PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

May 24, 2017
Report No.: AB7888

Operation Name	Liberia PRSDPOIII Supplemental
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%); General health sector (10%).
Operation ID	P163164
Lending Instrument	Development Policy Lending
Borrower(s)	MINISTRY OF FINANCE AND DEVELOPMENT PLAN
Implementing Agency	Minister of Finance and Development Planning Broad Street Monrovia Liberia Tel: (231-886) 578-921
Date PID Prepared	May 24, 2017
Estimated Date of Appraisal	May 26, 2017
Estimated Date of Board Approval	June 25, 2017
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. **This program document proposes a supplemental financing to the Third Poverty Reduction Support Development Policy Operation (PRSDPO-III) to the Republic of Liberia in amount of SDR 4.8 million equivalent in IDA grants and of SDR4.1 million equivalent in IDA credits, and of US$4,366,500 in grants from the Liberia Forest Landscape Single Donor Trust Fund.**[1] PRSDPO-III in the amount of US$ 39.1 million equivalent in grants was approved by the Board on November 17, 2016, to support the implementation of the government's Agenda for Transformation (AfT), which remains Liberia's extant medium-term strategy even in the aftermath of the Ebola crisis. This single tranche grant is the third in a programmatic series of four Development Policy Operations (DPOs) undertaken by the World Bank and is consistent with the Country Partnership Strategy (CPS).[2]

2. **At the time the PRSDPO-III was negotiated in October 2016, the 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 was expected to contract by 0.5 percent in 2016 as compared to 2.5

[1] The Single Donor for the Trust Fund is the Kingdom of Norway.
[2] IDA, IFC and MIGA Country Partnership Strategy for the Republic of Liberia for the period FY13-FY17. Report No.74618-LR. The CPS was discussed by the World Bank Board on July 1, 2013.

growth projected earlier. 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 are coming from the cost of upcoming October 2017 presidential elections and security handover from (UNMIL). This led to increased poverty and created uncertainty around the possibility of accomplishing key objectives of the AfT, such as increasing per capita income and improving living standards for a large share of population. The Government of Liberia (GoL) responded to exogenous shocks by the Implementation of strong corrective actions, supported by the IMF Extended Credit Facility (ECF) program. In December 2016, the IMF has augmented the program and directed the installment of US$17.3 million to the government budget. The IMF and the World Bank coordinated closely to provide an exceptional budget support, which was intended to fill the remaining anticipated financing gap in FY17 and to avoid unsustainable expenditure cuts.

3. **Economic and fiscal performance in 2016 and 2017 turned out to be worse than expected as downside risks, highlighted in the PRSDPO-III program document, have materialized.** A more complete picture about the impact of twin shocks and UNMIL withdrawal on economic performance in 2016 and 2017 is now available. Mining sector contraction was larger than projected due to the persistent commodity price shock. Services sector growth was adversely by the stronger-than=expected impact of UNMIL withdrawal on domestic demand. The GDP contraction is estimated at 1.6 percent in 2016, which in turn has lowered the revenue base. In response to the larger than anticipated financing gap, the GoL is undertaking further adjustment and seeking additional financial support to protect priority expenditures and to implement reform measures to put the economy on sound footing under a credible macroeconomic framework.

II. Operation Objectives

5. **The objectives of the Third Poverty Reduction Support Development Policy Operation (PRSDPO III) are to sustain and deepen government-owned reform efforts in the context of the implementation of the AfT.** Specifically, the objectives of the PRSDPO III are: (i) strengthening governance with particular emphasis on transparency and accountability as well as budget execution and oversight; (ii) addressing key constraints to growth, including electricity; and (iii) improving 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.

