The Liberian Economy

A strategic reflection for the Joint Transition Team and partners

on the

The State of the Liberian Economy, Governance and Social Developments

By

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Monday January 16, 2018
1.1 Executive Summary

With the 12-year tenure of H.E. President Ellen Johnson Sirleaf coming to a close, Liberia welcomes the first democratic transition in over 70 years. President-elect George Weah will be inaugurated as Liberia’s 25th president on 22 January, 2018 with a resounding majority won during the run-off election held in December 2017. This comes at a challenging, but exciting time for Liberia’s new administration. As nation building and social cohesion is more than moral regeneration alone, the new administration is actively engaged in seeking opportunities for interaction with various targeted groups – civil society, labor, business, religious, traditional communities and leaders of political parties, towards achieving development outcomes and peacebuilding in this post-conflict landscape.

To this end, given the limited time available to the transition team, and as part of the efforts aimed at providing policy and guidelines toward the transition from an evidence-based perspective, this paper seeks to inform the transition planning process by distilling a number of issues, exploring attempts that have been made to address them, and examining policy options to tackle them.

The paper notes that Liberia has a positive story to tell about this peaceful, transparent, and democratic transition. And although many problems persist, particularly relating to poverty, vulnerable employment and inequality, the country has made great strides towards redressing the imbalances of the past and has firmly entrenched the new order of democracy with strong institutions as well as recognizing the importance of having sound policies and strategies in place across the three spheres of government. Reviving/stimulating the economy will be a key focus area during the new government. As the President-elect outlined in his addresses gleaned from various media reports, inclusivity, appealing to the Liberian diaspora and honoring the election promises are among the expectations and strategies to be pursued.

However, a number of challenges need to be addressed. The global economy continues to experience difficulties and 2018 is expected be particularly difficult for developing economies and emerging markets in view of falling commodity prices, volatile currencies and other factors. The Liberia economy is also affected by domestic factors such as electricity constraints, a need for skills, high import dependency, and an enclave growth sector.

Key findings are:

- There is limited fiscal space. It is observed that: a) Liberia does not have much fiscal space and will not have any until growth resumes; b) the current IMF program is predicated on reducing fiscal space so as to ensure that debt sustainability prevails. The IMF intends this to be a short-term matter. Fiscal space will expand when growth resumes; c) There is no quick fix to generating fiscal space. The budget is out of balance and economic management is not directed towards addressing this matter.

- While budget growth has been declining over the last three fiscal periods, recurrent expenditures have risen, at least in the latest two fiscal periods. Recurrent expenditure, of about 87% of which wages is 57% of 2016/17 budget, is not sustainable or growth enhancing. The source of the growth of such expenditure over the previous 2015/16 period needs to be assessed.

- Despite progress made, poverty, inequality and exclusion still permeate Liberian society. Pro-poor governance initiatives must be pursued to reduce poverty and ensure that no one is left behind.

- Domesticating the Sustainable Development Goals (SDGs) requires tremendous efforts in identifying how the SDG goals, targets and indicators align with the budget. Given Liberia’s capacity constraints that task should be tackled slowly. The government indicated that the AfT II would promote the SDGs. Based on past practice, the AfT II will be far too elaborate for the government to implement without assistance. A sharp reduction in what the government attempts will be essential if growth is to be stimulated and SDG achievement accelerated. For the latter to happen the government will have to restructure how it promotes development. At a minimum it will have to embrace the SDG principles of
“leaving no one behind” and “reaching the furthest first”. For that to happen, the government will have to engage and rely upon county-level participation. To do otherwise will continue the current pattern of non-inclusive growth.

- To achieve success in the above findings, the government should consider improving macroeconomic governance as a priority, so that macroeconomic stability is the fundamental foundation upon which inclusive growth is promoted and SDG acceleration is achieved.
- The exchange rate will continue to rise unless the pressure is eased by addressing domestic production, reducing import dependency.
- Employment growth can be promoted through investment in quality health and education, skills development (including TVET for employability of youth), and tackling vulnerable employment (which is at 78% of all employment).
- The imbalance in the budget, and the declining budget growth reveals there is need for expenditure reducing policies, including austerity to curb wasteful public spending albeit at the risk of fiscal consolidation.
- Macroeconomic stability is largely dependent on prudent management of natural resources. In this respect, there is need for a strategic reorientation away from this model, to insulate the economy from the commodity boon/bust cycles, while at the same time addressing the opacity and leakages in revenue management including improving management of royalties.
- The transition should be smooth because any uncertainties or mistrust has socio economic consequences given the manifestations of the recent electoral impasse, which took a toll on livelihoods. The current structure of expenditure is not growth enabling. Recurrent expenditures must shrink so that investments in development expenditures enable growth. The budget must enable SME growth, such as providing opportunities for SMEs to tap into government procurement systems for goods, services and works.
- While service concentration has been gradually decentralizing, legislations are not enabling sufficiently; and the principle of leaving one behind may be missed.
- There is not much plan-budget alignment and budget tracking.
- Overall, statistical foundations is not adequate to support evidence based policies and forecasting, and hence there is need for considerable investment to improve availability and access to quality data.

