



Citizen-Centered Approaches  
to State and Market



# Preliminary Country Report and Ideas: Liberia

November 2007

**Institute for State Effectiveness**

600 New Hampshire Ave NW  
Suite 900  
Washington DC 20037

+1 (202) 298-5959  
[info@effectivestates.org](mailto:info@effectivestates.org)

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### **I. Introduction**

Liberia has made significant political and economic progress since the end of the devastating civil war in 2003.<sup>1</sup> Security problems are under control, governance and public financial management are improving and institutional capacity is slowly developing. The country has benefitted considerably from reform-minded leadership, significant international goodwill and macro-economic growth. In many ways, Liberia appears to be passing through what one could describe as an 'open moment' - brought about through the convergence of various factors including democratic elections, a highly capable President and cabinet, and a real desire for peace and development among the people- and is managing to some degree to harness this potential for constructive change. The reform agenda seems to have gained critical momentum and a sense of hope and optimism has emerged among the population. The debate has shifted from 'what' the transition will be- a movement towards a democratic polity, pluralistic society and open-market economy- to 'how' this transition should be carried out. Liberia is trying to move from short-term post-conflict concerns to consideration of a longer-term development agenda. Political capital has been built through the competence of the Johnson-Sirleaf administration, which despite serious capacity constraints, has made a series of important political and economic reforms and enjoys African and international legitimacy. Consensus on key reforms has been forged; reform to key industries has increased revenue streams and could finance significant public investment if managed in a transparent fashion; and social capital is beginning to emerge within communities.

However, Liberia still faces extremely acute socio-political and economic problems and institutional deficiencies. The civil war claimed the lives of 1 out of every 17 people in the country and uprooted thousands more. GDP per capita declined 80% between 1987-2003; 85% of the population is unemployed; 80% of all households are considered poor; and 90% of Liberians are considered to be food insecure. Infrastructure was almost entirely destroyed during the war- roads are dilapidated, electricity generation is minimal and only 10% of the rural population has access to clean drinking water. The airport and main seaport barely function. Apart from a few large company operations, private sector activity is minimal and the investment climate is not conducive to economic growth. During the civil war, a politics of identity superseded a politics of progression in Liberia- powerful individuals such as Charles Taylor created patronage networks based on ethnic background and loyalty, and brutally repressed other individuals and groups outside those networks. This has left a legacy of corruption, mismanagement and impunity, and a serious deficiency of social capital. Liberia also suffers from huge capacity issues, both human and institutional, that are preventing the conversion of strong political will into a more prosperous reality for the majority of citizens.

This paper, based on donor, government and independent reports and analysis, outlines briefly three key drivers of change in Liberia over the short- to medium-term: reconciliation and inclusion; economic regeneration; and sustained international engagement. Based on these drivers and analysis the four strategic pillars outlined in the Interim Poverty Reduction Strategy Paper (I-PRSP), it seems that Liberia faces five key critical tasks: consolidating the state; improving governance and transparency; ensuring security; creating a coherent human development strategy; and developing integrated infrastructure and economic planning. These ideas are by no means exhaustive and are based only on preliminary thinking that will be developed, adapted or changed accordingly as further documentary evidence is accumulated and an ISE team conducts a field visit to the country.

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<sup>1</sup> The Accra Comprehensive Peace Agreement ended the civil war in August 2003; with UN assistance elections were held in October/November 2005 and the government of Ellen Johnson-Sirleaf took office in January 2006.

## II. Drivers of Change

### 1. Reconciliation and inclusion

The origins of the Liberian conflict can be traced to the exclusion and marginalization of significant segments of society from the institutions of political governance and access to key economic assets such as land.<sup>2</sup> From the founding of Liberia in 1847, the constitution favored settlers above the indigenous population. In the second half of the twentieth century an over-concentration of power and a closed, corrupt political system fuelled ethnic and class animosities over time, which were exacerbated by economic collapse during the Samuel Doe dictatorship (1980-1990) and during the subsequent civil wars (1989-1996 and 1999-2003). While the country is no longer at war, inter-generational, social and ethnic and religious tensions remain a concern. Ethnic rivalry between the Mandingo and those who took an anti-Mandingo position during the period in which Charles' Taylor's National Patriotic Front of Liberia (NPFL) promoted anti-Mandingo violence in Lofa, Nimba and Bong counties remains serious.<sup>3</sup>

Therefore the slogan used by the government- 'from conflict to development'- has to move from rhetoric to reality through targeted programs that seek to heal these internal divisions and promote reconciliation. Donor documents do not outline clearly enough the sources of the conflict and causes of internal strife in Liberia, and as a result focus on reconstruction but without enough attention to reconciliation and inclusion. To underline the commitment to inclusion, the donor community must support the government in rationalizing, consolidating and expanding pro-poor programs that target previously marginalized groups in particular. As government revenues expand as a result of the growing tax base and economic revitalization, existing programs could be scaled up to ensure national coverage based on piloting and testing at the village level. Donors must also support land reform. The Land Title Registry was destroyed during the war, which has inevitably created thousands of property disputes. Clear titles for land must now be established and customary land rights and statutory rights amalgamated. Focus on land ownership and tenure issues with the development of a national cadastre would reduce tensions and allow these properties to become collateral with which Liberians could secure loans and develop working capital.

