Liberia

2011

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Liberia

Overview

Liberia's economy is recovering from the global economic downturn. Growth in 2010 was estimated at 6.1%, up from 4.6% in 2009, driven by an increase in exports and foreign direct investment (FDI). Growth is projected to reach 7.3% in 2011 and 8.9% in 2012. The rise in exports was thanks to an increase in commodity prices, particularly rubber, palm oil and minerals. In 2010, the government also began receiving royalty payments (of USD 1.57 million) from the extractive industries sector and these are projected to grow to USD 30 million by 2015.

The rise in international commodity prices has led to the resumption of investments in the Bong Mines and Yekepa iron ore operations, which were delayed by the 2008 financial crisis. In 2010, large-scale extraction commenced and should generate royalties for the country. There are also expectations that offshore oil will be found in the near future.

Liberia made significant progress by reaching the Completion Point under the Enhanced HIPC Initiative in June 2010 resulting in debt relief of USD 4.6 billion. Reforms required to reach the Completion Point also had the ancillary effect of creating a positive reform dynamic in many sectors including public financial management, implementation of the Extractive Industries Transparency Initiative, health services and harmonisation of the education payroll. In 2010, the government also reached an out-of-court settlement with two 'vulture funds' – Hamsah Investment and Wall Capital – agreeing to repay just over 3% of the USD 43 million it owed on a 1970s debt.

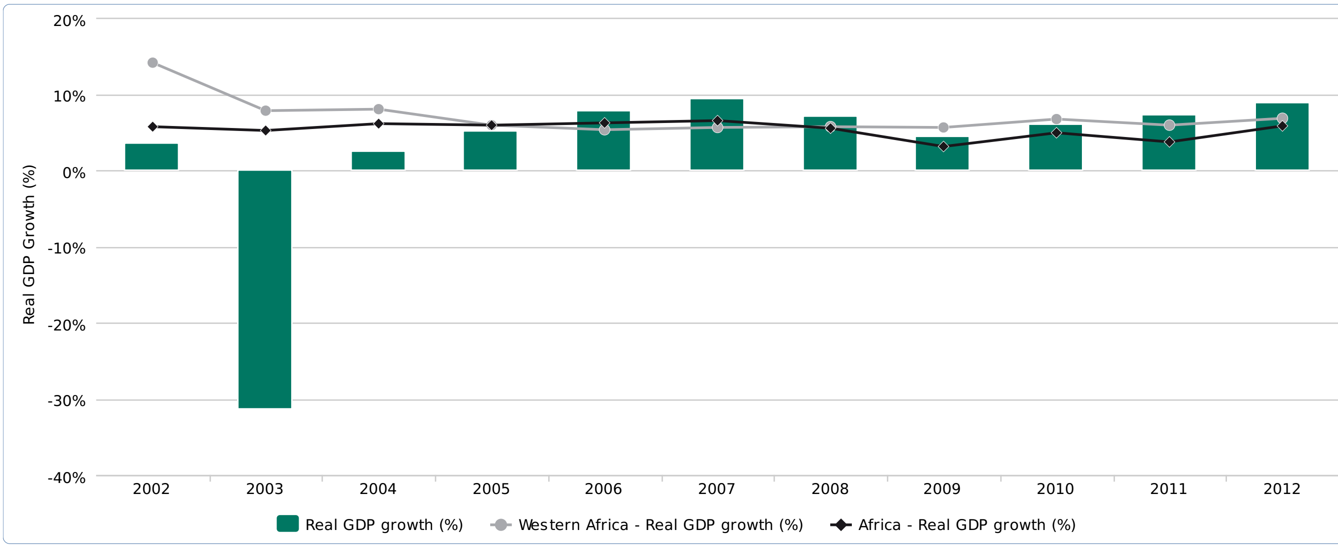
The security situation is generally stable, though fragile, and a sizeable United Nations Mission in Liberia (UNMIL) peacekeeping force remains in the country. Regional instability caused by the political stalemate in neighbouring Côte d'Ivoire has made the situation in Liberia increasingly precarious as the UN has reported that former fighters from Liberia are being recruited in Côte d'Ivoire. Over 10 000 refugees from Côte d'Ivoire are in Liberia and the presidential and legislative elections scheduled for October 2011 provide a further source of insecurity. Finally, there is some concern that Liberia could become a transit point for drugs to Western Europe and the United States.

The overall challenge for Liberia is to make the transition from a period of post-conflict reconstruction to sustainable development. This would require not only a long-term vision as articulated in the Liberia Rising 2030 development plan, but also strong emphasis on regional integration. As Liberia is a small country with limited purchasing power, a strong export policy to regional markets and shared regional infrastructure projects would boost development. Such a policy could be integrated into the next cycle of the country's poverty reduction strategy.