The government should therefore consider the following policy options:

- Given the contraction of the fiscal space, and limited borrowing window amid lingering concerns over debt sustainability and declining aid, immediate steps should be taken to streamline expenditures (with a focus on reducing recurrent expenditures and waste, managing assets effectively and efficiently, and embarking on domestic resource mobilization including other innovative financing options as set out in the domestic resources mobilization strategy developed by the Liberia Revenue Authority( LRA) and Ministry of Finance and Development Planning (MFDP).
- Tap into existing South-South cooperation arrangements (such as the Liberia – Nigeria Tax Inspectors Without Borders, a UNDP-supported programme) to bolster the capacity for tax audit of multinational companies and to reduce revenue leakages.
- Re-examine and contextualize the pro-poor debate from both expenditure and policy sides taking into account the context of Liberia’s economic structure. This would entail among others, doing additional poverty mapping analysis (who are the poor, where are they and what makes them poor) and how the allocative efficiency of the budget process can affect a change in their lives – a sort of sensitivity.
analysis of government spending options within the budget and related change in poverty would be required to unravel/unpack the pro-poor agenda in practice.

- Work with development partners to promote mutual accountability strengthening country systems towards greater development.
- Tackle both demand and supply constraints in order to address the depreciation of the Liberian dollar against the USD.
- Reduce pressure on foreign exchange by reducing the dependence on imports, focusing on developing the ability of the domestic private sector to produce and respond to local demand. As a start, attention should paid to such goods as construction, vegetables, spices, steel tires, plastics cups and plates, and mineral water, among others for which there is existing potential for domestic production once investments are made. The commodity composition of imports will need further assessed with respect to their import frequency, share and importance.
- Put a freeze on disposal assets (vehicles and computers), and strengthen the capacity for tracking, management and control, and ensure alignment of asset control processes with the budget allocation process.
- Set up and activate a cash management committee to streamline expenditures.
- Ensure greater budget plan alignment and service as part of pro-poor governance initiatives. This would include business opportunities for rural communities, market access and health-related infrastructure.
- Revisit the recurrent expenditures to limit waste in order to ease pressure on the national budget.
- Pursue the recommended options (immediate, short and medium term) as set out here in this report, including vigorous communication strategy to create realistic public and partner expectations.
The State of the Liberian Economy, Governance and Social Developments

Key issues and strategic options as Liberia transitions

1. Introduction

The convergence of political transition with the end of UNMIL’s mandate and transfer of security responsibilities to Government compounded lingering negative effects of the Ebola epidemic and fall in global commodity prices dampened growth expectations and constrained fiscal space. The country’s economy stagnated at near zero growth over the period 2014 (plummeted from 8.7 percent in 2013 to 0.7 percent in 2014 and further to 0 percent, and negative 1.6 percent in 2015 and 2016, respectively. Growth is projected to rebound to 2.6 percent in 20171 and rising to 4 percent in 2018 largely due to expansion in commercial gold production and continued growth in agricultural sector. Over the medium-term economic growth is projected to rise to 6 percent by 2020, which is still below the pre-Ebola level of 8.7 percent2 and Liberia remains susceptible to vulnerabilities and shocks. While the budget growth has been declining over the last three fiscal periods, recurrent expenditures have not kept pace as such a decline would suggest, at least in recent past fiscal periods3, and fiscal consolidation measures have not been effective. Recurrent expenditure of about 87%, of which wages is 57% of 2016/17 budget, is not sustainable or growth enhancing. The recent political impasse has shown that susceptibility to shocks and uncertainties do have impact on the Liberian economy. In terms of the political impasse, uncertainty induced factors have had impact on livelihoods and business operations.

The vulnerabilities in Liberia are compounded by macroeconomic factors, that were laid bare by the recent Ebola epidemic and the fall in commodity prices4. These emanate from undiversified economy, high levels of informality at about 68 percent5, high import-dependence, high export concentration on few commodities that are vulnerable to price volatility, high dollarization at about 68 percent6, and low domestic revenue mobilization and high-reliance on donor financing. These macroeconomic characteristics make the country vulnerable to volatility in commodity prices, exchange rate volatility, and changes in donor dynamics with significant implications on the poor and excluded.

Fiscal and external pressures since end-2016 have been significant, and exogenous shocks have increased fragility. Mining, especially gold and iron ore, and manufacturing are rebounding in 2017. However, the combination of the UNMIL withdrawal, sluggish commodity prices, and pre-election capital flight led to net foreign exchange inflows declining by 28 percent between FY2016 and FY2017, which forced the economy into

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1 This remains to be seen or further reassed as the Government had sounded an alarm bell that this projected growth may be untenable.
3 MFDP/GOL Statement of Annual Consolidated Fund Account 2016/2017 ( unaudited; MFDP fiscal outturn
4 IMF Article IV Consultation Report No.16/238, July 2016.
a sharp adjustment, including through a rapid slowdown in absorption. Consequently, growth, though rising, will underperform expectations this year (IMF, 2017).

Room for external borrowing is tied. The external debt stock has been increasing at a fast pace, in part due to scaled-up infrastructure spending and multiple adverse shocks. Liberia’s risk of external debt distress remains moderate. However, debt vulnerabilities remain substantial.

In recent years, number of institutional and governance reforms has been initiated by the government and supported by different development partners. However, the implementation of structural reforms needed remained largely on track but slower than desirable due to the limited absorption capacity of the Liberian institutions. The Public Financial Management (PFM) Reform Strategy and its action plan, after several rounds of consultations by key donors, including the IMF, were finalized. The PFM reform strategy covers a wide range of reform areas for 2017–20 (see MFD website), and will guide the continuation of ongoing reforms.

Over the medium term, growth is projected to rise to 6% by 2020. Significant challenges remain, which may jeopardize macroeconomic stability in the medium term. Beyond the short-term macroeconomic issues, there are medium to long-term structural economic transformation issues that need to be addressed. These include an undiversified economy, high-import dependence, high levels of informality, low domestic revenue mobilization effort that makes the country to rely on donor funding, high dollarization (at 67% in 2017), and sustainability from an environmental perspective. Additionally, the centralized economic, political and social power in Monrovia and concession-based development model have led to unbalanced regional development leading to high inappropriate structural transformation in which people leave low productivity jobs in agricultural sector in rural areas to low productivity informal jobs in urban areas. This has contributed to limited formal job opportunities and high levels of vulnerable employment (at 74.1% in 2014), which has eroded households’ ability to withstand shocks and disasters.

