Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 08-Feb-2021 | Report No: PIDC29668

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Liberia	P171997		Economic Recovery and Transformation Project (P171997)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA WEST	Jul 13, 2021	Oct 12, 2021	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministry of Finance and Development Planning	Ministry of Commerce and Industry	

Proposed Development Objective(s)

To improve the investment climate, strengthen firm capabilities, expand financial access and help formal MSMEs recover from the impact of the COVID-19 pandemic.

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	20.00
Total Financing	20.00
of which IBRD/IDA	20.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	20.00
IDA Credit	20.00

Environmental and Social Risk Classification	Concept Review Decision

Substantial	Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Liberia is a fragile and conflict-affected country that has experienced a range of highly traumatic periods and as a result, remains highly vulnerable to external shocks.** Two civil wars between 1989 and 2003 effectively destroyed Liberia's basic infrastructure and social services, resulting in poor living conditions for most of the population. Progress on human development and poverty reduction has been slow, with poverty widespread across the country. A gross national income per capita of just US$600 in 2018 placed Liberia among the ten poorest countries in the world. According to the 2016 household survey data, over half of the population (51 percent) was living in poverty with rural poverty more than two times higher (72 percent) than in urban areas (32 percent). Most of all, even though there is no longer security concerns, particularly in the capital, decades of war left the country with weak human capital outcomes among its youthful and fast-growing population. According to the World Bank's Human Capital Index, a child born in Liberia today is estimated to achieve a third of her/his full potential at 18 years old compared to a child who enjoyed complete education and health.

2. **Despite constraints imposed by the current conditions, Liberia's fundamental development challenge remains to convert its abundant natural resources into widespread, long-term prosperity.** Liberia's climate is well suited for agriculture and includes enough fertile land and water resources to support widespread irrigation. Its natural resources include iron ore, timber, diamonds, gold, fertile soil, and abundant rainfall. Liberia is also rich in fishery and forestry products. In addition to a significant mining industry, agriculture exports include semi-processed *rubber, palm oil*, and *cocoa*, with potential for import substitution in *rice, horticulture*, and *aquaculture*. And, with almost half the country (4.3 million hectares) covered in forest and accounting for 43 percent of the remaining Upper Guinean tropical forest, Liberia is considered internationally, as one of a handful global biodiversity hotspots. Thus, , Liberia's development challenge involves achieving a delicate balance of supporting both job creation and sustainable resource management.

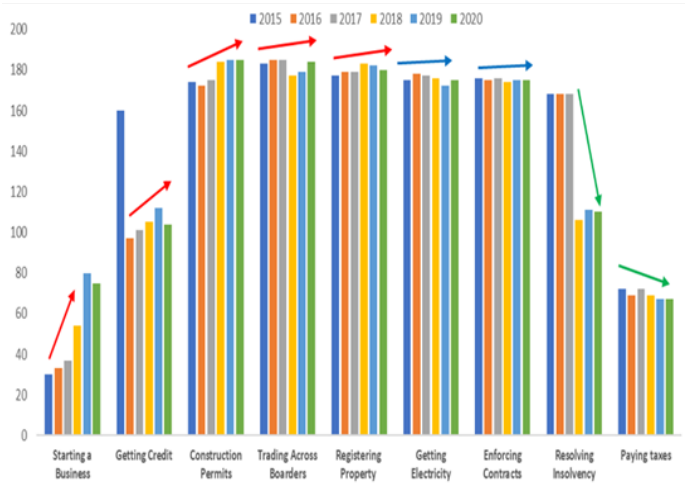
3. **Following a quarter century of economic contraction, Liberia's sustained a decade of growth and poverty reduction until 2014 when two consecutive sets of devastating twin shocks hit Liberia**. After reducing poverty from xxx to xxx**, t**he 2014-2016 Ebola crisis and the protracted slump in global commodity prices for the country's main exports (iron ore and rubber) brought Liberia's lengthy post war expansion to a sudden contraction. In 2019, Liberia entered a second episode of twin shocks involving an economic downturn, but this time initiated by the monetization of large fiscal deficits, challenges in public financial management and a series of confidence eroding policy stances. The economy contracted by an estimated 2.3 percent in 2019, while the national headcount poverty rate increased to an estimated 56 percent, but the macroeconomic tightening that followed poised the country for return to growth in 2020. Now following the demand and supply shocks from the COVID-19 crises that started in March 2020, Liberia's economy is expected to contract by a further 2.6 percent with the sustained downturn, badly damaging an already fragile set of Small and Medium Enterprises (SMEs) while stressing solvency buffers in the financial system.

4. **While the medium-term outlook is highly uncertain, there is cause for cautious optimism.** As the effects of the virus become increasingly contained, Liberia may, with considerable effort on the part of the Government and its development partners, be well positioned to benefit from an accelerating global recovery. The structural reforms and improving macroeconomic fundamentals that provided the basis for earlier growth projections, are likely to survive the crisis, and the emergency itself may help to galvanize political consensus around critical reform measures to overcome resistance from vested interests. If the government maintains prudent macroeconomic policies and attends to planned structural reforms while coordinating an effective pandemic-response effort with its development partners, a post-COVID-19 rebound could drive a robust recovery and spur a sustained period of economic transformation.