6. **Despite the interruption of its implementation by the twin shocks, the AfT remains the central reference framework for the Government's medium term reforms agenda.** The PRSDPO III focuses on three primary areas: (i) governance and civil service reforms (AfT Pillar IV); (ii) economic transformation (AfT Pillar II); and (iii) human capital development (AfT Pillar III). 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 twin shocks, special attention is paid to the rebuilding of more resilient health systems and diversifying the economy. Consequently, the operation is focused on reforms which are expected to contribute to: (i) improving transparency in key aspects of government's 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 broad-based growth and employment.

7. **The prior actions under the PRSDPO III 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 prior actions are focused on improving electricity access for both industrial and residential use through expansion of supply based on lower-cost fuel—Heavy Fuel Oil (HFO)—to complement the rehabilitation of the Mount Coffee hydropower plant. 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. In the wake of the Ebola crisis and lessons drawn therefrom, a second action was added under this pillar focus on the effectiveness of budget execution with the health sector.

8. **The overall outcome expected under the governance and civil service reform pillar are transparent, accountable and responsive public institutions that contribute to economic and social development.** The establishment of a Financial Intelligence Unit (FIU) with the attendant regulations and connection with other FIUs are expected to result in increased transparency in financial transactions as well as improved access to international financial markets. An effective Asset Disclosure (AD) unit within the Liberia Anti-Corruption Commission (LACC) is expected to result in greater transparency and accountability in the civil service in Liberia as indicated by an increased number of senior civil servants filing asset statements. Accountability and transparency in the civil service will also be reinforced by pay reform, which include the merging of base pay and allowances. The roll-out of IFMIS to Ministries and Agencies is expected to facilitate the accurate and timely preparation of IPSAS compliant financial statements submitted to the GAC for audits, which are then reviewed by the Legislature to complete the cycle of budget accountability. Timely publication of quarterly fiscal out-turn reports will also provide timely signals of fiscal policy to the private sector and civil society as the basis for investment decisions and demand side governance actions. Procurement reform measures are expected to result in improved budget execution.

9. **The overall outcomes expected from reforms proposed under the economic transformation pillar in line with the government's AfT include the development of the private sector to provide employment; growth spurred by investments in infrastructure and improvements in agriculture to expand the rural economy and broaden the base of the economy.** The least cost power development plan to guide government's investment in the power sector coupled with a clear tariff strategy and policies and regulations for the electricity sector is expected to result in electricity production shift from high cost diesel to lower cost hydro and HFO and consequently reduced cost and greater access to electricity. Lower cost electricity is also expected to spur private sector led growth, increasingly from manufacturing and services, resulting in increased employment.

10. **The overall outcome expected under the human capital development pillar is more accessible education and effective execution of both the capital and recurrent budget in the health sector leading to a more robust health system with better access and better health outcomes.** A comprehensive implementation plan for teacher recruitment, training and deployment across all levels of the education system as well as a framework for the more equitable allocation of resources is expected to result in higher school enrollments and better education outcomes. Improvement in education and training will allow more Liberians including those in the rural areas to take better advantage of the employment opportunities that are created by the economic transformation discussed above. A more robust health system, better financed with higher execution rates will result in not only a

reversal of the erosion of the gains health indicators from the Ebola crisis but also ensure greater resilience to future shocks.

11. **Notwithstanding the substantial challenges posed by the twin shock and upcoming elections the program supported under the series of PRSDPO remains broadly on track.** Importantly, there has been no reversal of prior actions and in the time since the approval of the PRSDPO-III in November, 2016, and notable progress has been made on most of the triggers for the next operation in the series. This reflects to a large extent, the government's ownership and commitment to the reforms supported by the series.

III. Rationale for Bank Involvement

16. **Unanticipated financing gap.** The request for a supplemental financing is consistent with OP 8.6. The twin shocks have resulted in a sharp economic down turn which has been further exacerbated by the impact of the UNMIL withdrawal. Overall, the shocks continue to adversely affect GDP growth, inflation, and budgets, with an unanticipated fiscal financing gap in FY17 that could jeopardize the reform program on which progress has been hitherto satisfactory. Although the government is committed to maintain spending in critical social sectors, including health and education, it is hard pressed to do so, in a context where the pre-shock budget was already inadequate to meet the needs of these sectors. The IMF and World Bank have evaluated the policy response by the GoL to the external shocks and consider it adequate.