In defining key strategic policy options for the new government, it’s important to deeply analyze the current economic structure of Liberia. Nevertheless, understanding these linkages is key to good public expenditure policy. In this respect, the impact of public spending on common economic goals such as growth, equity and poverty reduction is difficult to assess because of the complex chain of linkages, the time lags involved and the interdependence among the goals. Both initial conditions and institutional capabilities have an important influence on the effectiveness of transmission mechanisms and must be factored into country-specific policy recommendations. Governments of developing countries typically spend between 15 and 30 percent of GDP. Hence, small changes in the efficiency of public spending could have a major impact on GDP and on the attainment of the government’s objectives.

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9 Ibid.
How should a government allocate public spending across various sectors to maximize prospects for achievement of its development (growth and poverty reduction) objectives? What principles and technical tools should guide the allocation of resources? What is current guidance on these questions? It is important to recognize that, unlike tax policy, where the theory of optimal taxation was developed, there is not a comparable theory of optimal expenditure policy that provides comparably well-defined rules for expenditure allocation. The key ideas of expenditure policy were the concepts of market failure (including the concepts of externalities and public goods) that suggested that only efficiency-enhancing interventions that corrected for the under-provision of a product or service due to market failure justified public expenditure (S. Paternostro et al, 2007).

Against this background, ideas reflected in this paper are important for policymaking process. This note on the state of the Liberia economy aims to inform different actors with respect to the current economic context. The objective is to contribute to the ongoing debate in addressing some structural analysis with respect to economic cluster pillar. A number of strategic pillars to guide the intervention are proposed here. Other policy recommendations are drawn and reported.

2. An Overview of the Liberia Economy

2.1 State of the Liberian Economy

The real GDP growth in 2016 of negative 1.6 percent was significantly worse than anticipated at the time of the fifth and sixth reviews, due to larger than anticipated effects of low commodity prices and the UNMIL withdrawal. In 2017, the mining (gold and iron ore) and the manufacturing (cement) sectors have performed better than expected. Net foreign currency inflows are much reduced. This has impacted real incomes of households, aggregate demand, and domestic absorption, and contributed to the poor growth performance. The net inflows are measured by the sum of the four largest inflows (UNMIL-related inflows proxied by the UNMIL budget, aid flows, commodity export receipts, and inflows of remittances) less the largest outflows (imports and remittances). By this measure, net inflows of foreign exchange to Liberia are estimated to have declined by 28 percent from end-FY2016 to end-FY2017, mainly driven by the UNMIL withdrawal and a decline in net inflows of aid (IMF, 2017).

Following a general election in October 2017 the new government will be up against low global commodity prices and may struggle to address widespread grievances over inflation and currency weakening, with mass protests likely. Economic growth will regain some momentum as rubber and palm oil production expands but mineral output will be held back by low global prices for iron ore, which will also keep the external account under pressure.

Inflationary pressures increased during the first half of 2017. Headline inflation averaged 12.4% in the first half of 2017, compared with 7.3% the previous year, driven by the relatively fast pace of the depreciation of the Liberian dollar against the U.S. dollar (of 20% in the first half of 2017 compared to 11% in the same period in 2016). Other
factors include excess liquidity in terms of Liberian dollars, and the relative shortage of inflows of foreign exchange. The resultant rise in the cost of living, especially the cost of food, which is mostly imported, increased fiscal pressures. Limited employment continues to undermine the welfare of Liberians in both urban and rural areas.

On the other hand, the country's current account deficit is projected to remain at 26% of GDP over the medium-term due to the anticipated decline in official transfers of money into the country. Commensurate with GDP per capita growth and single digit inflation, Liberia's poverty headcount ratio (at the national poverty line) is projected to fall to 45.2% in 2019, compared to 49.8% in 2017.

Exports have declined, but the current account is expected to strengthen thanks to import compression. With weaker iron ore and rubber prices, total export earnings declined by 45 percent in 2015 compared to 2014, and the current account deficit rose to 34 percent of GDP from 32 percent in 2014. The exchange rate depreciated by about 7 percent in 2015, broadly in line with inflation. The real effective exchange rate strengthened by 11.6 percent reflecting the inflation differential with trade partners and the rising U.S. dollar (Text Chart 1 and Annex III). In 2016, exports remained weak, despite rising earnings from gold, but imports declined a bit after the end of the temporary surge in Ebola-related imports of materials and machinery in 2014–15, with the current account deficit falling to 31 percent (IMF, 2017).

**Reduced supply of foreign currency drove the depreciation of the Liberian dollar.** The rate of depreciation (year-on-year) has been above 20 percent since May 2017.

![Liberia: CBL’s Net Foreign Exchange Position, FY2014-17](Image)

**Inflation** has been relatively high. Driven by the exchange rate depreciation, it peaked at 13 percent in May. While expected to improve somewhat by end-year to about 12½ percent, this is still over 4 percentage points higher than projected at the time of the fifth and sixth reviews.

According to the recent IMF Article IV, **risk to the outlook remains high** (Annex II). Fragility persists due to the impact of the commodity price decline, the UNMIL withdrawal, and uncertainties surrounding the political
transition. While not the baseline expectation, potential exists under a downside scenario for the transition to lead to a worsening of the security situation, disrupt domestic economic activity and investor sentiment, and create policy slippages, especially on the fiscal front with implications for arrears. In addition, although the probability is small, the recurrence of Ebola cannot be excluded.