Sectoral and Institutional Context

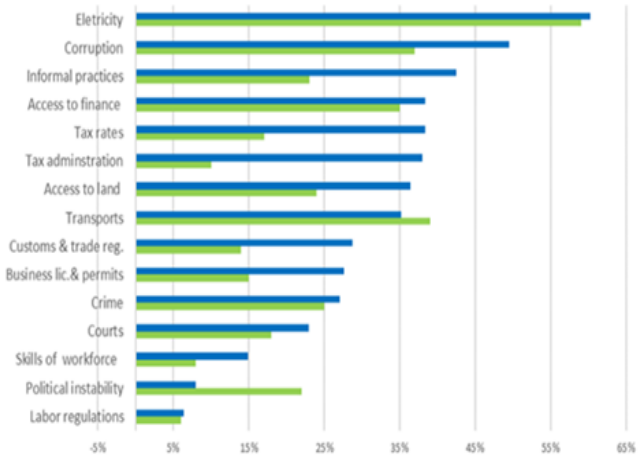
5. Even before the ongoing pandemic started to emerge in March 2020, Liberia's Indicators covering business environment and investment climate pointed to a largely uncompetitive economy. Liberia was ranked 132nd out of 140 economies in the 2018 Global Competitive Index (CGI) and was not included in subsequent GCI rankings. Even so, the 2018 position represents a significant deterioration compared to 2012-13 when Liberia ranked 111 alongside Egypt (107), Kenya (106) and Cameroon (112), and ahead of Nigeria, Senegal and Bangladesh. Benchmarking shows that Liberia now lags its neighbors across all competitiveness drivers, and along with the enabling areas of Infrastructure (136th) and the Financial System (127th), Liberia is falling critically behind in the areas critical for business to compete in a post-COVID world. For example, ICT Adoption (139th), Skills (127th) and Innovation Capacity (135th) are now at levels comparable to Chad, Ethiopia and Yemen.

Doing Business Rankings 2015-2020



World Bank Doing Business Reports

Business Constraints Perceived by Firms 2010-2017



World Bank Enterprise Surveys

6. **The falling competitiveness rankings reflect limited efforts in recent years by public officials to ease the burden of red tape, opaque regulations and inadequate Government-to Business (G2B) service orientation**. As a stark reflection of recent period of reform stagnation, Liberia's performance in the World Bank Doing Business ranking worsened in recent years, scoring 172, and 175 out of 190 economies in the 2018 and 2020 reports. Indeed, Liberia's global ranking has decreased for most indicators, even for Starting A Business and Getting Credit which recorded impressive scores a few years ago only to find them creeping up over time. In the case of Insolvency, like Getting Credit a large single year jump in

ranking, usually reflecting a legal reform that was not implemented, such as the 2017 Bankruptcy law and the 2016-2017 legislation establishing financial sector infrastructure.

7. **Since then the only area where active reforms have been having impact is in the area of paying taxes which** has been a rare bright spot for Liberia's SMEs. Operational autonomy, coupled with on-line filing, automated back office systems and mobile money payments have strengthened governance while lowering the incentive for SMEs to avoid formality. On the other hand, scores for trade facilitation, licensing and permitting and contract enforcement have continued be low and have fallen in recent years. Perceptions of incumbent firms reflect the almost across the board deterioration in the business environment. Even though perception of political stability has improved, firms see that electricity, taxation and access to finance are still problematic, while constraints associated with corruption, business licensing, border customs and informality have worsened.

8. **Specific areas that are considered by the authorities to be critical lynchpins for economic recovery and to accelerate the transformation agenda stand out as priorities**:

9. ***Access to credit and bank accounts remains very low, and confidence in the banking sector is weak***. At approximately 14 percent of GDP, credit to the private sector is below the regional average of 46 percent in 2018, with the distribution of credit concentrated in trade (32 percent), consumer loans (19 percent) and service (10 percent). Access to financial services is also limited with 17 percent of individuals having a bank account. Moreover, while the banking sector is considered relatively stable; the Non-Performing Loan (NPL) ratio is unsustainably high at 21 percent at end-August 2020 compared with 17 percent the year before. A moratorium on asset classification and provisioning between March and October 2020 means NPL figures may rise further. Rising NPLs are symptomatic of the deficiency in the financial systems and difficulty in enforcing creditor rights, worsened by the impact of the COVID19 pandemic. Only 36 percent of adults hold an account at a financial institution or with a mobile money provider.

10. A key facilitator for increased financial intermediation is a modern credit information system that captures borrower financial profiles to support good credit underwriting. According to the Doing Business report 2020, the coverage of uniquely identified individuals and corporate entities in the credit reporting system is, however, only 3.2 percent of the adult population. In addition, the current operational public credit registry is limited in its ability to mitigate the banking risk of financial intermediation, as it is supported by manual data input, without online access, and does not have historical data. A modern credit registry that is based on a national ID and integrated with other systems was piloted by the Central Bank of Liberia (CBL) but has not advanced.

