A RAPID IMPACT ASSESSMENT

OF THE GLOBAL ECONOMIC CRISIS ON LIBERIA

Prepared for the Republic of Liberia
with technical assistance from Professor James Heintz and
the International Labour Organization

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Preface

The primary goal of the International Labour Organisation (ILO) is to contribute, with member States, to achieve full and productive employment and decent work for all, including for women and young people, a goal embedded in the ILO 2008 *Declaration on Social Justice for a Fair Globalization,* and more recently re-iterated in the *Recovery from the Crisis: A Global Jobs Pact* negotiated during the International Labour Conference in June 2009. The commitment to this goal has been widely adopted by the international community.

This goal is more challenging today than ever given the impact on jobs and working conditions of the global economic and financial crisis. The magnitude and nature of the impact of the crisis, and the transmission channels through which it affects workers and households varies widely between countries. ILO is committed to supporting countries such as Liberia and its social partners to assess the crisis impact, and to determine options for policy responses. Indeed this is a central objective of the Global Jobs Pact, and this report is a reflection of this commitment.

Liberia is the first African country to undertake a full assessment of the impact of the crisis on employment with ILO support. The recently published Guide[1] provided the basic methodology for determining the approach, and we wish to extend our appreciation to the many national stakeholders and development partners who took part in the process. Liberia is facing an important cross-road in its development strategy given the impact of the crisis on both employment and incomes, and on public and private revenues. Strategic choices will need to be made in light of the increasingly constrained resource envelop for development. Alignment of the activities of the many development partners with these choices in order to ensure maximum impact under these difficult circumstances should be actively encouraged. Inclusive job-rich growth needs to be squarely and firmly in the focus, and strong support by the international community towards reaching HIPC completion point is a necessary prerequisite for getting on a sound development path. Liberia's support from the international community and its credibility remains unabated, and it is ILO's intention for this report to illustrate our continuing commitment to being an active development partner.

Jose Manuel Salazar-Xirinachs
Executive Director
Employment Sector
ILO Geneva

[1] *"Country Level Rapid Impact Assessment of the Crisis on Employment : A Guide (test version)"*, 2009, Employment Sector, ILO

Acknowledgements

This report represents the culmination of many peoples' efforts, and is the first rapid impact assessment of the crisis in Africa led by the International Labour Organisation. It has drawn heavily from the methodology provided in the test version of *The Guide to Rapid Impact Assessment of the Crisis on Employment* (2009). Professor James Heintz provided the insightful overall analysis contained here.

The process was coordinated at ILO headquarters by Alana Albee, and in Monrovia by Peter Hall with facilitation by Sina Chuma-Mkandawire and her staff in ILO Abuja. Technical fieldwork was tightly sequenced and included vital information gathering, analysis and reviews done by Erik von Uexkull (ILO, trade), Yves Perardel (ILO, TRENDs) and Dain Bolwell (ILO, Dialogue). Jon Beaulieu (ILO, TRENDs) with Liberian researchers Samuel Thompson and Annie Demen led an innovative enquiry process with workers' and employers'.

Special thanks are given to the Government of Liberia, and specifically the Ministry of Labour and the full National Tripartite Council. Special recognition is given to the Liberia Chamber of Commerce and the Heads of the Liberian Labour Congress whose leadership, and networks with the many workers' and employers' made the process a success despite time constraints. In addition special mention is given to the Minister of Finance and his team, the Ministry of Commerce, Trade and Industry, and the Ministry of Planning and Economic Affairs. Contributions by a number of development partners in Monrovia were also very helpful, including from the World Bank, the International Monetary Fund, and UNDP
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Executive Summary and Recommendations

The global economic crisis has occurred at a critical junction for Liberia. The country has started down the path of development after years of civil war, conflict and instability left the country's 3.5 million people extremely vulnerable and the nation's economy devastated. The downturn adds to the formidable challenge of reconstruction, peace-building, poverty reduction, and expanding the opportunities for decent work. Given the potentially far-reaching consequences of the crisis on Liberia's national development strategy (LPRS) at this time, there is an immediate need to assess the impact of the crisis and formulate effective responses.

The ILO, in collaboration with other development partners, was requested by the Government of Liberia to undertake a rapid assessment of the global economic crisis and its employment impact. This report documents the effects on employers and workers and considers the implications for the realisation of the objectives of the Liberia Poverty Reduction Strategy (LPRS). The assessment pulls together the findings from worker and employer interviews; consultations with policymakers, social partners, development partners, and other stakeholders; and analysis of existing quantitative data. Information was collected over a two month period, primarily during June and July, 2009.

The assessment found that the global economic crisis already has had serious implications for the realisation of the goals of the LPRS. The crisis has adversely impacted public revenues, which constrain the ability of government to deliver on components of the LPRS. The growth path has come under pressure due to the collapse of demand in global markets for Liberian products, creating sizeable challenges for restoring production and trade of natural resource products. This is affecting the on-going negotiations of concession agreements. The crisis has negatively affected employment, with important implications for poverty reduction and social stability. In light of the crisis, there is a need to revisit and more strictly prioritise areas of delivery within the LPRS in order to make the most of limited available resources.

The policy space for launching a comprehensive response to the crisis is severely circumscribed in Liberia. Liberia runs a cash-based budget in which total expenditures must not exceed the sum of current revenues and any accumulated cash reserves. Therefore, there is no scope for a traditional expansionary fiscal policy. Instead, any shortfalls in expected revenue collection due to the crisis must be met with either cuts to spending or delays in disbursements. The high degree of dollarisation, the lack of a domestic capital market, and excess liquidity holdings among commercial banks limit the effectiveness of monetary policy. The critical importance of public investment in Liberia's reconstruction is widely recognised, both basic economic infrastructure and critical areas of social infrastructure, such as the construction of schools and clinics. With the global crisis, delivery of essential infrastructure will continue to depend on donor resources and official development assistance.

The global crisis has impacted the economy through **four channels**: the negative effect on government revenues, the decline in exports and commodity prices, a less favourable climate for foreign investment and negotiation of concession agreements, and a reduction in the inflow of remittances. The long-run effect of the crisis remains uncertain, and depends on the length and depth of the global downturn. At this time, donor commitments to Liberia appear to have been largely unaffected by the global crisis. Nevertheless, maintaining the country's credibility among the donor community in order to continue to mobilise external financing for LPRS delivery will depend on continued progress towards the HIPC completion point over the next year, requiring formal adoption of the Public Financial Management (PFM) reforms.

Impact of the crisis on employment, households, and strategic sectors

The crisis is already having a substantial effect on employment in Liberia. The findings of the assessment suggest that the impact will be felt most strongly by the hundreds of thousands of individuals self-employed in **smallholder agricultural** production and those working in **informal** employment. In the rubber sector alone, the crisis will directly impact the livelihoods of up to 60,000 smallholder producers and thousands of contract workers. Among large enterprises, analysis of government records shows that the decline in employment has been particularly noticeable in the rubber and iron ore sectors. The consequences for the well-being of the population of this loss of employment income will be more far-reaching, since many dependents rely on the earnings from each individual in the labour force.

On average, **businesses** interviewed have reported about a 20 percent decrease in turnover from the previous year. For small scale enterprises and informal workers, many of which operate in the service sector catering to domestic markets, the fall in demand will decrease earnings and productivity. This decline in the domestic market will directly affect many own-account and contributing family workers in terms of their contributions to household incomes and family well-being.

Such pressures can further frustrate the already challenging goal to improve **educational attainment** since they may exacerbate low school attendance, as children and youths are required to assist in the household or support income generating activities. At the macro level, reduced government revenues may have a knock-on effect in terms of resources available to the educational system.

The negative employment effects should be seen within the context of Liberia's vulnerable **labour force**. Half of the country's population is under 20 years of age. If access to decent work opportunities does not improve for young people now and in the future, the potential for social and economic instability will increase. In addition, most employed Liberians work in vulnerable forms of employment with high risks of poverty and no social protections. Informal non-agricultural employment and employment in agriculture account for 84 percent of total employment. Individuals in these types of employment have low earnings and face high economic risks. The years of conflicts have had a dramatic impact on the country's human resources – through lost opportunities for education and training. Two-thirds of employed Liberians, and over 80 percent of employed women, have at most a primary education. The global crisis heightens these vulnerabilities and inequities, as the formal labour market has not been able to generate sufficient employment to absorb a growing workforce.

The assessment investigated the impact of the crisis on **six strategic sectors**: rubber, rice, palm oil, iron ore, timber and gold. **Rubber** is currently Liberia's most important export commodity, accounting for 80 percent of total exports in 2008. A significant decline in the price of rubber has negatively affected workers, employers, and smallholder producers. The crisis comes at a crucial time because the government is re-negotiating concession agreements with two major plantations. In addition, significant investments in replanting have to be made now, including by smallholders, to secure the sector's future. Programmes to support investments are critical for preventing the downturn from undermining the economic viability of the sector in the future. Provisions in concession agreements which provide support to out-growers for replanting should be protected. The Ministry of Agriculture has worked together with donors to help rubber smallholders diversify into cocoa. With financial and technical support, such programmes could be expanded in response to the crisis.

Rice is Liberia's most important food crop and has tremendous importance for food security and political stability. Revitalizing rice production among smallholders holds enormous potential for generating employment and would reduce pressures on the national budget from government support of rice imports. A rough calculation based on prevailing productivity levels suggests that if Liberia were to reach self-sufficiency in rice, this would generate the equivalent of up to 470,000 additional jobs, although this added employment would be dominated by own-account and contributing family workers. Improving the quality of employment in the sector over time will require sustained productivity improvements. The global crisis appears to have put an end to the rapid increase in rice prices that was reducing living standards, but could dampen domestic production in a sector that plays a central role in securing jobs, food security and household welfare. The impact of the crisis on economic vulnerability underscores the need to revitalise rice production among smallholders, an initiative which would require addressing land tenure issues; lack of transportation, storage, and milling infrastructure; access to inputs; and limited technical know-how.

Palm oil and iron ore are two sectors which have large export potential, even though the current level of exports is small. Palm oil has the potential to create a significant number of jobs through new concession agreements and Liberia is in a strong competitive position to meet domestic and regional demand in West Africa. Production of iron ore has ceased in Liberia, but is expected to recommence in the near future under two new concession agreements. Iron mining is capital-intensive and generates fewer jobs than other sectors, but activities associated with iron mining have already created employment. A major concern is that the global crisis will cause delays in foreign investment, production, and anticipated job creation associated with new concession agreements in iron ore and palm oil. The crisis has already had negative impacts on the iron sector, leading to work force reductions and the suspension of road and railway rehabilitation investments.

Timber exports have not yet recovered and the employment potential of the sector has not been realised. The prospects for timber remain uncertain in the near future. New concessions have been awarded, but many of these were not viable. Although the problems of the timber sector could have been aggravated by the current crisis, the main problem is a failure to attract foreign investors that could revitalise production in the sector.

Gold mining in Liberia remains on a small scale artisanal basis and it is unlikely that the sector will experience significant development in the near future. Despite favourable world market conditions, the crisis has affected the prospects for large-scale commercial gold mining through the tightening of international credit availability for exploration and mineral extraction.

Policy responses and strategic areas of intervention

The impact of the crisis on Liberia’s development objectives, as outlined in the LPRS, is significant. Given the limited policy space at Liberia’s disposal and the on-going reliance on donor support, there is a critical need to prioritise movement towards the **HIPC completion point**. A prerequisite for the completion point is the passage of the public finance management (PFM) reforms. **A well-functioning PFM system** is also necessary for coordinated donor support in the future, preferably in the form of increased budget support, which would improve the impact, the scale, and the pace of development. Reaching the completion point would relax Liberia’s fiscal resource constraint by providing some additional relief in terms of debt servicing payments and opening up the possibility for concessional borrowing.

In addressing the negative consequences of the global crisis, infrastructure investment through **expanded public works programmes** represents a strategy with both short-run and long-run benefits. The direct loss of jobs could be addressed through emergency employment policies which would provide employment opportunities to those adversely affected by the crisis, particularly if labour-intensive infrastructure projects are adopted. Such programmes would leave behind public assets which provide benefits communities and the private sector. With sufficient donor and technical support, programmes could be scaled up to create jobs for workers displace by the global crisis.

However, short-term emergency employment programmes do not constitute a comprehensive response to the lack of decent work opportunities in Liberia. A national policy framework for creating employment and supporting livelihoods is essential if Liberia is to lay the foundations for equitable and inclusive growth. Ensuring that the **National Employment Policy** is a comprehensive and visionary document with broad ownership is necessary at this time. The priorities identified in the Employment Policy should also be reflected in the LPRS. Strong institutions are needed to implement a national employment strategy. The creation of the National Bureau of Employment represents an important step in this direction. With appropriate financial, technical, and political support, the National Bureau of Employment can coordinate efforts to improve employment opportunities across Ministries and to implement active labour market policies to facilitate equitable access to employment.

Informal employment is one of the largest categories of employment in Liberia. An integrated strategy is needed to improve the earnings, productivity and working conditions of those employed in informal activities. This would involve the ‘formalisation’ of informal employment, in the sense that strategies to support these workers and their livelihood strategies would be developed, and, in turn, those in informal employment would be expected to contribute to government tax revenues at an equitable rate. Such strategies require an integrated approach involving training, finance, technical support to enterprises, targeted public investments, improved labour force information, and regulatory changes to support the growth of SMEs. Coordination across various Ministries (e.g. Commerce, Labour, Finance, Agriculture, Gender, Youth, and Planning) would be needed to create an integrated for improving the quality of informal employment.

The period covered by the **concession agreements** exceeds the expected duration of the global crisis. Any deterioration in Liberia’s bargaining position is likely to be temporary. Therefore, it is important to ensure that short-term responses to the crisis do not have long-run negative consequences for Liberia’s development trajectory. The planned National Investment Law will be useful to give the government a stronger stance against pressure for ad hoc benefits to companies. If unavoidable, explicitly linking temporary benefits (e.g. reduced royalty payments) to global commodity prices represents one strategy for making sure that the any crisis-related benefits are temporary. Leniency can be granted to concession holders while global markets are depressed, but then removed once they have recovered. During boom periods, government's share of the natural resource rents would rise.

The potential for increased industrial disputes and conflicts linked, at least in part, to the crisis is significant. Such conflicts can be costly in economic, social, and human terms, and processes of **social dialogue** can reduce these costs. In anticipation of these growing tensions, government, along with the social partners, should be prepared to set up, as well as to strengthen existing, social dialogue bodies where they are needed and to make effective mediation services available.

Given domestic resource constraints, it is important to identify resources which are under-utilised. Liberia's relatively healthy financial sector represents one potential source of such resources. The domestic banking sector has the capacity to extend additional credit which could support productive investments. Already, several domestic banks have created microfinance programmes. These could be expanded within a coherent framework for financial sector reform, with government support. Informal and small-scale enterprises face multiple constraints, and providing credit without addressing these other needs will have a limited impact. There is a need for a coordinated approach which pulls together small loans, capacity building, and market facilitation. Not all enterprises will be prepared to take advantage of micro- and small-scale loan programmes. However, for those who are ready, such initiatives could help address the negative impacts of the crisis on small-scale enterprises, the vulnerable self-employed, and smallholder agricultural producers.

Although Liberia may appear to have little policy space to respond to the challenges raised by the global crisis, there are a number of strategies which could be pursued, and these should be considered for prioritisation within the LPRS framework. They should build on recent initiatives and points of strength, and should focus policy efforts on improving employment opportunities as the single best strategy for reducing poverty, raising living standards, and maintaining social stability. The Poverty Reduction Strategy and the National Employment Policy provide two complementary blueprints for moving forward. The challenge of inclusive growth and equitable development is very much a challenge of creating decent work for all. It will take years to get there, but developing an appropriate employment-centred response to the current crisis represents a concrete step towards this ultimate goal.

Priority Strategic Actions and Recommendations

In the course of the rapid assessment of the global crisis, a number of concrete responses emerged, many building on programmes, processes, and policies already underway. These represent priority strategic actions to be taken forward by stakeholders, but requiring leadership by the Government of Liberia[2] These include:

- **Public Revenue**: Given the uncertainty surrounding government revenues, the Ministry of Finance has adopted a risk management strategy for fiscal year 2009/10 in which cash disbursements to line ministries are subject to review, depending on the evolving revenue situation. Any efforts to re-prioritize spending over the next year should ideally take into account the critical areas of LPRS delivery that will be adversely affected by the crisis as detailed in this report, with particular attention to public investments in infrastructure and education.

- **HIPC**: Rapid progress towards the HIPC completion point is already a government priority. The global crisis only increases the importance of this objective. Substantial progress has already been made and the new PMF legislation is expected to be adopted later in 2009. Nevertheless, it is important to maintain clear benchmarks for pushing forward on adopting, and implementing, this crucial piece of legislation.

- **National Employment Policy**: Many of the specific details of the policy areas raised in the report have been, and could be further, incorporated into the draft National Employment Policy (NEP). Given the centrality of employment in Liberia's development strategy, it is important to move forward in finalizing and adopting the NEP. In so doing, the draft NEP should be reviewed in light of the findings of this assessment.

- **Emergency Employment**: Numerous emergency employment programmes are currently operating, or have been administered in the past. In the context of building a National Bureau of Employment, an audit needs to be performed immediately on (1) the current state of emergency employment programmes and (2) the new needs due to the crisis. Given this information, a coordinated and coherent approach to these programmes can be developed, with technical assistance provided as needed. In this process, priority should be given to infrastructure investments, extending the focus beyond road building, to include the need to rebuild social services (e.g. school construction).

- **Labour Force Survey** (LFS): This should remain a top priority. The lack of detailed labour force information that adequately captures the entire population heightens the difficulties in developing meaningful employment policies. The information provided by the LFS would help accelerate the development of a strategy for informal employment.

[2] For the ILO, these recommendations should inform the Decent Work country programming. The findings of this assessment also suggest that it is important for the ILO to move beyond a small project-based approach, and extend its programming effort to include technical assistance and analysis for the formulation of policy responses and national employment strategies.

The LFS has the potential to generate an unprecedented set of high quality information for Liberia, and therefore it is essential to ensure that adequate oversight is provided throughout the survey and data collection process.

- **Rice production**: The Ministry of Agriculture has suggested that a small number of pilot projects could be launched which revitalize smallholder rice production in targeted communities through an integrated approach. These programmes would provide core infrastructure (roads, milling facilities, storage); resolution of land tenure issues; and technical assistance (e.g. extension services). Such pilot programmes could then be fine-tuned and scaled up for a broader impact.

- **Financial sector**: The challenge for the financial sector in Liberia is one of creating the right set of institutions to more fully mobilize the resources which are already available. As a concrete first step, a task force on mobilizing development finance in Liberia could be convened: including the Ministry of Commerce, the Ministry of Finance, the Ministry of Labour, the Ministry of Agriculture, the Central Bank of Liberia, the National Investment Commission, and the managing directors of the commercial banks. The task force would be assigned to identify concrete initiatives and reforms that remove the constraints to extending credit for productive investment and to support SMEs.

- **Concession Agreements**: In ongoing and future concession negotiations, it is crucial to ensure that short-term concerns with regard to the crisis do not have long-run negative consequences in terms of unfavourable agreements that could affect Liberia's development trajectory for decades to come. While negotiations should move ahead quickly where possible, the government should resist pressure for unjustified ad hoc crisis related benefits and maintain a long term perspective in the negotiations.

- **Tree crop investment**: The need for support to tree crop investment has two components: providing resources for replanting of existing crops and diversification (e.g. the expansion of cocoa). Programmes and policies exist already to support re-planting and diversification. These need to be protected and scaled up in response to the crisis. Provisions in concession agreements that provide assistance for smallholder investments need to be maintained.

- **Donor support**: Given limits to the domestic resources available, many of these recommendations depend on an effective strategy for sustaining and mobilizing donor aid. The government has successfully managed to maintain donor support in light of the crisis. Such efforts must be sustained and the government should be poised to take advantage of new opportunities when they arise. Ideally, donors should be persuaded to provide an increasing amount of direct budget support to build capacity within Liberia and to ensure that the advancements made are sustainable.

