

LIBERIA

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- Weak commodity prices continue to weigh on Liberia's economy, which contracted by an estimated 0.5% in 2016. Economic growth is expected to strengthen in the medium term, reaching around 4% in 2017.
- The government faces the challenge of staying focused on development priorities during an election year, while also contending with weak growth weighing on revenues, limited borrowing capacity, and added expenditure pressures linked to security and the election.
- The government is pursuing a number of measures to help diversify the economy, increase productivity and entrepreneurship, and encourage value addition and investment in the agriculture sector.

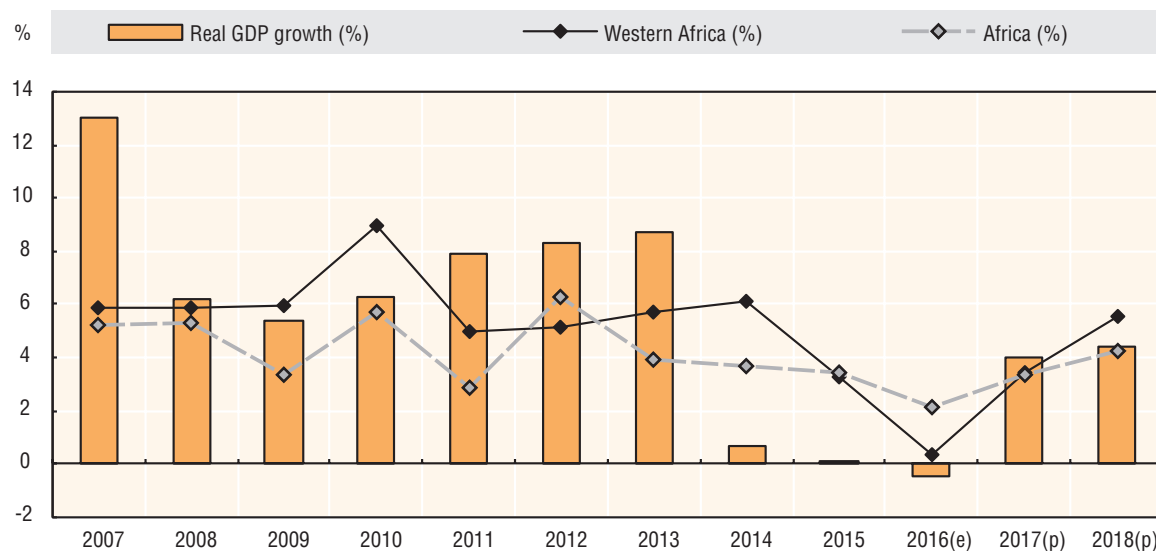
Overview

Liberia continues to grapple with lower commodity prices, which have led to a third straight year of near-zero growth in 2016. The economy contracted by an estimated 0.5% in 2016. With limited growth expected in the iron ore and rubber sectors in the coming years, the government seeks to diversify the economy by increasing productivity in the agriculture sector. The economy can expect an uptick in growth to around 4.0% in 2017, largely due to increased production of gold and iron ore, investment projects, and agriculture expansion. Nonetheless, growth is expected to remain below previous levels into the medium term.

Fiscal policy continues to be strained by low growth and is facing further pressures due to election and security expenditure. With the withdrawal of the United Nations peacekeeping force, the government is taking on full security responsibilities. Combined with the elections in October 2017, this could increase uncertainty. Growth in public revenue has been low and borrowing space has tightened, so the government faces a delicate task, in an election year, in balancing expenditure and borrowing with development priorities. It is also critical to maintain momentum in public financial management (PFM) reforms into a new administration.

Investments in power generation and electricity access are gradually coming online, which should begin to gradually alleviate a significant constraint to the business environment. However, increasing capacity in the energy sector will be critical for sustainability and further improvements. Moreover, several key transportation corridors have been paved. These improvements notwithstanding, the business environment, which ranks very low in international comparisons, continues to impede competition, productivity and growth. The government has started work on addressing business environment constraints, attracting investment, and improving value addition in key agricultural value chains. Further efforts will be needed to raise incomes and address Liberia's 54% poverty rate.

Figure 1. Real GDP growth



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	0.0	-0.5	4.0	4.4
Real GDP per capital growth	-2.4	-2.9	1.5	1.9
CPI inflation	8.0	12.5	10.0	8.6
Budget balance % GDP	-8.4	-2.2	-6.2	-7.0
Current account % GDP	-29.2	-28.5	-22.5	-18.0

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

Recent developments and prospects

Liberia's economic growth has fallen to near zero since 2014, when the country was hit by the Ebola Virus Disease (EVD) crisis, and by falling international prices for rubber and iron ore, its two key exports. After real GDP growth of 0.7% in 2014, and 0% in 2015, the economy contracted by an estimated 0.5% in 2016. A pickup in gold exports, a modest expansion in iron ore mining, investment projects, and agriculture, should fuel growth to around 4% in 2017. However, medium-term growth is expected to remain below prior levels.