17. **The program remains broadly on track and the Government commitment is firm.** Notwithstanding the substantial challenges imposed by the twin shocks, the UNMIL withdrawal and upcoming elections, the GoL remains committed to the program of reforms supported by DPF program series as demonstrated through the progress that has been made in implementing various aspects of the program as described in section B above, despite the shocks and the imminent elections. The GoL has also maintained an adequate macroeconomic framework. To date, the GoL remains in compliance with all the covenants embedded in the Legal Agreement for the financing of the PRSDPO-III.

18. **Liberia is currently unable to access sufficient funds from other sources on reasonable terms or in reasonable time, absent the proposed Supplemental Development Policy Financing (DPF).** The country currently has no access to the international bond market and with ceilings on both domestic and external borrowing, there is little flexibility in financing the gap. Liberia has very little fiscal head-room to service non-concessional debt. Furthermore, the analysis from the updated Debt Sustainability Analysis (DSA) for December 2016 indicates that Liberia's risk of debt distress remains moderate but debt vulnerabilities have risen. Access to more grant resources could help mitigate risks of further deterioration in its debt sustainability classification, but many of Liberia's development partners have already front-loaded support at the start of the crisis and hence little additional financing grant is expected.

19. **The time available is too short to process the next operation in the series (PRSPDO-IV).** Notwithstanding the progress achieved in meeting of indicative triggers for PRSDPO-IV, completion of all prior actions will take another 3-6 months as many of the actions (e.g. civil service reform) are of an institutional nature. The GoL FY17 will end on June 30, 2017. The Bank support needs to be rapid to be timely. Thus, the supplemental financing with the expedited procedures is proposed to respond quickly to the urgent needs of the country generated by the exogenous shocks. This will not only support the economic recovery and provide jobs, but will also be critical for building resilience to future shocks.

IV. Tentative financing

Source:		($m.)
BORROWER/RECIPIENT		0.00
International Development Association (IDA) Credit		5.5
International Development Association (IDA) Grant		6.5
Liberia Forest Landscape Single Donor Trust Fund		4.3665
	Total	16.3665

V. Institutional and Implementation Arrangements

12. The proceeds of the proposed Operation, amounting to million US$ 16.3 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. The funds 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 official foreign exchange reserves. The equivalent local currency amount will upon confirmation of receipt of the proceeds, within five 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 finance expenditures in the negative list as defined in the Schedules of the Financing Agreements. If any portion of the Grant/Credit 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 an amount equal to the amount of the said payment to IDA. Amounts refunded to IDA upon such request shall be cancelled from the Grant/Credit.

VI. Risks and Risk Mitigation

20. **The overall risk assessment completed for the PRSDPO-III remains valid for this supplemental financing.** However, political and governance risk and macroeconomic risk are being re-assessed from substantial to high (discussed below). Liberia's transition from conflict to long-term development has been set back by the twin shocks and the country remains fragile with weak state capacity and vulnerable to economic shocks as demonstrated by the impact of the sustained commodity price shock. The country and fiduciary risks and mitigation measures are summarized below.

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 management of security under the UNMIL transition. The political situation is currently stable and being closely monitored as the 2017 elections approach. Legislative and Presidential elections will take place in October 2017 and the Government anticipates a free, fair, and peaceful transition. Political risk to the program may arise due to uncertainty about whether a new Administration will embrace the reforms. The operation includes reforms which are likely to reduce opportunities for corruption and rent-seeking. It may therefore be difficult to secure political commitments from perceived "losers" to ensure effective implementation of such reforms. Policy slippages near the elections are possible, particularly loss of fiscal control. ***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 election of a new government in October 2017 and second the end of UNMIL's mandate on 30 March 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 risk the World Bank will continue to engage with Liberia in the policy dialogue, including in the course of the preparation of the next operation in the series, in coordination with the IMF and other donors. Based on the track record of reform of the current Administration it is anticipated that commitment to the program will be sustained.