A wider judicial reform program will further support reconciliation and inclusion. Given Liberia's history of serious violence, an independent judicial system is necessary to ensure that rules will be credibly interpreted and fairly enforced and to transform group conflicts outside the system into individual disputes within the system. At present the government cannot tackle key areas for reform because the statutory and customary law systems are extremely weak and courts cannot prosecute those people that steal state resources. The justice system is an amalgam of internal and imported laws, US common law, state-sponsored African customary law and other local laws, which makes interpretation very difficult. There is no judicial review of chiefs' judgments or abuses of power, and Liberians are largely uninformed of their rights or how to pursue them. Many courts have ceased to function and lack personnel and case management skills; civil procedures are applied to criminal cases because of missing legal texts; and many illiterate justices of the peace operate renegade justice forums.<sup>4</sup> These problems necessitate a detailed five- to ten-year plan for investment in the capabilities necessary to make judicial reform possible, train legal staff and make legal texts available. Community-based justice programs in rural areas to engender dialogue and allow popular participation in law reform, and a concomitant campaign to make Liberians aware of their legal rights might also be productive ways to support continued progress towards stability and human security.

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<sup>2</sup> I-PRSP, p.ix

<sup>3</sup> *Liberia Rapid Social Assessment, Social Development Notes*, No.107, March 2007, p.2

<sup>4</sup> *Liberia: Resurrecting the Justice System*, International Crisis Group Africa Report, No. 107, April, 2006, p.7

The Liberian Truth and Reconciliation Commission (TRC) has made slow progress since it was launched almost two years ago, given funding and capacity constraints. The international community has called for stronger financial support from donors to support the TRC, and moving forward must think more broadly about what the mandate of the Commission should be and how to help it carry out its work. This might include providing Liberia with a very clear path forward based on issues and lessons learned from other TRCs in post-conflict or transitional contexts such as South Africa, East Timor, Sierra Leone, Ghana and Peru. One reason the Liberian TRC is not gaining traction may be because there is not a national discussion on exactly what reconciliation means in a Liberian context to sensitize its work and guard against unrealistic expectations. It must also be understood that the TRC can only function within a broader, democratic justice system, which itself does not yet exist. The trial of Charles Taylor is also an integral part of the ongoing peace process and has the potential to generate combustible sentiments in Liberia. The continued work of the UN Panel of Experts to investigate compliance with the asset freeze imposed upon Taylor and his associates in 2004 will allow for pressure to be placed upon those countries that carried out business with elements of the former regime. However, any efforts by the government to freeze assets of members of the former regime must be carried out using due process, and be based on publicly available information to avoid any charges that procedures might be politically motivated.<sup>5</sup>

## 2. *Economic regeneration*

The I-PRSP provides the basic elements of a medium-term macro-economic framework including maintenance of GDP growth, price stability, foreign exchange reserves and increasing government revenues. However, on a micro-level, economic regeneration, reconciliation and inclusion are made more difficult by the lack of economic opportunity (unemployment stands at 85% of the population) which perpetuates illegal business and crime and saps public confidence in the government. Moreover, reliable data on economic and social issues and trends is scarce- the I-PRSP does not include comprehensive poverty diagnostics- and the government must begin to create a strategy for carrying out national data collection surveys.<sup>6</sup> This will entail ensuring procurement planning and data on costing are part of budget formulation and planning.<sup>7</sup> The World Bank is working closely with the Liberian Institute of Statistics and Geo-Information Services (LISGIS) to conduct a household survey, and could think through ways to ensure that sustainable capacity is built within this body as the work progresses. The government and donors have also pointed to the importance of strengthening the government's capacity to undertake sound macro-fiscal analysis, including the development of multi-year expenditure and revenue projections.

While Liberian manufacturing and services suffered greatly as a result of extended conflict, much of the country has been based on a rural, subsistence based economy for years. Between 2004 and 2006, agriculture (excluding forestry) and fisheries contributed over half of aggregate GDP. Thus the issue is both the rebuilding of industries destroyed by the war, but also the integration of traditional Liberian economic activity into a new economic paradigm that improves livelihoods and sustains growth. The government is supporting an Agricultural Sector Review, capacity-building in the Ministry of Agriculture, improved value chains and increased yields in key cash and export crops. These are important reforms, but it is unclear through a preliminary reading of the

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<sup>5</sup> The government has introduced a bill to parliament to freeze the assets of members of the former regime but further progress has not been made.

<sup>6</sup> As the *IMF SMP Second Review* points out: 'The lack of reliable and timely data is an important impediment to the government's ability to formulate policy and monitor implementation. A key challenge in the year ahead will be to formulate a national strategy for the development of the statistical system.' p.33

<sup>7</sup> *Joint Interim Strategy Note for Liberia*, p.8

documents how they come together in a coherent strategy to bring subsistence farmers into marketable production of crops in the short-term.<sup>8</sup>

Natural resources will also not provide the short-term economic fillip necessary to support continued progress in Liberia. Mining provided just 0.1% of GDP in 2004 and 2005. Sanctions were lifted on timber in 2006 and the Forestry Development Authority (FDA) is introducing new regulations for logging concessions, but capacity to implement new laws and monitor activities is low.<sup>9</sup> Expectations for the sector must be realistic in any case- a sustainable harvest will not produce much more than \$100 million in gross revenue annually (\$20 million in taxes and fees for the government), and employ only about 8,000 workers.<sup>10</sup> Sanctions on diamond exports have also been lifted recently, a significant achievement, but again throughout the mineral sector the regulatory environment is weak, capacity is lacking and infrastructure is poor.