Non-African and African emerging partners are active in Liberia. Non-African countries are mainly active in the private sector and extractive industries, including iron ore and palm oil plantations. Clearly, recent high commodity prices provide an additional incentive to invest in Liberia's relatively risky business environment. Of the non-African emerging partners group, China is the largest public donor giving an estimated USD 20 million annually to Liberia, mainly in the form of tied aid. This aid – which is primarily bilateral – is being used to build infrastructure, and to improve healthcare and education. China is also an observer on various donor co-ordination frameworks and is a member of the country's Economic Management Team, the highest body that reviews development projects managed by the Ministry of Planning and Economic Affairs. The comparatively good coordination between China and Liberia's other development partners has been attributed by traditional donors to the absence of competition or strategic interests in Liberia compared with other resource rich African countries.

In terms of African emerging partners, Nigeria leads the group and Nigerian banks are planning on introducing mobile phone banking to Liberia on the back of the innovation's success in East Africa. Libya is also present with investments in the hotel sector. A rubber processing plant is also planned that will produce tyre-grade rubber for export as well a project to improve food security.

Figure 1: Real GDP growth (W)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	4.6	6.1	7.3	8.9
CPI inflation	7.6	7.7	4.4	4.8
Budget balance % GDP	-1.6	1.3	-1.9	-2.2
Current account % GDP	-33.2	-40.9	-38.1	-40.6

Source: National authorities' data; estimates and projections based on authors' calculations.
Figures for budget balance refer to fiscal year July (n-1)/ June (n).

Figures for 2010 are estimates; for 2011 and later are projections.

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Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2005	2010
Agriculture, forestry, fishing & hunting	67.1	62.7
Agriculture, livestock, fishery, forestry and logging	-	-
of which agriculture	-	-
of which food crops	-	-
Mining and quarrying	0.1	1.1
Mining, manufacturing and utilities	-	-
of which oil	-	-
Manufacturing	7.2	5.3
of which hydrocarbon	-	-
Electricity, gas and water	0.7	0.8
Electricity, water and sewerage	-	-
Construction	2	4.1
Wholesale and retail trade, hotels and restaurants	4.9	6
of which hotels and restaurants	-	-
Transport, storage and communication	4	4.2
Transport and storage, information and communication	-	-
Finance, real estate and business services	2.6	2.8
Financial intermediation, real estate services, business and other service activities	-	-
General government services	8.1	9.5
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	-	-
Public administration, education, health & social work, community, social & personal services	-	-
Public administration, education, health & social work, community, social services	-	-
Other community, social & personal service activities	-	-
Other services	3.4	3.4
Gross domestic product at basic prices / factor cost	100	100

Source: Data from ECOWAS and IMF.

Figures for 2010 are estimates; for 2011 and later are projections.

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Liberia's economy is rebounding from the 2008 global financial crisis and subsequent economic downturn.

Growth in 2010 is projected to increase from 4.6% in 2009 to 6.1% in 2010 and to 7.3% in 2011 and 8.9% in 2012. Inflation is estimated at 7.6% in 2010 and is projected to be 4.4% in 2011 before picking up to 4.8% in 2012. The dollarisation of the Liberian economy helps keep inflation under control.

Revenues from rubber production have increased in conjunction with the rebound in world prices, while FDI has increased with the inflow of investment related to the Bong Mines and Yekepa iron ore operations. The government should also receive its first USD 1.57 million royalty payment from the mines in 2010 and these are projected to grow to USD 30 million by 2015.

The economy is dominated by agricultural activities. As a share of GDP, agriculture, forestry and fisheries accounted for 62.7% of the economy in 2010 reflecting the weakness of other sectors after decades of civil war and economic mismanagement. Liberia's agricultural production is mainly subsistence as the country suffers from low agricultural yields and the main staple food is rice. Rubber is the biggest cash crop, although there have been recently large investments in palm oil.

In the near future, palm oil production is expected to increase with two major investments by the Malaysia company Sime Darby and the UK's Equatorial Palm Oil, which were awarded concessions of 220 000 and 169 000 hectares, respectively. Another Malaysian company Golden Veroleum is currently negotiating with the government over a USD 1.6 billion investment for a 30 000 hectare palm oil concession that would employ 10 000 people in full operation. The project is anticipated to include value-added processes to transform palm oil into biodiesel and other fuels.

Manufacturing accounted for about 5.3% of the economy in 2010, mostly from small-scale industrial activities such as the manufacture of cement, bricks, tiles, wooden and metal furniture. There are a few limited opportunities to expand the manufacturing sector to support investments in the extractive industries, road and railway construction and small and medium enterprises (SMEs). Private sector development however requires the creation of an enabling environment, which remains a challenge in this post-conflict country lacking human resources, physical infrastructure and banking services as it is.