1. Introduction

The global economic crisis has made Liberia's formidable task of reconstruction, peace-building, and development more challenging and has compromised the goal of expanding decent employment opportunities and reducing poverty for the country's 3.5 million people. Employment is central to the process of post-conflict recovery, for addressing poverty, creating a foundation for equitable growth, and re-integrating Liberia's population into the productive life of the nation. For this reason, assessing the impact of the global crisis on employment and livelihoods in Liberia is essential in order to understand the effect on the country's reconstruction efforts and development strategies, as reflected in the Liberia Poverty Reduction Strategy (LPRS), *Lift Liberia*, adopted in 2008.

The ILO, in collaboration with other development partners has been requested by the Government of Liberia to undertake a rapid assessment of the global economic crisis and its impact on employment in Liberia.[3] The assessment documents the effects on employers and workers and considers these impacts in terms of their implications for the realisation of the objectives of the poverty reduction strategy and within the overall economic context. This report is a compilation of the major findings of the components of the assessment related to growth, trade, the macroeconomy, investment, strategic sectors, and employment. In addition, the report analyses the scope for policy interventions and suggests a number of strategic responses.

The assessment found that the global economic crisis already has had serious impacts on employment, government resources, foreign investment, and the overall development trajectory. The crisis has adversely impacted public revenues, which constrain the ability of government to deliver on components of the LPRS. The expected growth path has come under pressure due to the collapse of global demand, creating sizeable barriers to revitalizing the economy, including increasing exports of natural resource based products. This is affecting the on-going negotiations and implementation of concession agreements. The crisis is having a substantial negative effect on employment and the impact will be felt most strongly by the hundreds of thousands of individuals self-employed in smallholder agriculture and those working in informal employment.

[3] This overall assessment was intended as a background document prepared for key stakeholders as part of the national *Symposium on the Impact of the Global Financial Crisis on the Liberian Economy* held in Monrovia in August 2009.

The crisis has not only affected existing employment and production, but has altered expectations of future job creation, economic growth, and possibilities for development. Given these changes, there is a need to revisit and more strictly prioritise areas of delivery within the LPRS. In addition to documenting the impact of the global crisis on Liberia, this report also presents a number of recommendations for policy responses, based on the detailed findings and analysis of the rapid impact assessment.

Structure of the report

The next sections of the report provide a brief overview of the economic and employment situation in Liberia prior to the crisis. This general background information is important for providing a context for the rapid impact assessment. In addition, the content of the Liberia Poverty Reduction Strategy and the draft National Employment Policy are summarised, since these policy documents provide a framework for a number of the issues which are addressed in the analysis.

The report then turns to the impact of the crisis, beginning with an examination of the various channels through which the global crisis is affecting the Liberia economy. The crisis is often identified as a 'financial crisis.' However, in the case of Liberia, the financial sector is not the primary channel of transmission. Instead, the effects on government revenues, trade, commodity prices, foreign investment, and remittances are much more important. The report then documents the impact on employment specifically. There is clear evidence that the crisis has negatively affected employment opportunities in Liberia. These effects are detailed for a number of strategic sectors: rubber, rice, palm oil, iron ore, timber, and gold.

In the final sections of the report, possible policy responses are explored. The space for using traditional macroeconomic policies to counter the crisis is extremely circumscribed in Liberia. Nevertheless, some possibilities exist for making the most of what resources are available – e.g. working with the banking sector to mobilise additional credit. The report also examines labour market institutions, emergency employment policies, and the need for social dialogue in the context of the crisis. The report concludes with a summary of the suggestions from the rapid assessment in terms of short-term responses and longer-term strategic priorities.

2. Methodology

The ILO has developed a *guide for Country Level Rapid Impact Assessment of the Crisis on Employment*[4] that provides a guiding framework for analyzing the impacts of economic crises. The framework considers the effects of the crisis at the macro level, in key sectors, on employment and the labour market, and, perhaps most importantly, on households and the well-being of the population. This framework was adapted and used for the rapid assessment in Liberia.

If the rapid assessment is to uncover timely information, it cannot wait for official statistics and secondary data to become available. This challenge is more profound in a country like Liberia, with extremely limited employment and labour force information. Therefore, the rapid assessment relied on worker and employer interviews; consultations with policymakers, key informants, and other stakeholders; and descriptive analysis of existing quantitative data. Because of the lack of detailed economic and labour force information, economic modeling exercises were not used. Information on the impact of the crisis was collected through a series of missions to Liberia over roughly 2 months (with much of the research concentrated in June and July, 2009). The assessment team gathered information in stages, with a subset of the team working in-country at any one time throughout this period. Two national consultants also assisted with the assessment.

Worker and employer interviews and focus group discussions

Prior to undertaking interviews, the ILO sought collaboration with the National Tripartite Council (NTC) to identify a list of key enterprises to interview. The NTC originally proposed two to three companies in eleven sectors (rubber, oil palm, timber, roads, mining, energy, petroleum, communications, finance, business and rice). However, due to time constraints of conducting the interviews within a three week period and other issues, interviews were held with roughly two employers in each of the nine sectors, leaving out petroleum and communications. Focus group discussions were also held with workers in these nine sectors, in addition to seafarers and port workers.

Employers

A select group of companies in a variety of sectors were chosen through a consultative process with the Liberian National Tripartite Commission. The

4 ILO Employment Sector, 2009.

discussions with private sector companies focused on the impact of the economic crisis on the companies and their sector, their reaction and mitigation strategies (with a focus on employment) and their expectations for the future. One-on-one discussions with plant managers, human resources managers and/or other responsible and knowledgeable persons focused on these issues. The idea was to hear the 'story' of the crisis as they perceived it and how it is impacting on their operations. In addition, we asked companies to prepare, in advance of our visit, relevant data and information.

Overall 19 key informant discussions were held, often with multiple informants, representing major enterprises operating in Liberia. A few companies were not cooperative when asked for meetings and limited support was provided by employers' associations to gain access. The questionnaire is included in the appendix – the major issues discussed are as follows:

- Company information: name, location, domestic and international sales, employment structure, and contact details for follow-up questions.
- Impact of crisis: magnitude of the impact of the crisis, channels through which the crisis affects the company (overseas demand, prices, inflow of investment, access to finance, etc.), situation of the company compared to competitors and within its parent company if applicable, specific factors that make the impact of the crisis more or less severe in Liberia, and expectations of the situation in the coming months.
- Trends in key variables: changes in sales and orders, employment, selling price, investment, expenditure on training, profit, exports, and capacity utilisation.
- Mitigation strategies: Measures that the company has already adopted or is planning to deal with the crisis, including cost-cutting, postponing of investment, lay-offs and hiring freezes, etc. Assistance required/requested/received from the government.

Workers

Meetings with more than 110 employed and unemployed workers in a variety of sectors were held separately from employers and facilitated in most instances by the trade unions. Ideally, an attempt was made to interview the workers of companies where management was also interviewed. However, due to a variety of circumstances this was not possible in all instances. Discussions were held through focus groups and by key informants. Individual interviews were done in select cases to deepen the understanding of the impact at the household or worker level. The meetings examined how the crisis was impacting workers, their work and their households, and the coping mechanisms adopted. Guiding questions for focus group discussions are in the appendix.

Consultations with Policymakers, Key Informants, and Other Stakeholders

Meetings were also held with relevant government bodies including the Ministries of Labour, Commerce, Agriculture, Finance, and Land, Mines and Energy (MLME), the National Investment Commission, the Bureau of Concessions, the Central Bank, and the Forestry Development Authority. A list of organisations, ministries, and agencies that were interviewed is included in the appendix.

Analysis of existing quantitative data

When possible, quantitative data was used to document general economic trends, the structure of employment, and changes in the economic situation during the crisis period. Such data is limited in Liberia, prohibiting more complex analysis. Therefore, when quantitative data is used in the assessment, we restrict ourselves to a simple descriptive presentation of the information. Survey information on current employment trends is not available. Therefore, the assessment focused on the impact of the crisis on employment in larger enterprises based on a detailed review of recent government records in which information on employment is available. We discuss the findings of the analysis of government records later in the report.

3. A brief overview of Liberia's economy before the crisis

When the global economic crisis first unfolded in the second half of 2008, Liberia was in the process of recovering from decades of political instability and civil war – conflicts which destroyed infrastructure, lead to the widespread collapse of social institutions, and had a devastating impact on the country's economy. The conflicts also had a dramatic impact on the country's human resources – through lost opportunities for education and training among a sizeable portion of the population. Many of the causes of these past conflicts remain unresolved: disputes over land distribution and tenure, food security – particularly in terms of the availability and affordability of rice, and control over the country's natural resource wealth. The conflict ended in 2003 and, in 2006, a new government was democratically elected. The task of post-conflict reconstruction remains formidable and the global crisis adds to this challenge.

The economic impact of the years of conflict is evident. Table 1 summarises average growth rates from 1970 to the present. The period 1980-2003 includes the years of political instability (beginning with the coup in 1980) and civil war (ending in 2003). During this period, the Liberian economy shrank dramatically – often characterised as the most dramatic economic collapse of any country in the post World War II period. Since the end of the conflict, GDP growth rates have picked up significantly – reaching 7 to 9 percent following the 2006 elections. However, growth is expected to slow down to under 5 percent as a result of the global crisis.[5]

Table 1. Annualized growth rate of GDP, Liberia 1970-2008.

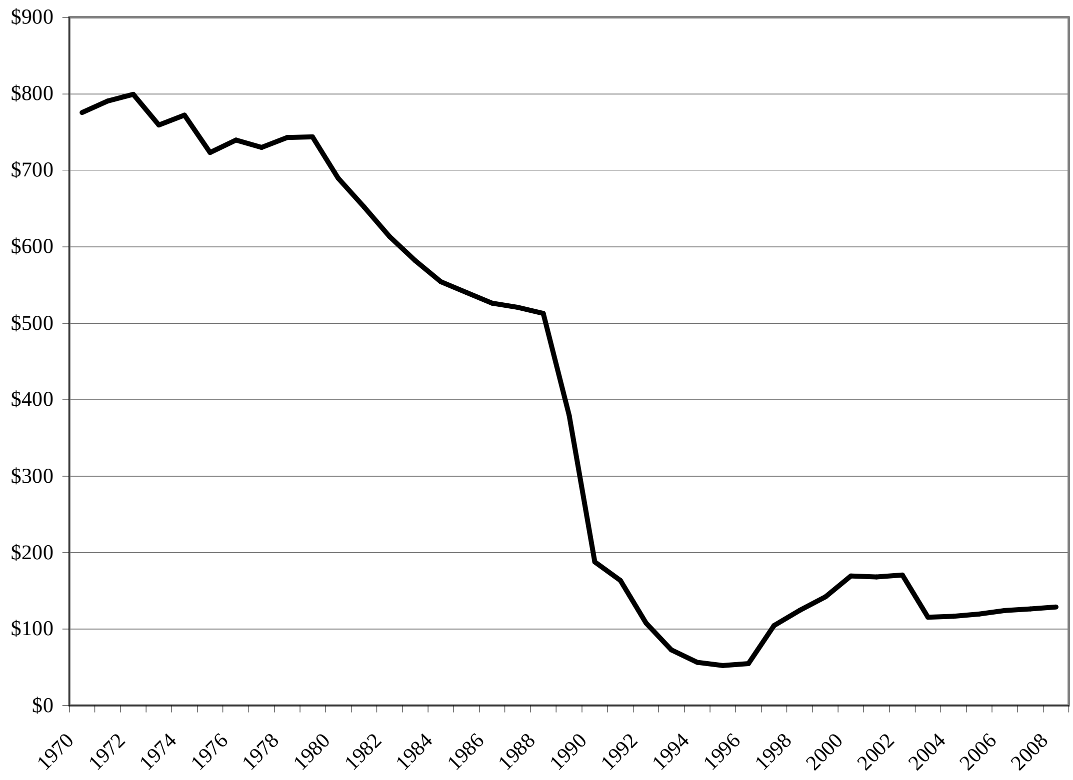
1970-79	2.5%
1980-2003	-5.2%
2004	2.6%
2005	5.3%
2006	7.8%
2007	9.5%
2008	7.1%

Source: World Development Indicators 2008 and IMF (2009).

[5] IMF (2009). Liberia: Second Review under the Three-year Arrangement Under the Poverty Reduction and Growth Facility.

The economic collapse is particularly pronounced in the trends in average per capita GDP (Figure 1). At the end of the conflict, in 2003, real per capita GDP was about a fifth of its average level in the 1970s. Per capita income began to recover in 1997, with the adoption of the Abuja Accord. However, the resumption of fighting in 1999 created a further setback to the economy. Since 2003, per capita income has stabilised, but it remains far below the historic high levels of the 1970s.

Figure 1. Per capita GDP ($1992), Liberia 1970-2008.



Source: World Development Indicators 2008 and IMF (2009).

Table 2 below shows the distribution of projected GDP by economic sector in 2008. Agricultural activities currently account for the largest share of Liberia's GDP – about 42 percent. Production of rice, rubber, and cassava are the most significant activities within agriculture. Outside of agriculture, the service sector contributes the most to economic production as captured by the national accounts. Manufacturing is relatively small, accounting for about 12 percent of GDP. Mining production is quite limited, although new investment in existing iron mines will alter this situation in the future.

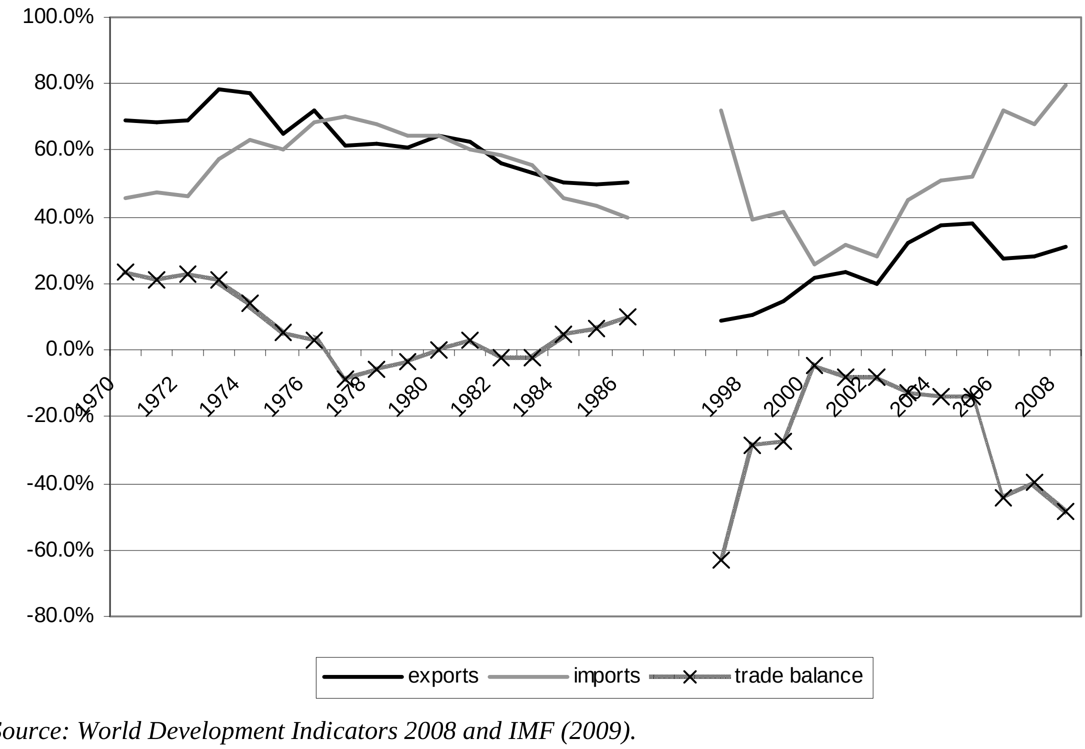
Table 2. Projected GDP by Sector of Activity, 2008.

	$1992 US (millions)	Percent
Agriculture and fisheries	$213.8	42.2%
Forestry	$97.5	19.2%
Mining	$0.8	0.2%
Manufacturing	$64.3	12.7%
Services	$130.7	25.8%

Source: Central Bank of Liberia Annual Report, 2008.
Note: Charcoal accounts for 81% of total forestry output in the above figures.

Exports of natural resource based products have been the cornerstone of the Liberian economy. Figure 2 below shows historic trends in exports, imports, and the trade balance from the 1970s to the present. Reliable data for much of the civil war period is not available. In the 1970s, Liberia had strong export performance. Imports were roughly in line with exports and the country often had a positive trade balance. The civil war led to the collapse of the main export sectors. Since the end of the conflict, the export sector showed clear indications of recovery. However, imports have also risen and the trade balance has been negative. The growth of imports has outstripped the growth of exports, particularly in recent years with the rapid increase in food and energy prices.

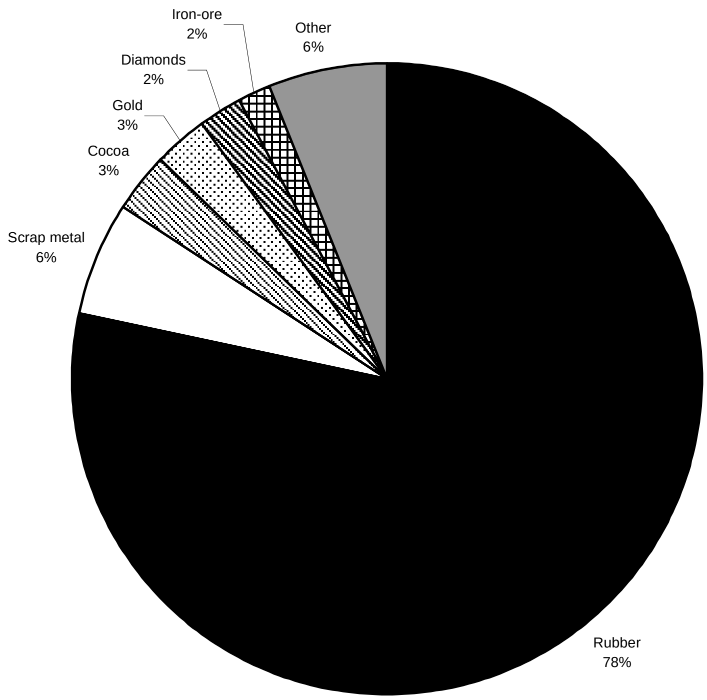
Figure 2. Exports, imports, & net trade balance as a percent of GDP, Liberia 1970-2008.



Source: World Development Indicators 2008 and IMF (2009).

Figure 3 shows the current composition of exports, based on 2008 mirror data (that is, imports of goods and services from Liberia as reported by trading partners) from the the UN's Comtrade database. The single most important commodity is rubber, accounting for 78 percent of the total value of exports. Other exports – of gold, diamonds, cocoa, and iron ore – account for a much less significant portion of the total value of exports. Statistics on current exports in Liberia do not capture the export potential of the country in other commodities, such as palm oil and timber. Exports of iron ore, for example, are not related to current production, but rather to existing inventories. We return to these issues in the sectoral analysis later in the report.

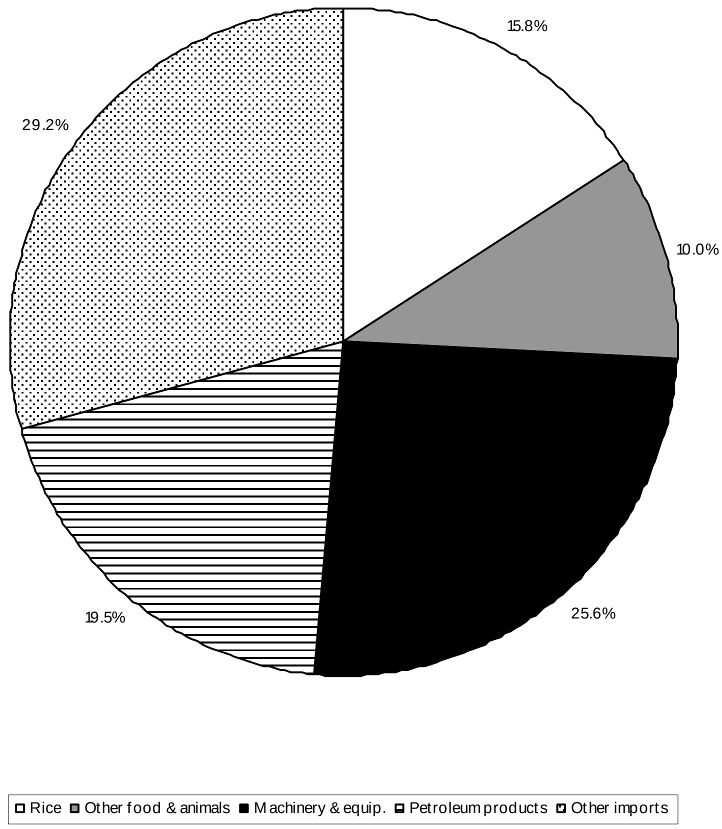
Figure 3. Composition of exports (value), Liberia 2008.