The conditions must be created through which economic activity can flourish. The political elite understand the importance of the economy as a driver of stability and must make a commitment to the creation of credible and fair mechanisms for expanded wealth creation and sustainable development and create avenues for the productive use of Liberian and international capital in the country. (See *Development of integrated infrastructure and economic planning* below). If trust in the government is to be maintained, the leadership must be seen to be directly addressing the needs of the people. This means not only carrying out the ‘invisible’ reforms that will create an environment conducive to economic growth, but also ensuring that visible progress is demonstrated to the Liberian people in the short-term through donor supported quick impact programs to support infrastructure rebuilding or power generation, for example, which will also create jobs. The government’s I-PRS focuses on short-term employment generation and donor assistance provides for quick-impact employment through labor intensive infrastructure and agriculture rehabilitation programs. The government has also initiated some public works programs and short-term employment could be provided further through the provision of incentives to replant and process Liberia’s vast rubber plantations. This would employ thousands of people and help to regenerate a central sector of the country’s economy. Beyond this, innovative ideas might include a public-private voucher scheme to combine the aims of the government and private sector while halving the cost for each; or short-term, temporary vocational training programs to provide Liberians with the skills they need to carry out semi-manual jobs such as carpentry and plumbing. (See *Creation of a coherent human development strategy* below). Given that short-term growth over the past two years has been driven by construction, this could lay the basis for a domestic contracting industry to implement donor programs.

### 3. *International engagement*

Liberia benefits from significant international goodwill and engagement. However, the sheer number of organizations and bureaucracies involved means that coordination is difficult and duplication of activities frequent. Beyond UNMIL there are 13 UN agencies, 18 multilateral and bilateral donors, two regional African organizations and 320 international NGOs operating in Liberia. Inevitably this leads to a multitude of different projects and strategies; the government becomes overwhelmed by competing ideas and demands; and the broader goal of state-building is undermined. Cooperation between donors and the government has not been strong. As a result, the Liberia Reconstruction and Development Committee (LRDC) has now been established as a platform for donor dialogue and monitoring of donor engagement. After the February 2007 Liberia Partners’ Forum, donors committed to coordinate and harmonize their programs and track disbursements and projections of resources to allow for more coherent government

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<sup>8</sup> A stated objective of the *Joint Interim Strategy Note for Liberia*, p.13

<sup>9</sup> The FDA plans to award 10 short-term timber sales contracts in late 2007.

<sup>10</sup> *UN Panel of Experts Report*, 7 June 2007, p.13

planning. International partners must also agree on selectivity of labor and align reporting requirements to a single timetable.<sup>11</sup>

It is important that the government is seen as responding to the needs of the people, and donors must seek as far as possible to move away from projectized assistance and support sector-wide or even national approaches, financed through joint funding mechanisms such as a Multi-Donor Trust Fund and ideally through direct budget support where feasible (a World Bank administered MDTF and Budget Support Operation are currently under discussion). Donors must seek to co-produce developmental outcomes in Liberia, rather than engage in a donor-client relationship which only fosters dependency. This could begin with a comprehensive review of government functionality<sup>12</sup> and a coherent assessment of exactly where donors can exit from activities and technical assistance through which they are currently substituting for the state, Liberian business or civil society, rather than mobilizing it.<sup>13</sup> Integrated procurement and information management systems would also allow the government to streamline procedures and focus on the task of rebuilding the state rather than managing donor demands and reporting requirements.

Liberia has one of the highest debt ratios in the world, with total external debt relative to exports of goods and services at 1,967%.<sup>14</sup> The government is working to clear international debts as soon as possible, a process made considerably easier by the international goodwill it has with both multilateral and bilateral donors. Liberia is now very close to clearing arrears to the World Bank and while arrears clearance will not have a huge impact financially, given the size of the Bank's exceptional post-conflict allocations to the country in any case, the moral and reputational boost it will provide is important. Other key multilateral creditors, the IMF and African Development Bank, are also working to put a framework in place to allow Liberia to clear arrears. Decent progress on the IMF's Staff Monitored Program (SMP) and a full PRSP will allow for HIPC qualification, possibly in 2008, and debt cancellation under the Multilateral Debt Relief Initiative (MDRI) in 2009. It is less clear how Liberia will clear some of its commercial debt (valued at around \$1 billion) which is now owned by various vulture funds which have no incentive or obligation to negotiate, and this may be a serious sticking point as debt negotiations move forward.

The continued presence of UN peacekeeping troops in Liberia is essential to protect security gains and further support security sector reform. While progress has been made in constituting the Liberian police force (see *Ensuring security* below) both the police and the army need continued support for the foreseeable future. Some pressure on UNMIL to draw down forces could be relieved by strategic deployment and focus on specific aspects of security reform, including an increased focus on training for the police and related justice system workers such as prison guards, and careful monitoring of the spread of arms.