11. ***International trade and access to global supply chains was already challenging but is now more disrupted***. Liberia has a high level of trade exposure, and the pandemic-related shocks to demand prices have had reverberating disruptions throughout the economy. As a small open economy, with a trade-to-GDP ratio of over 120 percent in 2018, highly dependent on imports for consumption, services and industrial inputs, trade is a direct input to economic growth and shared prosperity. Moreover, with the narrow export base and inward orientation production base, export orientation remains the key enabler of inclusive economic recovery and transformation. Yet, practically all trade goes through a single cramped, inefficient and costly port in Monrovia. Not surprisingly, Liberia's global ranking in the time and cost Doing Business ranking in Trading Across Boarder has worsened recently to 183rd in the world.

12. Liberia became a WTO Member on July 14, 2016 and began implementing the WTO agreements according to its post WTO-Accession Implementation Plan, starting with an extensive revision of the Customs Code as the foundation for implementing the standards and principles of the Trade Facilitation Agreement (TFA.) Since the WTO TFA enables Least Developing Countries like Liberia to proceed deliberately as the requisite technical assistance becomes available, the 36

technical measures forming the TFA form a road map toward a transparent, predicable, and cost-competitive trade system. Liberia has been able to satisfy around a quarter of the 36 TFA requirements and based on the passage of the new Customs Law is now poised to enter the next, more complex phase of implementing the legislative reforms.

13. ***Liberia relies heavily on foreign direct investment (FDI), in extractive industries and commercial agriculture***. Liberia has been one of the largest recipients of FDI in Africa for the past decade based on the, problematic though nationally important concession system with much of the Liberian economy is structured around private agricultural, mining, and forestry concessions. The model has boosted GDP, generated employment, provided markets for smallholders and created foreign exchange inflows to finance imports. However, concession agreements, each highly complex transactions and fiscally expensive now cover over 40 percent of Liberia's territory and affect about 30 percent of the rural population.

14. These FDI operations work in an enclave notionally responsible for significant amount of social services, physical infrastructure and local development for the areas in which they operate but without sustainable technology transfer, skill development or local outreach. Concession-related employment is generally restricted to unskilled labor and low-paid seasonal work, though capital-intensive mining concessions create a small number of jobs for skilled workers. Perhaps more importantly, the attraction of the investment incentives package and the lack of an alternative investment regime means that contracts tend toward concession type of approval regimes with non-concession based private investment crowded out in terms of time, attention, investment promotion and proactive attraction.

15. ***Lack of automation, predictability and transparency in business regulation reflects weak institutional governance***. Governance indicators are generally low compared to other countries in the sub-region (2.17), particularly in areas of government effectiveness and regulatory quality, globally. Moreover, indicators worsened from 2002 to 2017 with Liberia's global rank in Transparency International's Corruption Perceptions Index falling from75th out of 174 countries in 2012 to 90th in 2016, then plunged to 122nd in 2017—the largest single-year drop for Africa.

16. Whether for business registration, construction permits, trade approvals, tax clearances or other forms of government regulatory services, the cost of doing business imposes severe constraints on firm level productivity. Formal firms are unnecessarily burdened by an immense amount of paper-based licensing, clearances and approvals involved in starting and operating a business. Moreover, the paper based system, enables, discretion in their approval, opens the possibility of ubiquitous side payments at all levels and predictable, transparent access to the government service.

17. ***The framework for insolvency is improving, but bottlenecks are being exasperated by the impact of COVID-19.*** A well-functioning insolvency regime is an essential part of the credit-lifecycle, without which loans to MSMEs will continue to be inaccessible and or expensive, and unresolved NPLs will weigh down financial institutions, firms, entrepreneurs, and the economy, delaying any crisis response and recovery. Liberia's Insolvency Law was in force in 2017 but is not implemented due to processing bottlenecks at the Commercial and Debt Courts.

18. The WBG has a long-standing active engagement in Liberia, including supporting the set-up of the first Commercial Court in Liberia, which started operations in 2011 with a mandate to ensure speedy resolution of commercial disputes, debt related disputes and insolvency proceedings. The WBG also supported the Law Reform Commission in drafting the Insolvency Law that went into effect in 2017. The WBG expects to initiate a Phase 2 of the IFC Debt Resolution project by end-2020,to support Liberia in the design and enactment of the secondary legislation. The WBG also supported the development of a mediation practice in Liberia through conducting professional skills trainings for judge mediators and private practitioner mediators.

19. ***The current COVID-19 pandemic has also amplified the urgency of utilizing digital financial services (DFS)***. DFS can help keep financial systems functioning and keep people safe during this time of social distancing, falling demand, reduced input supply, tightening credit conditions and rising uncertainty. Over the past five years, CBL undertook significant steps to modernize its payment systems, including investments in the National Electronic Payments Switch (NEPS) which aims to build a solid infrastructure and a unified platform for connecting all banks, MFIs, mobile money operators, and utility service providers. However, since the NEPS went live in 2016, according to a recent assessment of the NEPS platform carried out by the WB, several issues hinder CBL from utilizing the NEPS' full capabilities and taking advantage of its features and functionalities, including high operational costs coupled with a low volume of transactions and limited number of participants, making the NEPS difficult to sustain.

