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Operation Name	Supplemental Financing for Second Poverty Reduction Support DPO II
Region	AFRICA
Country	Liberia
Operation ID	P156826
Lending Instrument	Development Policy Lending
Borrower(s)	Government of Liberia
Implementing Agency	Ministry of Finance and Development Planning Broad Street Monrovia Liberia Tel: (231-886) 578-921
Date PID Prepared	September 3, 2015
Estimated Date of Appraisal	September 15, 2015
Estimated Date of Board Approval	October 22, 2015
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 has made notable progress in its transition from post-conflict recovery to long-term development.** The progress is supported and sustained by reforms in key areas of governance, economic transformation and human capital development supported through a series of development policy grants, credits and technical assistance. Since the return to democratic governance in 2006, Liberia has made notable economic and social progress despite challenges. Between 2006 and 2011, 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 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 of the population in 2007 due mainly to the decline in rural poverty.

2. **A relatively peaceful election in 2011 provided a fresh mandate to President Ellen Johnson Sirleaf and in 2012, Liberia launched an ambitious strategy—the Agenda for Transformation (AfT) as a first step towards its vision of achieving middle income country status by 2030.** Liberia's primary development challenges which the AfT aims to address relate

to sustaining the peace, achieving economic transformation, human development and improving governance and public institutions. However, economic transformation is constrained by weak infrastructure including electricity, roads and telecommunication that limits connectivity, including to regional markets.

3. **Liberia was in the second year of the implementation of the AfT when the Ebola Virus Disease struck in March 2014, posing more challenges for the government.** 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 is abating, the fiscal costs of health and other interventions are substantial, while fiscal revenues have fallen, leading to substantial fiscal deficits.

4. **The Government's response to the crisis was initially weak and uncoordinated—made more difficult by lack of trust and long-held cultural practices, but gathered momentum and efficacy with increasing support from development partners, including the World Bank.** In response to the Ebola crisis, the government re-programmed its budget to create fiscal space for increased health and social protection spending. Consequently, the overall budget for FY2014/15 is projected to increase from 32 to nearly 38 percent of GDP[1] and the recurrent budget, which was originally projected at 19.7 percent of GDP before the crisis is projected to increase to 27.4 percent of GDP. At the same time, capital spending is projected to fall marginally from 12.3 percent of GDP before the crisis to 10.6 percent of GDP.

5. **The government has prepared an ambitious recovery plan to stabilize and stimulate the economy and build resilience over the medium term.** The plan focuses on providing resources to the health sector not only to prevent new cases of Ebola, but also to begin the process of building more robust health systems. Furthermore, the plan focuses on quick impact strategic investments in agriculture as well as the provision of critical infrastructure including roads, electricity, water and sanitation. This will not only support the economic recovery and provide jobs, but will also be critical for building resilience to future shocks. The total cost of the Ebola recovery plan, covering three fiscal years is US$1.3 billion, including US$438.8 million (about 35 percent) for the health sector.

II. Operation Objectives

6. The development objectives supported through the proposed supplemental financing remain the same as the original PRSDPOII, that is: 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; budget execution and oversight; (ii) creating the environment for economic transformation through

[1] Well above the 35.7 percent of GDP projected at the time when the Second Poverty Reduction Support Development Policy Operation was prepared.

addressing infrastructure constraints; agricultural credit; and (iii) improving human capital development particularly through improved access and quality of education.

III. Rationale for Bank Involvement

7. **The Ebola crisis in Liberia has not only resulted in a substantial loss of human lives but it has also resulted in an sharp economic down turn which has been further exacerbated by the slump in key export prices particularly for iron ore and rubber.** Overall, the crisis continues to adversely affect GDP growth, inflation, and budgets, with widening fiscal financing gaps as near term prospects. GDP losses for 2015 are estimated at US$240 million. Although there are some early signs of economic recovery, employment remains a challenge. A recent cellphone survey suggests a generally slow return to pre-crisis employment levels.[2] Women, however, continue to be disproportionately impacted by Ebola related job losses.