### III. Critical Tasks

The I-PRSP outlines four strategic pillars for Liberia's development: enhancing national security; revitalizing the economy; strengthening governance and the rule of law; and rehabilitating infrastructure and delivering basic services.<sup>15</sup> While these areas clearly represent key priorities for the government, they

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<sup>11</sup> The joint ISN prepared by the World Bank and the African Development Bank is a step in the right direction on paper, but in practice the work of the two institutions is not closely coordinated on the ground, partly due to the fact that the AfDB is providing very little funding given Liberia's arrears situation.

<sup>12</sup> On the public finance side, the upcoming PEFA report (2008) may serve to support this functional review.

<sup>13</sup> Donor disbursements to Liberia increased to an estimated \$300 million in 2006, almost all of which is spent outside the government budget and which include significant Technical Assistance (TA).

<sup>14</sup> *Joint Interim Strategy Note for Liberia*, p.9

<sup>15</sup> *Interim Poverty Reduction Strategy for the Republic of Liberia*. 'Breaking with the past: from Conflict to Development' July 2006.

must be underpinned by the necessary analytics, planning, agreements and rules to ensure that progress is sustainable. The I-PRSP is not costed, and the full PRSP, for which consultations are currently underway, should ensure that there is a clear emphasis and understanding of exactly what reforms can take place given the financial and capacity constraints that Liberia faces. The government and donors must focus on realistic, critical tasks that the government can feasibly carry out and which will lay the basis for development of the ideas outlined in the I-PRSP. These critical tasks, based broadly on the strategic pillars in the PRSP, might include the following:

### *1. Consolidating the state*

The Liberian state was previously a mechanism of exclusion, corruption and destruction. It must now become an instrument for inclusion, transparency and development. Liberians have clearly articulated their desire for a functioning state and economy and the system necessary to achieve those ends is slowly emerging- participatory democracy will be the process through which governments assume and lose power, and a market economy will be the modality through which economic activity will take place.<sup>16</sup> Creating a technical space of governance in which capable Liberians can perform the functions of government without political interference is crucial. This depends on consolidation and routinization of the rule of law as the central mechanism by which the government abides and operates. Rule through law, without adherence by elites to the law itself, must be replaced with predictable rule-bound behavior by decision-makers. Progress has been made in this regard, but recent accusations by the auditor-general of governmental corruption indicates that although Liberia seems to be moving in the right direction, it is imperative that civil service functions, and especially preparation and implementation of the budget, do not become politicized.<sup>17</sup> Small steps can be taken to create movement in this direction- setting and enforcing objective standards for project hiring and promotions for example- is the type of change that could set the tenor for behavior within government more broadly.

As described in the ISN, the government needs to increase revenues by further reducing tax exemptions and improving tax administration to ensure better coordination between tax collection, auditing and enforcement. On the expenditure side it will need to ensure that spending adheres to strictly prioritized cash plans and is carried out effectively. The ISN suggests the use of internationally recruited procurement managers in the larger public spending agencies with concomitant training for procurement committees within these agencies.<sup>18</sup> It should be emphasized through such a program that any international procurement experts should be hired with the understanding that their positions are temporary and have the key objective not only of improving procurement but also ensuring maximum skills transfer to allow Liberian nationals to gradually assume responsibility for expenditure issues.

Consolidation of the state will also come about through the emergence of the budget as the central instrument of policy. Budget expenditure remains weak- more than a third of revenue collected in the last financial year was unspent at the end of the year, despite the need for huge social and capital spending- as a result of weak procurement processes and audits.<sup>19</sup> Over the medium-term Liberia needs to develop the capacity to create a Medium-Term Expenditure Framework, with revenue projections and budgeting which integrate donor aid financing. This requires strengthening of the auditing of line ministries and

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<sup>16</sup> Liberia's performance on the World Bank's Post Conflict Performance Indicators (PCPIs) has increased from 2.4 in 2004 to 3.2 in 2006 (on a 6 point scale).

<sup>17</sup> Mr. Morlu, the auditor-general, appointed independently and funded by the EU, criticized the draft budget for 2007-2008, claiming that it lacked detailed information on revenues and failed to show an opening balance from the previous year.

<sup>18</sup> *Joint Interim Strategy Note for Liberia*, p.8

<sup>19</sup> *UN Letter from the Panel of Experts on Liberia*, 7 June 2007, p.4. The budget for FY07/08 increases salaries for the lowest paid civil servants (from \$30 to \$50) and provides for substantial increases for the national legislature (\$11 million), education (\$15.2 million) and health (\$13.8 million).

budget reporting, and support for capacity building within the macro-fiscal unit within the Ministry of Finance. The IMF has also encouraged the government to integrate the Bureau of Budget into the Ministry of Finance, which is now under consideration.<sup>20</sup> The World Bank intends to provide Liberia with a first budget support operation which will indicate support for reform to date and a move away from the programmatic lending. Liberia must follow-through on reform to create a positive budget implementation track record and therefore generate further budget support from donors as a result.

Consolidating the state does not necessarily mean a strong central state, but it does mean agreement on the functions that the state should perform and the levels of government at which these functions must be carried out. An excellent starting point for discussion on this, to feed into the PRSP, would be a detailed mapping of Liberia's human and procedural capacity across all branches of government to identify exactly where and how functionality exists. This could also include a review of departmental mandates, structures and staffing levels, with fully costed ideas for reform. It seems that capacity also tends to be centered in Monrovia, and thought must be given as to how to shift this to rural areas, especially given that these can become very isolated during the rainy season when roads are impassable.