Source: UN Comtrade database.

Figure 4 presents the composition of imports into Liberia, again based on 2008 data from the Ministry of Commerce as reported by the Central Bank of Liberia. Liberia currently depends on imports for energy and capital goods. Rice and other foodstuffs account for about a quarter of the value of total imports. This represents an increase in the quantity of imported food, but also the effect of higher global rice prices in 2008. The growth in rice imports raises important concerns. On the one hand, rice is the staple commodity and consumers depend on imported rice to supplement domestic production. On the other hand, rapid increases in imported rice may undermine efforts to revive domestic production.

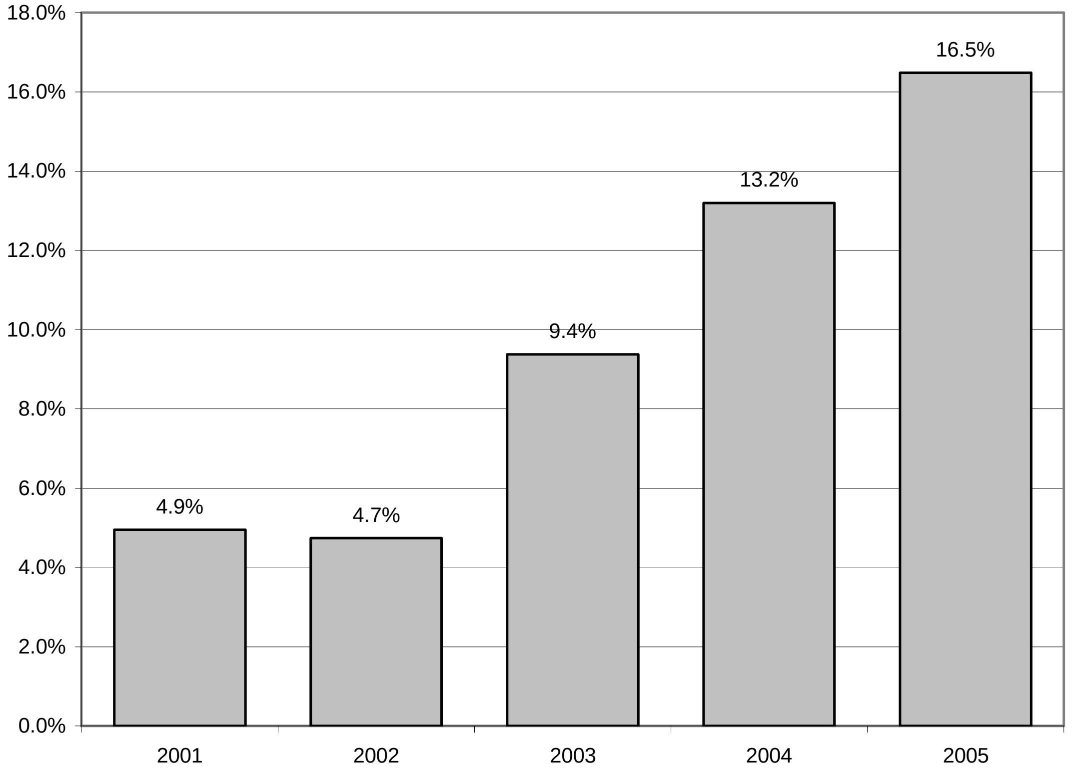
Figure 4. Composition of imports (value), Liberia 2008.



Source: Central Bank of Liberia Annual Report, 2008.

In recent years, gross investment (i.e. gross fixed capital formation) has also recovered. As Figure 5 below indicates, gross investment increased from an estimated 5 percent of GDP in 2001 to over 16 percent of GDP in 2005. Continued improvements in productive investments are an essential component of overall reconstruction and recovery in the country. As we will discuss later, the global economic crisis will likely slow this trend of growing investment, particularly for certain critical sectors.

Figure 5. Gross fixed investment as a percent of GDP, Liberia 2001-2005.



Source: World Development Indicators, 2008.

Liberia currently has an unsustainable external debt burden – at the time of the 2006 elections it was the highest in Africa relative to the size of the economy. According to the *Central Bank of Liberia Annual Report 2008*, the stock of external debt stood at approximately US$ 3.4 billion in October of 2008. Liberia has received significant debt relief over the past few years, including a significant buy-back of debt at discounted values in April of 2009. Nevertheless, the debt burden remains unsustainable. Many debt servicing payments have been suspended, substantially easing the impact of the external debt in the short-run. Liberia has reached the HIPC decision point and is currently moving towards its completion point, at which time further debt relief would be forthcoming.

4. The employment and labour market situation in Liberia before the crisis

Liberia's population of about 3.5 million is young.[6] As Table 3 shows, over half of the population is under 20 years of age and 30 percent is under 10 years. This age distribution has several important implications. First, the number of dependents in an average Liberian household is likely to be high. Income from a single job will have to support many individuals, many of them children. This increases the poverty risk of households – particularly when access to employment becomes less stable – and therefore makes the importance of creating decent employment opportunities more acute. Second, a large number of youths will have to be integrated into the labour market over time. If employment opportunities are not available or if young people do not have access to the opportunities that exist due to lack of skills, social and economic instability will likely increase. In the case of Liberia, this challenge is made more difficult by the additional need to re-integrate into the labour market persons adversely affected by the civil war. Third, investments in education and skills building are critical for labour market inclusion and the long-run productivity of the Liberian economy. A shortfall in building human capital among today's youth will have negative consequences for the future.

Table 3. Age distribution of the population, 2008.

Age	Male	Female	Total
0-9	30%	30%	30%
10-19	23%	23%	23%
20-29	17%	19%	18%
30-39	12%	12%	12%
40-49	8%	7%	8%
50-59	4%	4%	4%
60-69	3%	3%	3%
70-79	1%	1%	1%
80+	1%	1%	1%
TOTAL	100%	100%	100%

Source: 2008 National Population and Housing Census (NPCH)

[6] Population numbers are based on the 2008 *National Population and Housing Census*.

Although a national labour force survey is planned for Liberia, comprehensive labour force statistics are not currently available. In the absence of up to date and timely labour market data, the most recent information available comes from the 2007 Core Welfare Indicators Questionnaire (CWIQ) survey. This survey provides a snapshot of the labour force, but it is important to recognise that these data were collected through an old sample frame dating from 1984 and may not represent the precise structure of the labour market.[7] We use the estimates from the CWIQ survey in this overview of the Liberian labour market.

Table 4 presents estimates of total employment and the employment-to-population ratio by age group. The employment-to-population ratio provides a sense of how many individuals, within a particular age group, are employed. The internationally accepted definition of employment[8] includes anyone who was engaged in an economically productive activity.[9] The estimates are restricted to the working age population (15 years of age or older).

Table 4. Employment and employment population ratios, 2007.

	employment (number)			employment/population		
Age	M	W	Total	M	W	Total
15-19	80,000	78,000	158,000	52%	52%	52%
20-24	68,000	77,000	144,000	60%	60%	60%
25-29	64,000	75,000	139,000	74%	64%	68%
30-34	56,000	67,000	123,000	80%	74%	77%
35-39	68,000	75,000	142,000	85%	77%	80%
40-44	55,000	52,000	107,000	86%	78%	82%
45-49	56,000	46,000	103,000	84%	81%	84%
50-54	37,000	22,000	59,000	80%	73%	77%
55-59	25,000	15,000	40,000	86%	75%	82%
60-64	15,000	8,000	24,000	68%	44%	60%
65-69	9,000	5,000	14,000	69%	38%	54%
70+	12,000	7,000	19,000	41%	37%	40%
TOTAL	545,000	526,000	1,072,000	71%	65%	68%

Source: CWIQ survey.
Totals may differ slightly from sum of components due to rounding.

7 Some analysts have raised concerns that the Liberia CWIQ survey may not be truly representative of the population.

8 Employment is defined in the resolution adopted by the 13th International Conference of Labour Statisticians (ICLS) as persons above a specified age who performed any work at all, in the reference period, for pay or profit (or pay in kind), or were temporarily absent from a job for such reasons as illness, maternity or parental leave, holiday, training or industrial dispute. The resolution also states that unpaid family workers who work for at least one hour should be included in the count of employment, although many countries use a higher hour limit in their definition.

9 By ‘economically productive’ we mean any activity whose output would be recognized and included in the system of national accounts (e.g. GDP).

In general, the employment-to-population ratio rises with age until individuals reach their 60s, at which point it drops off significantly. Employment-to-population ratios are similar for women and men under the age of 25. After 25 years of age, women's employment as a share of the population grows more slowly than men's. This is explained by a slightly lower labour force participation rate among these women, most likely due to unpaid childcare responsibilities in the home. Across the entire population, employment-to-population ratios of over 80 percent are not uncommon during the prime working age years, underscoring the critical importance of employment in Liberia for both men and women. These ratios are quite high by international standards. In the absence of a social safety net, Liberians have to work if they, and their families, are to survive, even if working conditions are poor and the earnings from employment extremely low.

Although rates of employment and labour force participation are high in Liberia, not all employment is the same. The share of the working poor is extremely high with more than 85 per cent not earning a sufficient income to lift themselves and their families above the US$1 a day poverty line. Most employed Liberians work in small scale agriculture and in informal, non-agricultural activities. These activities tend to be highly precarious with low productivity and low earnings. Table 5 shows the distribution of employment by type of employer. Informal non-agricultural employment and employment in agriculture each account for about 42 percent of total employment – or 84 percent of all employment in the country. Public sector employment comprises just over 6 percent of the total and employment in NGOs approximately another 3 percent. According to the CWIQ estimates, formal employment in the private sector amounts to just 5.6 percent of total employment.

Table 5. Employment (15+) by sex and type of employer (including self-employed), 2007.

	M		F		Total	
Civil service	42,000	7.7%	11,000	2.1%	53,000	5.0%
Other public	6,000	1.1%	2,000	0.4%	9,000	0.8%
Public corporation	5,000	0.9%	2,000	0.4%	6,000	0.6%
NGO	20,000	3.7%	10,000	1.9%	29,000	2.7%
Cooperative	4,000	0.7%	2,000	0.4%	5,000	0.5%
International organization	6,000	1.1%	2,000	0.4%	7,000	0.7%
Formal, non-agric.	37,000	6.8%	23,000	4.4%	60,000	5.6%
Informal, non-agric.	203,000	37.3%	251,000	47.6%	454,000	42.5%
Agriculture	221,000	40.6%	224,000	42.5%	445,000	41.7%

Source: CWIQ survey.

Liberia's primary challenge is not necessarily unemployment, but a lack of decent work as most employed individuals are not earning a sufficient income to lift themselves and their families out of poverty. It is important to note that unemployment rate is not a very useful indicator in economies with high poverty rates and few social protections. Nevertheless, there is some controversy around the unemployment rate in Liberia. The international definition of unemployment requires an unemployed individual to be a) without work, b) available for work and c) actively looking for work. Individuals are considered employed if they work for pay, for profit, or contribute to family income for at least one hour during a specific reference period[10]. Using the official definition, the measured unemployment rate in Liberia is 5.5 percent. According to Table 5, only about 16 percent of all employment can be considered to be formal paid employment, or about 15 percent of the economically active population. Since only 15 percent of the labour force is employed in paid employment, some argue that the unemployment rate in Liberia is around 85 percent. However, the vast majority of this 85 percent is actually employed, but working as own account workers and contributing family workers – vulnerable employment which is typically characterised by low productivity and very low earnings.[11]

Table 6 looks at the distribution of employment from another angle – the sector of activity. Unfortunately, a large share of employment is not classified by sector in the CWIQ data (listed as 'other' in Table 6). Nevertheless, the information which does exist provides some further insight into the nature of employment in Liberia. Not surprisingly, agriculture clearly dominates. Outside of agriculture, services are important, including retail and wholesale trade. Industry provides very few jobs.

Table 6. Employed persons (15+), by sex and sector of main activity, 2007

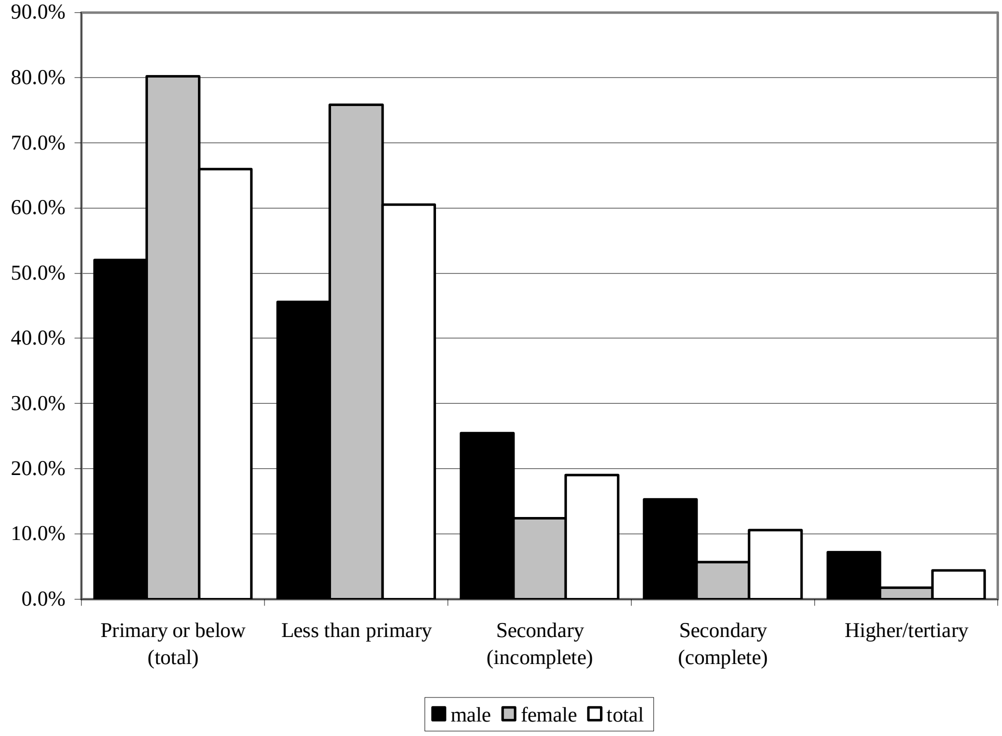
	Men		Women		Total	
Sector	No.	%	No.	%	No.	%
Crop farming	249,00	45.9	255,000	48.5	504,000	47.2
Livestock/poultry	1,000	0.1	-	0	1,000	0.1
Forestry/logging	2,000	0.3	1,000	0.1	2,000	0.2
Fishing	2,000	0.4	1,000	0.2	3,000	0.3
Mining/quarrying	5,000	1	-	0.1	6,000	0.5
Manufacturing	2,000	0.3	2,000	0.3	4,000	0.3
Utilities	3,000	0.5	1,000	0.2	4,000	0.4
Construction	13,000	2.3	-	0	13,000	1.2
Wholesale/retail trade	25,000	4.6	48,000	9.2	73,000	6.9
Transport, storage, comm.	8,000	1.5	1,000	0.3	9,000	0.9
Banking/financial services	3,000	0.5	1,000	0.2	4,000	0.4
Community services	57,000	10.4	17,000	3.2	73,000	6.9
Other	174000	32.1	198000	37.7	372000	34.9
Total	543,000	100	525,000	100	1,067,000	100

Source: CWIQ survey.

[10] See footnote 6 for full definition of employment.
[11] Vulnerable employment is sometimes calculated as the number of own-account and contributing family workers expressed as a proportion of total employment. These two categories are considered particularly vulnerable in terms of high levels of economic risk and the weakness of institutional arrangements governing the employment relationship, two indicators of decent work deficits.

Most employed Liberians have limited educations. Figure 6 shows the distribution of employment by educational attainment. Nearly two-thirds (66 percent) of employed Liberians have a primary school education or less. There are clear gender inequalities apparent with regard to educational attainment. Over 80 percent of employed women have at most a primary education. Across the employed population, about 30 percent have some secondary education – for women, the fraction is about 18 percent. This low level of educational attainment among the working population reduces productivity and the earnings potential of the population.

Figure 6. Educational attainment of the employed (15+), percentage, 2007.



In summary, most employed individuals work long hours in low-paying, precarious and low-productivity activities. Only a minority have access to what could be considered formal wage employment. Own account workers, unpaid family workers, and those employed as contract workers are often not covered by basic social protections or labour laws. The lack of decent employment opportunities is compounded by the large number of dependents that rely on each employed person – raising the risk of poverty in the absence of any social safety net. In general, the majority of the workforce is poorly educated with low skills, which limits labour productivity and the ability to take advantage of better opportunities when they become available. When examining the impact of the economic crisis on Liberia, the reality of this structure of employment must be kept in mind.

5. The Liberia Poverty Reduction Strategy and National Employment Policy

Lift Liberia: The Poverty Reduction Strategy

In 2008, Liberia released its poverty reduction strategy (LPRS), *Lift Liberia*, which describes the government's primary strategies for growth and human development over the period 2008-2011. The LPRS is structured along four pillars:

- Peace and security
- Economic revitalisation
- Governance and the rule of law
- Infrastructure and basic services

Each of the pillars is composed of concrete policy goals and specific programmatic objectives. Through this policy framework the LPRS aims to create the conditions for sustainable and inclusive growth. The growth strategy outlined in the LPRS has three central components: (1) rebuilding basic infrastructure, (2) restore production in natural resource products such as rubber, timber, mining, and cash crops, and (3) encourage diversification of the economy over the long-term.

As the analysis in this report will detail in much greater depth, the global economic crisis has important implications for the realisation of the objectives of the LPRS. The crisis has adversely impacted public revenues, which will constrain the ability of government to deliver on components of the LPRS, particularly those which rely on public resources. The growth strategy has come under pressure due to the collapse of demand in key global markets, creating sizeable challenges for restoring production in natural resource products. As this report will discuss at some length, the global recession has had a negative impact on employment in certain sectors, with important implications for poverty reduction and social stability. It is difficult to assess the degree to which the global crisis will ultimately affect the realisation of the LPRS at this point in time. Nevertheless, it is clear that the global crisis intensifies the challenges which Liberia faces in terms of realizing its strategic plan for national development.

Improving employment opportunities is central to the objectives of the LPRS. Employment is the primary channel through which the benefits of revitalised growth will be widely shared. Therefore, it is an essential component of inclusive growth and poverty reduction. Creating opportunities for all individuals to participate in the economic life of the country through decent employment is also essential for sustainable peace and social stability. Good governance and economic infrastructure are essential for generating employment and improving the quality of existing opportunities. Basic services, such as health and education, represent important investments in the country's human resources, investments that provide a foundation for future growth. Access to employment also builds skills and capacity, through labour market experience and on-the-job education.

The LPRS includes specific policy recommendations and targets with regard to employment and labour market policies within the pillar 'economic revitalisation.' In many respects, employment is a cross-cutting issue and policies to support employment are incorporated into strategies for agriculture, mining, infrastructure, and investment promotion. However, the LPRS also explicitly recognises the need for improved labour policy and administration, a role for labour-intensive public works, skills training, developing opportunities for women and youth, and creating workplace programmes to address HIV/AIDS.

The National Employment Policy

The LPRS, under the heading 'generating productive employment,' calls for a new National Employment Policy (NEP) to coordinate efforts at improving employment opportunities in the country. Currently, a draft NEP has been developed by the Ministry of Labour with technical assistance from the ILO. At the time of the assessment, the NEP needed to be submitted to cabinet structures for approval. After it has been approved by cabinet, the house and senate must pass it in order for the NEP to become national policy.

The draft NEP (April 2009) includes strategies to address immediate employment needs, through emergency employment programmes, and policies for sustainable employment in the longer-term. A National Bureau of Employment is proposed to coordinate employment policies and to integrate such programmes into the national development strategy. The Bureau would also link employment creation to infrastructure projects and skills building initiatives.

