

**PROGRAM INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

February 29, 2016  
Report No.: 104826

<b>Operation Name</b>	Poverty Reduction Support Credit III
<b>Region</b>	AFRICA
<b>Country</b>	Liberia
<b>Sector</b>	General education sector (10%); General health sector (10%) General energy sector (10%); General public administration sector (70%)
<b>Operation ID</b>	P151502
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	GOVERNMENT OF LIBERIA
<b>Implementing Agency</b>	Ministry of Finance
	Minister of Finance and Development Planning Liberia Tel: (231-886) 578-921
<b>Date PID Prepared</b>	February 29, 2016
<b>Estimated Date of Appraisal</b>	May 16, 2016
<b>Estimated Date of Board Approval</b>	July 3, 2016
<b>Corporate Review Decision</b>	May 13, 2016

**I. Key development issues and rationale for Bank involvement**

1. **Liberia’s primary development challenges, which the AfT aims to address relate to sustaining the peace, achieving economic transformation, human capital development and improving governance and public institutions.** Addressing a history of exclusion, inequality and corruption is critical to sustaining the peace in Liberia following nearly 15 years of conflict. This challenge is complicated by the phased exit of United Nations Mission in Liberia (UNMIL), which is well advanced and the limited fiscal space for scaling up the government’s security apparatus. Economic transformation 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 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.

2. **To support the government in addressing the primary development challenges the proposed operation 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.

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

4. **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 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.

## **II. Proposed Objective(s)**

**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 (ii) creating the environment for economic transformation, and (iii) improving human capital development. 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.

## **III. Preliminary Description**

5. **Despite the interruption of its implementation by the Ebola crisis, the Agenda for Transformation remains the central reference framework for the reforms that the government is proposing to undertake over the medium-term.** To support the Government of

Liberia in achieving key reforms under its Agenda for Transformation, the proposed operation focuses on three primary 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 which directly or indirectly address the issues of poverty, fragility and conflict. Additionally, in the wake of the Ebola crisis, special attention is paid to the rebuilding of more resilient health systems.

6. **The reforms under the proposed operation are focused on three pillars:** (i) strengthening governance with particular emphasis on transparency and accountability to reduce corruption; budget execution and oversight; (ii) creating the environment for economic transformation through addressing infrastructure constraints; and (iii) improving human capital development particularly through improved access and quality of health and education.

#### **IV. Poverty and Social Impacts and Environment Aspects**

##### *Poverty and Social Impacts*

7. **Prior actions under this operation are expected to have both direct and indirect positive poverty and social effects.** First, the resources under the operation will increase fiscal space allowing the government to increase public resources towards its Ebola recovery and AfT priorities. With the substantial slowdown in economic activities and the sustained low prices for rubber and iron ore, the government's fiscal resources from tax and non-tax revenues are well below the levels prior to the crisis and inadequate to maintain effective service delivery. Second, the policy and institutional reforms intended to enhance political and economic governance; support economic transformation and improve education and health, will foster more efficient and transparent use of public resources as well as promote inclusive growth to reduce poverty and inequity.

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

9. **The reforms supporting economic transformation are intended to facilitate both the expansion and diversification of the economy, providing more employment and reducing poverty.** Reforms, including for energy infrastructure, 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, including in the manufacturing and services sector leading to more and better jobs.

**The reforms supporting human capital development through greater and more equitable**

**access to education and health are expected to benefit the poor.** First, through access to services to build valuable personal assets such as good health, education and skills that will better enable them to take advantage of job opportunities, and second through lowering the cost of access to these services.

#### *Environment Aspects*

**The reforms proposed under this operation are focused largely on economic governance, economic transformation and human capital development.** These reforms are not expected to have any significant direct environmental effects.

#### **V. Tentative financing**

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

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