Structural growth in the manufacturing sector is restricted due to the smallness of the domestic market, lack of purchasing power and limited public consumption. Long-term growth then will likely depend on further regional integration, in particular the Mano River Union economic grouping of Liberia, Guinea and Sierra Leone. The immediate priority here is to expand regional infrastructure to facilitate cross border trade.

The service sector contributed 25.9% to GDP in 2010 and includes wholesale and retail trade, hotels and restaurants (6%), transport, storage and communication (4.2%), finance and real estate and business services (2.8%), general government services (9.5%) and other services (3.4%). These services mainly cater to the international community as well as UNMIL and are often supplied by Lebanese-owned and -operated companies. As such, profits and employment tend not to trickle down to the wider Liberian population.

Table 3: Demand composition

	Percentage of GDP (current price)		Percentage changes, volume			Contribution to real GDP growth		
	2002	2009	2010	2011	2012	2010	2011	2012
Gross capital formation	22	66.9	14.7	11.8	13	27.8	24.2	27.6
Public	4.6	10.6	13	11	10	3.9	3.5	3.3
Private	17.4	56.3	15	12	13.5	23.9	20.7	24.3
Consumption	56.8	169.7	-5.8	-0.6	0.8	-19	-1.7	2.2
Public	16.6	26.8	3.6	3.1	3.1	2.3	2	1.9
Private	40.2	143	-8.1	-1.6	0.2	-21.3	-3.7	0.3
External sector	21.2	-136.7	-	-	-	-2.7	-15.2	-21
Exports	42.9	55.8	4.5	4.7	4.4	6.7	6.9	6.3
Imports	-21.7	-192.5	1.7	4.1	5.2	-9.4	-22.1	-27.3
Real GDP growth rate	-	-	-	-	-	6.1	7.3	8.9

Source: Data from ECOWAS and IMF; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Macroeconomic Policy

The key milestone for Liberia was reaching the Heavily Indebted Poor County (HIPC) Completion Point in 2010. Previous to this, Liberia's debt-to-GDP and debt-to-exports ratios stood at 700% and 2 000%, respectively. Through the USD 4.6 billion granted in debt relief by Paris Club members and commercial creditors under the HIPC and Multilateral Debt Relief Initiative (MDRI), the country's debt levels have been brought to a sustainable level. Further, the government has committed to a debt management strategy with strict borrowing rules going forward. Under this strategy, borrowing must be kept within 3% of the previous year's GDP in present value terms (USD 46 million in 2011) with a maximum of 1% of GDP to be raised from domestic sources. The stock of outstanding public debt, including that of the government and State-Owned Enterprises (SOE), will also be limited to 60% of GDP. This should ensure the long-term sustainability of debt, and thus contribute to overall macroeconomic stability.

Reaching the HIPC Completion Point entailed developing and implementing a series of reforms, including: maintaining macroeconomic stability, strengthening public financial management, implementing social sector reforms, developing the debt management strategy, and, implementing reforms to improve transparency and fight corruption. These reforms have benefited many sectors of the economy but the challenge ahead will be to avoid "reform fatigue" in the post-HIPC period.

Fiscal Policy

It is expected that total government revenue and grants will increase to 31.7% of GDP (USD 288 million) in 2010 falling slightly to 30.6% (USD 358 million) in 2011. This is projected to further drop to 30.1% in 2012 (USD 378.9 million) with strong GDP growth accounting for the deteriorating relative position. The absolute increase in government revenue and grants is driven primarily by grants, non-tax revenues[1] and corporate taxes, which were expected to increase by USD 47 million in 2010 and USD 26 million in 2011.

Grants alone totalled USD 58.5 million, or 16% of the total budget. Windfall payments for mineral concessions are expected to reach USD 42 million in the 2010/11 fiscal year, of which the main contributions were from the Bong Mining Company (USD 19.9 million), BHP Billiton (USD 7.5 million) and Putu (USD 5 million).

Government expenditure is expected to increase from 30.4% of GDP in 2009/10 to 32.5% in 2011 driven by rises in current spending (to USD 278 million, up 11% year-on-year) and capital expenditure (to USD 85 million, up 167% year-on-year). The increase in capital expenditure is most likely linked to the 'electoral' fiscal cycle however, as elections are scheduled for the end of 2011. The overall balance is projected to be modestly negative and at -1.9% in 2011 and -2.2% in 2012.