Conversely, a peaceful transition of power in January may release pent-up investment demand, lead to some repatriation of capital, and provide a boost to growth in 2018.

Alternative scenarios and overall fiscal balance

Policy slippages could undermine the growth trajectory, affect debt sustainability, and delay the build-up of external buffers (see figure below). The alternative scenario assumes (i) on the fiscal side, a lower tax effort combined with sustained spending during and after the elections, financed by external debt; (ii) on the monetary side, the resumption of quasi-fiscal activities by the central bank; (iii) on the structural side, a delay in implementing reforms and improving the business environment. With weaker fiscal discipline, real GDP would grow faster than the baseline in the short term, but slow down over the medium-term due to poor business environment. Public debt would grow to well over 15 percent above the baseline at the end of the forecast period. On the external side, the current account deficit would be higher, with lower exports due to the weak investment climate and higher imports driven by government spending. The deteriorated current account balance and higher Central Bank of Liberia’s (CBL) operational expenditures would hamper the accumulation of international reserves (IMF, 2017).
With respect to multilateral financing by the World Bank and AfDB, there are currently 16 active International Development Assistance (IDA) projects in Liberia, including four regional projects, with a total commitment of approximately US$646.2 million equivalent, of which approximately US$364.3 million is undisbursed. Eight new projects were approved in 2016–17 for a total of US$78.53 million of IDA resources. While there are 18 active AfDB projects in Liberia, in addition to projects funded by trust funds. The portfolio has a total commitment of approximately UA 275.91 million, equivalent to US$374.37 million, of which about 22 percent is disbursed.

The driver of economic transformation in Liberia

Economic diversification remains the greatest challenge to achieve inclusive economic growth. Past experiences suggest that foreign investments in the traditional export sectors (rubber, palm oil, forestry and mining) are unlikely to create substantial employment opportunities as these sectors are largely capital-intensive enclaves with little direct or indirect links to the rest of the economy. Liberia’s economy remains dependent on imported foods and fuel, and remains vulnerable to commodity price shocks.

Domestic agriculture could help to reduce food imports and be a source of considerable employment and poverty reduction, given that this sector is still the primary source of livelihood for two-thirds of Liberia’s population; over 330,000 households are engaged in agriculture, primary smallholder and subsistence farming. The production of domestic food supplies remains fairly stagnant due to low productivity, insecure land tenure and limited access to credit, infrastructure, extension services and markets. The manufacturing sector, accounting for only 9.6 percent of GDP, remains underdeveloped due to competition from cheaper imports and limited, unreliable as well as expensive electricity and water services. Rebuilding basic infrastructure is necessary for enhancing growth, connecting people, uniting a nation, and reducing fragility. Good roads facilitate trade, enlarge markets and make it easier to deliver essential services throughout the country. Much remains to be done to connect the country internally and regionally. Most key routes alternate between sections in fair and poor condition, especially in the southeast and northwest of the country where most of the poor live.

Likewise, the cost and limited availability of electricity are preventing diversification into industry and services. Liberia’s current power generation costs, at about US$0.55 per kilowatt hour, are among the highest in Africa while coverage is less than 1 percent of the total population, among the lowest in the world. It is estimated that addressing Liberia’s public infrastructure needs will require investments of between $350 million and $600 million per year over the next decade. The connectivity gap in telecommunications remains large. Mobile density, which grew from 24 percent in 2009 to 57 percent in 2012, is close to the Africa regional average of 60 percent. The Internet sector has also witnessed some growth over the last few years; however, access is still well below the regional average. Liberia’s connection to the Africa Cable to Europe (ACE) but the connectivity gap
will not disappear without additional investment in a national backbone, coupled with a holistic approach dealing with demand stimulation, Internet ecosystem, ICT jobs and ICT applications.

The latest Enterprise Survey (2009) conducted by the World Bank, identified other important challenges to economic transformation, including corruption, crime, and lack of access to finance, as significant constraints to investment, limiting generation of jobs and income opportunities. Liberian enterprises, mostly small and micro, provide livelihood for the majority of working poor but lack access to finance due to weak capacity to prepare bankable project proposals, lack of collateral, in part due to inadequate land tenure and the high cost of borrowing. Other constraints include weak financial and banking system, undeveloped capital markets and lack of transparency in the regulatory system and dispute settlements. Regional markets present an opportunity for diversification that is yet to be explored and fully utilized. Currently, Liberia’s trade with the rest of the (ECOWAS) members is below the average for the sub-region; 7 percent compared to 10 percent. The GoL is taking steps to increase cooperation and reduce barriers to regional trade with the goal of creating a single market by 2030. Regional infrastructure projects and institutions capable of partnering with neighbouring countries are therefore becoming more important.

2.2 Economic development and future prospects

Economic growth in Liberia needs to be broad based for the country to visibly reduce poverty. This will require taking advantage of short term opportunities from agriculture and natural resource based activities to establish the conditions for diversification into light manufacturing and service exports. However, exploiting emerging opportunities will depend largely on building the conditions necessary for the private sector to flourish including stable macroeconomic conditions, a strong banking sector, well developed energy and transport infrastructure, and predictable business environment. Over the medium term, the country will need to rebuild its education and training programs to improve the skills of its working population. Fiscal policy has a key role to in this regard by for instance helping mobilize sufficient resources to fund growth interventions and social protection programs.

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Several risk factors could derail program implementation and the country’s development objectives suggesting the need to develop mitigating policy responses. These risk factors include a slowdown of economic recovery stemming from the recent commodity price shock, a resurgence of the Ebola outbreak, and tied borrowing space.