Although Liberia has overcome the EVD crisis, ongoing weakness in iron ore and rubber prices is hampering growth. While iron ore production has continued, and output from Arcelor Mittal is expected to pick up slightly in 2017 and 2018 as it opens a new, higher-grade mining site, major expansion plans are on hold. Moreover, production in the rubber sector has been stagnant and led to job cuts. Donor assistance, despite a brief surge due to Ebola-related support, is declining, exacerbated by the drawdown of the UN peacekeeping force (UNMIL). Taken together, these factors are reducing demand for services. The UNMIL drawdown has led the government to take on full police and security responsibilities. With elections in October 2017 and the Sirleaf administration coming to an end, increased uncertainty is slowing investment until after the election. This has combined with international economic uncertainty triggered by the United Kingdom's vote to exit from the European Union, and the change in the administration in the

United States. This uncertainty could have a further impact on donor flows, investment, and commodity prices.

Lower US dollar (USD) inflows have contributed to the depreciation of the Liberian dollar, which fell by 16% over the year to December 2016 against the US dollar. Combined with the impact of recent tax measures, this is contributing to higher inflation, which reached 12.5% year-on-year in December 2016, the highest since 2014.

Despite these headwinds, various positive developments should provide some support to growth. The expansion of commercial gold exports in 2016, with two mines now active, is helping to diversify and support export revenues. The commercial production of palm oil will expand significantly in 2017 and beyond, with two key concessionaires bringing mills online in mid-2017. Cocoa production is also expected to expand gradually due to investment. Moreover, a resumption of infrastructure projects halted during the Ebola epidemic, and which are now under pressure to make an impact in time for the elections, is stimulating activity.

Looking forward, gradual improvements in energy and road infrastructure, albeit from a very low base, may slowly begin to address some significant constraints on business. This could support growth in manufacturing and services. In the energy sector, three heavy fuel oil plants were installed in 2016. By August 2017, meanwhile, all four turbines of the Mount Coffee hydropower plant should come online. As a result, installed capacity could increase almost six-fold during the rainy season, to about 148 megawatts. Electricity connections in and around Monrovia have increased from 13 000 in 2012 to 45 000 in 2016, with funding available for over 100 000 more. This should improve Liberia's 5% electricity-access rate. Electricity tariffs have been amongst the highest in the world at USD 52 cents per kilowatt hour. They decreased to USD 49 cents in mid-2016, and subsequently to USD 39 cents in March 2017. Further tariff reductions will depend upon financial and technical improvements at the Liberia Electricity Corporation (LEC). Increasingly, improvements to the weak institutional and human capacity that impedes planning, operations, maintenance, and regulation in the energy sector will be critical for sustainability, and for further progress in the sector overall. Signing a new management services contract for the LEC in 2017 would be a major milestone in this regard.

Liberia's very limited road infrastructure also holds back growth. While some key transportation corridors have been paved, the network is still limited, particularly in rural areas. Less than 10% of roads are paved, and only about 45% of households can access an all-season road within 5 km, according to a government survey from 2013. As the road network expands, it will become increasingly important to allocate resources to maintenance in order to reduce costs in the long term. The government has approved a road fund law to set aside funding for maintenance and rehabilitation.

While growth is slowing in the short term, this creates an opportunity to lay the foundations for greater diversification and more inclusive development. Liberia's traditional economic model has been based on the extraction of natural resources. This model has been associated with the "resource curse", in which significant sources of unearned income contribute to extensive rent seeking, corruption, weak institutions, and low growth. Resource-dependent economies often neglect the development of inclusive sources of growth that create employment, increase the skills base, and diversify the economy, enabling it to withstand external price shocks. As lower revenues from the extractive sector combine with declining donor funding to weaken Liberia's recent sources of growth, the country has an opportunity to develop a sustainable economy by increasing its emphasis on improving productivity across sectors.

To promote this transition, the government should focus on public investment in infrastructure projects with high economic returns, and on improving the business environment. It should, moreover, focus on boosting productivity and value-added agricultural activities, and attracting investment to non-extractive sectors. Recent initiatives to address constraints that

hamper key value chains and the country's ability to attract strategic investments, such as the Liberia Agriculture Transformation Agenda (LATA), are a step in this direction. Liberia must also address the long-term issues of how to educate and train its workforce to boost basic skills and overall capacity.

However, the government faces substantial challenges. It has taken on full responsibility for security right as it heads into elections in 2017. Economic weakness has weighed on tax revenues, while it must also finance elections and security. A better alignment of expenditure with development priorities, as well as improvements in the delivery of public services, will be critical in the coming years. Expanding revenue mobilisation for public spending will rely increasingly on taxes that impact local businesses and consumers, against a backdrop in which recent tax increases have encountered public resistance. Liberia's scope for borrowing has tightened over the past two years, so it needs to be more selective in taking on new debt. In the run-up to elections, and into a new administration in 2018, finding the right policy mix, and maintaining focus on development goals, will be critical to achieving more inclusive and sustained growth.