The medium-term employment policies in the NEP include a number of components:

- Skills and capacity building
- Revitalisation of agriculture and non-farm rural employment

- Support to small-scale and informal enterprises
- Targeted employment and skills-building initiatives for youth, women, and the disabled

In many respects, the policy framework of the NEP mirrors the priorities outlined in the LPRS. Although still in draft form, several of the components of the NEP, particularly the emergency employment programmes, are relevant to addressing the negative effects of the economic crisis. We return to these policy issues later in the report.

6. Channels through which the global crisis affects the Liberian economy

Central government revenues and the budget

Pressures on fiscal resources, specifically government revenues, represent the primary macroeconomic channel through which the global crisis will affect Liberia. The negative impact on government revenues is directly a result of changes in commodity prices and international trade. In the 2009/10 budget, international trade taxes account for approximately 50 percent of total tax revenue and *ad valorum* taxes on imports represent a significant component of these trade taxes. As noted above, the global crisis has reduced the price of imports and the total value of all imports into Liberia. Changes in global commodity prices therefore directly affect government revenues. In addition, taxes on personal corporate income are projected to account for 27 percent of tax revenues in the 2009/10 budget. To the extent that the crisis slows the growth rate of the Liberian economy, revenues from these sources will also decline. Non-tax government revenues, such as the once-off payments linked to concession agreements, could also be aversely affected by the crisis, although the expectation is that these extraordinary revenue items are reasonably secure.

There have been a number of recent changes to tax policy. The corporate and personal income tax rates have been reduced.[12] In addition, import duties on rice have been suspended. The reductions have been justified as a government fiscal response to the crisis – i.e. an effort to support domestic demand through tax reductions. We will examine the efficacy of this approach later in the discussion of policy responses.

The negative impact of the crisis on government revenues has been partly off-set by efforts to increase the efficiency of tax collection. Total tax revenues in the 2009/10 draft budget were projected to be 17 percent higher than the 2008/9 projection, although there is some concern that actual revenue collection will fall short of planned revenues due to the crisis. The measures undertaken to improve tax effort include improvements in import inspections, new systems to minimise false receipts and similar tax avoidance strategies,

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[12] According to the President's Budget Message for the 2009/10 budget, the expected revenue loss due to the reduction in the corporate and personal income tax is $14 million.

better enforcement of tax payments by government employees, and greater effort in collecting property and general sales taxes. Although these changes help compensate for the impact of the crisis on government revenues, revenues would certainly be higher in the absence of the global recession. Moreover, these figures represent revenue projections – actual collections will depend on how the crisis plays itself out.

The impact on government revenues is critical because Liberia currently runs a cash-based budget – current expenditures must not exceed revenues plus any cash reserves. In the past several years, government revenues had exceeded expenditures, and a cushion of reserves was built up. However, those reserves are largely exhausted. Therefore, a significant decline in realised revenues will necessarily lead to cuts in expenditures. Liberia does not currently issue government securities and new domestic debt. There are efforts to establish a domestic capital market, but it will be some time before government securities can be issued. In the meantime, fiscal space is limited to the ability of government to mobilise revenues. To the extent that the global crisis reduces revenues, government's policy space – independent of donor support – will be squeezed.

Exports, international commodity prices, and exchange rates

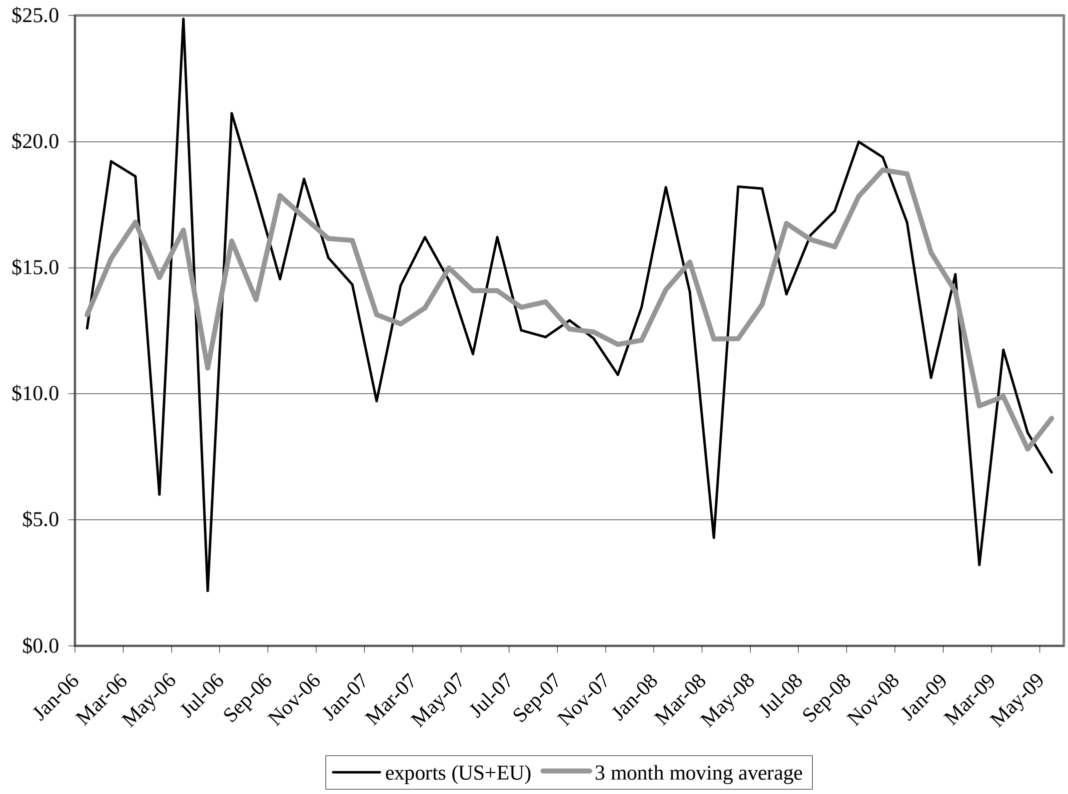
The decline in global demand and the rapid drop in commodity prices represent the most significant channels through which the global crisis directly affects the Liberian economy. The value of rubber exports has declined, both due to a reduction in the quantity of rubber exported and the dramatic fall in global prices. Other commodity prices – for example, of iron ore, palm oil, and diamonds – have also fallen. These other commodities currently constitute a relatively small fraction of the total value of Liberia's exports. However, significant increases in the production of iron ore, palm oil, and timber were expected to have occurred by now or to accelerate in the near future. The global crisis has caused a delay in the rejuvenation of these exports. One consequence of the global crisis, therefore, is a slowdown in new investment and rates of job creation that fall short of expectations. These issues are discussed with much greater precision in the sectoral analysis of the report.

In 2008, the estimated value of total exports was about 31 percent of GDP.[13] Figure 7 shows the trend in Liberian exports to the U.S. and E.U., measured in millions of U.S. dollars, from May 2008 to May 2009 (the export figures are based on 'mirror' data and represent the value of Liberian imports into the U.S. and E.U.) The value of exports varies significantly from month-to-month. Therefore, the figure includes the actual value of exports and a 3-month moving average of the value of exports. The 3-month average helps to smooth out the month-to-month variations and make the overall trend clearer. There has

13 IMF (2009). Liberia: Second Review under the Three-year Arrangement Under the Poverty Reduction and Growth Facility.

been a significant decline in Liberian exports to these two major markets, starting around October 2008. At this time it is uncertain whether exports will rebound from this recent decline or whether the fall in exports will be long-term.

Figure 7. Trends in the value of Liberian exports to the U.S. and E.U. (US$), mirror data, January 2006 to May 2009.



Source: UN Comtrade database.

The decline in exports corresponds to a drop in the nominal exchange rate (Liberian dollars to U.S. dollars). Table 7 shows the end-of-month exchange rate from May 2008 to May 2009. The exchange rate was stable up until the end of 2008, but then began to depreciate. The depreciation became more pronounced in April and May 2009. For many economic activities, the widespread use of U.S. dollars means that the depreciation of the Liberian dollar would not have had a significant impact. However, small enterprises and individuals in informal self-employment may have been adversely affected, particularly if goods and inputs are purchased with U.S. dollars but the majority of their sales transactions are in Liberian dollars.

Table 7. Nominal exchange rates(end of period),

May 2008 – May 2009.

	Exchange rate
	$L/$US
May 08	63.5
Jun 08	63.5
Jul 08	63.5
Aug 08	63.5
Sep 08	63.5
Oct 08	63.5
Nov 08	63.3
Dec 08	64.0
Jan 09	64.5
Feb 09	64.5
Mar 09	65.5
Apr 09	66.5
May 09	70.5

Source: Central Bank of Liberia, Fact Sheet on Key Economic and Financial Indicators, various months.

The crisis led to the closing of the external credit lines which contributed to the decline in the exchange rate. Importers rely on trade credits to finance their transactions. When overseas credit lines became less accessible, they turned to domestic sources of trade credit. Demand for U.S. dollars within Liberia increased, and this would have contributed to a depreciation of the nominal exchange rate.

The impact on commodity prices also extends to import prices – including imports of fuel and rice. The fall in import prices generally represents a gain for Liberian households but, as we have already discussed, the reduction in prices has direct consequences for government revenues. The decline in import prices helps to off-set the decline in export revenues in terms of the overall trade balance. Lower import prices have also reduced the inflationary pressures that were evident in the second half of 2008. In particular, the global crisis appears to have put an end to the rapid increase in rice prices that was placing pressures on the living standards of families and households.

However, there is a downside to the recent moderation in rice prices. Rice is arguably the most important commodity that Liberia produces and the volatility of prices could affect efforts to revitalise domestic rice production and may also dampen domestic production in a sector that holds key potential for jobs, national food security and household welfare.

Foreign direct investment and concession agreements

In 2008, net foreign direct investment in Liberia amounted to about 24 percent of GDP.[14] Foreign investment is concentrated in natural resource based exports – rubber being the most important – and a large share of foreign direct investment is linked to concession agreements that are negotiated with the government. During the commodity boom that preceded the global economic crisis, commodity prices and expected profits were high. It was envisioned that new concessions would come on board, based on Liberia's resource endowments – e.g. involving the production of iron ore, timber, rice, and palm oil. Some companies that won concessions have delayed investments because of the collapse of global commodity prices or difficulties to obtain finance. In some other cases, the terms of the concession agreements that are currently being negotiated may be less favourable than had originally been expected. A much more detailed discussion of the various concession agreements and the impact of the global crisis can be found in the sectoral analysis of this report.

The rapid impact assessment found that the crisis is having an impact on concession negotiations and investment through its effect on world market demand and availability of long term finance for investment projects in several crucial sectors. However, it also found that in a number of cases, the crisis is simply adding to pre-existing domestic problems or is being used as a bargaining tool by potential investors. These findings strongly argue against granting ad hoc benefits to investors affected by the economic crisis. Instead, a more advisable strategy is a dual approach of continuing to improve the investment climate and maintaining a strong emphasis on attracting reputable and financially sound companies to carry out long term investments.

The foreign direct investment associated with the concession agreements brings a number of benefits to Liberia. Such investment creates much needed employment. In addition, many of the concession agreements also require the corporation that wins the bid to invest in infrastructure (e.g. roads and revitalised rail lines) and areas of social development (e.g. schools). In some cases, the concession agreements include a once-off direct payment to government. Such 'extraordinary' revenue items can be significant – amounting to about 20 percent of the projected revenues in the 2009/10 budget. The negotiated agreements also impact government revenues – and hence, the ability to deliver on core development objectives – in the longer term, through provisions for royalty payments and corporate income tax rates.[15]

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[14] IMF (2009). Liberia: Second Review under the Three-year Arrangement Under the Poverty Reduction and Growth Facility.

[15] The immediate impact of the negotiations of many new concession agreements on current government tax revenues and royalty payments is likely to be minimal – apart from the once-off payments which are classified as extraordinary revenue items. In sectors such as iron ore and palm oil, new production associated with concession agreements is not expected to increase

A slowdown in foreign investment attracted through the concession agreements and the pressures for government to accept less favourable terms represent another channel through which the global economic crisis will affect Liberia. At the current time, it is difficult to predict with any certainty the ultimate magnitude of this negative impact. The collapse of commodity prices has already affected the negotiation and implementation of concession agreements. It may be the case that the anticipated foreign investment and employment creation will still be realised, but at a slower pace. Also, it is important to recognise that not all of the delays in moving the concession agreements forward can be ascribed to the global crisis. Other factors (e.g. land tenure issues) have contributed to the difficulty in securing certain concessions and were core factors in previous conflicts.

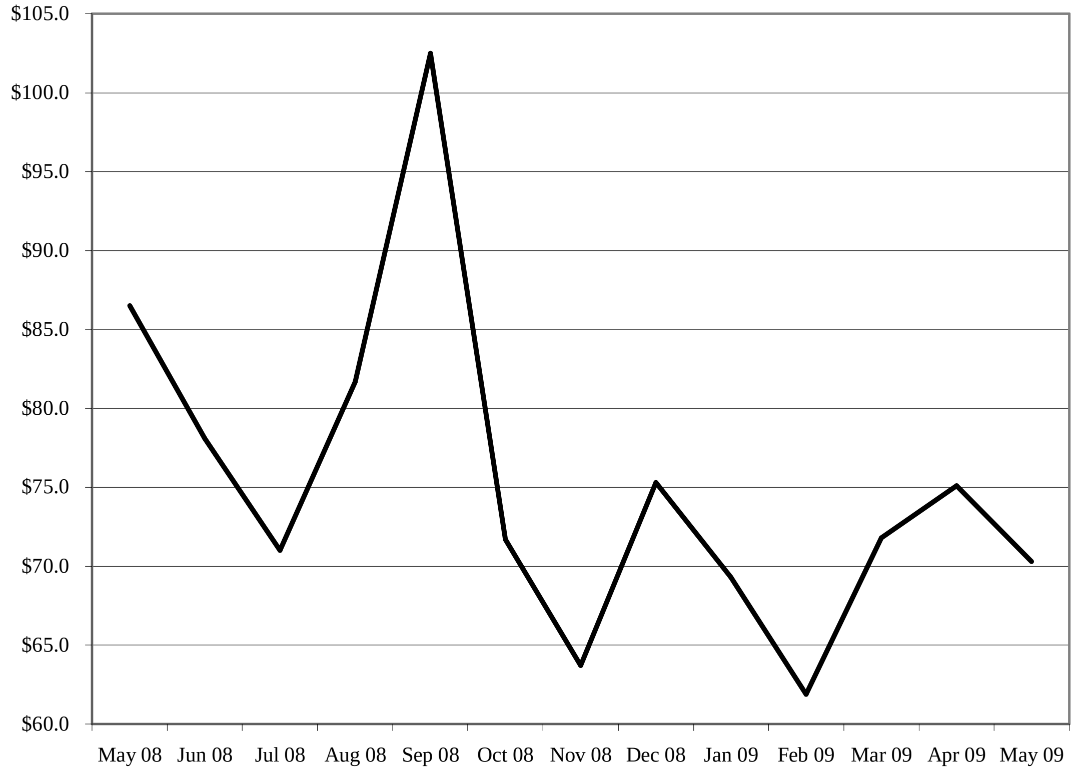
Remittances

The Liberian economy receives substantial inflows of remittances. As the global crisis causes unemployment rates to rise and net worth to decline among Liberians working abroad, remittances flowing into Liberia come under pressure. Economic uncertainty can also reduce remittances – if Liberians living abroad increase their savings in response to economic instability. The Central Bank of Liberia maintains estimates of inflow and outflows of remittances.[16] According to the 2008 Annual Report of the Central Bank of Liberia, over the 11 month period, January to November 2008, recorded inflows of remittances totalled US$ 884 million – an amount approximately equal to the country's estimated GDP. Recent trends in the monthly inflows of remittances are illustrated in Figure 8 from May 2008 to May 2009. Monthly inflows of remittances have declined beginning in the second half of 2008, as the crisis unfolded. As of March 2009, there appears to have been a slight recovery in the inflows of remittances. However, given the month-to-month fluctuations in the data, it is hard to say whether inflows will return to their previous levels any time soon. Also – unrecorded inflows of remittances would not be reflected in this figure. This creates an added layer of uncertainty in assessing overall trends.

significantly for several years. Therefore, the impact on revenues through royalties and corporate income taxes will take some time to manifest itself.

[16] Liberia also exhibits large outflows of remittances. Therefore, the net impact on the country is much smaller than the estimates of inflows would indicate. One source of the outflows is the large UNMIL presence in the country.

Figure 8. Inflows of remittances ($US) May 2008 to May 2009.



Source: Central Bank of Liberia, Fact Sheet on Key Economic and Financial Indicators, various months.

The decline in remittances will reduce domestic purchasing power and overall demand in the Liberian economy. Small business and informal enterprises that cater to the domestic market will be directly affected, since many of these businesses are in non-tradable (i.e. not exported) service activities. In addition, lower levels of remittances would reduce aggregate financial inflows into Liberia and contribute to short-term balance of payments pressures.

Official development assistance

Table 8 shows recent statistics of total aid expressed as a percent of gross national income for selected low-income countries. Liberia receives a high level of official development assistance (ODA) and aid relative to the size of its economy, compared to other countries at similar levels of economic development. In 2008, the value of net transfers from donors was estimated to be about 130 percent of GDP.[17] One possible consequence of the current global recession is a reduction in development assistance, as high income countries prioritise pressing domestic concerns over international donor support. Given the high levels of development assistance, Liberia is potentially vulnerable to a withdrawal or reduction of aid flows. At this time, donor commitments to Liberia appear to have been largely unaffected by the global crisis and the broad consensus is that Liberia will continue to receive the expected level of support from its major donors over the next year or two.

Table 8. Official Development Assistance and Official Aid as a Percentage of GNI (2006).

Liberia	54.4%
Burundi	47.7%
Afghanistan	35.7%
Mozambique	26.2%
Sierra Leone	25.7%
Congo, Dem. Rep.	25.2%
Timor-Leste	24.7%
Rwanda	23.6%
Malawi	21.4%
Uganda	16.7%
Mali	14.9%
Ethiopia	14.7%
Zambia	14.6%
Tanzania	14.5%
Burkina Faso	14.1%
Madagascar	13.9%
Nigeria	11.3%
Ghana	9.2%
Senegal	9.1%
Cambodia	7.6%
Nepal	5.7%
Kenya	4.1%
Vietnam	3.1%
Bangladesh	1.9%
Cote d'Ivoire	1.5%

Source: World Development Indicators, 2008.

Although ODA and aid commitments are currently holding up well, there is no guarantee that the same level of support will continue in the medium-term. Therefore, it is essential capitalise on current commitments to realise the immediate development priorities as outlined in the poverty reduction strategy. Very little of Liberia's development assistance comes in the form of direct

[17] IMF (2009). Liberia: Second Review under the Three-year Arrangement Under the Poverty Reduction and Growth Facility.

budget support. In some cases, specialised agencies have been set up within government to administer donor funds. For example, a special implementation unit (SIU) within the Ministry of Public Works has been created to oversee certain infrastructure projects with an aim to build capacity within the Ministry.[18] Other donors avoid channelling aid through government altogether, preferring direct project management. The record of this 'project' approach to development in achieving sustainable improvements in African countries remains questionable. More strategic efforts are needed.

Financial sector and financial markets

The Liberian financial sector is not well integrated into the global financial system. The civil war effectively shut Liberia out of international financial markets. Banks are the dominant type of financial institution in the sector, but they have practically no exposure to the assets and financial products that are at the center of the current crisis. According to the Central Bank of Liberia, some banks maintain external credit lines at foreign banks that have been affected to some extent by the crisis, but the banking sector as a whole has been largely insulated from the global financial turmoil. The banking sector in Liberia is largely foreign owned, but ownership is mostly regional. The large international financial institutions at the center of the financial crisis do not have a significant ownership stake in the sector.

Moreover, the credit extended by the commercial banking institutions is primarily used to finance international trade. The transmission mechanisms through which the financial sector impacts the real economy are weak. The banking sector is highly liquid and is well capitalised, further protecting the sector from problems that could arise from the global crisis.