Community level programs can establish the structures and processes that connect citizens with local authorities. However, the idea of 'community' in Liberia is a deeply contested notion, and existing assumptions of social cohesion, participation and consensus that underpin community programs do not seem to apply in many ways.<sup>21</sup> Promisingly, some communities have formed Town Development Committees to organize reconstruction of housing, rehabilitation of farmland and communal town cleaning days, which may offer a basis for further programs of this nature. The Liberian Agency for Community Empowerment (LACE) now manages a large community empowerment program, and efforts should be made to consolidate learning from activities to date, feed those lessons back into community work as it continues and support capacity generation and understanding within the agency. While security has broadly improved, programs must be sensitive to the volatility created by the return and reintegration process which has stoked religious and ethnic tensions and land ownership disputes. The government and the international community could think through further programming to transfer decision rights and financial resources to communities on a more sustainable basis to support a credible process of co-production between citizens, government and non-governmental actors.

## 2. *Improving governance and transparency*

Governance issues were at the heart of the conflict in Liberia, and since the end of the war the country has taken significant steps to improve transparency and accountability through securing the revenue base, improving budgeting and expenditure management, reforming procurement and concessions practices and combating corruption.<sup>22</sup> For example, civil service wages have been increased as a result of improved revenue collection; customs procedures have been streamlined; tax rates have been revised and exemptions reduced; tax collection has improved through creation of the Large Taxpayers Unit (LTU) and improved system management (revenues for the first five months of fiscal year 2006/7 were 82% higher than a year previously); and the government has committed to international standards on tax matters. On the expenditure side, the government has strengthened the Cash Management Committee and introduced the Public Procurement and Concessions Act. It has also planned for the introduction of an independent Liberian Anti-Corruption Commission (LACC). The Central Bank of Liberia (CBL) has also been strengthened through adoption of the International Financial Reporting Standards and tighter auditing procedures.

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<sup>20</sup> *Second Review of the SMP*, p.8

<sup>21</sup> Liberia Rapid Social Assessment, *Social Development Notes*, March 2007

<sup>22</sup> A few petroleum importers, rubber plantation companies and other commercial firms continue to evade taxes.



Many of these positive developments are the result of the Governance and Economic Management Assistance Program (GEMAP), overseen by the Economic Governance Steering Committee (EGSC), which has provided robust oversight of public financial management functions through positioning international experts in key public finance positions.<sup>23</sup> One of the stated objectives of the GEMAP is to build capacity within Liberian institutions to ensure that reform is sustainable over the longer-term, but in practice there has not been adequate focus on this area of the program. While the other five objectives (securing the revenue base; improving budgeting and expenditure management; improving procurement practices and granting of concessions; establishing processes to control corruption; supporting key institutions of government) have very clear goals, objectives and measureable results in the GEMAP documents, the capacity building element is both vague and brief. The government has itself asked for better planning and benchmarks in this regard. This problem is partly the result of the ad-hoc nature in which the GEMAP was initiated and partly due to the fact that Liberian human capacity is so low. To ensure sustainability going forward the program must include distinct targets for capacity building and deadlines for the handover of responsibilities to national counterparts.

Despite what seem to be significant reforms, Liberia's ranking on the Transparency International Corruption Perceptions Index (CPI) has actually dropped from 2.2 to 2.1 between 2005 and 2007 (from 137<sup>th</sup> to 150<sup>th</sup> of the countries surveyed).<sup>24</sup> Throughout Liberian society there are complaints that civil servants ask for bribes to complete even the most basic of services without any fear of penalty. As the *UN Panel of Experts Report* pointed out: 'there does not appear to be a strong, coherent policy beyond the President's inaugural address to implement such penalties.'<sup>25</sup> The government spent almost \$10 million on education in 2006, but the budget performance report does not state how many new schools were opened, how many students were enrolled or how many teachers were trained or appointed.<sup>26</sup> Efforts to improve reporting, bolstered by strengthened legislative oversight must be a priority.

A further step may be to make well-publicized moves to collect outstanding tax arrears owed by high-profile private companies (such as PLC Investments Ltd, considered by many to be a front company of ex-President Charles Taylor) and parastatals, to indicate that the rule of law applies equally to all individuals and organizations. Actions to improve transparency and governance must be holistic- as outlined in the UN Panel report, the government should work to strengthen the General Audit Office and carry out additional audits of public finances; build capacity within the FDA to ensure compliance with international logging standards across Liberia; support deployment of staff from the Ministry of Land, Mines and Energy to mining areas to tackle smuggling and exploitation<sup>27</sup>; and strengthen internal controls within key government ministries. Budgetary processes are still relatively weak (See *Consolidating the state* above) and tax laws must be harmonized to ensure fair and universal application. Information systems need serious overhaul and plans for bodies such as the LACC must be implemented in a coherent and determined fashion- the government must indicate that efforts to create the institutional architecture for good governance are credible, and not merely efforts to appease donors. Donors are preparing an integrated Public Expenditure Management and Fiduciary Assessment Report (PEMFAR) which should indicate exactly where weaknesses in public financial management exist and where reforms can be made.