Table 2. GDP by sector (percentage of GDP at current prices)

	2011	2015
Agriculture, forestry, fishing and hunting	41.0	36.7
of which fishing
Mining and quarrying	5.4	12.7
of which oil	0.0	0.0
Manufacturing	7.6	7.0
Electricity, gas and water	0.6	0.6
Construction	4.6	5.3
Wholesale and retail trade; Repair of vehicles; Household goods; Restaurants and hotels	14.3	13.3
of which hotels and restaurants
Transport, storage and communication	4.9	4.6
Finance, real estate and business services	10.8	9.7
Public administration and defence	6.2	6.2
Other services	4.7	4.2
Gross domestic product at basic prices / factor cost	100.0	100.0

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

Weak economic growth continues to adversely affect public revenues and, combined with spending pressures linked to elections and security, is creating a challenging fiscal outlook. The revenue envelope for the 2016/17 fiscal year was ambitiously increased during the budget-approval process, from USD 556 million to USD 600.2 million. Combined with weaker than expected growth, this has led to revenue shortfalls and measures to cut back on expenditure. This follows similar shortfalls in the previous fiscal year, which likewise led to a recast budget. The government introduced various tax measures in the 2016/17 budget in an attempt to bolster revenues. These included increasing the goods and sales tax rate from 7% to 10%, placing a surcharge on international outbound phone calls, and increasing the tobacco excise tax. Increased storage surcharges on fuel imports were also expected to make a major contribution to the budget. However, the late passage of the budget (in September) delayed the implementation of these new measures.

Recurrent expenditure continues to dominate the 2016/17 budget. The largest expenditure line in the 2016/17 budget continues to be for employee compensation, which, at USD 287.0 million, has



increased by 12% over the previous year. The full wage bill is understated, however, as transfers and other classifications can also include employee compensation. Grants and transfers have, meanwhile, increased substantially, from USD 80.7 million to USD 98.0 million. Major projects include USD 20 million for elections, USD 18 million for ongoing roadworks, USD 10 million to support the UNMIL drawdown, and USD 7 million for renovations for the executive mansion. The government and the legislature are discussing measures to reduce spending to adjust for the shortfall.

Further progress with public financial management reforms will support fiscal policy in the medium term. Consistent revenue shortfalls have led to in-year budget cuts, particularly for investment programmes, and undermine the planning and budgeting process. They also contribute to increasing recurrent expenditure. The IMF's 2016 Public Investment Management Assessment (PIMA) estimated this at 82% of the 2015/16 budget, amongst the highest rates in Africa. Containing recurrent costs, and particularly employee compensation, is necessary to increase the scope for investment and social spending. Low revenue growth and limited borrowing capacity underscore the need to prioritise expenditure and investments that will promote long-term growth.

The government should develop a prioritised pipeline of investment projects to inform domestic and external financing decisions. It should also continue improving project implementation and oversight. Efforts to improve revenue forecasting and avoid expanding the budget during the approval process would improve budget credibility. Further progress on a Treasury Single Account (TSA) would support cash management. The government should also consider pursuing the implementation of a value added tax in 2018. Finally, strengthening oversight of state-owned enterprises (SOEs) would keep their expenditure in check, improve dividends, and reduce fiscal risks. SOEs are expected to contribute USD 49 million to the 2016/17 budget, some 8% of revenues, but they have underperformed in the first half of the fiscal year.

Table 3. Public finances (percentage of GDP at current prices)

	2007/08	2012/13	2013/14	2014/15	2015/16(e)	2016/17(p)	2017/18(p)
Total revenue and grants	22.5	31.2	27.3	31.4	31.7	29.9	27.8
Tax revenue	18.4	19.9	19.7	19.1	19.5	18.4	18.5
Grants	0.7	3.7	3.9	9.6	9.2	8.2	6.2
Total expenditure and net lending (a)	21.5	31.5	30.2	39.8	33.9	36.0	34.7
Current expenditure	18.9	26.6	25.2	31.0	26.0	27.6	27.1
Excluding interest	18.1	26.3	25.0	30.5	25.5	27.1	26.1
Wages and salaries	7.4	11.4	10.3	12.7	12.4	13.0	13.0
Interest	0.8	0.3	0.2	0.5	0.5	0.6	0.9
Capital expenditure	2.6	4.9	5.0	8.8	7.9	8.4	7.7
Primary balance	1.9	0.0	-2.6	-7.9	-1.7	-5.6	-6.0
Overall balance	1.0	-0.3	-2.9	-8.4	-2.2	-6.2	-7.0

Note: a. Only major items are reported.

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

Monetary policy

Liberia's central bank targets a broadly stable exchange rate and low inflation. Monetary policy continues to be constrained, however, by the high level of dollarisation, which is estimated at 70% of broad money. In 2016, the Liberian dollar (LRD) gradually depreciated against the US dollar due to a fall in exports, reduced inflows of foreign currency, and increased local currency expenditure. Between June 2015 and January 2017, the Liberian dollar depreciated against the US dollar by around 22%.

Liberia's central bank reduced its interventions on the foreign exchange market to USD 24.5 million in 2016, from USD 41.9 million in 2015, underscoring a willingness to let the rate adjust to market forces, and an increased emphasis on maintaining foreign currency reserves. Meanwhile, the central bank's three-year financial plan, approved in December 2015, is helping to contain operational costs while also contributing to stronger reserves. These actions have helped reserves to rise 14% to USD 186.4 million, or 2.9 months of import cover.

