HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

LIBERIA

Climate Policy Diagnostic

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Liberia: Climate Policy Diagnostic

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: Climate-related risks are macro-critical considerations for Liberia. This Climate Policy Diagnostic identifies policy reforms that reduce balance of payment risks, boost fiscal resilience, and generate positive climate outcomes. A comprehensive reform agenda is needed to promote water and food security, and a robust package of fiscal policies is key to accelerating energy access and transition. While efficient disaster risk management and financing will save lives and build economic resilience, sustainable forestry and land-use are vital to livelihoods and can be supported by good fiscal policies. Stronger climate governance would help streamline climate policy implementation and reduce costs toward building resilience. In addition, strategic mobilization of climate finance and leveraging the private sector are crucial to closing the financing gap.

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Main Messages and Recommendations

Climate-related risks are macro-critical considerations for Liberia. Today, about half of Liberia's population still lives below the national poverty line. Approximately 70 percent of the population do not have access to electricity and a quarter are without access to clean drinking water. Liberia is particularly prone to floods and storms and climate change is expected to increase downside risks with potential negative impacts on the country's medium-term outlook and long-term macroeconomic stability. IMF's analysis shows that Liberia could face a loss of 2 percent of real gross domestic product (GDP) per capita by 2050 and up to 5 percent by 2100 under a high emission scenario and without effective adaptation. Our analysis also shows that extreme precipitation shocks reduce food production by 1.6 percentage points (p.p.), per capita GDP growth by 3.3 p.p., and increase inflation by about 2 p.p. Meaningful progress on policy reforms including in the areas of building climate resilience and embarking on a green transition are key to raising living standards and achieving lasting economic growth in Liberia.

A comprehensive reform is needed to promote water and food security. While Liberia is endowed with abundant water resources, the increased intensity and frequency of extreme rainfalls and flooding pose significant risks to the water and food sector. An overarching water resources law should be developed to provide clear responsibilities of line ministries and stakeholders. To enhance water pricing, the authorities could (i) develop a multi-year performance-based water tariff structure that is cost-reflective and include social tariff, (ii) operationalize the existing Water Supply and Sanitation Commission as an independent regulatory authority to oversee tariffs and utility, and (iii) incentivize private sector participation in metering and billing, through performance-based contracts. To promote sustainable irrigation and water abstraction in the rural areas, the authorities could consider (i) a regulatory framework for groundwater and irrigation water abstraction, e.g. through permits and tariff structure targeting large commercial users, and (ii) pilot cost-recovery mechanisms to finance the operational and maintenance costs of rural water and irrigation systems, with safeguards for small-farmers.

Efficient disaster risk management and financing will save lives and build economic resilience. While the government has adequate contingent reserve and the Road Fund and has put in place a sizeable contingent lines of credit, responsible entities receive limited budget allocations and do not have access to funds in times of disasters. A heavy reliance on donor funding can be a double-edged sword, posing risks to social protection programs and disaster response efforts. Liberia could (i) develop an implementation framework of the National Disaster Risk Financing Strategy that stipulates clear responsibilities of the main stakeholders, strategies for resources mobilization, and donor engagement plans, and (ii) establish clear guidelines for the use of budgetary mechanisms for disaster response. Making social protection more shock-responsive would go a long way in resilience building. The government should (i) continue to scale up safety nets and provide the right incentives for communities to mitigate risks, (ii) improve targeting by including disaster vulnerability in the social registry, and (iii) leveraging the social registry and cash transfer infrastructure to disseminate information on disaster risks.

Sustainable forestry and land-use can be supported by good fiscal policies. There is an urgent need to address competing land-use for fuel, food, and forestry—to reduce slash-and-burn agriculture, unsustainable fuelwood production, and forest degradation. The government could revise the tax scheme on logging, reducing the reliance on area-based fees and providing preferential rates for those with sustainability certification that meets international standards. To support the uptake of climate smart

agriculture, sustainability-linked conditionality could be gradually introduced in support provided to farmers. In the longer term, a payment for environmental services scheme could be explored particularly in areas at risk of deforestation. In addition, the forest information system could be strengthened, through the use of low-cost technologies to monitor forests and maintaining a database on sustainability certificates. To promote clean cooking, fiscal incentives could be provided for the import of butane gas and/or solar stoves and their local production, while introducing targeted subsidy on the upfront costs.

A robust package of fiscal policies is key to accelerating energy access and transition. Increasing access requires significant investment in electricity grid and generation capacity, while a successful transition needs a two-pronged approach to scaling up renewable energy (RE) and shifting away from the reliance on fossil fuel imports. To accelerate RE, Liberia could (i) develop a net-metering regulation to allow self-generators to sell excess electricity generated from rooftop solar to the grid, (ii) introduce a feed-in tariff scheme to incentivize RE producers, and (iii) establish a RE Independent Power Producer Procurement Program with technology-specific bidding windows to attract private sector investments in utility-scale RE. Electricity tariff and fuel pricing reform would be greatly beneficial: the authorities should ensure the implementation of the multi-year cost-reflective electricity tariff adjustment mechanism including a social tariff, while phasing-out fossil fuel excise exemptions to support long-term transition to lower cost structure associated with higher share of RE and increase controls on informal fuel markets.

Strong climate governance helps streamline implementation and reduce costs toward building resilience. The government should introduce a comprehensive climate change law incorporating key climate governance principles. At the same time, the government should review national and sectoral legislative frameworks and policies related to climate change and align them with the forthcoming NDC 3.0. As the use of forests, land, and water cuts across multiple sectors, the government should assess the effectiveness of parallel institutions and streamline where needed, and introduce cross-ministerial approval of natural resource use. In addition, Liberia should strengthen its climate governance through (i) introducing climate change focal points in all ministries, (ii) operationalizing County and District Environmental Committees and include climate change in their responsibilities, and (iii) defining the mandate of the Ministry of Planning and Development's Climate Integration and Financing Office to mainstream climate considerations into functions of the ministry including financial policy.

Strategic mobilization of climate finance and leveraging the private sector are crucial to closing the financing gap. Liberia's climate finance landscape is at an early stage with limited awareness, institutional capacity, and integration into national climate finance planning. The authorities could develop a Climate Finance Strategy that includes (i) assessment of funding needs and financing gaps, and mapping of potential sources of public and private, international and domestic finance, and (ii) a proactive engagement plan for donors and investors, along with an assessment of suitable investment options. In parallel, they should promote green lending, through (i) introducing a green label framework, anchored in international standards such as the Green Loan Principles and the Green Bond Principles, and (ii) developing a green lending program leveraging concessional finance to de-risk climate investments. The authorities could also consider developing a regulatory environment with climate-related incentives conducive to private investments and provide special incentives under the National Investment Commission for priority sectors. In addition, joining international platforms such as the Sustainable Banking and Finance Network and/or the Network for Greening the Financial System would help the authorities build regulatory knowledge and learn from peer countries on best practices.