3  Social and Human Development

3.0 Overall state of sustainable development progress and implications

**Human development and poverty:** High poverty, social and economic inequalities were among the root causes of conflict in Liberia. Liberia has made progress in human development, albeit from a low base. The country’s Human Development Index (HDI) increased by 13.3 percent between 2005 (0.377) to 2015 (0.427)\(^\text{(11)}\) (positioning it at 177 out of 188 countries), reflecting improvements in life expectancy (55.1 to 61.2 years), mean years of schooling (3.8 to 4.4 years) and GNI per capita (US$511 to US$683). However, despite progress in human development incidence of absolute poverty marginally declined from 56.3 percent in 2010 to 54.1 percent in 2014,\(^\text{(11)}\)

which remains dangerously high. The incidence of poverty is higher in rural areas (70 percent) compared to urban areas (43.3 percent) and there are significant regional disparities with the highest being South Eastern B (78.9 percent), which is more than double than Montserrado (31.6 percent). The national food poverty rate was 45 percent but higher in rural areas (52.8 percent) compared to urban areas (39.7 percent). Further, 18.5 percent of the households are classified as extremely poor with the situation being worse in rural areas (27.4 percent) compared to urban areas (12.4 percent). Seventy-point-one percent of the population are multidimensionally poor reflecting multiple deprivations in education, health and living standards. Additionally, 21.5 percent of the population live near multidimensional poverty line and are at high risk of falling back into poverty with any stressor. The chronic nature of poverty has significantly eroded people’s ability to withstand shocks in the face of vulnerability and disasters, due to among others low asset accumulation for majority of the poor.

Although the national income inequality as measured by the Gini coefficient, at 0.32, is low, inequality and exclusion in other dimensions are very high. When Liberia’s HDI for 2015 of 0.427 is discounted for inequality, it falls to 0.284 – a loss of 33.4 percent in human development due to inequality in the distribution of health, education, and income. The country has a Gender Inequality Index (GII) rank of 0.649 – 150 out of 159 countries. 17.3 percent of adult women have reached at least a secondary level of education compared to 39.7 percent for the male counterparts. Gender Development Index (GDI) is 0.830, which implies that for every 100 men, only 83 women benefit from access to health, education and income, compared to 87.7 percent for Sub-Saharan Africa.

Inclusive governance voice and participation: A key cause of endemic poverty, exclusion and vulnerability is political, social and economic exclusion of large segments of the society. Centralization of political, social and economic power in the capital city of Monrovia and the failure of the system to provide basic services and infrastructure at the local level fueled uneven development, dualistic economy and a major dichotomy between urban and rural areas. The feeling of exclusion from public services has been made worse by rampant corruption within the public sector in which people face situations of bribery and extortion. Liberia’s ranking in the Corruption Perception Index worsened from 83 in 2015 to 90 out of 175 countries in 2016. This has been made worse by a concessions-based development model aimed at encouraging private sector entities to operate, manage, utilize or improve specific public assets (such as mining, oil and gas, agriculture and forestry sectors) and in return pay fees or royalties to the Government. This model has not yield significant development results to local communities but instead has been a source of conflict between communities and concession firms. This has been due to asymmetric information with the companies having more information than the Government on the concessions, overlapping mandates of key Government agencies, and overlapping geographic locations of the concessions and corruption.

Employment and informality: High levels of informal and vulnerable (insecure) employment is a major cause of endemic poverty, inequality and exclusion and vulnerability to shocks and disasters. Informal and vulnerable employment were 67.9 percent and 74.1 percent in 2014, respectively. More women are employed in informal

jobs (female-86.4, male-33.8 percent) and vulnerable employment (female-84.8 percent, male-63.5 percent). There are also regional differences in informal and vulnerable employment, which correlate with regional poverty. The highest rates of informal employment in Northwest (73.6 percent) and for vulnerable employment in North Central (86.3 percent). This is partly caused by limited access to quality education and a dearth of sustainable livelihood opportunities, which isolates, excludes and frustrates many young people. In the preceding programme cycle, National Investment Commission (NIC) and Ministry of Commerce have worked closely with the Ministry of Internal Affairs to create employment and livelihood opportunities through Business Opportunities through Support Services (BOSS), private sector development programme in partnership with development partners However, more needs to be done on employment and livelihoods in counties outside Monrovia, Corporate Social Responsibilities and youth empowerment.

**Vulnerabilities and shocks:** Food insecurity is another major cause of endemic poverty, inequality and vulnerability to shocks and disasters. Food poverty is 45 percent and higher in rural areas (52.8 percent) compared to urban areas (39.7 percent). This is further caused by the fact that most rural households rely on subsistence agriculture and use traditional agricultural methods and have limited access to markets and other resources that would enhance their productivity and hence general additional income to propel them out of poverty. The food insecurity is further complicated by the high food import-dependence and dollarization of the economy, which make households vulnerable in the wake of disasters and shocks such as floods, fluctuations in global prices and depreciation of the exchange rate. The poor nutrition in poor households further erodes their human capital potential, which reinforces the intergenerational transfer of poverty and keeps the households trapped in a vicious cycle of poverty.