21. **Macroeconomic:** Macroeconomic risks are high. Liberia is an open economy, heavily dependent on foreign direct investments and primary exports, for fiscal revenues, foreign exchange and decent jobs. 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 timely roll-out of ASYCUDA and provision of necessary budgetary resources to support an efficient functioning of fiduciary institutions (e.g. FIU, LACC, GAC) and Liberia Land Authority. ***Mitigation:*** The maintenance of prudent macroeconomic management as demonstrated for example by the introduction of austerity measures in the FY2017 budget as revenues fell below forecast. Furthermore, the current IMF ECF program, which is on track, provides an anchor for prudent macroeconomic policies and helps to mitigate the macroeconomic risks. There are also 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 improve efficiency and equity of expenditures in health and education.

22. **Operational design, 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 technical assistance for state building as crucial complementary activities to the DPO series, including under this proposed operation. Furthermore, there are a number of complementary technical assistance projects and supporting activities being pursued by the World Bank and other donors to mitigate the implementation and sustainability risks.

23. **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 effective capacity. The CBL is addressing gaps in its supervisory and regulatory framework exposed by the failure of the First International Bank Liberia Limited (FIBLL). However, despite the notable progress made in improving the fiduciary system, there are still weaknesses that present opportunities for misappropriation of funds. ***Mitigation:*** To help mitigate the fiduciary risks of this operation, the government is continuing its roll-out of the IFMIS to key ministries and agencies and to expand its

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

coverage to donor resources including projects. This proposed operation will also support strengthening of procurement capacity in the Ministries and Agencies as well as at the PPCC to enhance oversight. After closing FIBLL, a forensic audit covering the transactions of the bank from 2006 through the closure of FIBLL on June 4, 2016 has been commissioned to KPMG to determine the root causes of the failure. The authorities committed to sharing the final report of the audit with IMF and transmit the results to the relevant judicial authorities consistent with Liberia's laws, and also to publishing the audit's findings. The CBL is conducting special monitoring of the successor GN Bank and is sharing detailed data with Fund staff. With technical assistance 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.

24. **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:*** To help mitigate risks of a new Ebola epidemic, many businesses and government agencies are maintaining the hand-washing protocol. In addition, the Government is working with multilateral and bilateral partners to build more resilient health systems. The budget support provided through the proposed operation will also help to mitigate the risk.

VII. Poverty and Social Impacts and Environment Aspects

13. **The poverty and social impact analysis conducted for the PRSDPO-III remains valid.** The poverty and social impact analysis for the PRSDPO-III, described in the Program Document which was approved by the Board on November 26, 2016, concluded that the reforms supported by the operation would have overall positive direct and indirect effects on poverty and social welfare. This assessment remains valid.

14. **The possible environmental effects discussed in the Program Document for PRSDPO-III remains valid for this supplemental grant.** That is, with the exception of reforms related to infrastructure (energy and power), reforms are not expected to have any significant negative direct environmental effects. The reforms supporting least cost power development and access by the Liberia Electricity Corporation to fuel at a lower cost, is complementary to the project support being financed by the World Bank under the Liberia Accelerated Electricity Expansion Project (LACEEP) project, which involves the construction of facilities for offloading, transport and storage, of fuel in support of the least-cost procurement of the fuel under which specific measures to mitigate any adverse environmental effects have been outlined in the Oil Spill Response Plan (OSRP)[5].

VIII. Contact point

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[4] http://www.who.int/mediacentre/news/releases/2016/ebola-zero-liberia/en/
[5] The OSRP meets the requirements of Liberia's Environmental Protection Agency Act.

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