The sudden reversal of short-term capital flows – e.g. portfolio investment – is another channel through which the global crisis can affect developing countries. A rapid outflow of capital can result in an uncontrolled depreciation of the currency with devastating impacts on domestic financial institutions, the liabilities of the public and private sectors, and real productive activity and employment. Liberia current does not have a functioning capital market and receives virtually no portfolio investment.
In short, the Liberian financial markets do not constitute a significant channel through which the economic crisis has affected the economy.

It is also worth noting that many macroeconomic indicators in Liberia have not been affected by the global crisis. For example, nominal interest rates have remained relatively constant over the past year (Table 9), another

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[18] The infrastructure projects that are being implemented through the SIU are largely funded by the World Bank. Financing for such projects are channeled through the PMFU (Project Management Finance Unit) housed at the Ministry of Finance.

indication that the impact of the crisis on the domestic financial sector has been minimal. Inflation rates have fallen due the reduction in the prices of imports, particularly food and fuel. As discussed earlier, there has been some downward pressure on the nominal exchange rate. However, the overall macroeconomic environment has remained relatively stable.

Table 9. Annual inflation rates and average lending rates, May 2008 to May 2009.

	Inflation	Lending rates
	(percent - annual)	(percent - annual)
May 08	19.2%	14.2%
Jun 08	22.0%	14.4%
Jul 08	21.3%	14.4%
Aug 08	26.5%	13.9%
Sep 08	20.0%	15.8%
Oct 08	18.6%	14.3%
Nov 08	15.5%	14.2%
Dec 08	9.4%	14.3%
Jan 09	6.4%	14.1%
Feb 09	7.0%	14.3%
Mar 09	6.9%	14.0%
Apr 09	7.8%	14.3%
May 09	7.7%	14.2%

Source: Central Bank of Liberia, Fact Sheet on Key Economic and Financial Indicators, various months.

7. Overview of the Employment Impacts of the Crisis

The crisis has already had a substantial effect on employment in Liberia. The findings of this assessment suggest that the impact will be felt most strongly by the hundreds of thousands of individuals self-employed in smallholder agricultural production and those working in informal employment. In the rubber sector alone, the crisis will directly impact the livelihoods of up to 60,000 smallholder producers and thousands of contract workers. The employment effects of the crisis will not appear to be as severe at this stage as some may have expected if we only analyse the absolute reduction in the number of formal, permanent jobs. This underscores that it is essential to understand the impact of the crisis on Liberians in *all* forms of employment. For informal employment, self-employment, and smallholder production, the impacts on employment and household incomes are harder to assess with precision because of a lack of information. In these activities, the negative consequences will most likely manifest themselves in terms of lower and more uncertain earnings, and higher risks of poverty, rather than a decline in employment numbers.

The effects on the well-being of the population of this loss of employment income are more severe, since many dependents rely on the earnings from each individual in the labour force. When household income is reduced, it is likely that additional family members will enter the labour market to bolster family income – often working in small scale farming and informal trading. The main concern is the inability of the labour market to absorb new entrants, such as youth, as the economic crisis will tend to increase labour supply while lowering labour demand, thereby increasing the tendency towards more vulnerable employment. When supply overtakes demand, earning may also fall, for example in informal trading. The impact on the labour market will be to perpetuate and deepen the 'vicious cycle' of long working hours, low pay, and low productivity associated with vulnerable employment.

Two of the natural resource sectors affected most directly by the crisis are the rubber sector and mining related activities (since actual production of iron ore has not recommenced). The assessment estimates that over 4,000 workers in these sectors are effectively out of work. The reductions in employment are concentrated among contract workers. The job losses among permanent employees are less pronounced. In the rubber sector, about 60,000 smallholder producers face rapidly deteriorating economic conditions that will affect their earnings and the viability of their livelihoods in the future.

Outside of the agricultural and natural resource sectors, businesses have experienced a slump in demand. On average, businesses interviewed have reported about a 20 percent decrease in turnover from the previous year. For small scale enterprises and informal workers, many of which operate in the service sector catering to domestic markets, the fall in demand will decrease earnings and productivity. This decline in the domestic market will directly affect many own-account and contributing family workers in terms of their contributions to household incomes and family well-being – the two employment categories which provide the vast majority of employment.

Local businesses complain that profit margins are declining due to intense competition among traders selling the same goods, a possible result of new labour market entrants working to make up for the loss of household income. The fall in demand and the higher cost of imports, in part due to the exchange rate depreciation, has made many petty traders more vulnerable, leading to increased bankruptcy. Marketers are leaving the tables as they fall short on cash to maintain inventories, and more women are entering the markets trying to make up for the loss of family income. Umbrella business organisations report a substantial drop in their membership dues as a result of the decline in consumption spending, slower economic activity, and business failures. In addition, there appears to have been a contraction in the construction industry because of the global crisis.

The findings of the worker interviews suggest that most Liberians are feeling the pinch of the current economic crisis. Employed workers are experiencing additional workloads without extra compensation and are fearful of losing their jobs at any time. They also help support redundant workers in addition to their own families. In all households, women play a major role in supplementing incomes of employed and unemployed male workers, primarily through informal employment. Such pressures can also lead to decreased school attendance, as children and youth are needed to assist in the household or support income generating activities and the cost of school is no longer affordable. Some workers would return to their villages if viable alternatives exist there. International migration was not high on the list of coping strategies, but many workers would relocate within Liberia to find work.

Trade unions are advocating for workers who have been laid off without receiving back pay or those which have not received benefits outlined in collective bargaining agreements, but some of these grievances date back prior to the onset of the global crisis. The patience of some retrenched workers who have not received severance benefit packages or the wage and salary arrears owed to them is running out. There have been some strikes and riots in the rubber industry and the risk of further instability and violence is high if the government does not facilitate the receipt of worker benefits across the affected sectors.

Apart from actual job losses, one negative consequence of the crisis is a slowdown in the job creation that was expected to have taken place through the negotiation of the concession agreements. Although many concession agreements are still on-track – with the notable exception of the timber concessions – their full implementation may be delayed. Many of these agreements are central to the Liberia Poverty Reduction Strategy's goal to revitalise the Liberian economy and generate productive employment. At this stage, it is difficult to assess to what extent the economic crisis will affect the negotiations of new agreements, the renegotiations of existing agreements, and the implementation of the agreements that have been finalised.

Employment trends from government records

Interviews with workers, employers, and government officials provided most of the information on the employment impacts of the crisis. However, these interviews were supplemented by careful research into recent government documents to shed further light on employment trends. Although timely survey data on employment in Liberia is not available to assess the impact of the crisis, information on employment is routinely submitted to the Ministry of Labour and the Ministry of Finance. As part of the rapid assessment, employment data for 138 large scale establishments was assembled from these records.

The 138 companies fall into the category of large enterprises which, in this case, means that their annual turnover is over 30 million Liberian Dollars.[19] Although there are more than 138 large enterprises operating in Liberia, not all companies report their total number of employees to the government. In addition, employers often do not submit complete employment figures or do so inconsistently each month. Therefore, information for only a subset of large enterprises is available. Since information may not be available each month, documenting trends in employment over the duration of the crisis is not possible for all firms.

Despite these limitations, the government records do provide us with additional information on employment trends. For many of the companies for which data exist, the number of employees is more or less stable over the period May 2008 to May 2009. That is, there is no evidence from the government records that there have been significant layoffs among large enterprises in response to the crisis. However, there are two exceptions: companies in rubber and iron ore sector. In these two key sectors, there is evidence of a loss of employment, with most of the lay offs coming from contractors and not from permanent staff. This data confirms the information compiled from the interviews.

[19] Information on small and medium sized enterprises is also available, but the analysis was not completed at the time of this writing.

8. Sectoral analysis

The following section reviews the situation in six sectors using available trade data and relying heavily on personal interviews to obtain information, especially concerning the employment situation and the outlook for concession agreements. The sectors are rubber, rice, palm oil, iron ore, timber, and gold. The order in which each sector is discussed depends, first, on the degree to which the crisis has impacted existing employment in the sector and, second, on the overall employment potential of the sector (including employment that would be generated through the expansion of production in the future). In each case, an overview of the sector is presented, followed by a discussion of employment issues relating to the crisis and an assessment of the outlook for the sector. Four of the sectors are primarily export-oriented: rubber, iron ore, timber, and gold. For rice and palm oil, there is a significant domestic market in addition to a possible export market.

The strategy for revitalizing the Liberian economy, as outlined in the LPRS, depends, in part, on a renewal of natural resource based exports. In the years immediately preceding the crisis, Liberia's exports had been recovering from the extremely low levels that prevailed during the years of civil war and conflict up to 2003. Table 10 shows that, by 2008, the total value of exports had increased significantly from the level in 2005. In terms of specific sectors, there are exceptions to the trend of export growth – e.g. iron ore. However, new production of iron ore has not commenced in Liberia and exports in recent years come from drawing down existing stocks. Cocoa, gold and diamonds have had notable increases since 2005. For other commodities – e.g. palm oil and timber – the export potential is sizeable, but current exports are negligible.

Table 10. Value of exports by commodity ($US), 2005-2008.

	2005	**2006**	**2007**	**2008**
Rubber	$171,426	$239,100	$234,017	$265,792
Scrap metal	$7,882	$9,718	$15,147	$19,320
Cocoa	$3,405	$1,272	$2,265	$10,390
Gold	$191	$5	$1,529	$9,733
Diamonds	---	---	$1,546	$7,433
Iron-ore	$24,253	$2,134	$2,960	$5,818
Wood	---	$37	$52	$617
Palm oil	$123	$366	$372	$211
Rice	$708	$142	$137	$140
Other	$12,991	$29,650	$11,083	$19,852
Total	$220,979	$282,425	$269,108	$339,306

Source: UN Comtrade database.

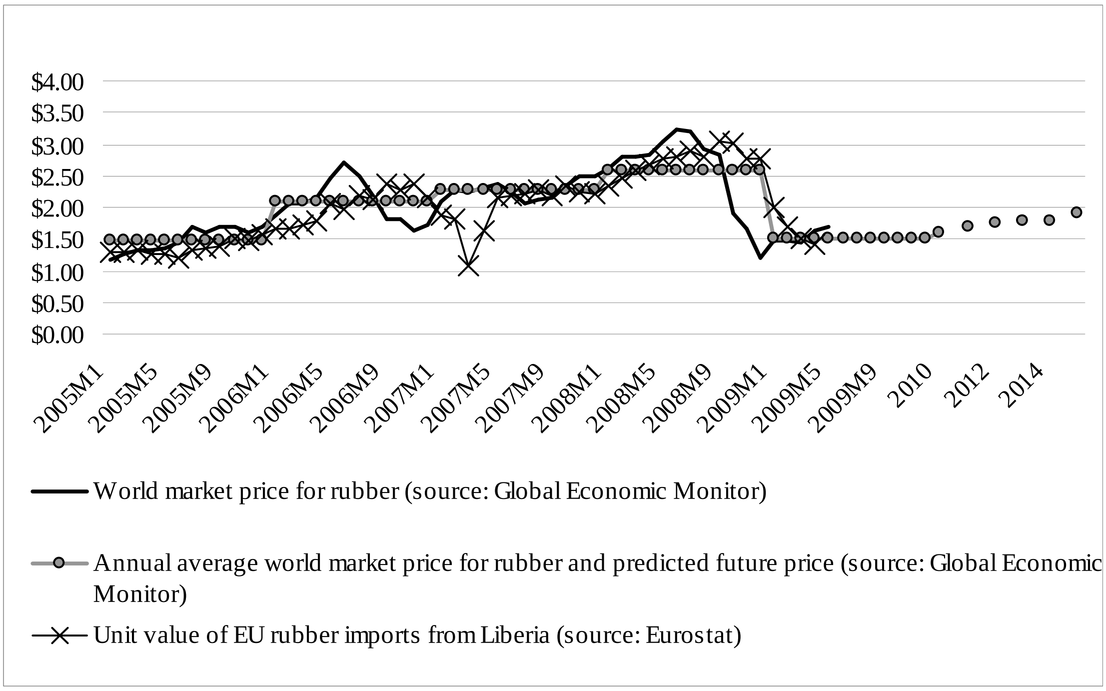
Rubber

Overview

Rubber is currently Liberia's most important export commodity by far and the value of rubber exports totaled US$266 million or about 80 per cent of total exports in 2008. The five largest companies in Liberia operate in this sector and it is estimated that more than 20,000 people are employed by commercial rubber farms and up to 60,000 smallholder households are involved in some way in growing rubber trees. Exports grew modestly in 2008, but with the onset of the crisis, the world market price for rubber and the quantity of Liberia's rubber exports declined substantially. Demand for tires directly influences demand for rubber, so demand is strongly linked to the health of the global automobile industry – an industrial sector hit hard by the crisis.

Figure 9 presents selected indicators for the world market price for Liberian rubber. According to the World Bank's Global Economic Monitor database of world commodity prices, the world market rubber price peaked at US$3.22/kg in June 2008 and then dropped dramatically in the last quarter of 2008 to reach US$1.20 in December 2009. Since then, it has recovered slowly and reached US$1.69 in May 2009. Predictions from the Global Economic Monitor suggest that it will continue to increase slowly but remain well below its peak during the years of the commodity boom.

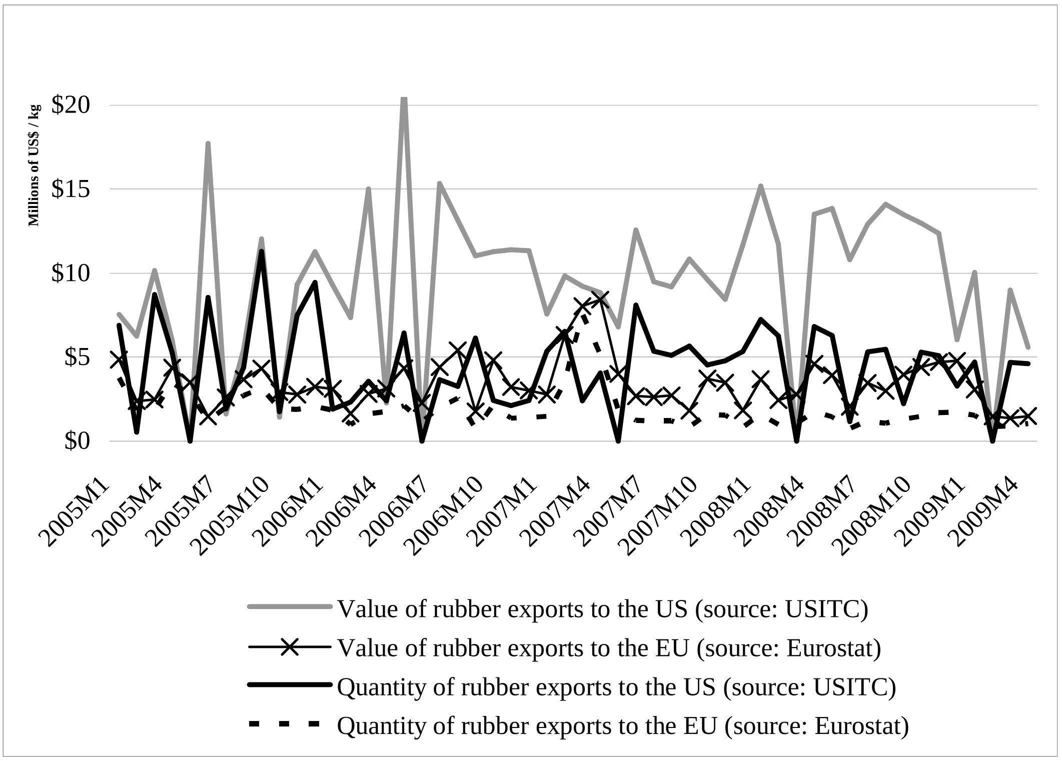
Figure 9. Selected indicators of world market price for Liberian rubber, US$ / kg.



Trends in European Union rubber imports from Liberia largely confirm the validity of these world market figures for Liberian rubber, although with a time lag of about 3 months. This is not surprising given that import data is gathered at the time of physical importation whereas the world market price is determined by current buying and selling in the market.

Figure 10 shows Liberian exports to the EU and US both in terms of quantity and value. The drop in the last few months is significant, not just in value, but also in terms of the actual quantity exported. In the last three month with data availability (Feb-Apr 09), exports to the European Union declined by 56 percent in total value and 25 percent in quantity.

Figure 10. Value and quantity of Liberian rubber exports to EU and US.



Employment issues

Companies in the sector have reportedly been affected by the 60 percent decline in prices and have cancelled contracts with suppliers, and these cancellations have led to some cutbacks in the employment of contract workers. Estimates at one plantation indicate that up to 2,000 full-time and contractual workers have been laid off, 25-30 per cent of which are women. Focus group discussions revealed that the majority of those laid off were contractual workers and much easier to release since they are considered to be self-employed.

Smallholder rubber plantations have also been affected and the impact has led to shut downs or drastic reductions in activity. The Ministry of Agriculture has indicated that many of the smaller Liberian owned producers have had to lay off people and significantly downsize their operations. One manager of a plantation employing 600 people said that he had not yet made any lay-offs, but was trying to negotiate a 30 per cent wage reduction with his workers to be able to keep them employed.

Relations with some employers are very tense with unrest on two major plantations, leading to destruction of a police station at one site and the vandalizing of another's fleet of vehicles due to the death of one worker while in custody of company security. Another major concern on one plantation is the alleged default of the employer on the collective bargaining agreement of retiring workers. In one case, a plantation was unable to pay its workers the salary arrears owned to them – industrial relations deteriorated and the workers went on strike. The government has agreed to finance the payment of the arrears in order to prevent any further unrest that could have compromised a new concession agreement.

Worker interviews suggest that there is increased pressure on employees due to higher workloads and halting of overtime pay. Some laid off workers are re-hired on a casual daily-wage basis, without the usual benefits of housing, free schooling for children, a rice allowance, and medical support. There is a constant fear of possible layoffs and concern over how workers will make ends meet. There are also claims of sexual exploitation of female contract workers on the part of their supervisors.

Outlook

This is a crucial time for rubber because the government is currently beginning to re-negotiate concession agreements with two of the major plantations. Furthermore, most rubber trees are approaching the end of their economic life and major investments in replanting would have to be made now (including by smallholders) to secure the sectors future. This requires significant upfront investment because it takes about seven years before a rubber tree can be profitably utilised. Smallholders depend on the out-grower schemes of the large plantations to obtain finance and materials for replanting.

In the ongoing concession negotiations, companies have used the crisis as an argument to push for more favourable terms, and the bargaining position of the government is weakened given the urgent need to secure employment in the short-term. Of particular concern is the companies' resistance to provide finance and other support to smallholders to replant rubber trees. This should remain a priority for the government in the concession negotiations given the importance for rural development and poverty reduction. Currently, negotiations between the government and the rubber plantations are ongoing to establish a rubber fund for that purpose that would be funded jointly by all companies and the government. However, the specifics of the funding arrangements and timing remain uncertain.

Because of the crisis and the recent price fluctuations, there is a lot of insecurity, especially among smallholders, whether to invest into replanting of rubber trees. Some smallholders are said to have already chopped down their rubber trees to plant other crops instead. There is an urgent need to reassure investors of the future of the sector for them to make necessary investment decisions now. If the planned rubber fund becomes available soon and starts moving forward aggressively, it could serve this purpose. On the other hand, it is not clear that rubber is the most favourable option for all smallholders and diversification into new export crops would also help to manage the risk associated with fluctuating rubber prices. The Ministry of Agriculture, together with donors, is already supporting programmes to help smallholders move a portion of their production into cocoa. This represents a concrete intervention that could be expanded in response to the crisis and which also contributes to the goal of diversifying the country's export base.

Rice

Overview

Rice is Liberia's most important food crop and has tremendous importance for food security and political stability in a country where, in 2006, 81 percent of the rural population was found to be vulnerable to food insecurity and another 10 percent acutely affected by it.[20] Since the rice riots of April 14, 1979, it has been considered a political crop[21]. Regardless of the world market price, Liberian Presidents have made concerted efforts to ensure that the price of rice is affordable by the population. As such, the price is determined by government through the Ministry of Commerce and Industry.