In 2010, the government was faced with a severe budget shortfall due to the non-payment of a mineral concession in the wake of the 2008 financial crisis. In response to this, the government plans to introduce two measures to safeguard liquidity in 2011. First, a treasury bill market will be launched providing the government with a tool for managing short-term budget variations and enabling the Ministry of Finance to align expenditure and revenues throughout the year. This has been well received by Liberia's private banks as many suffer from excess liquidity due to a lack of bankable projects. Secondly, the Central Bank of Liberia (CBL) will be authorised to provide USD 20 million in short-term liquidity to address shortfalls caused by delays in budget support disbursements or concession-related payments.

A number of Public Financial Management (PFM) reform initiatives were conditions for reaching the HIPC Completion Point, including: publishing a quarterly implementation report on the PFM law; improving payroll management and controls; completing direct deposit salary payments for all Monrovia-based civil servant salaries; and, strengthening financial oversight of state-owned enterprises, etc. One of the main reforms undertaken in customs in 2010 was the expansion of the Automated System for Customs Data at the Monrovia oil terminal and international airport. This is expected to have a positive impact on government revenue collection.

The Economic Community of West African States (ECOWAS) is implementing common external tariffs and in consequence import duties are expected to decline with a negative impact on Liberian customs revenues and its national budget. Some import tariffs have also been reduced on an *ad hoc* basis to soften the impact of the food and fuel crisis. The challenge is to increase collection of domestic revenues such as VAT, income and profits taxes. Neither royalty payments nor future one-off payments for concessions are likely to be sufficient to offset revenue shortfalls in the short and medium term.

Table 4: Public finances (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Total revenue and grants	13.9	22.1	26	27.4	31.7	30.6	30.1
Tax revenue	13.4	20.8	21.2	22.1	22.4	22.2	21.4
Oil revenue	-	-	-	-	-	-	-
Grants	0	0.2	0.8	2.7	1.4	3	3.4
Other revenues	-	-	-	-	-	-	-
Total expenditure and net lending (a)	15.3	18.3	24.8	29	30.4	32.5	32.3
Current expenditure	5	15.8	21.8	25	27	28.2	27.8
Excluding interest	3.8	15.7	20.8	24.2	26.5	27.7	27.4
Wages and salaries	2.6	6	8.6	10.6	12.3	12.6	12.8
Goods and services	1.1	6.9	7.7	8.8	8.3	9.2	8.9
Interest	1.2	0.1	0.9	0.9	0.5	0.5	0.5
Capital expenditure	10.3	2.5	3	3.9	3.4	4.3	4.4
Primary balance	-0.2	3.9	2.2	-0.8	1.8	-1.3	-1.7
Overall balance	-1.4	3.8	1.2	-1.6	1.3	-1.9	-2.2

a. Only major items are reported.
Source: Data from IMF; estimates (e) and projections (p) based on authors' calculations.
Fiscal year July (n-1)/June (n)

Figures for 2010 are estimates; for 2011 and later are projections.

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Monetary Policy

Monetary policy is limited as the US dollar is the legal tendered currency in Liberia. The role of the CBL is therefore restricted to managing currency exchange volatility between the Liberian dollar and the US dollar. This is undertaken by auctioning foreign currencies so as to reduce the amount of Liberian dollars in circulation. The usefulness of this instrument is limited as it depletes the CBL's foreign currency reserve, which plays an important role in maintaining confidence in the Liberian dollar. Here again, the anticipated launch of the treasury bill market in 2011 should add a new liquidity management instrument.

Liberia's terms of trade were favourable in 2010 with a net inflow of foreign currency, which exerted a stabilising effect on the exchange rate and increased Central Bank reserves. With global food and oil prices down, and the price of export commodities up (in particular, rubber), inflationary pressures were also limited.

The government's long-term objective is for Liberia to join the West African Economic and Monetary Union (UEMOA) and to this end it signed a Memorandum of Understanding regarding accession in September 2010. UEMOA's primary objective is to introduce a single currency across six West African countries, including Nigeria. Although this would contribute to regional integration, which is critical for a small country like Liberia, for most other participating West African countries it does not meet the criteria of an optimum currency zone (labour and capital mobility, fiscal transfers and comparable business cycles). Moreover, as Nigeria is by far the largest economy in the region, the likely outcome of the currency zone would be to 'import' its monetary policy to the other member countries. As Liberia is currently a dollarised economy, this would not mark a significant departure from the current situation whereby monetary policy is imported from the United States.

External Position

Liberia is a member of ECOWAS. The country also applied for World Trade Organization membership in 2007, but it is still in the first stages of the admission process and must submit a memorandum on its foreign trade regime.

As member of ECOWAS, Liberia is party to ongoing negotiations with the EU regarding an Economic Partnership Agreement. At the same time, Liberia has market access to the EU on terms similar to the Everything But Arms initiative for least developed countries. Since 2006, Liberia has benefited from the American Growth and Opportunity Act and some textiles are exported to the United States. However, overall the country has difficulty benefiting from these preferential access schemes due to structural and supply constraints, such as poor infrastructure, intermittent energy supplies and a paucity of companies with export networks. Liberia will also benefit from preferential market access in China under engagements arising from the 2009 Forum on China-Africa Cooperation.