**Sustainable development, climate change, and disasters:** Building resilience for Government and communities to withstand disasters and other shocks is critical to address endemic poverty, inequality and social exclusion and sustaining peace. Liberia is vulnerable to several environmental and climate-change-related shocks due to its geographic location, limited infrastructure and weak enforcement of environmental protection laws. This has led to among others, frequent flooding in low-lying coastal areas due to clogging of drainages with waste; violation of zoning laws; and coastal erosion due to rising sea-levels. The advancing sea has also led to homelessness, loss of livelihoods and some infrastructure/buildings along the coastal areas are at risk of being submerged. Progress has been made with regard to building preparedness and climate resilience capacities as the government established the National Steering Committee on climate change, environment and disaster, and developed a National Policy on Response Strategy on Climate Change and a National Action Plan for Disaster Risk Reduction developed in 2016. Liberia has also prepared its Intended Nationally Determined Contribution (INDC) in line with the Paris Agreement on Climate Change. However, there are a number of outstanding issues

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13 Ibid.
14 Ibid.
15 National Policy and Response Strategy on Climate Change, Environmental Protection Agen2016.
17 National Policy and Response Strategy on Climate Change, Environmental Protection Agen2016.
18 Intended Nationally Determined Contribution, 2015.
of concern. These include coastal defense against the rising sea levels, implementation of the National Adaptation Plant to the Environment raising awareness on making Liberia green – including provisions of alternative sources of energy and strengthening the early warning systems. Specific areas include addressing overlapping institutional mandates, capacity gaps and integrating environmental, climate and disaster risk management into development planning.

**Accelerating the SDGs:** Among developing countries, there has been emphasis on producing country driven poverty reduction strategy papers (PRSPs) to provide the policy framework for achieving economic growth and poverty reduction, as well as for coordinating donor efforts. Together, these initiatives have led to increased efforts to identify specific policies and programs for effectively reducing poverty.

Currently, Liberia embarks on the journey to domesticate the SDGs and AU agenda 2063 having launched the SDGs and developed a domestication roadmap. Further support and commitments to accelerate domestication of this agenda will be critical. This will ensure that there is more investment in health, education, and training of people with focus on youth, to realize the demographic dividend, develop infrastructure, and strengthen institutional capacities. Additionally, expertise should be tapped to foster policy advice for recovery and the growth of the economy, ensuring that the economy is more inclusive and diverse, and adds more value to commodities. Measuring progress will require the availability of timely and reliable statistical data. Broad-based participation of civil society and other stakeholders, advocacy and expertise could ensure that no one is left behind, with focus on the social inclusion of vulnerable groups and promotion of human security, fostering of inclusion and social equity, and strengthening social cohesion. Imperative for SDG domestication success will also depend on support and investment for clean, relevant and accurate data, partnerships, accountability, and inclusive participation. Innovative means of financing, including through a comprehensive domestic resources mobilization strategy, will be critical to achieve the SDGs.

**PART II**

4 **Policy discussions and selected policy options**

Indeed, it is widely acknowledged that Liberia has positive story to tell about its first peaceful transition in over 70 years, peacebuilding and transparent democracy. Although many problems persist, particularly relating to poverty, unemployment and inequality, the country has made great strides towards redressing the imbalances of the past and has firmly entrenched the new order of democracy with strong institutions as well as policies and strategies in place across the three spheres of government.

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19 See MFDP’s/GoL SDGs domestication roadmap of November 2016.
The new Government has indicated that consolidating the economy will be a key focus area during their tenure. Furthermore, it is known that the new Government will be rigorous in introducing pro-poor legislation, encourage inclusivity, appeal to the Liberian diaspora, and honor the election promises.

However, a number of challenges need to be addressed. The global economy continues to experience challenges and the year 2017/18 is expected to be difficult for developing economies and emerging markets in view of falling commodity prices, volatile currencies and other factors. The Liberia economy is also affected by domestic factors such as electricity constraints, a need for skills and, enclave growth sector.

In managing the peoples’ expectations and positioning for pro-poor governance, it is imperative to focus on addressing the key drivers of endemic poverty, inequality and exclusion, and vulnerability to shocks and disasters. These include inclusive growth and job creation; good governance (for example in areas of justice, security, peace and reconciliation); climate-change, environmental management and disaster risk preparedness; improved management of natural resources; and coordination and coherence in SDGs implementation. These require a phased policy decision-making process for the immediate, short and medium terms while charting a long term sustained path from poverty to prosperity.

Consequently, seeking to eliminate poverty and sharply reducing inequality, a national development plan cutting across all sectors should revolve around fostering 1) Inclusive social and economic development; 2) Sustainable investment and growth; 3) Decent jobs and sustainable livelihoods; 4) A capable development state; and 5) Expanding opportunities for prosperity and for all.

In this regard, below, number of policy proposals in terms of pillars that may guide the ongoing debate:

**Pillar 1: Transforming the structure of the economy and growth prospects.** Transforming the structure of the economy and rapid economic growth, and through strengthening and expanding the role of the state and the economy is only possible way to job creation and ensuring the peace dividend is sustained. In this respect, although it is widely accepted that growth and redistribution are important sources of reduction in absolute poverty, a review of the literature confirms the lack of an appropriate theoretical framework for assessing the impact of public spending on growth as well as poverty. The dangers of policy decisions that are not well grounded in theory and supported by empirical evidence are indicated. With regard to the impact of any given type of public spending, policy recommendations must be tailored to countries and be based on empirical analysis that takes account of the lags and leads in their effects on equity and growth and ultimately on poverty (Stefano Paternostro, Anand Rajaram & Erwin R. Tiongson, 2007).