The fall in the value of the Liberian dollar, and higher taxes on communications and transport, have contributed to an increase in inflation, which rose to 12.5% in December 2016 from 8.0% in December 2015. With exchange-rate pressures expected to continue, combined with the phased implementation of the common external tariff for the Economic Community of West African States (ECOWAS), inflation is expected to remain high, at around 10% in 2017.

The increased use of central bank bills (CBBs) and treasury bills and bonds has supported Liberian dollar liquidity-management. After the introduction of CBBs in 2014 to support local-currency liquidity management and offset exchange rate pressures, CBB issuance has been suspended since the second quarter of 2016, with the aim of synchronising the use of treasury bills and CBBs. Treasury-bill issuance continued in 2016, with a total of LRD 609 million issued at discount rates ranging from 2.9% to 3.73%. The central bank also issued two-year treasury bonds in July and September of 2016, for a total of LRD 6 billion, and at a rate of 14.45%. Liquidity co-ordination with the Ministry of Finance and Development Planning resumed in late 2016.

The central bank issued regulations in November 2016 that required 25% of inbound money transfers to be paid in Liberian dollars. While this will impose a cost to consumers, it may only have a minimal impact on supporting foreign exchange reserves. In the same month, in a bid to increase USD liquidity while tightening LRD liquidity, the central bank decreased the required reserves ratio for USD deposits from 15% to 10%, while raising the requirement for LRD from 22% to 25%.

Economic co-operation, regional integration and trade

After falling by 45% in 2015, export values broadly stabilised in 2016. Lower commodity prices have continued to weigh on exports of iron ore and rubber, but the start of commercial gold production by two mines since the end of 2015 has partially offset this. Export values should pick up in 2017, helped by a continuing expansion of gold output, and a small uptick in iron ore production. This should support a tightening trade balance, and reduce the current account deficit to 22.5% in 2017, from 28.5% of GDP in 2016.

Liberia joined the World Trade Organization (WTO) in July 2016. As part of the accession programme, it has passed laws on foreign trade and competition promoting transparency and non-discrimination. The legislature passed the ECOWAS common external tariff (CET) and ECOWAS trade liberalisation scheme in September 2016. The first phase of a three-year CET transition plan began in January 2017, although specific measures are being revised to avoid a significant increase in tariffs in the short term. These measures should support regional trade integration, although Liberia's average tariff rates will increase in the process.

Liberia faces significant challenges to improve trade across borders. The country ranked 120th out of 136 countries in the World Economic Forum's 2016 Global Enabling Trade Index. Importers identified tariffs and non-tariff barriers, burdensome import procedures, corruption, and the high cost of transportation as critical challenges. Exporters identified as major challenges the difficulty they face in identifying potential markets and in accessing trade finance. Liberia ranks 185th out of 190 countries in the World Bank report *Doing Business 2017*. The time to export is reported at 16 days, and at 17 days for imports. Discussions are ongoing about developing a "national single window" to facilitate regulatory formalities for imports and exports.



Table 4. Current account (percentage of GDP at current prices)

	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
Trade balance	-41.3	-24.1	-25.4	-41.8	-37.8	-28.3	-26.2
Exports of goods (f.o.b.)	23.1	27.9	28.8	15.5	15.5	17.7	18.2
Imports of goods (f.o.b.)	64.4	52.0	54.3	57.3	53.3	46.0	44.4
Services	-71.6	-37.9	-50.1	-45.3	-42.4	-26.3	-23.5
Factor income	-14.5	-19.0	-17.2	-14.0	-12.3	-13.3	-13.1
Current transfers	103.0	52.1	72.1	71.9	64.1	45.4	44.7
Current account balance	-24.4	-28.8	-20.7	-29.2	-28.5	-22.5	-18.0

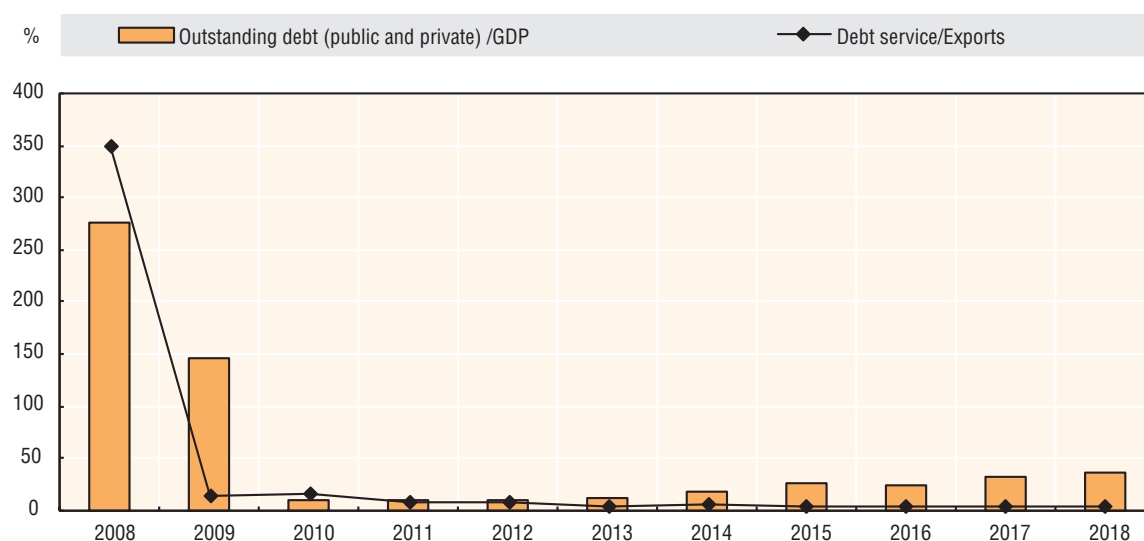
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt policy