FDI flows have picked up since the effects of the 2008 financial crisis subsided. A large share of FDI is linked to the extractive industry and represents private-sector investments from emerging partners, most notably the China Union and Arcelor Mittal. These have respectively committed to investing USD 2.6 billion and USD 1.5 billion. Their investments include building road and rail infrastructure such as the 80 km Bong Mine and 250 km Lamco iron-ore railroads to the port of Buchanan. Across the border in Guinea, similar private-sector infrastructure projects have been implemented but as the parties could not reach an agreement, the two systems are not compatible. Consequently, Guinea will be unable to use Liberian rail and port infrastructure to access overseas markets, highlighting the drawbacks of private-sector driven regional infrastructure projects.

Liberia’s current account deficit was estimated at 40.9% of GDP in 2010 and is projected to remain at around the same level in 2011 and 2012 highlighting the country’s lack of competitiveness. The negative factor income underlines the challenge of profits being repatriated rather than reinvested in the country, a situation largely attributable to the absence of a stable economic environment and uncertain future outlook. Services are mostly comprised of UNMIL activities and as such as listed as negative.

Total official development assistance (ODA) remained stable at an estimated USD 433 million for the 2010/11 fiscal year. NGOs and other non-governmental agencies were responsible for USD 283 million of this total while USD 68 million was allocated to pooled and trust fund contributions. A further USD 58.5 million was allocated to budgetary support, equivalent to 16% of the national budget. The main budgetary support contributors are the European Commission, African Development Bank and the World Bank which donate respectively USD 30 million, USD 15.5 million and USD 13 million. Many large investors in the extractive industries have also set up community development funds as part of their social responsibility programmes aimed at ensuring that the local community benefits from large-scale investments. A total of USD 14.2 million is scheduled for disbursement as part of these schemes in 2010, primarily financed by the Mittal Social Development Fund, Bong Mines and BHP Billiton.

Table 5: Current account (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Trade balance	18.8	-39.3	-53.5	-46.6	-50.2	-50.2	-47.9
Exports of goods (f.o.b.)	31.1	28.1	29.9	17.4	17.2	17.9	18.2
Imports of goods (f.o.b.)	12.2	67.4	83.3	64.1	67.4	68.1	66.1
Services	2.4	-122	-118.4	-90.1	-95.2	-83.3	-76.5
Factor income	-52.3	-23.5	-18.8	-16.4	-19.8	-11.8	-13.5
Current transfers	19.6	153.4	133.3	119.9	124.4	107.3	97.3
Current account balance	-11.5	-31.4	-57.4	-33.2	-40.9	-38.1	-40.6

Source: Data from IMF; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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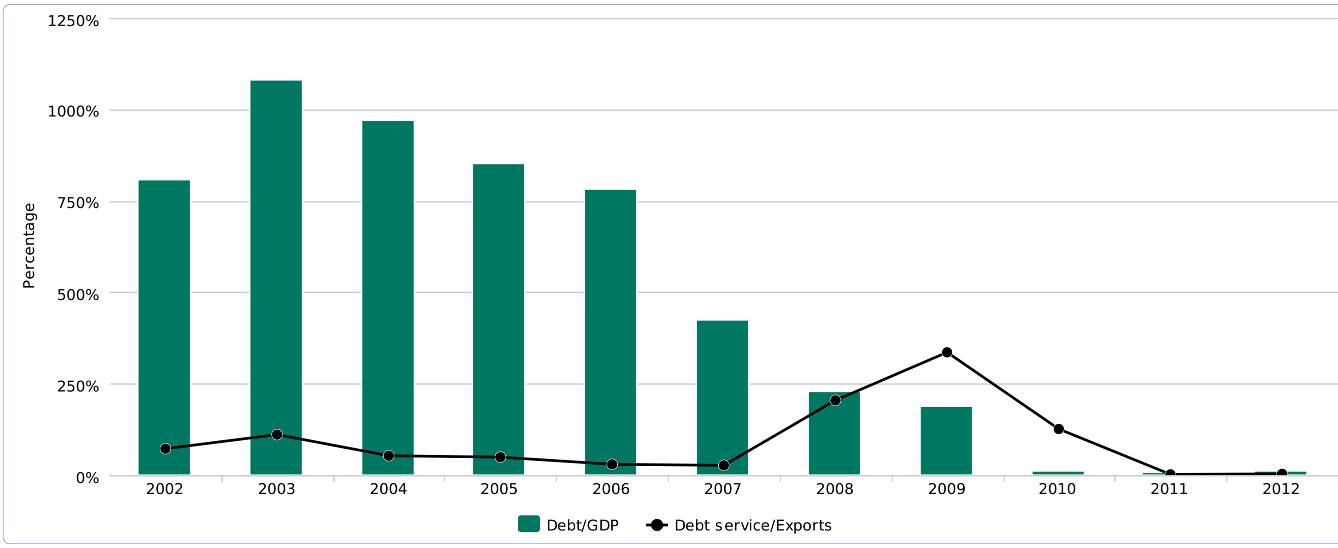
Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Structural Issues