20. Box 1: Initial Impact of and Response to the COVID19 Pandemic on Firms

In response to the global outbreak of the corona virus, President Weah declared a series of lockdown measures which lasted from April 11 to May 26 2020. These lockdown measures had a significant negative effect on business activity in the country. Even after lockdown measures were lifted, still more than two-thirds of firms continued to report declining sales, and a significant portion of firms remained either temporarily closed or only partially open. The effect of the lockdown measures, together with global travel restrictions and the general slowdown in external demand have produced significant challenges for firms to pay for operational expenses (bills, rent, wages, etc.) and maintain inventory levels.

While business activity appears to have rebounded with most firms resuming full operation, the experience among different firm segments has not been uniform. Firms in manufacturing and trade sectors have registered much less improvement since the onset of the pandemic, in terms of paying expenses, maintaining inventory, and accessing finance, compared with firms in food, accommodation, and other service sectors.

As with impact, firm level response has been heterogeneous with most firms unaware of government programs and a very small share (less than 4 percent) reporting having received any government support. While firms overall have been much more likely to cut worker hours versus laying off workers or reducing wages, there were substantial workforce reductions in accommodation, food and service sectors, with large firms employing more than 25 workers accounting for most of the lay offs. On the other hand, usage of mobile money and digital platforms has increased substantially since the onset of COVID-19, especially among firms in trade and business service sectors such as in the finance, legal, and ICT professions

21. **Like others, Liberia faces the formidable challenge of restarting a program of reform and economic transformation while effectively responding to losses in the private sector resulting from a public health crisis.** Economic transformation, involving resources being re-allocated from lower to higher-productivity activities across sectors and firms, from rural to urban areas and from self- to wage- employment was at the heart of policy making before the pandemic and must be again in the new normal. Yet, the already difficult challenge of unblocking market barriers to this process of resource allocation has been made immensely more difficult by a global pandemic that dimmed growth prospects, raised trade uncertainties and changed the nature of work. The crisis constrained usual productivity channels such as trade, FDI, competition, agglomeration, and macro and financial foundations, thereby crippling the guiding principal behind the economic transformation agenda. At the same time, combined supply and demand shocks weakened

firms in a synchronous manner and blurred observable distinctions between productive and unproductive activities. Therefore, while the medium-term goal of creating more and better jobs through productive private investment remains intact, the approach and time to reach it may have to adjust.

22. **Equal access to economic opportunity for all is a precondition for ensuring that everyone reaches their full potential**. Of course, gender equality is important as expressed in the Sustainable Development Goals. In addition, high labor force participation of Liberian women would not only potentially boost economic growth, but it would also promote their voice and agency. Increased access to finance, labor markets, healthcare, schooling and property rights are all important to increase household income and meet basic needs. Increasing gender equality brings about economic development by improving health and educational outcomes in children, as well as reducing misallocation of the economy's resources. When women's labor is underused or misallocated because they face discrimination in markets or societal institutions that prevent them from completing their education, entering certain occupations, and earning the same incomes as men, economic losses are the result.

Relationship to CPF

23. **The proposed project is an** explicit contributor to the FY19-FY24 Country Partnership Framework (CPF) Pillar I: Strengthening Institutions and Creating an Enabling Environment for Inclusive and Sustainable Growth. Specifically, the project implements Objective 3 of the CPF, that seeks a more enabling environment for the development of SMEs. The proposed project furthers the CPF's Objective by fostering the emergence of an inclusive private sector through a more hospitable investment climate, expanded access to finance, and stronger market governance. As outlined under the CPF, the proposed project envisions the removal of key regulatory constraints, facilitated trade and expanded access to finance. Specifically, the CPF guides the proposed project to focus on (i) the regulatory areas where Liberia ranks low on Doing Business indicators, (ii) implementation of the Financial Sector Development Implementation Plan and National Financial Inclusion Strategy, (iii) activation of the Insolvency and Restructuring Law adopted in 2017, and (iv) support for Liberia's implementation of commitments to the World Trade Organization (WTO), Trade Facilitation Agreement, since adoption of the long awaited Customs Code (para 73).

24. **As a prioritized WBG interventions under the CPF, the project benefits from a joint World Bank/IFC approach that is built on a strong analytical foundation and is well coordinated with other WBG interventions**. The intensified preparatory analytical engagement envisioned by the CPF includes a Diversification Study focusing on horizontal barriers to value added, several Value Chain Analyses in the agribusiness sector, a Digital Economy Diagnostic, a Jobs and Skills report and a study of public/private partnerships (PPPs). In parallel, the IFC has deployed its advisory services over the years to build a solid technical assistance foundation that target critical barriers to private-sector development. At the same time, the project will help IFC and other private sector participants explore high-potential opportunities in light manufacturing and in digital entrepreneurship while expanding the range of financial instruments offered to bank and nonbank financial institutions. Finally, in keeping with well-coordinated and unified COVID response, the proposed project is complementary to two projects at advanced stages of preparation, the REALISE project of SPJ focused on the informal sector and the Agriculture Transformation Project supporting competitive value chains.

C. Proposed Development Objective(s)

To improve the investment climate, strengthen firm capabilities, expand financial access and help formal MSMEs recover from the impact of the COVID-19 pandemic.