Since Liberia resumed concessional borrowing in 2011, public external debt has increased to a projected 28% of GDP in 2016, from an estimated 23% in 2015. In 2017, public external debt is projected to rise to 33.6%. New borrowing has financed infrastructure projects in energy and roads, budget support, agriculture, and additional projects such as the airport terminal, costing USD 52 million. The increase in borrowing, combined with the slowdown in growth and exports, increased Liberia's risk of debt distress from low to moderate in 2015. According to debt-sustainability analysis from the International Monetary Fund (IMF) in December 2016, Liberia's risk rating is verging on high. Therefore, a further decline in exports could push the country into the high-risk rating category.

As part of its external credit facility programme with the IMF, the Liberian government has reduced the pace of its external borrowing. It has ratified a total of USD 136 million in present value (PV) terms for the period of 2016-17. The government is also developing a new medium-term debt strategy. Liberia's debt-management unit will thereby be developing its capacity to analyse the cost and risks of the debt portfolio into the medium term. Tighter borrowing constraints underscore the need to prioritise investments that support inclusive growth and economic diversification.

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



Source : IMF (WEO & Article IV).

Economic and political governance

Private sector

Liberia is gradually addressing major constraints to business by expanding, from a very low base, both energy production and access, while also slowly reducing electricity tariffs. Several key transportation corridors have also been paved, although the network is still very limited. Beyond infrastructure constraints, businesses face a very onerous regulatory environment that impedes competition and innovation. This is highlighted by the country's ranking of 174 out of 190 countries in the World Bank report *Doing Business 2017*. This ranking falls below those of neighbours such as Cote d'Ivoire (142), Ghana (108), Guinea (163) and Sierra Leone (148).

Tangible improvements are needed in the short term to improve the business environment. Reform measures linked to Liberia's 2016 accession to the WTO can help to improve the business environment, investment, and competition in the long term. The government has established an agricultural transformation agenda and a manufacturing task force to address constraints, increase value addition, and attract investment in the cocoa, palm oil, fisheries, and rubber sectors. Moreover, the government is preparing a Special Economic Zone Act, and is developing plans for an industrial park in Monrovia. Furthermore, there is scope for property rights to improve in the medium term, following the approval of a land-authority law, although a planned land-rights law still has not received approval.

Measures to develop local businesses include regulations calling for at least 25% of government procurement to be sourced from locally owned enterprises. Considering the limited capacity of local suppliers, incremental steps and capacity building will be necessary over many years in order to reach this target. The economic slowdown may increase the pressure on the government to adopt protectionist policies. However, such measures could have adverse consequences in the long term by stifling productivity growth, increasing rent seeking, and hampering the efficient use of government resources. Instead, focusing on enabling competition, increasing the capacity and productivity of local businesses, and developing a culture of entrepreneurship, will support growth in the long term.

Financial sector

Financial sector indicators improved in 2016, partly due to the closure of a commercial bank – First International Bank Liberia Limited (FIBLL) – in June 2016. FIBLL's performance had been deteriorating since 2013, with non-performing loans (NPLs) rising above 70%. The central bank provided the bank with USD 19 million in liquidity assistance over two years. A purchase and assumption (P&A) transaction was eventually carried out with a Ghanaian private-equity group, which then opened a newly licenced bank. The incident underscored the need for Liberia's central bank to set up frameworks for emergency liquidity provision and for bank resolution, as well as a deposit insurance scheme.

Nominal credit growth has declined since April 2016, amounting to a 1.9% year-on-year growth in September 2016. Around 39% of lending is to the trade and hospitality sector, 13% to construction, 4% to transportation, and 4% to agriculture. Average lending rates have continued in a range from 13% to 14%, which has not varied in the past decade. Lending rates are relatively low for the region, despite the uncertain business and lending environment. Increased interest rate flexibility could support expanded lending, particularly for longer-term financing. Over 50% of earnings in the sector are from non-interest income, indicating a limited reliance on intermediation.