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<sup>23</sup> International experts were deployed to key revenue generating agencies, the Central Bank of Liberia (CBL), the Ministry of Finance, the Ministry of Lands, Mines and Energy and the Bureau of the Budget (BoB). The EGSC is constituted by the Government of Liberia, Liberia's international partners and civil society, and is chaired by the President of Liberia, Ellen Johnson-Sirleaf.

<sup>24</sup> [www.transparency.org](http://www.transparency.org)

<sup>25</sup> *UN Panel of Experts Report*, 7 June 2007, p.9

<sup>26</sup> *UN Panel of Experts Report*, 7 June 2007, p.20

<sup>27</sup> Economist Intelligence Unit, *Liberia Country Report*, September 2007, p.16

Given Liberia's vast natural resources, transparent management of extractive industry revenue flows will also be a key component of continued peace and stability in the country. Liberia has adopted the Extractive Industries Transparency Initiative (LEITI) and the Kimberley Process Certification Scheme (KPCS) which provide for clear and independently verified information on how natural resource rights are allocated, contracts awarded and proceeds gathered, ensure independent audits of revenue information and instigate third party monitoring arrangements. These initiatives allow a process of co-monitoring by providing for consultation with civil society (such as the Publish What You Pay Liberia Coalition) and the private sector, and collaboration with other countries in the region such as Ghana and Nigeria that are already implementing similar programs. However, for these processes to be effective Liberia must invest in the skills and capacity building necessary for wide-ranging anti-corruption and anti-smuggling efforts- while a multi-stakeholder steering group has been established under the LEITI, for example, there is little indication that this group has the skills necessary to rigidly implement the terms of initiative. The total budget for the LEITI for fiscal years 2007-2008 is only \$662,340.<sup>28</sup> Donors should be encouraged to provide the advice and financing necessary to ensure that the LEITI and similar efforts to improve governance of Liberia's natural resources are successful.

### 3. Ensuring security

While stability is increasing in Liberia through improved governance and the expansion of the zone of legitimate rules of the game, there are still elements within and outside Liberian society that are a threat to security and that can undermine the evolving political and economic system. These fall into three main groups:

- i) *High-level, disgruntled former army generals*, some of whom have links to the Taylor regime, and who may have led a plot to overthrow the government in July. This group is of central concern, because they threaten to invert the newly established rules of the game, not just operate outside those rules. Individuals of this type, if accused of wrong-doing, must be given a fair trial by an independent judiciary and either convicted or released, to indicate to the Liberian people that the rule of law is both objective and efficient. Equally, these former officials must be provided with the legitimate opportunities that will allow them to move beyond past roles and relationships and support the development of a new status quo in Liberia.
- ii) *Ex-combatants* who are being recruited into regional militias and who engage in looting and banditry. While security has improved as a result of the 101,500 combatants disarmed and demobilized, 37,000 of these have not yet been placed in rehabilitation programs.<sup>29</sup> These programs are only short-term and these young, mostly male Liberians as a group lack economic opportunity or access to sustainable reintegration schemes.<sup>30</sup> These individuals must be given an economic stake in the Liberia that is now developing through imaginative employment support programs that can provide them with both an income and hope in the future (See *Creating a coherent human development strategy* below). They do not pose a direct threat to the political and economic system itself if their frustrations can be channeled within that system and converted into productive activities.
- iii) *Regional problems*. Progress in Liberia also has the potential to be derailed by political and economic trouble in the sub-region. The political situation in Guinea is fragile, and although progress in Cote d'Ivoire has been substantial over recent months, there remains the danger of a

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<sup>28</sup> *Costed workplan for the LEITI for FY07/08*

<sup>29</sup> As of early 2007

<sup>30</sup> There are as yet few programs that deal with youth as a constituency more broadly.

relapse into hostilities.<sup>31</sup> Liberia has very porous border and arms and mercenaries continue to cross in and out of country with ease. The development by donors of a regional approach that deals not only with these types of issues but also with broader security and economic concerns makes a great deal of sense. Donors have regional forums for dialogue such as the International Contract Group for the Mano River Basin and the AfDB has developed a Regional Integration Strategy for West Africa, but it seems either that these receive scant attention on the level of strategy implementation or do not have the required mechanisms and funding in place to ensure impact.

The formation of an accountable and disciplined police force is crucial to deal with all of these issues and ensure law and order more broadly. The Liberian National Police (LNP) force now exceeds its planned strength at 3,522 members, and with the support of UN peacekeepers is improving the security situation. The UN has also begun vetting recruits through an expedited high-school certification program aimed at 130 female potential candidates. However, morale is not good, pay is low (\$90 a month) and facilities poor. To ensure progress continues, and is sustainable after the drawdown of UN troops, police training and reform must be part of longer-term budgeting over the course of the next five to ten years, and concrete rules governing the use of armed force against the population must be very clearly laid out. Equally, security must be consolidated through a wider focus on stability, the development of credible institutions and the generation of trust between the government and the governed. Without that trust security issues will persist for the foreseeable future.