Key Results (From PCN)

PDO Level Indicators

- Businesses supported by the project reporting an increase in sales relative to their pre-CODVID levels
- Time and Cost indicators for Trade and/or Licensing Transactions
- Interest (EOI) by Foreign Investors
- # of firms with a loan or line of credit through the project (gender disaggregated)

Interim Indicators

- NSW Plan approved
- Online business licensing system operational
- # of trained, accredited consultants and BDS providers (gender disaggregated)
- # of court cases processed through automated system
- # of institutions integrated onto and utilizing the national switch
- % of adults covered by the credit registry

D. Concept Description

25. **Despite, but even more so because of, the complex policy challenges in a post-COVID world, the authorities recognize the urgency of deepening the process of creating jobs through economic transformation**. As the pandemic brought crises, it also created opportunity for an acceleration of reforms based on strengthened resolve, improved coordination and focused attention by policy makers. As the world adjusts to the 'new normal' by building back better through innovation and digital solutions to expand jobs and business opportunities, many countries across the continent are taking the opportunity of the crises to advance long needed but perhaps politically difficult reforms. Though Liberia's recent economic history of multiple crises damaged market functioning, financial discipline and investor perception, recovery from the global pandemic provides a renewed opportunity to strengthen key public and private institutions, improve market functioning, fortify firm resilience, and improve access to finance.

26. **The project supports a Jobs and Economic Transformation (JET) framework for Liberia and its two pillars on which the outcomes sit: better market functioning and improved firm capabilities.** In doing so, the project targets six of the ten-building block in the framework as a complement to other parallel activities under the Liberia CPF supporting macroeconomic management, infrastructure services, employment policy and human capital. The project takes account of the Government Recovery Program (GRP) project that seeks to support otherwise viable growth oriented private enterprises that were adversely impacted by the effects of the pandemic. As the mechanism for firm level support is structured, guardrails will be established to prevent adversely impacting financial discipline and commercial credit underwriting needed for a sustained recovery. At the same time, with various indicators highlighting access to finance as an issue, attention to expanding digital financial services (DFS) is needed.

27. **In addition to its contribution to the Jobs agenda, the proposed project design supports a range of IDA19 priorities including Gender, Climate, Governance, FCV and MFD.** The project will ensure that women-oriented training and eligibility will be included in firm support and financial access component. Climate smart solutions, that are often digital in nature, will be emphasized in the firm level technical support as well as in appraisal of commercial projects to be funded under the MSME facility. Strengthened governance of the private sector along with citizen engagement in an FCV context is central to the project's objectives through the focus on institutional strengthening, automation of services, and the demand driven, interactive nature of the on-line one stop shops. Reforms to investment governance such as the PPP framework, investment promotion and aftercare seeks to deepen the MFD approach to the use of public resources.

28. **Finally, as a foundational project to strengthen the public sector's ability to facilitate growth of the private sector on a sustainable basis, significant efforts will be devoted to institution building activities in key agencies.** The project will draw from international experiences throughout the continent, such as those underway in aspirational cases such as Kenya and Ghana as well as in comparators such as Sierra Leone and Gabon. Indeed, the project will also learn from and build off of local success stories of institutional strengthening such as the Liberia Revenue Authority (LRA), the Commercial Court of Liberia (CCL), the Central Bank of Liberia (CBL) and the National Investment Commission (NIC). Based on these models**,** the key ministries and agencies charged with serving the private sector provide services such as trade taxes, clearances, approvals, registration, licensing, and incentives can be structured to support formal sector operations instead of hindering the ability to do business competitively. As such the project's concept identifies the strengthening of institutional functioning, streamlining of business processes and use of automation to lower costs, improve services and remove face-to face interactions.

Components:

C.I. Business Environment Reforms and Institution Capacity Building

29. This component supports improvements in Liberia's regulatory environment by strengthening key **institutions providing Government to Business (G2B) services covering international trade, foreign investment, and business entry.** To do so, the component will build on and complement the deep advisory work that has been carried out in recent years by the IFC which will continue through the initial implementation stages of the project. Moreover, with the project's emphasis on institution building in a capacity challenged environment, the ongoing IFC AS will be fundamental in supporting GoL's activities to prepare and implement the project's activities. At the same time, project design and implementation will be supported an "all-of government" implementation plan under Liberia's Digital Economy for Africa Program (DE4A), that includes modernizing government services through integration of agencies, digitization of documents and automation of interactive services, process reengineering, and coupled with considerable capacity building for key agencies.

C.I.1: Support for National Single Window for Trade and Quality Infrastructure for Exports. The project will support Liberia's next round of trade reform that includes a three-phased activity plan to (i) organize, digitize and publicize through electronic means, its full range of trade information (TFA Article 1.1, 1.2); (ii) introduce a National Single Window (NSW) to electronically handle the full range of trade transactions for all stakeholders in a 'one-stop shop' platform; (TFA Article 10.4); and (iii) strengthen its National Quality Standards, focusing initially upgrading SPS related legislation to WTO standards, supporting SPS laboratories (e.g. Conformity Assessment Labs), the National Standards Lab testing facilities, and (TFA Article 5.3) and later expanding to broader range of Quality Standards.