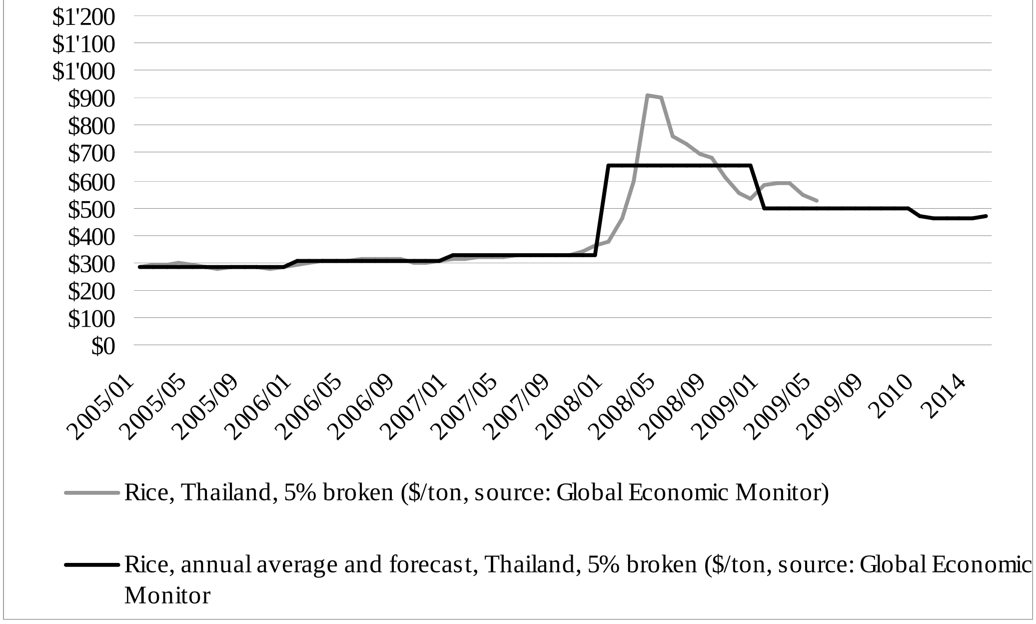
Ad hoc calculations based on figures reported in Ministry of Agriculture indicate that employment in rice cultivation is currently equivalent to about 380,000 jobs. Given that rice is farmed mainly by smallholders who often plant a number of different crops, it is reasonable to assume that these jobs will be stretched among a much higher number of people who are engaged in multiple livelihood activities. Based on estimates in the same Department of Agriculture report, if Liberia were to reach self-sufficiency in rice (assuming a constant labour /land ratio), this would generate the equivalent of an additional 470,000

[20] Poverty Reduction Strategy, 2008.
[21] A surge in rice prices in 1979 contributed to Liberia's descent into chaos, sparking riots and a political crisis leading to the coup d'état that brought President Samuel Doe to power in 1980.

jobs.[22] While these are extremely rough estimates, they demonstrate that rice cultivation, apart from its importance for food security, has a tremendous potential for employment creation. It is important to recognise that smallholder production of rice is often vulnerable employment, dominated by own-account and contributing family workers. Therefore, policies to support productivity improvements are needed to increase earnings and improve working conditions.[23]

As shown in Figure 11, the Global Economic Monitor reports that the price for a ton of rice (Thailand, 5% broken) was stable for years at around $300, but then tripled in 2008 to reach $907 in April 2008. Since then, it has declined again, but has remained above $500 since reaching the earlier peak and is showing no sign of returning to its pre-2008 levels.

Figure 11. World market price for rice.



[22] These ad hoc employment estimates are based on the report: Ministry of Agriculture (2006), *Comprehensive Assessment of the Agriculture Sector*. According to the report, there are currently 104,100
hectares of uplands and 75,000 hectares of swampland under cultivation for rice production. The labour-to-land ratio is estimated to be 1.8 workers/hectare on upland and 2.6 on swampland. The same report estimates that in order for Liberia to reach self-sufficiency in rice production, the area under cultivation would have to increase by another 128,000 hectares of upland and 92,000 hectares of swampland, which, using the same labour-to-land ratios, would mean an additional 470,000 jobs.

[23] Productivity improvements may reduce the number of jobs associated with an expansion of smallholder rice production, but will improve the quality of jobs if smallholders are able to capture, at least in part, the benefits associated with higher productivity.

Liberia is currently a net importer of rice. According to the Ministry of Commerce in 2008 almost US$200 million had to be spent on importing rice, following the spike in international food prices and the continuing strong demand that could not be met by domestic production. While the country's bill for rice imports can be expected to fall in 2009 given the decrease in the world market price for rice, it would still amount to about US$150 million if the same quantity as 2008 is imported at a world market price of US$500 per ton. The Ministry of Commerce also reported that the government has recently purchased substantial amounts of rice that should suffice till March 2010 and the Government of Japan recently donated US$30 million in rice. This contribution is to be sold on the local market and proceeds channelled back into domestic agriculture.

There are presently three major Liberian companies importing rice into the country. Importers noted that they lost close to US$20 million in the first quarter of 2009, as a result of the dive in the global price of rice per metric ton and pressures from the government to keep domestic rice prices low. The companies were subsequently not in the position to pay their suppliers. These payments have been rescheduled over a period of three years beginning late 2009, but it raises concern over continued access to credit to finance rice imports into Liberia. Currently, local banks are not able to finance very large consignments of rice imports.

Employment issues

The largest employment effects in the sector will come from efforts to revitalise smallholder production. However, there are also examples of large-scale rice production that have begun to operate in Liberia. Two companies are presently engaged in mechanised rice production in Liberia, applying capital-intensive production techniques in a sector that could otherwise generate a significantly larger number of new jobs. One of these companies reported that the increase in the price of imported items, especially spare parts and fuel has constrained operations. As a result, some machines are lying idle, the usage of fertilisers and herbicides has been reduced, and other cost cutting measures put in place. No workers have been laid off to date and the company does not foresee any layoffs in the near future. The company currently has 400 workers, mostly unskilled, earning average monthly wages of US$100. The company intends to use the by-products from rice growing to generate energy for a US$ 10.2 million rice mill. In spite of the increase in the cost of relevant inputs, they believe that a 50 kg bag of milled rice will not exceed US$24.00 in the worst case scenario.

The second foreign-owned company is producing rice in Grand Cape Mount County on a small parcel of 200 hectares of land given to them by the government. Little information was provided on the present status of production except for setbacks due to land tenure issues raised by the host community. In both companies, the situation of the workers has not changed significantly with the onset of the economic crisis and the volatility in rice prices.

Outlook

Rice growing is arguably the most important sector of the Liberian economy, both in terms of food security and employment creation. The sector is affected by a number of well-known problems, including undefined land tenure rights and deficient rural infrastructure, which cannot be attributed to the current economic crisis. However, even though the economic crisis may have contributed to reducing the price of imported rice, it also reinforced the urgent need to create more employment, and rice is probably the most promising sector of the economy to do this at the required scale in the short run. Thus, the crisis should not divert attention from the fact that the restoration of rice growing in Liberia is a top-priority.

The current rice concessions are using a mechanised farming approach generating less than 1,000 jobs between them. More labour intensive approaches should be sought for large scale farming, especially considering the price of imported heavy machinery, fuel and spare parts, and the expertise required to maintain such equipment operating in remote areas.

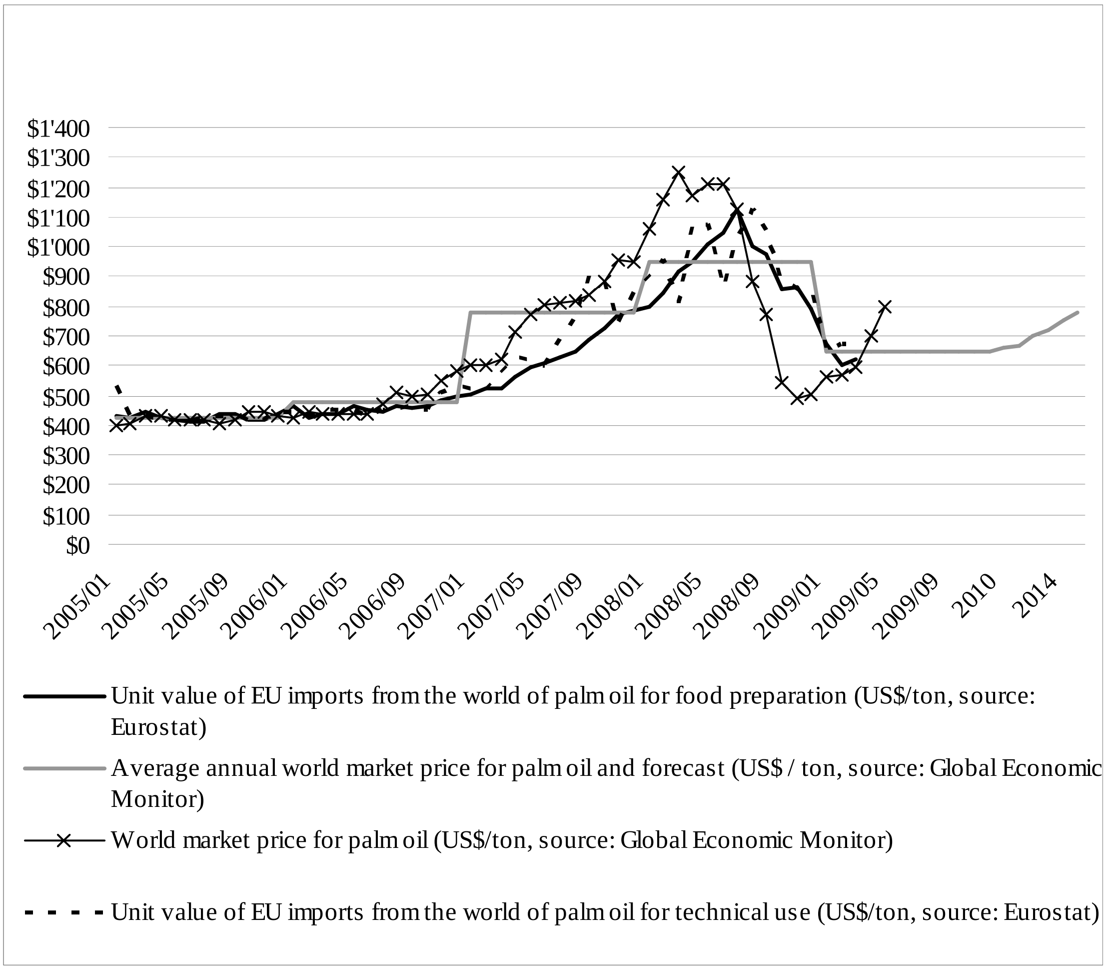
Palm oil

Overview

According to the Diagnostic Trade Integration Study (DTIS) of Liberia carried out in 2008, there are currently some 100,000 hectares under cultivation for palm oil, approximately 75,000 hectares in smallholder production and the rest cultivated by medium size Liberian owned firms. Liberia currently produces about 35,000 tons of crude palm oil and imports another 7,000. There are no reliable estimates of total employment in the sector, but a rough calculation suggests that employment equivalent to 15,000 full-time jobs exists in palm oil cultivation.

There are currently no significant palm oil exports from Liberia but the sector has major potential for import substitution and export growth. As shown in Figure 12, after being relatively stable between $400 and $500/ton, the price for palm oil skyrocketed in 2007 and early 2008, reaching a peak of $1,250 in March 2008. With the beginning of the economic crisis, it dropped dramatically and in November 2008 reached a low point of $488/ton, but ever since, it has been recovering steadily, climbing to $800 again in May 2009. Projections from the Global Economic Monitor see the price of palm oil making a gradual recovery over the next several years.

Figure 12. Selected indicators of world market price for Liberian palm oil, US$ / ton.



The analysis of unit values of EU imports of palm oil roughly confirm these numbers with a lag of about 3 months (given that Liberia is currently not exporting palm oil to the EU, this is based on imports from all trading partners). Import figures for palm oil from the EU have been volatile over the course of the crisis. Imports in the first three months of 2009 are 2 percent below the same quarter of the previous year in value terms, but 31 percent higher in quantity terms.

Employment issues

The initial impact of the crisis on the industry was reduced oil production in response to lower global demand. The negative impact of the crisis has been significant for local producers. However, domestic prices are still high in range of L$ 1,200 - 1,500 (US$ 17 - 21) per five gallons due to a chronic West African supply gap that has been filled to date by Malaysian imports.

Liberia is in a strong competitive position to meet local and regional demand due to lower transport costs. Global oil demand is also bouncing back with higher world prices expected over the next six months because palm oil is one of the lowest priced food oils to produce and remains profitable at lower prices.

The impact on workers is mixed, and appears to vary from employer to employer. One company, which is in the pre-operational phase, has retained all of its workers. Another company, which has mainly rubber activities, is dormant. It will be scaling up its operation soon, with potential to create around 15,000 employment opportunities over the next five years. However, small scale operations continue and help supply the local market.

Outlook

There are currently four concessions for large palm oil plantations to be set up in Liberia, but they are not yet operational. There is strong investor interest in the sector. One investor, which is taking over an older rubber plantation, is diversifying 80 per cent of its US$ 849 million investment into new oil palm plantations, a vegetable oil processing factory and social infrastructure while it replants a portion of the old rubber plantations. Total acreage awarded in the concession agreement is 220,000 hectares in Bomi, Cape Mount, Gbarpolu and Bong counties. The company has pledged to improve and centralise social services and to carry out development activities as a means of improving community relations. Total employment potential is estimated to be upwards to 30,000 workers for both palm oil and rubber. This concession agreement was recently approved by the legislature.

Given that the world market price has already recovered substantially and the outlook remains bright (even if the peak-prices from early 2008 are unlikely to be achieved again in the short run) these investments are expected to move ahead as planned. There is currently no potential for concession holders to threaten lay-offs given that investments have not started yet, which puts the government in a much stronger bargaining position in future negotiations. However there is a need for infrastructure investment to facilitate the transportation of the projected output from all the concessions under consideration.

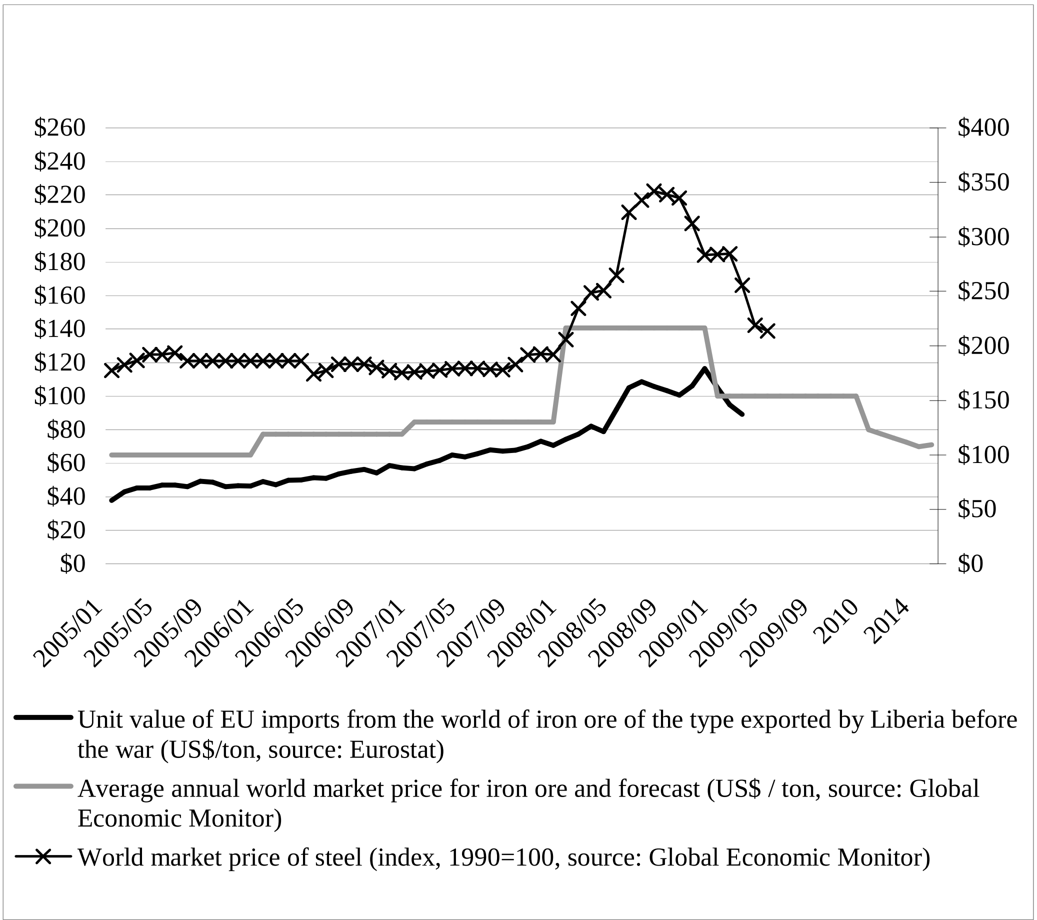
Iron ore

Overview

Liberia does not currently produce iron ore, but there are two international companies holding mining concessions and a third one is currently being auctioned. One company has already begun its investment and is expecting to start shipping iron ore in 2011, the other one is supposed to commence operations later this year.

As Figure 13 shows, the world market price for iron ore has been affected by the economic crisis. The Global Economic Monitor only reports an annual price for iron ore. This is probably because the reference price for iron ore is determined every year through negotiations between the major suppliers and the steel mills that buy the raw ore. The Global Economic Monitor data reports that after increasing to $140 a ton in 2008, the price fell to $100 in 2009 and it is expected to decline further to $80 in 2010 and $75/ton in 2015, which is comparable to its level in 2005.

Figure 13. Selected indicators of world market price for Liberian iron ore, US$ / ton, and steel prices (Index, 1990=100).

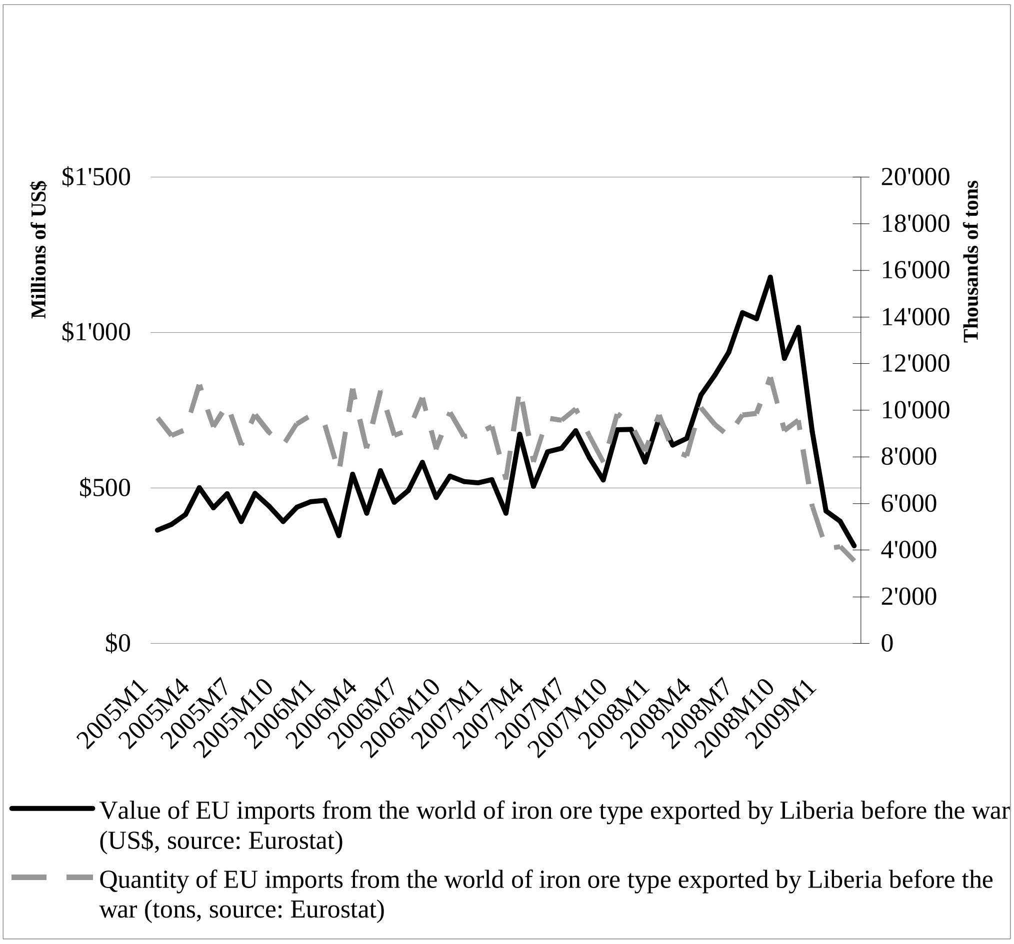


Unit values for EU iron ore imports (from the rest of the world) of the same type exported by Liberia before the war show a parallel trend, although the price generally falls a bit below the world market price. This is probably due to the fact that this data refers to non-agglomerated iron ore, which is what Liberia exported before the war, which typically commands a lower price. It is reasonable to assume a lag of about three month between the spot price on the world market and the unit values reported for these imports by the EU. After reaching a peak of $116/ton in December 2008, unit values dropped to $89 in March 2009.