8. **Notwithstanding prudent fiscal management, the fiscal burden of the Ebola crisis, the commodity price crisis and the cost of the recovery program will increase Liberia's financing needs considerably.** Consequently, the fiscal deficit is expected to increase from 1.6 percent of GDP in FY2013 to nearly 10 percent of GDP in FY2015. As a result, Liberia's external debt as a share of GDP is expected to rise from 10.5 percent in FY2013 to 24 percent in FY2015. Furthermore, the preliminary analysis from the full Debt Sustainability Analysis (DSA) currently under finalization suggests that Liberia's classification could deteriorate from *low risk of debt distress* to *moderate risk of debt distress.* Access to more grant resources could potentially stem this deterioration in its debt sustainability classification. In the absence of additional support, not only will the economic recovery plan have to be curtailed to varying degrees with adverse consequences for future growth and human development prospects but Liberia's reform program to which it is fully committed could also be put at risk.

9. **Finally many of Liberia's development partners have already front-loaded support at the start of the crisis and hence little additional financing is expected.** Furthermore, Liberia has very little recourse to or fiscal head room to service non-concessional resources and the time available to process the additional DPO in the World Bank's program series is too short.

IV. Tentative financing

Source:	($m.)
Borrower/Recipient	
IBRD	
Others (specifiy) Ebola Recovery and Reconstruction Trust Fund	5.0
	5.0
Total	

[2] Reference to Liberia cell phone survey.

V. Institutional and Implementation Arrangements

10. The proceeds of the proposed grant financing, consisting of US$5.0 million equivalent Grant from the Ebola Recovery and Reconstruction Trust Fund (ERRTF), would be made available to the Government of Liberia, represented by the Ministry of Finance and Development Planning, in a single tranche, upon effectiveness. The grant proceeds will be deposited into an account designated by the Government of Liberia at the Central Bank of Liberia (CBL) 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 grant shall, however, not be applied to finance 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 so defined in the Schedules of the Financing Agreements, 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 upon such request shall be cancelled from the Grant.

11. 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. The audit will provide assurances that: (a) the funds have indeed been received and deposited into the account; (b) the funds received in the designated account were, within 5 working days of receipt, transferred to the consolidated fund account (Treasury Account) of the Government of Liberia to finance budgetary expenditures; and (c) the amounts so received have been appropriately accounted for in the financial management system of the Government. The audit report shall be made available to IDA within 6 months from the date of receipt of the funds in the designated account. As part of the immediate additional fiduciary arrangement, the Government of Liberia, through the Ministry of Finance shall, within 30 days after the Grant has been disbursed to the designated account of the Central Bank of Liberia, provide a written confirmation to IDA that the local currency equivalent of the Grant has been credited into the Consolidated Fund of the Government of Liberia to finance budgetary expenditures.

VI. Risks and Risk Mitigation

12. **The risk assessment completed for the PRSDPOII remains valid and hence the overall risk rating for this grant supplemental financing is rated as substantial**. Liberia's transition from conflict to long-term development has been interrupted by the Ebola crisis and the already dire economic situation precipitated by the Ebola Virus Disease has been exacerbated by commodity price shocks. The fact that the country remains fragile with weak state capacity has been highlighted by the Ebola crisis. New cases of EVD in late June after Liberia had been declared Ebola free by the WHO in May suggest that Ebola risks remain. Already, the initial outbreak is having an adverse impact on the daily lives of millions of people through the tragedy of human loss and the substantial adverse impact on the economy across most sectors. 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. The budget support provided through the proposed operation will also enable the government to better address the risk.

VII. Poverty and Social Impacts and Environment Aspects

13. **The proposed additional financing for the PRSDPOII is expected to have overall positive direct and indirect effects on poverty and social welfare.** First, the resources under the additional financing will go directly to the government's budget thereby increasing fiscal space and allowing the government to increase public resources towards maintaining key social services including to the poorest. As a result of the substantial reduction in economic activities from the Ebola crisis, exacerbated by the slump in international commodity prices, the government's fiscal resources from tax and non-tax revenues have fallen substantially in the face of the increased financing required to respond to the crisis.

14. **As in the case of the PRSDPOII, the proposed supplemental grant will provide additional financing for reforms largely focused on economic governance, economic transformation and human capital development.** With the exception of reforms related to infrastructure and agriculture, these reforms are not expected to have any direct negative environmental effects. However, 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. Some of these negative effects could be mitigated through increased monitoring by the Environmental Protection Agency (EPA) whose capacity is improving under government's commitment to enhancing environmental sustainability.

VIII. Contact point

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