**Pillar 2: Economic growth and job creation.** As the first of three building blocks towards achieving the government vision, the Medium Term Strategic Framework (MTSF) must focus on radical
socio-economic transformation programme over the next five years, to support the implementation of the MTSF and to ignite economic growth and create jobs. Along this line, the plan should contain five drivers of economic growth and job creation – revitalization of agriculture and the agro-processing value chain; more effective implementation of industrial plan; advancing beneficiation/adding value to mineral wealth; unlocking the potential of small, medium and micro enterprises (SMMEs), cooperatives, communities and rural enterprises as well as growing the oceans economy (improving the fisheries sector). Transforming in the agricultural sector must focus on stabilizing and expanding the sector. The agriculture sector is pivotal for Liberia’s economy health, and is crucial for the economic takeoff for decent livelihoods to all Liberians, particularly the most vulnerable. Investment in youth and employment is critical to tackle joblessness by providing economic opportunities for them. This also alleviates stressors of violence and disruptions to the peacebuilding aims. Consumption should give way to investment with a focus on shifting the balance of public spending from consumption to investment-linked programs; particularly through the extensive infrastructure.

**Pillar 3: Continue the massive infrastructure development programme**, which is a countercyclical program aimed at providing massive economic and social infrastructure through strategic infrastructure projects. The outgoing President Sirleaf’s government invested significantly in infrastructure during her tenure. But much more remains to be done. The construction of the motorway that leads to neighboring Guinea has created local jobs and made the movement of goods easier, but many roads elsewhere in the country are either in bad shape or non-existent. One of the recent flagship projects of Sirleaf’s government - the reconstruction of Coffee Hydro Dam, which when completed in the coming months - will add at least 22 megawatts of electricity to the country’s national grid. Most Liberians have no access to electricity and power cuts are common in major cities and towns. Those who have access to electricity pay a premium, leaving many to use diesel generators at a great cost both financially and environmentally (World Bank, 2014).

- The World Bank’s World Development Report 2013 identifies three ways that jobs contribute to development: Jobs boost living standards, raise productivity, and foster social cohesion. Indeed, development and job creation are intrinsically linked and interdependent in the economic and social spheres. Within the economic domain, jobs provide the main source of income, thus determining living standards and consumption possibilities at the individual level. Future income is also partly dependent on current labour activity, since human capital is accumulated and skills are maintained and improved through daily work.
Jobs are also the principal way out of poverty for people in developing countries. The associated increase in income allows consumption of basic goods and services above poverty thresholds: as average household incomes rise by 2 percent per year, poverty rates are reduced between 1.2 and 7 percent, depending on country circumstances. In fact, the top two reasons why 60,000 poor people cited jobs as their best pathway out of poverty were (i) through self-employment, i.e., running their own business, (ii) through income from wages or salaries.

**Pillar 4: Engagement with business leaders.** President Sirleaf began engagements with business leaders in early 2016 to promote a united response to the global economic difficulties as well as inclusive growth and job creation. To keep momentum, the new president should continue leading the interface with business as well as labor and other sectors, to remove obstacles to investment while enhancing the global competitiveness of the country. Aggressive reforms to business environment will put the country in right economic path.

![Figure 1.1: Top Constraints to Private Sector Development in Liberia's Economy](image-url)

*Source: Liberia Investment Climate Policy Note 2009.*
**Pillar 5: Statistics, institutions and governance.** Statistical capacity is needed to deliver quality evidence-based products in Liberia in a sustainable basis at the various levels. The national, sub-national, and sectoral statistical systems are characterized by gaps in data, fragmented and out-of-date data, absence of time series data, lack of standards in data production, and lack of uniform development across the various statistical systems. This situation adversely impacts development planning and impedes the rise of results-focused execution of public policy and service delivery. The latest Household Survey was carried out in 2008 by the Liberia Institute of Statistics and Geoinformation Services, and a new one is scheduled for 2018. Collaboration with partners to update economic and social indicators is key. Over the last 10 years, significant progress has been made in establishing systems of financial management, procurement reform and asset management. Led by the General Services Agency (GSA) and with support of international partners, systems of tracking moveable and immovable assets have been put in place. The GSA is the lead agency that ensures that all government assets are accounted for and well administered. The government needs to continue reform efforts of the previous government.

**Pillar 6: A focus on human development** aims to improve the quality of life by investing in more youth skills development (to improve their employability), accessible and higher quality education, health, and water and sanitation services. A total of about US$1 billion has been spent by both the government and the donor community on health and education with some remarkable successes.

**Pillar 7: Engagement with the Liberian diaspora and preparation for a diaspora conference.** Most of the current workers’ emittances are largely financing household consumption from Liberian abroad to their families. There is an appreciating effect of inward remittances on exchange rate and the positive effects on growth, the use of remittances may be considered to influence exchange rate in furtherance of economic growth and price stability. The invention of a national Liberia diaspora day will help to shape functional and sectoral policies where professional can establish hospitals building schools and offer professional profitable services. The National Diaspora Day aims to mobilize efforts, open dialogue and reviews the Diaspora policies and regulations promulgated by the country and mentioned a wide range of activities and sound progresses that helps to make the Diaspora active participant in the national development and people-to-people relations between their country and the country they reside in.

Nevertheless, given the limited budgetary resources, the government has to make strategic choices between different sectors and prioritize the priorities in a situation where everything is a priority. The last
sentence should guide the transition team do background analysis for credible promises and results based budgetary execution.

There will be a need for deepened internalization of the key development challenges of poverty, inequality, vulnerability and exclusions.

In summary, fixing the economic challenges and recovering from the economic shocks should be the immediate strategy for restoring hope and managing expectations. Hence financing for development will entail exploring further:

- Options for expanding the fiscal space given the limited window for borrowing, including embarking an IMF financing programme.
- Implementing a Domestic Resource Mobilization Strategy
- Reviewing tax expenditure and Improving plan-budget alignment and ensuring Public Financial Management Reforms
- As citizens expectations are high, restoring hope and expanding opportunities for inclusive growth will be central to the consolidation of the gains, and managing expectations. Hence focus here should be on tackling prices (fuel, rice and transport), creating jobs and improving livelihoods, diversifying the economy, and fostering private sector development, investing in climate-resilient development, investing in growth-enhancing infrastructure and procuring locally made items. Other strategies should be urgently tackling exchange rate depreciation and reflecting on the dollarization and challenges of de-dollarization in a phased and gradual manner, beginning with transactional de-dollarization. A strong communication strategy will be critical in all these to limited panic and increase confidence in the government.