Private Sector Development

The overall business climate in Liberia remains challenging. Liberia has low human capital, poor physical infrastructure and limited access to financial services. Despite a recent transparency drive, corruption is also a major concern. The weak business climate will hamper export processing and import substitution remains very limited, even for many basic commodities.

Liberia was ranked 155th out of 183 countries in the 2010 *Doing Business* report. This marked an improvement by three places over previous years although it still takes 20 days to start a business in Liberia, 77 days to obtain a construction permit and 50 days to register a property. The registration of property and land titles is particularly challenging however, as ownership shifted rapidly during the civil war. From an economic perspective, the absence of land titles poses a barrier to accessing credit, and from a peace-building perspective, disputed claims are a source of tension. The Logistics Performance Index, measuring ease of trade logistics, improved slightly from 2.28 in 2009 to 2.38 in 2010.

The Liberia Rising 2030 strategy, currently being elaborated, will emphasise projected large-scale foreign investment in enclave sectors - mainly iron ore, rubber and palm oil. Revenues will be invested in infrastructure to create growth corridors, which should be linked to international markets. Under this strategy, royalty revenues could finance infrastructure investments and improve the business climate.

Liberia has a rudimentary financial system that provides basic services in urban areas. There are no stock markets and insurance coverage is limited. Private sector banks have indicated that they are planning to introduce mobile phone banking in Liberia in the course of 2011.

The financial sector has excess liquidity due to a paucity of bankable projects driven by unclear property rights and difficulties in enforcing contracts. Another challenge is that financial regulations restrict banks to investing solely in financial products with AAA ratings, thereby effectively excluding investments in nearly all of Africa.

The introduction of treasury bills is an important development and a practice session was held with private banks in 2010 to prepare them for the launch. From the private sector perspective, this development will provide local banks with the opportunity to purchase short-term treasury bills, reducing liquidity and ensuring a source of revenue for the sector. The interest rate affixed to these short-term bonds was posted at 2.89% during the training session.

Other Recent Developments

As part of achieving the HIPC Completion Point, a range of reforms have been implemented in public finances aimed at improving the performance of the public sector and which range from debt management to budget preparation. This latter includes a medium-term context, a budget framework paper, and state enterprise reporting. The public wage bill was estimated to have increased by 1.7% of GDP in 2010 due to the inclusion of education, health and some security salaries in the payroll for the first time.

There have been delays in passing the current budget 2009/10 through Parliament and this has led Ministries and government agencies to curb expenditure. Reports of corruption in the granting of large-scale mining licences are also being discussed in the legislature posing a challenge to the government. In this regard, it has been alleged from several sources that MP will not place approval of the licences onto the parliamentary agenda if they are not paid beforehand.

Liberia’s infrastructure is limited, posing a critical bottleneck for economic growth. The government has prioritised public works, education and health infrastructure investments, and capital expenditure is projected to increase from 3.4% of GDP in 2010 to 4.3% in 2011. The implementation of investment programmes may be hampered however if budget support operations are not approved in a timely manner causing capital expenditures to reduce.

The management of natural resources is a key component of Liberia’s development strategy and is set to be financed by licence fees in the short term, and by royalty payments in the longer term. A number of forestry laws have been introduced aiming at balancing sustainable development and social responsibility. Eight new companies received logging licenses limited to no more than 5 000 hectares each.

Emerging Economic Partnerships

Emerging development partners are mainly active in the private sector, and do not provide ODA. China is the exception and provides about USD 20 million annually.

Non-African emerging development partners from the private sector are highly active and visible in Liberia. Most of their activities are focused on extraction industries. For example, the Bong Mines by China Union and Yekepa iron-ore operation by Arcelor Mittal have committed to investing USD 2.6 billion and USD 1.6 billion, respectively. In 2010, the Arcelor Mittal mining operations came on stream and generated the first exports and royalty payments. These investments are often combined with infrastructure projects designed to ensure access to ports and export markets. The Malaysian companies Sime Darby and Golden Veroleum have also invested in palm oil production to the tune of several billion dollars.