Preparation, consultation and exploration of solutions for the NSW has been underway for several years and GoL is considering various approaches and solutions. To help assess the wealth of existing information, integrate with the contributing activities currently underway, and specify an implementation plan for the project, the MOCI will prepare an options paper during project preparation. With GoL's vision for implementing the NSW with relevant border authorities, trade agencies and other stakeholder, the options paper will help to specify the (i) functional & technical architecture model; (ii) operational, governance and financial model including fee structure and revenue sharing options; (iii) capacity building & change management plan; and (iv) the required legal framework.

C1.2: Single Window for Automated Business Licensing. To reverse the rise in the complexity involved in starting a business, the GOL seeks to streamline and strengthen the systems to help potential formal firms enter the market. In response, the project will support strengthening of the institutional structure supporting the Liberian Business

Registrar (LBR) along with the automation of business licensing procedures. In parallel the GOL is considering ways to transform LBR into a first-class autonomic commission. The project may therefore also support efforts to strengthening the LBR as an autonomous or semi-autonomous entity with separate legal status, budgets, and staffing policies to enable a more private sector service orientation. With support from the IFC AS, LBR is preparing an institutional strengthening reform program to be supported by the IPF, including: *a Business Registry Options Paper* to outline options for institutional autonomy based on good cases around the world, the foundational actions needed to implement the various options, and a business plan that includes options for financial sustainability.

C1.3: Improved investment policy, promotion, investor retention and PPP framework. The Government seeks an investor friendly system to attract efficiency-based foreign direct investment that fosters technology, supplier and employment spillovers. To do so, the GOL is restarting a program to improve the regulatory and institutional framework for investment, foreign and domestic, including the system of Public Private Partnerships (PPP), investor incentive rationalization, domestic supplier development, and investor after-care for better retention. To help outline a program to be supported by the IFC AS and WB IPF, two diagnostic studies are being launched. First, a rapid response version of an Investment Reform Map (IRM) will benchmark Liberia against international practices and identify specific institutional, legal and administrative constraints hindering the growth and retention of FDI. Second, an Infrastructure Investment Governance Assessment (IIGA) will propose a program to expand the FDI governance menu to include a PPP framework. Based on the IRM and the IIGA, the project will support activities such as the preparation of an investment promotion strategy; incentives streamlining, development of an investor grievance resolution mechanism, a PPP system and a project preparation fund to support taking PPP projects to market..

C.II. Enhancing the Ecosystem Supporting Entrepreneurship, Firm Capabilities and Competitiveness

30. **This component seeks to improve private sector capabilities and competitiveness at the firm level as well as stimulate youth and women entrepreneurship to support the recovery phase.** This component is geared towards strengthening the entrepreneurship ecosystem to support the emergence of dynamic, resilient and productive firms in Liberia and in doing so support the transformation of Liberia's economy. It aims to achieve this by addressing systemic challenges within the entrepreneurship ecosystem focusing on skills building for firms, capacity of business service providers, development of well-functioning networks and improving the coordination function of the Small Business Administration. The component envisages to deliver support to both entrepreneurs and ESOs through the establishment of a 'Technical Assistance Facility' to provide a combination of soft and technical skills training and grant finance. Soft skills training such as has proven to improve firm functionality and positive impact on profit especially for women-led business. Support to entrepreneurs and SMEs will be delivered in three stages (I) cultivating and growing a entrepreneurship mindset, (ii) specialized training and mentoring and (iii) finance and market linkages.

31. **Two broad categories of beneficiaries are envisaged under this component (i) SMEs and Start-ups in selected growth sectors and (ii) public and private enterprise support organizations (ESOs).** The project will focus on commercially oriented firms and entrepreneurs in the formal sector. Eligibility criteria among the various types of private ESOs in Liberia, (e.g. incubators, accelerators, business development services providers, venture funds, angel networks and business membership organizations) will include commercial viability. Support institutions within the public sector such as the Small Business Administration (SBA) will also be supported. Within these two categories of beneficiaries, specialized interventions will be implemented to support women and youth led businesses and those ESOs promoting gender equality, climate smart solutions and adoption of digital technologies as a core part of their operation will be prioritized.

32. **Activities to strengthening various parts of the entrepreneurship ecosystem is organized in three sub-components** including (i) supporting growth-oriented SMEs, (ii) building the capacity of private sector service providers,

and (iii) strengthening institutional capacity of the Small Business Administration at the Ministry of Commerce and Industry. The project also envisions impact evaluation. Specifically, the project will undertake the following activities:

C2.1: Direct support to start-ups and businesses to support recovery and expansion. The objective of this activity is to provide both financial and non-financial support to businesses operating in Liberia to support their recovery and growth. Target beneficiaries will include SMEs and start-ups in key growth sectors to support recovery and resilience and investment readiness. This support is for soft skills training, managerial and technical capabilities, capital expenditures and to implement interventions to 'COVID-proof' business including investment in digital technology and climate smart solutions to improve resilience. Capacity building and grants to firms and start-ups under this component will primarily aim at supporting recovery and investment readiness whilst seeking close linkages with instruments under Component 3 (e.g. MSME Facility) to address broader access to finance constraints.