The main driver for the world market price for iron ore is the demand and price for steel. In the case of Liberia, the link is even more direct because the companies that have acquired concessions for iron ore mining in Liberia so far are steel companies mining their own raw materials. Figure 13 also shows the world market price for steel which, after peaking at 341 percent of its 1990 level in August 2008 has declined constantly ever since and reached a level of 214 percent of its 1990 level in May 2009.

Import data from the EU, presented in Figure 14, show a dramatic drop in demand after the beginning of the economic crisis. After being relatively stable in quantity terms between 2005 and early 2008, imports into the EU dropped by 55 per cent in quantity terms and 46 per cent in value terms between the first three month of 2008 and the first three month of 2009. This provides an indication of the dynamics in one major import market.

Figure 14. Value and quantity of EU imports from the world of the type of iron ore exported by Liberia before the war.



Employment issues

Although iron ore production has not resumed in Liberia, the global financial crisis has had negative impacts on the preparations for future production, leading to work force reductions and the suspension of road and railway rehabilitation investments tied to the concession agreements. Interviews suggest that one company has laid off 80 full time workers and 1,200 contractual workers in Liberia (with 9,000 employees laid off by this company worldwide). Approximately 80 to 85 percent of the expatriate workforce in Liberia has been relocated or laid off. The company is currently maintaining a work force of about 1,000 in Liberia, including 460 full time employees, security guards and community contractors in order to be ready to bring operations back to full potential again. Apart from low world market demand for steel and iron ore, this company is also struggling with cash flow problems resulting from the global liquidity crunch, the contraction in the availability of credit, and a drop in the company's share price.

The current focus is therefore on cost cutting measures and remaining prepared to scale up activities if the situation improves, but the company is already delayed in meeting the employment requirements from their Minerals Development Agreement with the government. The government is monitoring the situation carefully and is prepared to legally enforce the provisions of the concession agreement as necessary. The company has submitted a revised business plan. They are optimistic that the situation will improve in the near future. If so, they intend to employ 3,500 workers once mining operations commence in 2011.

Outlook

The company that won the second iron ore concession is supposed to start operations in Liberia before the end of the year and up to now has given no indication that they will not do so, but the Ministry of Lands, Mining, and Energy (MLME) assumes that they are 1-2 months behind schedule. It was reported that, after winning the bid, the company approached the government to re-negotiate some provisions of their concession agreement regarding royalty payments due to the impacts of the economic crisis.

A third mining concession was opened for bidding in 2008 but after the bids had been concluded, the government conducted due diligence on the winning company and found that it was not in a financial position to complete the investment. After some failed negotiations, the concession was re-opened for bidding in 2009 which seems to have led to some strong bids that are currently being evaluated by the government. Another company is currently negotiating with the government about the development of untapped iron reserves for which the company holds titles. The same company also holds titles to considerable iron reserves across the border in Guinea and wants to build a railroad from there via their Liberian reserves to port. However, the concession is not expected to lead to any significant investment and employment for another three years.

World market prices for iron ore are unlikely to reach their 2008 levels again anytime soon and so a historical window of opportunity for favourable concession agreements in iron mining has likely passed. However, iron mining investments have a very long time horizon and will be extremely important sources of revenue and – to a lesser extent – employment for decades to come. As companies begin to gear up and if remaining concessions proceed as planned, employment in the sector at full capacity could reach approximately 8,500 jobs in the next four years. Given the long time horizon of iron ore investments and the fact that Liberia has been able to attract good offers from reputable companies even during the crisis, there does not seem to be a need to accept unfavourable terms in the concession agreements simply because of current market conditions.

Timber

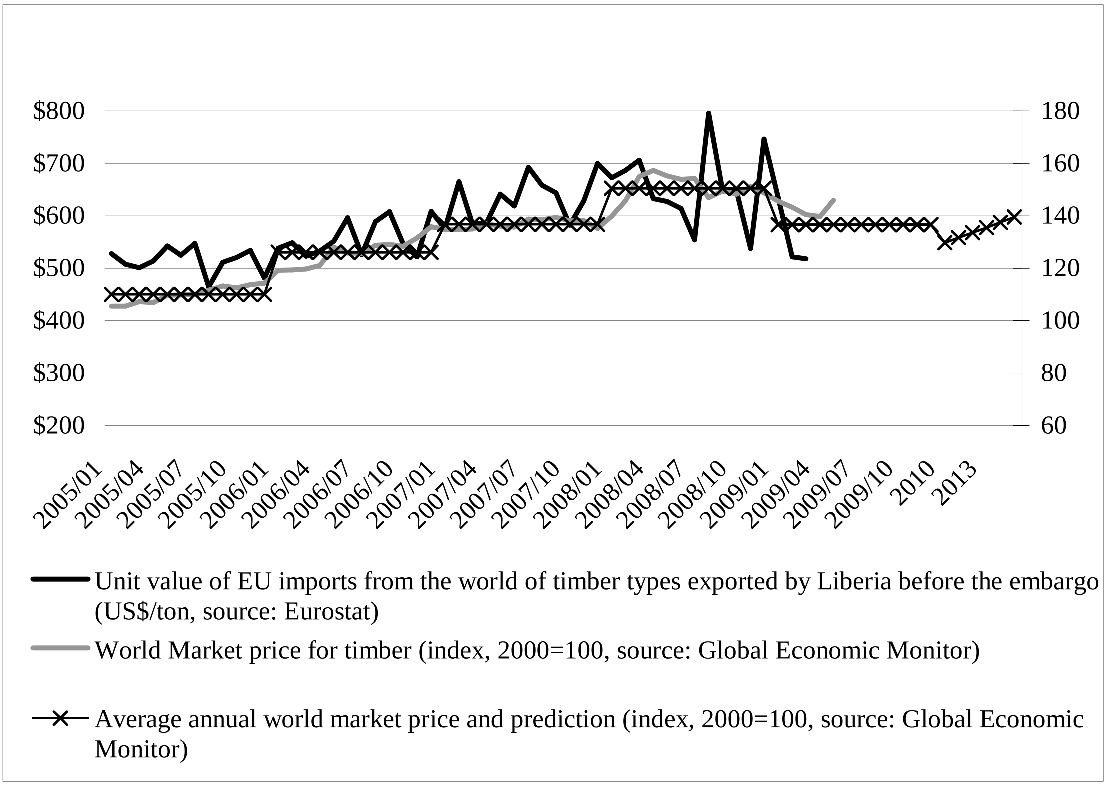
Overview

Liberia possesses 43 percent of the upper Guinea forest which is distributed among 14 countries in West Africa from Senegal to Nigeria. The potential for timber production is substantial, although there are concerns over the need to preserve the forest's biodiversity. The timber sector's contribution to conflict in the region led to the imposition of sanctions on it by the United Nation's Security Council in 2003. In addition, Executive Order #1 cancelled all timber concessions and contracts in 2006. The government has lost approximately US$ 150 million in taxes since the sanctions and the sector is no longer contributing its pre-war US$ 100 million to GDP, including wage payments of approximately US$ 20 million. This is significant for the overall economy, and the trade unions estimate that 23,000 jobs were lost as a result of the sector's decline.

Exports of timber from Liberia are currently very small, less than US$ 1 million per year. Initial data from the Ministry of Commerce, which has not yet been confirmed by the statistical office, estimates exports in the first quarter of 2009 to have been US$ 746,000. Most sources agree that there is currently no significant commercial logging activity except for a few very small concessions to local companies. Furthermore, no export licenses for timber, required under United Nations' provisions, have been issued so far. While this information on logging activities might be outdated, one possible source for the exports from the sector could be a special type of wood used for carving that is exempt from the United Nations' regulations. Another possibility is that the exports come from previously logged trees that were abandoned by former owners during the civil war.

Figure 15 shows indicators of world market prices for timber exports. The world market price for timber, as reported by the World Bank's Global Economic Monitor, appears to have been moderately affected by the crisis. Throughout 2008, the price was relatively stable around 150 percent of its 2000 level. It declined slightly in early 2009 and is reported to have reverted back to 145 per cent of its 2000 level in May 2009. It is projected to fall again during 2010 to around 135 percent and then make a slow recovery.

Figure 15. Selected indicators of world market price for Liberian timber, US$/ton and price index (2000=100).



Given that Liberia has not been exporting large quantities of timber since the civil war, no unit values are available for its own exports. However, it is possible to analyse unit values for EU imports from all trading partners of timber classified in the same tariff line as the imports that were reported from Liberia before the embargo. This indicator shows considerable fluctuation in 2008 ranging from a minimum of US$537/ton to a maximum of US$746. It reaches a low in February/March 2009 at around US$520/ton which may well be attributable to the crisis. However, it is a relatively small decline compared to other commodities.

Employment issues

It is estimated that 7,000-8,000 people are currently employed in informal chainsaw logging, supplying the domestic market with wood for construction. Formal activity in the timber sector is currently resuming after the end of the U.N. imposed embargo on tropical woods exports. However, stalled concessions in this sector are slowing expected employment growth.

Pre-war loggers have not been able to pay a trade union estimation of more than US$ 20 million in salary arrears and severance to workers since 2003 because they have not been given due process to dispose of their assets, including previous forestry concessions, to enable them settle claims on them by workers and banks. Many are sceptical about the proposed carbon credit alternative. The Timber Workers' Union has been negotiating with government on behalf of its members but to no avail. They estimate that 52 timber companies still owe about 19,420 employees. Some former workers indicated that any new investment could encounter protest actions if workers are not paid the money due to them.

Outlook

Three rounds of bidding for commercial logging concessions have been conducted, covering about 40 percent of the total area available for logging. The first one was in 2008 for 6 small concessions of around 5,000 hectares each. These are short term concession for 3 years that give the holder the right to clear the land that can then be used for farming or other purposes. These contracts are reserved exclusively for Liberian companies. The second round of concessions was for 3 pieces of land between 60,000 and 120,000 hectares for 25 years that give the holder the right to manage the forest and log at a sustainable rate. Concession below 100,000 hectare require at least 51% Liberian ownership, larger ones are also available for purely foreign investors. These concessions were cleared by the legislature in May 2009. The last round was held in February 2009 for 4 large concessions totalling 700,000 hectares and the resulting bids are currently under evaluation.

The Forestry Development Authority is generally pleased with the results of the process up to date and is expecting the concessionaires to take up commercial logging shortly, regardless of the economic crisis. However, other sources interviewed were more sceptical about the prospects for the logging sector. They point out that out of the 6 concessions in the first round, only three could be awarded, and in two of these cases the financial backers pulled out eventually, so only one of these concessions is actually moving ahead. For the second round, only one concessionaire is reported to be moving forward while the other two are held back by financial difficulties. In the third round, the quality of the bidders is said to be very low.

The financial difficulties of concessionaires may have been aggravated by the current crisis, but the main problem is failure to attract companies that have the experience and financial capacity to carry out investments, and this does not seem to be a result of the crisis. There are a number of issues that are currently deterring investment from international companies that need to be understood more clearly and resolved. This would include a review of the pricing and sizing of concessions that in the past have been found too small to attract large international investors. Also, logging is a very sensitive sector in terms of an international corporation's public image because of environmental issues and linkages to conflict and corruption in many countries. These concerns by international companies – whether they are justified with respect to Liberia or not – need to be addressed, which require considerable marketing efforts by the FDA. Available estimates of the employment potential of the sector range up to 9,000 jobs. This is less than half of the level of employment which had existed in the sector in the past.

Lower global timber prices in response to the drop in global demand make it even more difficult for companies to start operations in a sector that is already unattractive to investors because of contract conditions and a new tax structure which investors find prohibitive. The pre-war land rental fee was US$0.50 per hectare, but this has been raised to US$1.00 per hectare, with bid premiums ranging between US$2.00 to US$4.00. Recently a company paid US$11.50 per ha for 18,000 ha which is considered to be quite high. Furthermore, in addition to pre-war restrictions that limit logging activity to 4 percent of the total concession area per year, there are new rules on harvesting practices that include limitations on crossing of waterways and a 30-metre buffer zone around each waterway. There is a 10 percent stumpage tax and a 10 percent tax on the (FOB) cost of log shipments. Many companies argue that these regulations are too restrictive.

Gold

Overview

There are currently about 10,000 artisanal gold miners in Liberia but no large-scale commercial gold mining. Unlike most other commodities, the price for gold has not been significantly affected by the economic crisis. After reaching a high of $968/oz in March 2008, it dipped slightly to $760 in November 2008 only to recover steadily during the following month and stabilizing above $900 again in Mar-May 2009. Even at its low point in March 2008, it was still substantially above the average level for 2007 ($696). The long term outlook from Global Economic Monitor has the price decline slightly back to this level ($700) by 2015.

Employment issues

All current employment in gold mining is on a small scale artisanal basis. There are some reports that given the current development of world market prices, more artisanal miners are moving away from diamonds and have started looking for gold instead. However, precise information on these small-scale activities is not available.

Outlook

The MLME reports a strong decrease in the activity of companies doing exploration for all kinds of mining activities (including gold, diamonds, and coal). A map provided by the geological department of MLME that shows all ongoing exploration activity lists 34 companies that are currently involved in different stages of exploration for gold, diamonds and other minerals. Most of these companies are reported to have scaled down operations or put them on hold. The primary barrier with respect to gold mining in Liberia is not decreased world market demand, but rather difficulties in obtaining finance for large mining operations in a risky environment.

Two companies have already signed Mineral Development Agreements (MDAs) to mine gold. A United States/Liberian company has a total of four MDAs, three of which are still pending confirmation by the legislature. The company is currently undergoing substantial turmoil, but it is not clear that this can be attributed solely to the crisis. Investment in gold mining had been expected to begin generating some employment in about three years, but, given the current situation, this seems unlikely. The second company is still doing some additional exploration and is expected to start investing in actual mining in 2-3 years. The potential for employment creation linked to this investment is not clear.

Despite favourable world market conditions, the prospects for large-scale commercial gold mining in Liberia have been impacted by the economic crisis through the tightening of international credit availability for exploration and mining. While this is likely to be temporary, it will delay the generation of employment and substantial government revenue in this sector. A solution could be to try to attract more solvent large international companies into the sector. Small-scale artisanal gold mining activity, which is important in terms of employment, is – if anything – likely to increase at the expense of diamond mining. However, if the sector does expand, it is also important to recognise concerns over the health and safety of miners in the sector and any adverse effects on the environment.

9. The impact of the crisis on households

Layoffs, reductions in earnings and loss of benefits (including housing, medical and food supplements) have placed pressures on household resources and increased the risk of poverty. Private, informal safety nets – in which people depend on family and friends for support – are financed by employment earnings. When these earnings decrease, the social safety net weakens. Some plantations which provide housing permit upwards to 8 dependents for one worker to live in the housing units. Therefore, if one person loses a job and is forced out of company housing, nine people become homeless and without income. Lower earnings have made it difficult for workers to cover their basic needs, including food. Many workers face considerable uncertainty as to how long their current employment situation will last, and this additional stress has been noted as a reason for workplace accidents and lower productivity. Some redundant workers with disputed and/or unpaid severance benefits or salary arrears have the added burden of not having capital to establish alternative livelihoods.

The worsening conditions for informal workers and small-scale businesses also have broader consequences. The closure of one market table, or the failure of a retail store, has serious negative implications for the family, especially women and their children. One key informant for the marketers noted that the enrolment in the schools for children of market women has fallen.

The effect of the decline in the price of rice on the international and local market is positive for consumers. Although the price of a bag of rice has fallen, it is still not affordable by many. The widening parity gap between the US dollar and the Liberian dollar has led to increases in prices, expressed in Liberian dollars, of many consumer goods and services. Consequently, the purchasing power of households has declined, leading to less money spent in the local economy on goods and services.

Due to higher rates, some customers are not paying their electricity bills, and the disconnection of these customers has commenced. This reduces access to electricity for the small minority of Liberians that currently have electrical services. The lack of running water is another major issue that will most likely continue to be overlooked during these difficult economic times, stalling progress for a nation struggling to emerge from its post-conflict situation. The lack of access to these basic social and economic services contributes to economic and social insecurity. It will further limit the productivity of own-account workers and small-scale enterprises. For these reasons, greater and more reliable access to these basic services should remain a priority for policymakers.

10 Economic Policy Space and Strategies

This report has documented the negative impacts of the global crisis on Liberia – with a specific focus on trade, foreign investment, and employment. We now turn to the question of policy responses, beginning with macroeconomic and other broad-based strategies. Already a number of countries have shifted their economic policy positions so as to attempt to counteract the global downturn. Strategies include fiscal stimulus packages (through spending, taxation, and public investment policies) and emergency monetary responses (attempts to increase the liquidity of and restore confidence in global financial markets). As we have discussed, the channels through which the recession affects Liberia are different from the ways in which the crisis has manifested itself in higher income countries. Similarly, the policy response, and the available policy space, is also different for Liberia. In this section of the report, we explore these issues.

The policy areas explored in this section also are important in terms of longer-run policy objectives. Macroeconomic policies directly impact the quality and quantity of employment opportunities. Macroeconomic policies support demand in domestic markets and help to create a positive environment for investment. Through such channels, they raise the demand for labour and create new employment opportunities. In addition, macro-level policies affect returns to labour and therefore employment incomes and living standards. For example, exchange rate policies in Liberia can protect the terms of trade for self-employed individuals who purchase using U.S. dollars, but sell in markets using Liberian dollars. Public investment can be used to raise productivity and improve market access, thereby improving earnings potential. Of course, complementary policies are needed to insure that Liberians can take advantage of the improved employment opportunities when they become available – through capacity building, education, and skills development. Nevertheless, the policy areas discussed in this section should play a central role in any employment strategy for the country.

Fiscal Policy

Liberia runs a cash-based budget in which total expenditures must not exceed the sum of current revenues and any accumulated cash reserves. Therefore, there is no scope for a traditional expansionary fiscal policy, in which taxes are cut or spending increased and the resulting deficit is financed through government borrowing.

The government has recently reduced corporate and personal income tax rates and has eliminated the import duty on rice. However, these measures do not represent a stimulus at the macroeconomic level, since government revenues will be correspondingly lower and, given the cash-based budget, potential spending will be less. The net impact on the Liberian economy is uncertain. If households and companies spend the additional income they have at their disposal due to the tax breaks on domestically produced goods and services, it will increase demand in local markets. If the additional after-tax income is spent on imports or saved, the impact on the domestic economy will be correspondingly less. In contrast, if the tax breaks were not implemented and the additional revenues were spent by government, the impact would be influenced by similar factors: the extent to which government has the capacity to effectively spend the additional revenues and the degree to which the spending is concentrated on domestic economic activities.

Although the cash-based budget prevents Liberia from pursuing a broad-based fiscal stimulus, it does not preclude using tax policy to stimulate targeted investment. For example, strategic tax reductions could be extended to priority sectors, as long as such policies are consistent with the revenue code. Such tax reductions could be directly linked to employment creation. Tax policies could be used to encourage companies to increase their workforces and provide jobs to Liberians, including vulnerable populations.