In February 2010, Elenilto, a unit of Israel's Engelinvest Group, was awarded a USD 2.4 billion concession to develop Liberia's Western Cluster iron ore deposit. As part of the agreement, Elenilto will pay a one-time fee of USD 25 million and an annual tax equivalent to 21% of the company's profit. It will also pay USD 3.1 million a year towards community development. A Brazilian infrastructure company, Odebrecht has also engaged in discussions on the rehabilitation of the Mount Coffee hydro plant in White Plains and it is investigating the feasibility of further expanding hydropower on the St. Paul River Basin.

Some African emerging development partners also exist. The Libyan African Investment Company will completely rehabilitate the five-star Ducor Palace Hotel which was destroyed and looted during the civil war. Libya has also invested in the Gbarnga Rubber Processing Plant which will produce tyre grade rubber for export. It has also undertaken to extend services to farmers, helping them improve their production and potentially moving Liberian rubber exports up the value-added chain. Unprocessed rubber is currently the country's largest export. The two projects are estimated to represent a USD 65 million investment. Finally, the Libya Africa Investment Portfolio has partnered with a local NGO, the Foundation for African Development Aid, in a USD 30 million project to enhance food security in Liberia. However, there have been reports that this initiative is proving both unproductive and unsustainable with equipment remaining idle.

Nigerian banks dominate Liberia's tiny financial sector. These banks are credited with introducing innovative financial services, including the first automated cash machines and online services. Notably, these banks are planning to replicate the success of mobile banking in eastern Africa in Liberia. As such, these African banks help best practices spread across the continent. To strengthen regulatory oversight, the Central Bank of Nigeria and the Central Bank of Liberia signed a memorandum of understanding in November 2009.

The SME sector is dominated by the Lebanese community, particularly the service sector covering tourism, hotels, supermarkets, bakeries, etc. Although some of these families have lived in Liberia for generations, Article 27b of the constitution states that, "eligibility for citizenship by birth and naturalization is restricted to Negroes". The practical consequence of not having citizenship is that the Lebanese community is prohibited from owning property and thus depends on long-term leases. It also uses its international connections, both in Lebanon and elsewhere, to access financing and supply chains. The predominance of the Lebanese community in the Liberian economy can be considered a barrier to entry for small and medium Chinese companies, which are active in other African countries.

While the ownership structures of multinational corporations – be they from tradition or non-traditional development partners – are often not clearly defined, making generalisations in terms of behaviour difference difficult. It is broadly evident that large multinational companies from emerging partners are more willing to seek opportunities in a relative risky business environment. In addition, the added value of Nigerian banks is that they will introduce mobile phone banking in Liberia.

In Liberia, Chinese companies have established a strong track record in delivering projects on time and at a competitive price. The competitive prices are often linked to lower pay scales of Chinese expatriate staff (with qualified engineers paid around USD 1 000 per month) compared to developed countries.

China is the largest contributor of ODA among emerging partners. According to the Chinese embassy in Liberia, China provides about USD 20 million annually in tied aid that mainly covers infrastructure projects and scholarships. Assistance is also provided by various line ministries and provinces in China, which are not centrally registered, thus the total ODA provided by China is likely to be much higher. Chinese assistance to Liberia is closely linked to its 'One China' policy and can be considered a reward for recognising the Peoples' Republic of China instead of Chinese Taiwan, as Charles Taylor's regime had formerly done. It is also part of a broader public diplomacy effort in Liberia that also supports cultural exchanges and scholarships through the Confucius Institute at the University of Liberia.

China has also supported higher education in Liberia by providing USD 50 million in funding to expand the national university campus. This project was finalised in 2010 and was co-financed with the United States and the European Commission. The scholarships and training provided via the Confucius Institute do not necessarily translate into employment opportunities however as some Chinese companies have indicated that they find English-speaking Chinese employees more productive than Chinese-speaking Liberian ones.

China also supports healthcare through the construction of small clinics and it announced in 2010 that it plans to rebuild the Ministry of Health complex in the capital, which was largely destroyed during the war. This is in addition to building the Tappita Hospital, located 270 km from Monrovia.

India also provided some assistance in 2010 in the form of 20 Tata buses for public transport in Monrovia. These buses are renowned for being robust and easy to maintain and the donation forms part of a broader public diplomacy effort by the government of India to support Arcelor Mittal's investment in the country.

Development co-operation from the largest emerging partner country (USD 20 million from China), is relatively limited compared to the contributions of the traditional bilateral donors such as the United States, European Commission and Germany which disbursed respectively USD 103 million and USD 88 million and USD 45 million 2010. China participates as an observer at various co-ordination meetings as well as sitting on the Economic Management Team, the highest body that reviews development projects managed by the Ministry of Planning and Economic Affairs. However the preference is to implement projects bilaterally. Bilateral donors attribute the relatively high level of co-ordination between China and traditional development partners to the fact that there are no strategic interests or competition in Liberia in contrast to other resource-rich African countries.