C2.2: Support to ecosystem actors and other Enterprise Support Organizations: Achieving transformation of firms in the recovery phase will require a network of capable enterprise support organizations. The objective of this activity is to address critical gaps in the existing entrepreneurship ecosystem to improve the supply of quality entrepreneurship support services to businesses. This activity will support upskilling of entrepreneurship support organizations through competitive matching grants to undertake the following (i) training to improve business offerings (ii) upgrading of facilities (technology acquisition and Cap-Ex) and (iii) events to facilitate knowledge sharing, networking, linkages to investment for entrepreneurs and advocacy on relevant policy reforms. ESOs with programs that focus on supporting women-led businesses will be prioritized**.** It is envisaged that trained ESOs will serve as providers of businesses and entrepreneurship support under C2.1.

C.2.3 Institutional Support to the Small Business Administration (SBA): Addressing the multiple challenges facing SMEs in Liberia requires strong coordination of multiple ministries, departments and agencies and the private sector. To support sustainability of project interventions, the project will seek to strengthen key functional capabilities of the SBA to support growth-oriented SMEs in the medium to long term. Therefore, the project will support a series of institutional reforms at the SBA aimed at addressing current gaps in capacity, better position the SBA to perform coordination within the entrepreneurship ecosystem, improve research and M&E capacity to inform policies and to identify and support delivery of a set of services (e.g. access to information, linkages, market information etc.) to the private sector without crowding out private sector providers. The project will fund expert technical assistance, equipment, and policy reforms to support the SBA in delivering its functions. It is expected that project support will result to a strengthened, service-oriented and efficient institution focused on coordinating the SME agenda to support the emergence and expansion of formal growth-oriented businesses.

C.III: Expanding Access to Finance

C.3.1 MSME Finance Facility This sub-component will build on the Ebola-response MSME Finance Facility (P157797) which had the PDO of developing a framework to provide MSMEs finance on sustainable terms, enhance the capacity of local financial institutions to lend profitably to MSMEs and objectively measure outcomes. As per the findings of the ICR and an evaluation report, the most efficient and effective means of providing support to MSMEs in Liberia is to use the MSME Facility to provide sustainably priced lending through well-supervised financial institutions. Activities would include (i) an increased line of credit managed by the MSME Facility, (ii) technical assistance organized by the MSME Facility for participating financial institutions (PFIs) to improve products and systems (e.g. through matching grant-based institutional development plans), and (iii) outreach to chambers, associations and other representative enterprise bodies to channel technical assistance and training to MSMEs. This approach is consistent with the

Government's National Stimulus Program for Market Women and Petty Traders and will be coordinated closely with other donors supporting the MSME sector (such as USAID with a grants program to informal beneficiaries). The focus of the MSME Facility will continue to be medium to long-term sustainable financing for formal MSMEs. The selection of MSMEs will be based on national definitions for firms, with a preference for women managers when possible. Lending will be restricted to those activities categorized as low to moderate in terms of environmental and social risks. CBL will be conducting targeted examinations of the Participating Financial Institutions (PFIs). The examination will present performance of the institutions before and after COVID-19.

C.3.2 Resolving Insolvency This subcomponent will support the commercial and debt courts to the digitize their court processes. This will include procuring new case management systems as well as training for the judges and personnel on the new systems. The two courts have concurrent jurisdiction over cases above USD 20,000, while the Debt Court has exclusive jurisdiction over cases below that amount. The digitization will cover both insolvency and individual debt enforcement and reduce the burden of needing to be physically present in Monrovia (where the courts are situated). In 2017, Liberia's Commercial court had 282 cases on dockets, out of which only 49 have been disposed to this day. The Debt Court had over 3,000 cases on its dockets during the same time leading to an ever-increasing backlog. Especially with the increase of business distress because of the COVID-19 crisis, excessive procedural delays are leading to poor outcomes for creditors, borrowers and the economy. Work on court digitization would be highly complementary with the upcoming WBG Technical Assistance (TA) supporting implementation of regulations for the 2017 Insolvency Law, training of insolvency practitioners, judicial insolvency trainings and awareness raising on the benefits of the formal insolvency regime. Given the challenges posed to MSMEs by the COVID-19 crisis, the WBG will look to support the Government in providing more flexible options for restructuring for individual and entrepreneurs.

C.3.3 Digital Financial Services. DFS help governments to quickly and securely reach people with cash transfers and reach businesses with emergency liquidity. It is allowing people to transfer and receive funds and to pay bills from their home, or in a market or store setting, with limited physical contact. Limited physical network for access points along with nascent agent banking and digital access points, contribute to reduced financial access. The expansion of commercially viable agent networks and digital access points into rural areas will thus be critical for faster uptake and usage of DFS. In addition, key to DFS and for financial inclusion, is the payment system modernization that will play a crucial role in financial deepening in the country and will help put the country's financial system on par with other countries in the sub region and beyond by transitioning the country's economy from a cash-based to a cash-less one. Therefore, the project will support the following three activities

- *Agent Banking* This sub-component will facilitate the development of sustainable agent networks through a combination of TA and investments: (i) TA to revise the agent banking regulations to create a lower tier of banking agents with less stringent eligibility requirements and approval procedures; TA to build capacity at CBL to supervise the roll out of agent banking models in the country; (ii) finance a platform with capability to support oversight functions by providing transaction monitoring functionality; and (iii) finance the building of agent banking infrastructure in rural and underserved areas until they become commercially viable and sustainable.