The banking system faces challenges of low profitability and a high preponderance of non-performing loans. Still, it maintains healthy liquidity and capitalisation ratios. While profitability indicators have now risen to their highest level in several years, they are still relatively low,



with a return on assets of 1.1% and a return on equity of 7.8% in October 2016. Despite this recent improvement, low profitability could continue to pose a risk to stability and impede credit expansion. Low profitability is due to non-performing loans, an ineffective legal system, low net-interest margins, high operating costs, and fraud.

Non-performing loans fell to 11.8% in October 2016, their lowest level in several years, after the write-off of FIBLL's loans, and the central bank's re-implementation of a naming-and-shaming policy for delinquent borrowers. The banking sector's capital adequacy ratio remained high, increasing slightly over the year to 21.4% in October 2016. The liquidity ratio remained high, at 36.8% in October 2016. The central bank has established an Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) unit, which should help address the loss of correspondent banking relationships.

Public sector management, institutions and reforms

Since the end of the conflict, Liberia has strengthened governance and institutions. However, weak capacity and co-ordination continue to undermine public confidence in the administration and slow progress. Institutions will be especially tested over the next year, due to the government taking on full security responsibilities, elections in October, and the transition to a new administration. Recent protests surrounding tax increases have highlighted the need to improve the delivery of government services.

Meanwhile, progress with public financial management (PFM) has been mixed. A Public Expenditure and Financial Accountability Assessment (PEFA) carried out in 2016 indicated an improvement since 2012. However, while 14 of 31 categories showed progress, ten received ratings as low as D or D+. Significant investments in an integrated financial management information system (IFMIS) and in other information technology platforms, have taken place. This notwithstanding, capacity constraints, revenue shortfalls, frequent budget adjustments, and insufficient commitment controls have continued to slow down reforms and to undermine budget credibility. Building on the 2016 assessment, the government is developing a new PFM Strategy for 2017-19.

The government is progressing with efforts to decentralise services outside the capital city, Monrovia. After opening the country's first County Service Center (CSC) in June 2015, it had inaugurated 6 more by February 2017 and intends to open a CSC in all 15 of Liberia's counties by January 2018. As for political decentralisation, a local government act awaits passage through the legislature, and the government needs to push ahead with the constitutional reform process.

Various high-profile corruption scandals led President Sirleaf to establish a task force to investigate charges. In one case, after weeks of tensions in the legislature, the speaker of the House of Representatives stepped down in September, following his alleged involvement in a bribery scandal involving an iron ore concession. Corruption challenges are highlighted by Liberia's ranking of 90th out of 176 countries in Transparency International's 2016 Corruption Perceptions Index.

Natural resource management and environment

Liberia's development model has historically relied on exploiting the country's rich natural resources, including iron ore, gold, diamonds, rubber, palm oil, and forests, which account for 43% of the remaining Upper Guinean forest of West Africa. However, weak monitoring and oversight, and alleged corruption in the awarding of concessions, have limited the sustainable use of these resources. The government has taken steps to promote land reform with the aim of addressing tensions surrounding concessions and improving administration. The Land Authority Act was approved in October 2016, but the Land Rights Act, which is expected to give teeth to the authority,

is yet to be enacted. The Land Rights Act sets out the legal framework for four different categories of land ownership: public, government, customary, and private, in addition to protected areas.

Various reform efforts in the forestry sector are supporting the balance between sustainable commercial use and conservation. Liberia's Voluntary Partnership Agreement with the European Union (EU) seeks to ensure that only legal timber is exported to the EU. Norway is also supporting the conservation of 30% of Liberia's forest, enhancing capacity at the country's forestry development authority, and providing budget support to help it make progress with reforms. Meanwhile, the Liberia Extractive Industry Transparency Initiative published a beneficial ownership report in December 2015. The report had to contend with incomplete reporting, with several companies not reporting or not disclosing their beneficial ownership. These challenges are underscored by Liberia's 2016 ranking at 167th out of 180 countries in Yale University's Environmental Performance Index.

Political context

Presidential elections due in October 2017, and the transfer of power to a new administration in January 2018, will play a major role in determining Liberia's future development path. Some 22 political parties are fielding candidates. President Sirleaf is stepping down, and no clear frontrunner has emerged to replace her, as at March 2017. All 73 seats in the House of Representatives will also be contested.

The elections will take place following UNMIL's handover of security responsibilities to the Liberian government in July 2016. UNMIL has been progressively drawing down from a peak of 15 250 military personnel in 2006. Its mission has been extended until March 2018, which will support public confidence during the elections and transition. UNMIL's current 1 240 military personnel are being reduced to 434 and the police force is declining to 310 personnel.

Although the security situation has been stable, various latent tensions continue to increase the risk of unrest over the election year, and could test the capacity of national security institutions. Weak economic growth has held back incomes in a country in which they are already low. Moreover, political debate could destabilise a restive and largely unemployed youth population. Liberia continues to face challenges including land disputes related to concessions, the perception of widespread corruption with impunity, the misuse of public resources, and legacies of marginalisation and exclusion.