#### 4. *Creating a coherent human development strategy*

The central issue in Liberia is the almost complete absence of human capacity. While in some post-conflict contexts there exists significant human capacity that can be reoriented towards reconstruction and development, in Liberia the severity of the civil war almost entirely diminished the stock of human capital itself.<sup>32</sup> Donors describe a distinct ‘missing middle’ both of technical staff able to carry out government work and managerial staff able to run a functioning private sector. The ISN points out that donor interventions in the education sector: ‘have been both fragmented and aimed at non-core activities, providing little assistance for improving public service delivery or filling the budget gap.’<sup>33</sup> While a donor plan is now in place to address this lack of coordination at the primary education level, it does not appear that a similar strategy is in place for technical and vocational skill building. The government has declared that tackling this issue is a priority, and thus a critical task for Liberia’s leadership should be to develop a human development strategy that includes targeted, manageable programs to create the skills Liberia needs, in both the public and private sectors, to sustain its transition towards stability and prosperity. This could have various components, potentially including:

- i) *Expedited adult literacy programming.* Over 70% of the Liberian population is illiterate and more technical capacity building simply cannot occur if the majority of the people cannot read or write. While this issue is being addressed at the primary school level, the government does not seem to have a coherent plan for literacy programming for youths and adults. It could develop a strategy, using all possible resources- including recruitment of literate Liberians on a part-time basis, or international student volunteers- to create expedited literacy classes that could bring a significant proportion of the population up to a level of reading and writing that would allow very basic administrative and office work.

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<sup>31</sup> Many remain skeptical of the Ivorian peace plan brokered in Burkina Faso in February 2007

<sup>32</sup> The ‘brain drain’ of qualified Liberians continues today as opportunities and conditions remain exponentially better elsewhere.

<sup>33</sup> *Joint Interim Strategy Note*, p.14

- ii) *Programs to support capacity within government.* Liberia also lacks, inter alia, project management, accounting, procurement, analytical, budgeting and program implementation skills. The World Bank is supporting the development of a procurement training and accreditation program within the Liberian Institute of Public Administration and is funding a public finance school which is training around 30 students a year with accounting and financial management skills and placing them in the Ministry of Finance. The curricula for these programs must be carefully calibrated to ensure they create the exact skills Liberia will need within the civil service over the next five to ten years, and could be expanded as funding allows. The government has also developed a Senior Executive Service (SES) Program to train a cadre of strategically placed policymakers, with salaries topped up by donors. However, given the serious human capacity issues in Liberia, applications for this program have been both weak and few in number to date. It may be too soon to instigate a program of this nature, which over the long-term would in any case need to be paid for from the government budget to make it sustainable, with a fair, transparent selection process, overseen by donors, to avoid any sense that selection is politicized. An alternative at this stage might be efforts to bring back expatriate Liberians with the skills the country needs (see iv) below).
- iii) *Short-term vocational courses.* These 4 to 8 week courses could provide carpentry, plumbing and agricultural development skills to support small business development and reconstruction. Large numbers of young people missed significant portions of their education as a result of the war and they must be provided with the skills necessary to allow them to create sustainable livelihoods. However, programs should be careful not to target only former soldiers, who have indicated that participation in public works programs specifically for ex-combatants has led to social exclusion, but young people more generally. Training must be sure to include Liberian women who play central roles in all aspects of life in the country- women constitute 53% of those involved in the farming sector and 80% of those involved in trade.
- iv) *Natural resource management training.* Programs could be developed to provide Liberians with the skills needed to extract and manage natural resources effectively. The World Bank is supporting a training and accreditation program for young resource management professionals in the Ministry of Finance. The government could investigate the possibility of developing such programs on a large scale with extractive industry private sector actors to ensure that the country has the skills it needs to rapidly scale-up activities in the rubber, timber, diamond, iron ore and palm oil industries and capitalize on these potentially significant revenue streams. These programs could be complemented by technical education programs at schools and colleges that would create a cadre of Liberians that could generate business in related industries (engineering; maintenance of machinery; distribution and suchlike).
- v) *International capacity generation.* Through the Transfer of Knowledge Through Expatriate Nationals (TOKTEN) program, the government is bringing back qualified expatriate Liberian professionals for short periods of time to contribute towards reconstruction efforts.<sup>34</sup> The government has also instituted the Liberia Emergency Capacity Building Fund to bring back high-profile teams of Liberians from the diaspora over the longer term. These programs must be given the funding they need to provide the incentives for skilled Liberians to return home. The alternative to these programs might be to organize short-term training courses abroad for selected Liberians, in the United States for example, at schools that have well recognized technical training schemes or which have historical links with West Africa, to further build capacity.

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<sup>34</sup> I-PRSP, p.16

## 5. *Developing integrated infrastructure and economic planning*

The private sector will be the central driver of growth and recovery in Liberia. Currently the informal sector generates as much as four times as much employment as the formal sector- reforms must be initiated that allow for the formal sector to expand and bring these workers into the legitimate economy. The creation of a market that can play a catalytic role in wealth creation through support in areas such as banking financial institutions, advisory services and business support are important. Indeed, access to credit and banking services for small businesses were a central theme that arose out of World Bank consultations in Liberia during preparation of the ISN.<sup>35</sup> The IFC is supporting the rehabilitation of financial institutions and business development and support services and is examining a program to assist microfinance development.