At this stage of policy development, the government should initiate with partners and commission a background analysis that will help the government in pursuing different scenarios with the available resource envelop productive versus social sector; identify leading sectors for development and poverty reduction; wealth creation and production; constraints to job creation: a conceptual framework and analysis of labour market regulations and institutions (supply and demand). This, hopefully, will further enlighten the government to pursue the right policies and deal with challenges in early stages.

Below are a number of suggested time-framed actions:

4.0 Immediate Term

- Recast the budget to reduce recurrent expenditures (salaries and wages) – including a hiring freeze
- Set up a cash management committee, with a presidential clout to streamline expenditures
• Put a freeze on asset disposal and revisit the decision in respect of the three years clause relating to the asset life, with the view to amending that to five years given an improvement in the conditions that were the basis of the three-year timeframe for asset disposal

• Link asset traceability, management and control to budget preparation and appropriation process

• Suspend the issuance of gasoline coupons, and rather introduce electronic cards fuel replenishment system for tracked and operational vehicles

• Review the composition of imports with view to lowering the importation of non-essential commodities, particularly those (such as mineral water) for which Liberia’s productive capacity can be enhanced via investment in such WASH sector

• Be firm on price controls ensuring that a system is place to review inventories and reorder stock information of businesses as well increase capacity for destination inspections.

• Imbibe a culture of pro-poor governance at levels

• It is particularly important for Liberia and in diaspora communities and enhance the engagement of the Liberian diaspora in development. The plan is to mobilize the global Liberia diaspora. Equipped with innovative ideas, valuable transnational networks, knowledge and expertise, strong values, and new technological skills. According to this approach, Liberia needs to have a Diaspora Policy and create a forum and events to help the diaspora to get involved in policy dialogue, investment and development and to be part of the ongoing socio-economic development of the country by transforming knowledge and technology

4.1 Short Term (first 6 months)

• Put a halt to disposal of assets (particularly vehicle and computers) and do an inventory of government assets, liking this to the budget formulation process.

• Initiate an audit of the consolidated accounts and determine the balance

4.2 Medium Term (first one to 3 years)

• Promote a conducive business environment and private sector investment with focus on improving the ease of doing business, electricity, and credit facilitation

• Harnessing the natural resources and using agriculture sector as buffer or leading in poverty reduction
• Make use of the services sectors in creating growth business, job opportunities and entrepreneurship
• Pursue the phased approach to the de-dollarization issue
• Foster rapid development, stabilize the economy and create jobs
• Promote value chain development beginning with a focus on setting up industries such as production of tire and steel for the growing transport and construction sectors. This could reduce the balance of payments (BOP) problem and promote livelihoods
• Spur economic growth by focusing on the diversification, value chain development and structural economic transformation
• Need to enhance the statistical foundations for evidence based planning, targeting, measuring and tracking progress and ensuring that no one is left behind
• More strategic choices need to be made between pro-poor spending and productive sector investment as part of debating the Public Sector Investment Program (PSIP) necessary for structural transformation. Adopting sound policies in agriculture and infrastructure at early stage can help to achieve both
• Having a lean government that is able to deliver and make difficult choices between priorities
• Develop scenarios and projection for financing development versus operation at early days for credible implementation of the budget and setting priorities. Expand revenue mobilization efforts both horizontal and vertical for financing development. Implementing basic well thought out strategy for domestic resources mobilization such as the DRMS prepared by the LRA/MFDP is a good starting point
• Strengthen public financial management, including assets management
• Devise a cash for work and community engagement programme for youths while investing in skills development to improve the employment of the youths and tackling vulnerable employment.

References
IMF (2017), Seventh And Eighth Reviews Under The Extended Credit Facility Arrangement, And Request For Waiver Of Nonobservance Of Performance Criteria—Press Release; Staff Report; And Statement By The Executive Director For Liberia file:///C:/Users/user/Downloads/cr17348.pdf
LISGIS(2014) Household income and Expenditure Survey
MFDP's/GoL SDGs domestication roadmap of November 2016.
MFDP fiscal Annual Fiscal out turns
MFDP, Annual Statement of Consolidated Fund 2016/2017( unaudited) MFDP/UNDP Study on the expansion of the fiscal Space for sustainable development
Budget growth 2014/2016 to 2017/2018: The budget has been decreasing over the period
Figure 3: Donor Financing of the Agenda for Transformation. There is good will, but fewer than 6 donors provided at least USD 100M each.

Table 1: Donor dependent financing of AFT
Figure 4: GoL financing of the AfT declined from 2012/2013 to 2015/2016

![Diagram showing AfT financing and contributions from 2012/2013 to 2015/2016]

Figure 5: The aid environment is not favorable. Country programmable aid is on the decline
Table: Liberia economic outlook at a glance (to be inserted)

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\(^{20}\) In months of imports cover (Central Bank of Liberia)
Actual payments by economic Activity 2010/11 to 2016/2017-compensations of employees have been rising.

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Source: Authors own calculations based on MFDP fiscal outruns.
Figure: Inflation Rates from January 2016 to October 2017
Figure: International Price of Rice (US $ Per Metric Ton) January 2016 to November 2017

Figure: Exchange Rate (Mid-Rate) from 2 October to 5 December 2017
Liberia and world aid dependency ranking

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