Social context and human development

Building human resources

Liberia's education system continues to face serious challenges. While access has expanded – primary net enrollment rates increased from 33% in 2008 to 49% in 2015 – education quality is still low, particularly outside Monrovia. A key constraint is that teachers are largely untrained. According to Ministry of Education figures from 2015, only 62% of primary school teachers have the requisite qualifications, a figure that fell to just 33% at the high school level. This has contributed to weak outcomes. Only 40% of students passed the West African Examinations Council Senior High School Certificate Exam in May 2016. Literacy rates are estimated at 67%, with male literacy far higher, at an estimated 81%, than for women, at 55%.

The education ministry is focusing on pay reform, improving teacher quality, strengthening accountability systems, and testing innovations. A pilot programme has contracted out 94 primary schools (under 2% of schools) to eight international NGOs, private companies, and Liberian organisations. A rigorous external evaluation will compare these schools' performance with government schools to determine next steps.



Funding for the education sector is low. Indeed, its 14% share of the 2016/17 national budget places Liberia in the bottom third of countries in sub-Saharan Africa. Low funding is exacerbated by inefficient allocation, with almost half of funding going to the tertiary and technical and vocational sector, despite it enrolling only 5% of students. In 2016, some 79% of students failed the University of Liberia entrance examination.

The Ebola outbreak highlighted the health system's structural vulnerabilities, including a shortage of qualified healthcare workers, a weak incentive system, inadequate infrastructure, and unpredictable donor-driven financing. The number of health professionals increased from 6.3 to 8.6 per 10 000 people from 2010 to 2015, and appeared to increase to 11.7 in 2016. The ratio for doctors (numbering 234) remains much lower, at under 0.6 per 10 000. Only 71% of the population lives within five kilometres of a health facility. At the county level, the population living within this radius ranges from 32% to 96%, underscoring significant geographical inequalities.

Although the proportion of births attended by health workers increased from 46% in 2007 to 61% in 2013, this fell back to 51% in 2015/16, partly due to a low utilisation of health services in the post-Ebola period. This may limit progress on the maternal mortality rate, which, at 1 072 deaths per 100 000 live births in 2013, is one of the highest in the world.

Treatment of malaria, which remains the leading cause of morbidity and mortality, declined slightly from 59% of febrile children under than five who were using anti-malarial drugs in 2007, to 56% in 2013. Measles vaccination rates vary widely among the counties.

Government expenditure on health has expanded significantly over the past decade, from 7% of the budget in 2005/6 to 12% in 2015/16. Donors continue to fund most of the expenditure in the sector, estimated at USD 299 million or 82% of sector funding in 2015/16, compared to USD 64 million, or 18%, from the government.

Poverty reduction, social protection and labour

More than half of Liberia's population is poor, with significant variation across the country. The 2014 household income and expenditure survey (HIES) estimated poverty at 54%. This is higher in rural areas (70%) than in urban areas (43%), with the lowest rate in the county of Montserrado (32%), which comprises Monrovia. The highest poverty rate (79%) was in the far southeastern region, which includes the counties of Grand Kru, River Gee, and Maryland. Although the estimates are not directly comparable, survey results from 2007 and 2010 suggest that poverty has been declining. In 2007 poverty was estimated at 64%, falling to 57% in 2010.

The HIES estimated the national food-poverty level at 45%. Food poverty was also higher in rural areas (53%) compared to urban areas (40%). Food poverty in rural areas, at 53%, is much lower than overall poverty in these areas, which stands at 70%. The levels are very similar in urban areas, where food poverty stands at 40% and overall poverty affects 43% of people. This is probably due to subsistence farmers in rural areas growing sufficient food for consumption, but having few income-generating activities.

Furthermore, the HIES survey estimated the rate of informal employment at 81%, and vulnerable employment at 74%. Vulnerable employment is higher in rural than urban areas, at 85% compared to 65%. There is also a disparity between the rates of vulnerable employment for females, for whom it reached 85%, and males, at 64%. Around 86% of females work in the informal sector as compared to just 34% of men. The 2014 HIES was suspended after six months due to the Ebola outbreak, and a full twelve-month HIES survey was carried out in 2016. When the results of this survey become available, they should facilitate a deeper poverty analysis over the full year.

Although a social-protection policy has been in place since 2013, limited funding has constrained its effective implementation. Liberia's Ministry for Gender, Children and Social Protection is laying the foundations for a comprehensive system of social protection. This

includes the development of a single information system to handle the social registry. As part of the EVD response, meanwhile, 18 development partners delivered cash transfers to a reported 166 000 households, and about 803 000 individuals, between November 2015 and December 2016.

Gender equality

Liberia has made progress on gender inequities since the civil war, but considerable gaps remain. Indeed, the country's ranking of 146 out of 155 countries in the Gender Inequality Index underscores this challenge. Educational disparities, moreover, have improved but remain high. According to the 2014 HIES, 81% of men are literate compared to just 55% of women, while 77% of men have received formal education versus only 49% of women.

Meanwhile, 86% of women, but only 34% of men, hold informal employment. The 2014 HIES also shows that around 25% of women earn under LRD 6 000 (about USD 60) per month, compared to 14% of men.

