation of the Aft. The Aid Management Unit within the Ministry of Finance and Development Planning will be responsible for tracking progress (through the indicators) towards the medium-term objectives of the program. The objectives and indicators of the operation are aligned with the objectives and indicators of the Government's Aft. Furthermore much of the policies from the AFT, including those covered under this operation as well as those covered by other donors including the EU and the AfDB are covered in the Common Assessment Framework (CAF). The monitoring of the operation will therefore not create additional burden for the Government. Technical assistance is being provided under a Multi-donor Trust Fund for data analysis. The Budget Support Working Group (BSWG) and the CAF provide a mechanism for Government and donors to engage in transparent and candid review of progress on the policy reform program supported by the operation. Regular meetings of the BSWG that are results-focused will provide timely feedback on progress and allow the Government to take action to ensure that reforms are being completed in a timely manner. On the Bank's side, the implementation of the operation will be monitored and evaluated through continuous dialogue and timely missions. Furthermore, scheduled Implementation Status and Results Reports will be prepared and made public.

VII. Risks and Risk Mitigation

The proposed operation faces several risks including security, political, macroeconomic, fiduciary, and implementation risks as well as substantial risks related to the *Ebola outbreak*. These risks and the mitigating measures are detailed in the Program Document. A deepening of the Ebola crisis poses considerable cross-cutting risks for the operation. Already, the outbreak is having an adverse impact on the daily lives of millions of people through the tragedy of human

loss; the closure of borders and markets; the interruption of agricultural cycles; the restriction on the movement of people; the suspension of regional and international flights; and the delay in public and private investments. To help mitigate further risks from the Ebola outbreak, the Government is working with a number of multilateral and bilateral partners to provide the personnel, equipment and supplies needed to contain the spread and care for those infected.

Political and governance: The fragile security situation in Liberia is stable but regional instability poses an on-going risk, more so with the gradual UNMIL drawdown. The operation includes reforms which are likely to reduce opportunities for corruption and rent-seeking behavior. It may therefore be difficult to secure political commitments from perceived “losers” to ensure effective implementation of the reforms. *Mitigation:* To help mitigate the security risks, UNMIL and other donors are providing support to expand the training of more local police force to strengthen their presence in key areas. To help mitigate the political risk the Bank will engage more with the Legislature including in coordination with the IMF and other donors.

Macroeconomic: Liberia is heavily dependent on foreign direct investments and primary exports, for its fiscal revenues, foreign exchange and many of the decent jobs. It is dependent on imported fuel and food, including the primary staple—rice. The country is therefore vulnerable to external economic shocks such as precipitated by the Ebola epidemic and risks of fiscal slippage, exchange rate depreciation and inflation. *Mitigation:* Some of these risks will be mitigated through the maintenance of prudent macroeconomic management with the support from the IMF through its ECF arrangement. There are also ongoing efforts, including through this operation, to broaden the base of the economy.

Operational design, implementation and sustainability: The design of this operation is relatively simple but implementation of the reforms will require coordination from a state where capacity is weak and implementation of the many critical, priority projects overwhelms the limited capacity. Implementation delays of complementary projects could also pose risks for the implementation of the overall reforms. *Mitigation:* Many of these implement risks are difficult to mitigate but the World Bank will continue to support measures such as training and technical assistance for state building.

Fiduciary: Despite progress made in improving the fiduciary system, there are still weaknesses that present opportunities for corruption. *Mitigation:* To help mitigate the fiduciary risks, this operation is supporting strengthening procurement as well as the roll-out of the IFMIS to key ministries and agencies and to expand its coverage to donor resources.

Environmental and social: Liberia is highly vulnerable to climate change as a large proportion of the coastal community live in poorly constructed housing with little protection from sea or storm surges which could have catastrophic effects and hence draw fiscal resources from reforms.

Mitigation: To mitigate the natural disaster risks, the Government has revitalized the National Disaster Relief Commission (NDRC) to educate the public and coordinate the disaster response. The UN is providing support to help assess and plan for the various natural disaster risks.

VIII. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

13. **The proposed operation is expected to have overall positive direct and indirect effects on poverty and social welfare.** First, the resources under the operation will increase

fiscal space allowing the Government to increase public resources towards its AfT priorities. The Government's fiscal resources from tax and non-tax revenues are substantially below the financing required for the effective implementation of the AfT. Second, the policy and institutional reforms intended to enhance economic governance; support economic transformation and improve education will foster the efficient and transparent use of public resources as well as promote inclusive growth to reduce poverty.

14. The links between poor economic governance, economic inequities and conflict in Liberia are well documented. In the past, public resources were utilized to benefit a small group of political elite, which heightened inequality and social instability. Reforms focused on improving economic governance including: anti-corruption and transparency, as well as those covering public financial management, procurement and budget oversight are intended to strengthen budget planning and execution to ensure that the AfT priorities are achieved. In addition, strengthening the civil service including better pay is expected to result in the more efficient delivery of public service particularly to the poor.

15. The reforms supporting economic transformation are intended to expand and diversify the economy providing more employment and reducing poverty. Reforms, including for infrastructure, as well as those covering the agricultural sector are expected to transform the Liberian economy from one with a narrow base, exporting only primary products to a more diversified economy fueled by lower cost energy and with road, port and telecommunication infrastructure to improve competitiveness. In addition, improvements in road and electricity infrastructure are expected to facilitate greater access to key social services including health and education for the poor.

Environment Aspects

16. The reforms proposed under this operation are focused largely on economic governance, economic transformation and human capital development. These reforms are not expected to have any direct environmental effects. However, reforms related to infrastructure and agriculture could produce negative environmental effects. For example, increased credit to the agriculture sector could encourage greater use of fertilizer, pesticides and other agricultural chemicals inappropriate use of which could have adverse effects on the environment. Such negative effects could be avoided through greater monitoring by the Environmental Protection Agency whose capacity is low but improving. For example, the EPA's Inter-sectoral Coordination group meets monthly to ensure update and awareness on environmental measures and programs as well as for information sharing.

IX. Contact point

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