If one of the key strategic pillars of the PRS is to develop Liberia's infrastructure, serious thought must be put into exactly how, where and why this infrastructure should be developed to best serve the interests of Liberian business and promote inclusiveness, but this does not seem to be the case presently.<sup>36</sup> Recently, for example, the government passed the Telecommunications Act, which ignored World Bank advice in favor of privatization, instead mandating the state-owned Liberian Telecommunications Corporation to provide low-costs telephony services to all Liberians. However, significant demand and capacity exists within the GSM sector that will induce private sector companies to reduce costs through competition and allow the government, if it thinks carefully about wireless technologies, to re-think the infrastructure necessary to provide communications for the country and leapfrog traditional delivery mechanisms.

Support under the 2004 World Bank Country Re-engagement Note provided for feasibility studies on infrastructure, forestry, telecoms, agriculture, health and education. These feasibility studies must be collated and options for design and connections between infrastructure projects and other aspects of the reconstruction delineated. A process of asset mapping and asset mobilization must also take place to identify key areas and value chains in the economy that provide potential for significant growth, and harness the country's existing capacity and infrastructure to greatest effect. This in turn involves elements of spatial planning and supply chain analysis to ensure sustainability of infrastructure, urban development and service provision, and the predictability and availability, at consistent prices, of the goods necessary to add value to Liberian outputs. Close collaboration and planning within the government on the integration of road and urban planning with the provision of consistent power and water supplies is also important.<sup>37</sup> The I-PRSP indicates some awareness of the fact that road construction must be planned in a way that allows farmers access to markets for their goods and the fact that road-building will create jobs, but beyond that does not demonstrate any thought on longer-term planning, supply-chain or sustainability issues.

Liberia remains heavily dependent on foreign aid, but there is a plethora of different modalities through which the government could interact with donor countries which can provide a far more sustainable basis for economic growth in the longer-term. Comparative analysis indicates that the development of new financial instruments such as leasing operations, investment guarantees, political risk insurance, domestic

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<sup>35</sup> *Joint Interim Strategy Paper*, p.48

<sup>36</sup> The World Bank, for example, is putting \$37 million into agriculture and infrastructure out of a total of \$85 million in commitments to Liberia.

<sup>37</sup> The lack of predictable and consistent power and water severely affects the private sector, and Liberian citizens more generally- more than 1 million inhabitants of Monrovia use atrocious water and sanitation facilities designed for a city of 250,000 people. The government is re-building hydro-power capacity and is exploring alternative energy sources such as solar and biomass. It could also consider tapping into carbon credits, now available for reforestation.

venture capital funds and suchlike are prerequisites for the creation of an enabling environment for a competitive economy. These instruments could be backed in Liberia by a joint public-private competitiveness study to identify key constraints that are preventing further investment in key sectors such as rubber and iron. Liberian business and government could then convene a series of workshops to with domestic, regional and international investors to secure financial commitments to Liberia's economy and plan for economic growth.<sup>38</sup> These could also bring in the advisory team put together by MIGA, the Foreign Investment Advisory Service and the IFC's Private Enterprise Partnership for Africa which has been providing advice on private sector development to Liberia over the past year.<sup>39</sup>

Liberia has a historic and privileged relationship with the United States and access to top American policymakers, but does not seem to be thinking through how this could truly be leveraged to support the economy- through special trade concessions or OPIC support for investment funds for private capital, for example. Another idea might be to recruit a group of philanthropic-minded and experienced private sector individuals who have the business knowledge that donors do not have, in order to help the government think through exactly how it should be planning economic development initiatives and infrastructure creation. There is also a relatively significant Liberian diaspora in the United States and elsewhere, which if mobilized, could provide a resource both for training (as outlined in the previous section) and more coherent financial assistance, beyond remittances, in support of public or private initiatives.

Process is critical during all of these reforms to ensure that expectations are managed and hopes set at reasonable levels. Liberia has achieved an impressive amount in the past three years, but continued momentum will only be possible if concerted signals are sent by the government to ordinary Liberians on what further goals can realistically be met and the actions that fiscal constraints will allow. The lifting of sanctions on timber and diamonds for example, has raised hopes among the population, but these must be adequately addressed by a government that has the will but not the capacity to generate immediate and significant improvements in employment and living standards.

#### **IV. Preliminary conclusions**

Liberia has made significant progress since the end of the civil war in 2003, but this progress has only demonstrated how much more there is to be done. There is a sense of hope and urgency behind efforts to capitalize on the open moment in which the country finds itself, and short-term programs are generating successes, but this needs to be tempered by careful analysis and planning for long-term sustainability. There are considerable assets that the government must mobilize and synergize with external assistance in coherent and imaginative ways to solve the problems it faces in every function and every sector, from the justice system, to security organizations, to public finance, to education. Human capacity is the key issue that is preventing many changes from taking place and implementation of reforms to stutter- a development-minded leadership cannot do everything on its own, and a priority must be to reverse this skills deficit. The drafting of the full PRSP provides the opportunity for the government to think about these issues and integrate innovative thinking into a national vision and strategy as the country moves forward. Donors must assist the government by remaining fully engaged on security issues, coordinated on aid issues, and imaginative on economic issues. Given the severity of the problems that Liberia faces, it is only through coherent planning and collaboration with international partners that the country will be able to truly forge a path towards stability and prosperity.

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<sup>38</sup> Along the lines of the Liberia Private Sector Investment Forum in February 2007, but on a sustained basis.

<sup>39</sup> These meetings could be coordinated on the government's side through the LEEP/LEAP unit which has been tasked with job creation and planning of employment creation programs.

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