Sexual and gender-based violence continues to be prevalent, affecting women and girls' health. In October 2016, the UN reported that impunity remains high – fewer than 4% of the alleged perpetrators of 1 511 cases of rape registered in 2014 and 2015 were convicted.

In September 2016, the legislature passed a law establishing seven “special constituencies”, with five seats in the legislature reserved for women, one for youth, and one for disabled people. Currently, only 11% of lawmakers are women. A Domestic Violence Act passed the House of Representatives in July 2016, but only after removing provisions prohibiting female genital mutilation. It has now stalled in the Senate.

Thematic analysis: Entrepreneurship and industrialisation in Liberia

Liberia's economic growth has historically been driven by extractive industries with minimal linkage to the wider economy, a situation that has led to “growth without development”. To ensure inclusive development, and to achieve its goal of becoming a middle-income country by 2030, Liberia needs to diversify its economy and to improve value-added in line with its comparative advantages. Due to a heavy historical focus on exports that contain limited added value, the manufacturing sector has been limited for decades. In the 1970s, the manufacturing sector's estimated contribution to GDP ranged from 6% to 10%. This low level has essentially continued since 2006 and has ranged from 7% to 12%.

Liberia launched an industrial policy in 2012, with the aim of accelerating the development of a competitive industrial sector. The policy sets out to address a number of challenges to industrial development, including poor infrastructure, information and co-ordination, weak linkages between industry and other sectors of the economy, a lack of human capital, and high production costs. The strategy includes legal and regulatory reform, the development of infrastructure, and investment in human capital.

In 2015, in the wake of the Ebola outbreak and the decline in commodity prices, the government established both the Liberia Agricultural Transformation Agenda (LATA) and a manufacturing task force. The LATA aims to promote economic diversification by developing key value chains in the agriculture sector. It targets and co-ordinates government and donor interventions to support greater value addition, and to develop sustainable market-based systems as well as an export-driven industrial policy. It also seeks to prioritise infrastructure programmes to support agricultural processing and manufacturing. Moreover, it seeks to attract investment in non-extractive sectors. The manufacturing task force is working alongside LATA to help address bottlenecks to the development of manufacturing. In addition to working on improving Liberia's score in indicators measuring the business environment, the task force is working to lay the legal foundations for a Special Economic Zone and to develop the Monrovia Industrial Park.

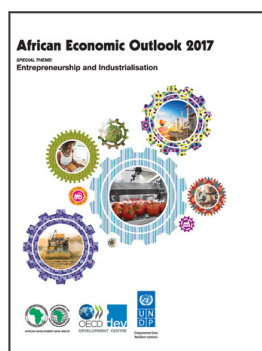


Informal enterprises dominate the entrepreneurial landscape in Liberia, with 81% of Liberians holding informal employment according to the 2014 HIES. Some 50% of households in urban areas run a non-farm business, which falls to 28% in rural areas. Of these businesses, 30% are managed by someone under the age of 30 and 63% are managed by someone under 40. Around 28% of businesses have been operating for two years or less, while only 27% have operated for longer than six years.

According to 2014 data from the Liberian Business Registry, 48% of registered businesses were classified as micro, 40% as small (4 to 20 employees), 8% as medium-sized, and only 4% as large. Some 67% of businesses are registered as sole proprietorships. Most firms operate in the service-related sectors, with little evidence of widespread manufacturing capacity. More than half of businesses, meanwhile, are in the sectors of construction services and food and beverages. Moreover, over 70% of these firms' expenditure was reported as paying for imported goods and services.

Given the small size and limited entrepreneurial history of most of Liberia's companies, the country's private sector faces inherent weaknesses. These include weak management capabilities, fragmented markets, limited diversification, insufficient capitalisation, limited access to capital and credit, a lack of vertical integration, insufficient long-term planning, and the limited skills of the workforce. Enterprises operate amid high production costs, a weak legal and regulatory environment, inadequate business and financial services, and low productivity levels. The 2017 Global Enterprise Index, which ranks Liberia 121st out of 137 countries, underscores the weakness of the country's entrepreneurship ecosystem.

Numerous strategies have been developed to create an enabling environment for the micro, small and medium-sized enterprises (MSMEs), and to boost the growth of entrepreneurship in general. These include a local-content policy for public procurement, a dedicated MSME policy, and a national export strategy, which inspired the LATA. In 2014, the government established the Small Business Administration (SBA), which works to ensure that 25% of public-procurement contracts are allocated to Liberian-owned MSMEs, and with at least 5% allocated to female-owned firms. The SBA also seeks to build the capacity of Liberian-owned MSMEs, and to ensure that they have adequate access to credit, resources, and markets. It convenes annual conferences on MSMEs, as well as trade and investment forums. Furthermore, the SBA has established the Liberia Innovation Fund for Entrepreneurs, which helps firms gain access to finance. Moreover, progress is underway to set up an advisory centre for business development. The LATA process is also helping to develop an agro-dealer network. It is also helping to establish de-risking facilities to facilitate access to finance for small and medium sized enterprises in the agribusiness sector. Various other entrepreneurship programmes have been established, including the E-Plus programme, supported by the SBA and the Business Startup Centre.



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