Political Context

Liberia has been at peace since October 2003. However, the inconclusive elections in Côte d'Ivoire at the end of 2010 have had a detrimental impact on stability. More specifically, the UN has reported that former combatants and warlords in Liberia have been recruited to fight in Côte d'Ivoire. Over 10 000 refugees from Côte d'Ivoire have arrived in Liberia, a fact that gains in significance as historically conflicts in Liberia have been linked to instability in neighbouring countries like Sierra Leone and Côte d'Ivoire.

There are also three sources of domestic tension. First, religious tensions have escalated and there have been some outbursts of violence, the latest of which was in February 2010 in Lofa County in the northern part of the country near the border with Guinea. There, after clashes between Christians and Muslims, police and UNMIL peacekeepers managed to restore calm.

Secondly, legislative and presidential elections are scheduled for October 2011 and President Sirleaf intends to run. One of her long time opponents Prince Johnson, former leader of the Independent National Patriotic Front, will likely participate. These elections may increase political instability in the near future as political leaders could mobilise their electoral base and violent clashes could mark demonstrations.

Thirdly, there have been indications that Liberia might become a transit point for drugs to Western Europe and the United States. In 2010, the Liberian National Security Agency announced that it had arrested seven suspects for conspiracy to traffic an estimated 6 000 kilograms of cocaine, valued at some USD 100 million, to the United States through Liberia.

Ongoing security sector reforms however have increased the capacity to ensure a degree of peace. Most notably the capacity of the Emergency Rapid Response Unit has increased steadily. Another area of security sector reform is the establishment of the Liberian coastguard with the bilateral support of the United States. The main role of the coastguard is to patrol coastal territorial waters as well as to combat both illegal fishing and drug trafficking. However, in the short term, UNMIL is the main source of stability and there will be no draw down of peacekeepers due to the precarious security situation.

Social Context and Human Resource Development

Decades of civil war and economic mismanagement have resulted in very poor socio-economic indicators. Achieving the Millennium Development Goals (MDGs) is therefore a daunting challenge as the war destroyed the country's infrastructure and eroded the human capital base. Liberia's Human Development Index value for 2010 was 0.300, which ranks it 162nd out of 169 countries. 68% of Liberians live below the poverty line and 38% of the population is undernourished.

Because of these challenges, the government has prioritised social sector expenditure and free primary education is being introduced. Net enrolment for primary, secondary and tertiary education in 2010 was 605 236 (up 10%) for primary, 117 507 (up 12%) for secondary and 65 367 (up 15%) for tertiary. These increases will be mainly attributed to private sector education establishments and while these developments are commendable, it should be noted that annual population growth is about 2.5%, meaning that enrolment would increase naturally. The overall gross enrolment rate remains less than 50%. Future efforts to address this include the so-called Fast Track Initiatives Grant for Basic Education (budget of USD 40 million) to focus on disadvantaged rural areas as well as the Liberian Teacher Training Programme 2 (USD 60 million). These initiatives focus on building capacity in education, including decentralization, building schools in rural areas and training teachers. Total expenditure on education rose from USD 48.3 million in fiscal year 2010/11 to USD 50.1 million in 2011/12.

The health sector reforms are guided by the National Health Policy and Plan. The main challenge is the transition from an emergency relief model of healthcare delivery, which focuses on short-term medical relief, to a functioning, sustainable decentralised health system that could provide basic healthcare services. This also includes the capacity to outsource to NGOs to deliver basic health services. Healthcare expenditure increased from USD 32.5 million to USD 33.8 million.

A national gender policy was approved in 2010 aiming amongst other things to put women in leadership positions. Also, a national action plan to implement United Nations Security Resolution 1325 on women, peace and security was adopted with the objective of enhancing women's participation in governance and protection as well as strengthening the knowledge base to address female economic empowerment. Liberia has been awarded the 2010 MDG-3 prize for outstanding leadership, commitment and progress in promoting gender equality and women's empowerment across the country.

According to the most recent ILO labour market survey (2008)[2], half of the adult Liberian population is engaged in unpaid family work and only a third are engaged in paid work. 84% of Liberians are employed in the informal economy and do not have access to sufficient income, regular work, acceptable working conditions, social security or assets. Another major challenge is youth unemployment due to lack of education and vocational skills. Finally, there also seems to be gender bias as 80% of the new jobs created in the public sector were for men.

Notes

1. Non tax revenues include: stumpage fees, income from government properties, income and transfers from Global Mining Services fees and Community development funds and one-time payments on concessions.

2.Towards Decent Work in Liberia: A Labour Market and Employment Assessment, 2008.