- *National Electronic Payments Switch (NEPS)* This sub-component will facilitate the operationalization and implementation of the NEPS based on findings of the NEPS assessment**.** Some of the activities under consideration include: (i) financing of new hardware or cloud-based solutions; (ii) financing of required upgrades such as the "pull" mechanism for the NEPS to enable consumers to pull money from one account to another, e.g., request a withdrawal from one's mobile money to their bank account. In addition, to help facilitate the operationalization of NEPS, the project will provide TA to: (iii) support CBL in the procurement of critical pieces of new infrastructure;

and (iv) support CBL in helping financial and mobile money institutions to integrate, test, and go-live with new functionalities, while also helping government entities to link onto the switch and use its various functionalities, including the pull module. Importantly, however, CBL actions are required to address some of the above-mentioned shortcomings which have been further detailed in the recent NEPS assessment.

- *Credit Registry* This sub-component aims to facilitate the establishment and operationalization of a modern credit reference system through a combination of TA and investments: (i) TA on assessing the current situation, including IT capabilities for information sharing on the ground, recommending upgrades, legal and regulatory adjustments; (ii) TA on adopting a well-coordinated and competitive tendering process for recommended upgrades and adjustments and the development and implementation of robust system deployment plans, including user acceptance testing and fixes; (iii) TA on roll out of effective credit bureau and data analytics solution, (iv) TA on capacity building and awareness, and (v) financing for implementation of the remaining phases of the current credit enhancement project, including recommended credit bureau upgrades and adjustments.

C.IV. Program Implementation, Capacity Building and Coordination

33. This component will support: (i) Government and other actors capacity strengthening for the coordination, design, and implementation; (ii) the administrative, technical, and financial management of the project by Project Implementation Unit (PIU) under the oversight of Project Steering Committee; (iii) the coordination among all institutional partners to ensure the efficient flow of information among all actors and coordination with the private sector; (iv) the establishment of monitoring and evaluation mechanism of the project's results and impact; (v) the development of communication activities to publicize and disseminate project results, best practice es, and success stories; (vi) impact evaluations

C.V. Contingency Emergency Response Component

34. **Component 5 would be a Contingent Emergency Response Component (CERC)**. This is a provisional zero amount component to allow for rapid reallocation of loan proceeds from other project components during an emergency.

35.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

36. The low client capacity, fragile country condition and unknown project locations of the sub-project conclude that the project risk is rated substantial. However, the project is expected to achieve considerable benefits for environment, people and country because of the emphasis on supporting activities and enterprises that promote positive environmental and social milieu. Component 2 includes provision of grant to entrepreneurs and ESOs in support of commercial activities which remain nebulous at this stage of project preparation. Some of these activities might potentially cause adverse environmental risks and impacts including waste generation (solid, liquid, hazardous waste); greenhouse gas emissions,

air pollution, water contamination, noise, dust, occupational and community health and safety risks etc. Project activities and enterprises receiving support from the project might be inappropriately sited in a sensitive environment including areas classified as Important Bird and Biodiversity Areas (IBAs) which are scattered across the country. The activities supported in component 3 on increasing digital services are anticipated to increase electronic waste including release of heavy metals that could contaminate soil and water and have deleterious effects on humans. Given the scale at which these activities will be implemented, the potential adverse risks and impacts on the environment are unlikely to be significant. The adverse impacts can be easily predicted with readily available mitigations. The project will minimize these risks and impacts by supporting activities and enterprises that are less damaging to the environment including those that use sound technologies with zero or minimum environmental footprint. The implementing agency lacks experience in the use of World Bank ESF and there is a general lack of experienced Environmental Specialists within the ministries and agencies.

37. The likely social risks associated with the project will include: i) risks due to land acquisition, restriction on the land use and /or involuntary land acquisition due to the components C.2 and C.3, since the specific scope and location of project activities, including subproject investments are unknown; ii) women vulnerability to Sexual Exploitation and Abuse (SEA) and Sexual Harassment (SH) mainly by authorities in return for official businesses permits/transactions, etc. ii) low participation of women (women headed households and young women) and most vulnerable (disabled and elderly) in the project due to family responsibilities such as taking care of siblings and handling household tasks, iii) limited property/land ownership rights mainly exclude women from owning land and widening the inequality gap that has been further deepened by conflict and pandemics such Ebola and COVID-19, iv) possibilities of the project tumbling to ?elite capture? in which its resources will be directed to benefit few individuals favored by authorities and, v) emergence of social conflict resulting from favoritism and lack of transparency and dissemination of eligibility criteria.

38. To manage risks and negative impacts, the project will adopt framework approach, Environmental and Social Management Framework (ESMF) and Resettlement Policy Framework (RPF) will be prepared to adequately provide guidance on the processes and procedures to follow to identify, assess, prepare instruments and manage Environment and social risks and their impacts that may arise due to the project activities and sub-projects, once the details are known and site(s) confirmed before commencement of implementation on the ground. The project will also develop a stakeholder engagement plan (SEP) to include project affected people, vulnerable people, other interested in the project to collect their feedback on the project components for improvements in design and continuous improvements of implementation and project outcome. The project will also require COVID- 19 related training and protocol to avoid the spread of the cases at various levels.

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