The current negotiations (and re-negotiations) of a number of concession agreements raises concerns over future government revenue collection and fiscal policy space. The rapid decline in commodity prices has resulted in a shift in bargaining power away from government and towards the bidders (less of a sellers market and more of a buyers market). This may affect the terms of the concession – for example, royalty payments and other streams of future government revenues from the agreements. In most cases, these negotiations will not have any immediate impact on current government revenues – with the possible exception of any once-off payments. However, current commitments will affect future revenue flows. One strategy that can be pursued is to index payments to government to the relevant global commodity price. When global prices recover, government would not be locked into low rates agreed upon during this time of depressed commodity markets.

Liberia has reached the decision point in the HIPC debt relief process and now faces a floating completion point. There are a number of reforms, linked to the HIPC debt relief process, that could be prioritised in order to open up fiscal space in the near future by reducing the time it takes to reach the completion point. Most important of these is the passage of the Public Financial Management (PFM) legislation. This is already a government priority and the reform is expected to pass later this year. Typically, countries must have the PFM reforms in place for 12 months before being considered to have reached the HIPC completion point.[24] However, the Government of Liberia could make an appeal to move up the completion point. Such an appeal would be contingent on the passage of the PFM reforms. Similarly, revisions to the country's investment code would strengthen the case for moving up the completion point.[25]

Moving up the completion point would create additional fiscal space through several channels. First, Liberia would receive some additional relief in terms of reducing the servicing costs on its external debt (much of the servicing costs of Liberia's debt that would be affected by the HIPC process are already being covered[26]). Second, the ability to access concessionary borrowing would be restored. Finally, reaching the completion point will send positive signals about the health of the economy to donors and potential investors. For these reasons, a concerted effort to accelerate the legislative changes need to reach the completion point would yield important dividends.

Public Investment

One of the most significant factors limiting the revitalisation of Liberia's economy is the lack of basic infrastructure – including critical areas of social infrastructure, such as the construction of schools and clinics. This is widely recognised. Poor infrastructure lowers productivity, raises costs, and limits competitiveness on global markets. This reduces foreign and domestic investment. Lack of transportation, electricity, storage, and processing infrastructure is perhaps the single most important constraint for small-holder agricultural producers. Inadequate school facilities compromises public investments in education and limit the opportunities which Liberia's young population will be able to access in the future. Investments in the country's human resources are a critical, if more intangible, type of infrastructure.

Without adequate public investment in these areas, economic development will be seriously compromised. At the macroeconomic level, public investment operates on both the demand and supply side of the economy. On the demand side, spending on infrastructure raises demand for inputs and creates jobs directly. On the supply side, new infrastructure raises productivity, encourages investment, and, through these channels, helps improve employment opportunities in the long-run.

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[24] Interview with IMF residential representative, July 20th, 2009.

[25] One of the triggers for Liberia's floating completion point is to implement a revised investment incentive code in which investment incentives could only be extended within the context of the country's revenue code.

[26] IMF (2009). Liberia: Second Review under the Three-year Arrangement Under the Poverty Reduction and Growth Facility.

Most of the infrastructure projects currently underway in Liberia are supported through donor funds. However, there have been efforts to prioritise infrastructure provision by the Government of Liberia in the 2009/10 budget. For example, the budget of the Ministry of Public Works has increased to approximately $40 million for the 2009/10 fiscal year. About 80 percent of this budget is directed towards infrastructure projects.[27] This represents a significant increase over previous allocations. Nevertheless, infrastructure spending in the budget remains extremely small when compared to the overall need.

In addressing the negative consequences of the global crisis, infrastructure investment through expanded public works programmes represent a strategy with both short-run and long-run benefits. In the short-run, such programmes could be used to provide employment opportunities to those adversely affected by the crisis, particularly if labour-intensive infrastructure projects are adopted. Such programmes would leave behind public assets which would provide benefits to the private sector in the long run. Given the limited fiscal space – described above – such public investment programmes would require donor support to help Liberia address the impacts of the crisis. Also – constraints in terms of capacity, procurement, and delivery would need to be addressed if such programmes were to be scaled up from their current levels. Nevertheless, such initiatives represent one strategy to connect short-terms responses to the crisis to the country's long-term development goals.

Monetary and exchange rate policies

Monetary policy in Liberia faces a number of constraints which limit its ability to counteract the effects of the crisis by stimulating economic activity. One of the main limitations of monetary policy is the highly dollarised nature of the economy. Many transactions are carried out in U.S. dollars, not Liberian dollars. The extent of dollarisation is substantial: financial assets and liabilities are often denominated in U.S. dollars (US$), the national budget is presented in US$, US$ are used for many routine transactions, and prices are frequently quoted in US$. Estimates suggest that U.S. dollars account for up to 90 percent of the money supply.[28] However, the Central Bank of Liberia's monetary policy only operates on the supply of Liberian dollars. The result of widespread dollarisation is significantly less control over monetary policy.

Dollarisation represents only one factor which limits the scope for an independent monetary policy in Liberia. The structure of the domestic financial sector constrains the Central Bank's use of traditional monetary policy instruments. The domestic banking sector is highly liquid and banks hold a

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27 Interview with representatives of the Ministry of Public Works, July 22nd 2009.

28 Eramus, Leichter, and Menkulasi, 2009. De-dollarisation in Liberia: lessons from cross-country experience. WP/09/37. IMF Working Paper, International Monetary Fund, Washington D.C.

sizeable amount of excess reserves. Therefore, efforts to stimulate economic activity by lowering the reserve requirement will have no impact – banks will continue to hold the same level of liquid assets. Similarly, banks have little incentive to borrow from the central bank in order to meet their reserve requirements, since they are already highly liquid. There is no functioning capital market in Liberia and, as a consequence, no ability to conduct monetary policy through the purchase and sale of government securities. Instead, the supply of Liberian dollars is controlled through the buying and selling of foreign exchange (i.e. U.S. dollars).

Therefore, the conduct of monetary policy in Liberia is closely linked to exchange rate policy. The Central Bank manages the exchange rate by buying and selling Liberian dollars. Changes in the exchange rate also impact the domestic prices of goods exchanged in Liberian dollars. Intervention in the foreign exchange market is the primary tool for influencing the exchange rate, the inflation rate, and the domestic money supply. This means that the monetary policy instruments which Liberia has at its disposal are extremely limited.

The Central Bank has recently used foreign exchange operations to support the value of the Liberian dollar when the exchange rate began to depreciate earlier in 2009.[29] In this respect, Liberian monetary policy has responded to one consequence of the global economic crisis. By supporting the Liberian dollar, the Central Bank helps to shield individuals who use the Liberian dollar for routine exchanges from the adverse impacts of the depreciation. There is little additional scope for a monetary response to the crisis. In the future, if the banking sector extends more credit by reducing its holdings of liquid assets, if demand for Liberian dollars increases, and if a domestic capital market is developed, the scope for monetary policy will expand. Policies that support these institutional changes are desirable since they will expand the set of tools available to policy-makers. This transformation will not be realised in the short-term and therefore the role of monetary policy in responding to the immediate crisis is limited.

Financial sector policies

As discussed earlier, the Liberian financial sector has been insulated from the negative impacts of the crisis. In fact, the financial sector has continued to grow and expand despite the turmoil in global markets and the worldwide liquidity crunch. According to the May 2009 *Fact Sheet on Key Economic and Financial Indicators*, published by the Central Bank of Liberia, total deposits, both in Liberian and U.S. dollars, continue to grow. The ratio of non-performing loans has declined, down to 15.4 percent of all loans in May 2009. The number of banks has increased over the past few years, as new players enter the market. Currently, there are 8 banks operating in the country, with an additional bank expected in the near future. By many standards, the Liberian financial sector appears healthy and vibrant.

[29] Interview with Central Bank officials, July 21, 2009.

Despite the apparent robustness of the banks, the financial sector plays a relatively limited role in supporting productive investment and employment in Liberia. Most of the credit extended by the banks is used to finance imports, not domestic production. Moreover, the banks have a large amount of excess liquidity – there are significant resources in the system to extend additional credit. The liquidity ratio in the banking sector from May 2008 to April 2009 was between 50 and 60 percent – compared to a required liquidity ratio of 15 percent.[30] Despite the increasing numbers of banks, spreads between lending and deposit rates remain large. For example, according to Central Bank data for May 2009, the spread between average lending rates (14.2 percent) and average deposit rates on savings accounts (2.0 percent) was 12.1 percentage points.

There are many reasons for the excess liquidity and limited extension of credit in the banking system. The effective demand for loans is relatively small. In Liberia, the rate of non-performing loans has been high, and the capacity to manage credit is frequently limited, particularly among small-scale borrowers. A lack of sustained information on creditworthiness causes banks to be cautious and to focus lending on core clientele. Collateral requirements are often very high in order to protect the banks, but this limits the pool of potential borrowers. Moreover, demand for loans denominated in Liberian dollars remains limited. The negative impact of the financial crisis on the domestic economy also reduces the effective demand for credit to support investment in productive activities.

Despite these significant constraints, the fact remains that the financial sector in Liberia has a significant pool of resources which could be much more efficiently utilised. Given the scarcity of resources elsewhere in the economy, finding ways of mobilizing these resources to support employment creation and other development objectives represents an important opportunity.

There are already plans to establish a credit registry and reference system in order to improve the quality of information that banks have at their disposal. If such a credit registry were broad-based and included a history of microfinance loans, this could help reduce one of the barriers to small-scale lending. Financial sector reforms along these lines should not be based on the proliferation of microfinance institutions and other alternative finance institutions. An integrated approach that connects commercial banks, government programmes, formal regulations, and institutional changes for administering small-scale loans is required. Government programmes should support efforts by formal financial institutions to extend credit to productive activities. For example, complementary capacity building programmes can be paired with small-scale loans administered through explicit linkages with larger scale financial institutions. In addition, government programmes could provide loan guarantees to small scale enterprises and cooperatives that have gone

[30] Central Bank of Liberia. *Fact Sheet on Key Economic and Financial Indicators*, various months.

through a formal training programme and have demonstrated a capacity to successfully manage credit. Such guarantees reduce a portion of the risks which banks face when making loans and would encourage greater credit extension and narrower spreads.

Changes in lending practices can also eliminate the barriers to credit access. For example, one Liberian bank has successfully experimented with innovative microcredit schemes in which credit is extended to groups in up-country communities. The bank first identifies groups and associations with which it can work. These groups and associations include informal traders, church groups, and small scale savings and credit cooperatives. It then works with these groups to formalise financial services. The groups open a collective savings account and this account serves as collateral for making loans. All the members of the group have a stake in ensuring that any loan is re-paid, providing an effective mutual monitoring system. The challenge is to scale up such initiatives to support widespread access to financial services.

The lack of credit supporting agricultural activities has been identified by the Ministry of Agriculture as a critical issue that needs to be addressed.[31] The Agricultural Cooperative Development Bank (ACDB), when it existed, provided credit to agricultural activities, but did not serve smallholders.[32] A strong case can be made to revitalise development finance in Liberia, and to extend such services to the agricultural sector. Sustainable approaches can build on what already exists and could involve establishing agricultural microfinance institutions, forging linkages between formal banks and informal savings and credit organisations in rural areas, and developing public-private partnerships to reduce barriers to extending financial services to under-served areas and activities.

These strategies for removing the barriers to accessing credit can support a broader employment strategy. Small enterprises are a significant source of employment creation in Liberia. Moreover, in terms of sheer numbers, smallholder agriculture and non-agricultural self-employment represents the two most important sources of employment in the country. In addition, support for these activities can support broader objectives, such as food-security (in the case of smallholder rice production) and diversification of economic activities. Often, lack of access to capital limits productivity and earnings in these enterprises and activities. However, access to credit represents only one – and perhaps not the most important – constraint to improving these employment opportunities. Therefore, an integrated policy approach, which includes training and skills development, to assist small-scale enterprises and to improve the quality of self-employment will be needed.

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[31] Ministry of Agriculture. 2006. From Subsistence to Sufficiency: Food and Agriculture Policy and Strategy. Monrovia.

[32] The Agricultural Cooperative Development Bank was not sustainable, due to large scale losses, and collapsed.

11. Labour market institutions, employment programmes, and social dialogue

Emergency employment policies and programmes

The Ministry of Labour is currently engaged in a number of critical initiatives, including the development of the National Employment Policy (NEP), the creation of a new National Bureau of Employment, and moving forward with the revision of Liberia's labour law – the draft Decent Work Bill. These institutions and policies will be necessary for realizing the long-term goals of generating decent, productive employment opportunities as part of the country's economic revitalisation. However, the global crisis has hit Liberia at a time when these initiatives have not been completed and they cannot be relied upon to address the impacts of the crisis in the short-run. Nevertheless, there are a number of programmes that are already in place that do have the potential to address some of the adverse effects of the crisis on Liberia.

An employment strategy that encourages short-term employment is needed, and some initial work was done, until 2008, through LEEP which focused on labour-intensive road reconstruction and private sector development of waste management. This is one programme of many which created emergency jobs. The challenge is that the efforts are disbursed across many sectors, and the impact of emergency job creation is therefore dissipated and requires coordination, consolidation, and clear leadership. The potential of this is described in the new National Bureau of Employment (NBE), defined in the draft National Employment Policy. The NBE will be a semi-autonomous body within the Ministry of Labour, reporting directly to the Minister.

With the global financial crisis, there will be increased demand for short term income generation and emergency employment programs at a time when securing funding for emergency employment may become more difficult. Also, the impact of the economic crisis appears to be uneven across sectors, regions, and types of employment. Ensuring equitable access to emergency employment programs will require an assessment of the added need created by the crisis and potential adjustments to how the programmes have been targeted. In addition, the crisis will place additional demands on the capacity of the Ministry of Labour and providers of technical support (e.g. the ILO), if the emergency employment schemes are to be successful in addressing some of the adverse impacts of the crisis. Donors and international agencies will need to provide increased financial and technical support to the new NBE.

Dispute resolution and social dialogue

The global crisis in Liberia has already led to a number of serious industrial disputes, and these conflicts could grow in the near future if the crisis continues. Labour inspectors, tripartite bodies, human resource managers, appointed conciliators and arbitrators, as well as Ministry staff will feel added pressures to prevent and resolve disputes quickly. Many of these disputes will probably be about payment and redundancy benefits.

To mitigate these crisis effects on disputes, increased focus will need to be put on encouraging social dialogue at national, regional, sector and enterprise levels. In practical terms, this means: setting up social dialogue bodies in key sectors, making mediation training and knowledge of labour rights more widely available, and making better transport (such as motorbikes) and communications facilities (mobile phones and email) available to inspectors, conciliators and the social partners.

Progress has been made in strengthening social dialogue with the founding of the National Tripartite Council (NTC). More specifically, under the Decent Work Bill (yet to be enacted), the NTC will advise and make recommendations to the Minister on labour issues, participate in the process of developing codes of conduct and regulations under the Decent Work Bill, and recommend appointments to the Minimum Wage Board. The NTC will identify conciliators to assist with industrial disputes that the President considers to be in the national interest, and will be able to perform other functions as required by the Minister.

The financial crisis will create more pressure for consultation, recommendation and intervention. There will be risks of growing mistrust between the social partners and conflicts over the distribution of national income as economic growth slows down. There will greater potential for restructuring of enterprises, worker redundancy and business failures. Most workers are not represented through the classic social dialogue structures in place or envisaged because they are part of the informal sector or are self-employed contract workers. In times of crisis, their voices need to be heard.

Although Liberia has made a good start in improving its institutions of social dialogue, more work is needed. The capacity of the NTC should be strengthened to maximise its full potential to promote and sustain social dialogue. In addition, there is a need to instill transparency and trust between the social partners and the government. Increased attention should be paid to encouraging social dialogue at national, regional, sector and enterprise levels. This requires the establishment of social dialogue bodies in key sectors, widespread information and training on labour law and dispute resolution, and the provision of appropriate facilities available to inspectors, conciliators and the social partners.

Labour inspections

The main impacts of the economic crisis on labour inspection are: (1) an increase in the number of vulnerable workers; (2) more industrial disputes over redundancy issues; and (3) more resistance of cash-strapped employers in terms of complying with labour standards due to the perceived costs of doing so.

Liberia currently has fewer than 50 labour inspectors to promote compliance with the labour law in a workforce of more than one million people. Inspection is difficult because the workforce is dispersed and highly informalised. Although labour inspection is geared to standard, formal sector jobs, four-fifths of those employed work either in agricultural self-employment or in informal non-agricultural sectors. Labour inspectors are low paid (about $70 per month), poorly educated (none are graduates) and poorly trained (no more than a few days each).

Given the economic crisis and the current constraints in government resources, there are a number of strategic responses which should be pursued. Inspection should target sectors and enterprises where advice on compliance and dispute resolution is most needed – these are likely to be the sectors most impacted by the crisis. Inspection should be geared to practical advice and encouragement improvements, rather than pursuing punishment, as a first step. Finally, inspectors should cultivate a willingness to engage with workers in the informal economy where compliance may be less important than an ability to help facilitate practical improvements.

12. Policy responses and strategies for addressing the crisis

In the course of the rapid assessment, numerous policies and initiatives were identified which would contribute to improved employment opportunities in Liberia and contribute to the LPRS goals of reducing poverty and revitalizing the economy. In the course of the assessment, the workers and employers interviewed offered their own policy suggestions and priorities – many of which correspond to the recommendations which we will discuss in detail below. A list of these policy suggestions has been included in the appendix.

It is important to recognise that not all of these strategies could be implemented in the short-run and therefore may not be able to respond fast enough to address the global crisis. Liberia still faces formidable long-run challenges in rebuilding the country, re-establishing institutions, improving the skills and education of the population, and shifting the country onto an equitable and inclusive development path. The global crisis has added to this challenge and raised the question of which short-run responses are currently needed in the context of the longer-term development priorities. Therefore, we discuss short-run crisis responses separately from longer-term strategies.

Short-term responses to the crisis

A number of short-term strategies emerged during the course of the assessment that could be used to respond to the adverse impacts of the crisis. These responses are not new and many reflect current policy priories. Nevertheless, they can be pulled together into a unified response to the crisis.

<u>Reassess the priorities of the Liberia Poverty Reduction Strategy in light of new resource constraints and challenges</u>. The crisis will adversely impacted the planned realisation of the targets and objectives of the LPRS which covers the period 2008-2011. The crisis has placed pressures on government spending, the collapse of demand in key global markets has compromised efforts to revitalise the economy, and employment has suffered with important implications for poverty reduction and social stability. Fortunately, development assistance is expected to remain relatively stable in the face of the crisis. Nevertheless, there is a need to revisit and more strictly prioritise areas of delivery within the LPRS in order to make the most of the resources which are available. This report has argued that improving opportunities for decent work should remain a critical priority.

Extend emergency employment programmes to those adversely affected by the crisis. As discussed in the report, numerous emergency employment programmes are already operating in Liberia. With sufficient donor and technical support, these programmes can be scaled up to create jobs for workers displace by the global crisis. Examples have been given in the report. Such programmes should be linked to investments in infrastructure, including the labour-intensive construction of schools and roads.

Continue to prioritise the attainment of the HIPC completion point. Reaching the completion point would help relax Liberia's fiscal resource constraint by providing some additional relief in terms of debt servicing payments and opening up the possibility for concessional borrowing. A prerequisite for the completion point is the passage of the public finance management (PFM) reforms. Once this legislation has been adopted, Liberia could request that the completion point be moved up.

Provide support to smallholders for diversification and investment. As this report has documented, the economic crisis has hurt smallholders in sectors such as rubber and palm oil. The squeeze has come at a time when replanting is critical to ensure future productivity. Programmes to support investments in new tree crops can help prevent the downturn from undermining the economic viability of these growers in the future. Provisions in concession agreements which provide support to outgrowers for replanting should be protected. The Ministry of Agriculture has worked together with donors to help rubber smallholders diversify into cocoa. With financial and technical support, such programmes could be expanded in response to the crisis.

Ensure that on-going concession negotiations do not lock government into unfavourable terms. The period covered by the concession agreements will exceed the expected duration of the global crisis. Any deterioration in Liberia's bargaining position is likely to be temporary. Therefore, it is important to ensure that short-term responses to the crisis do not have long-run negative consequences for Liberia's development trajectory. In some cases, exporting is not even going to commence within the expected duration of the crisis and companies are simply using the crisis as a bargaining chips to get a better deal. The government will be well advised to resist such pressures and rather risk delays or re-opening of bids. The planned National Investment Law will be useful to give the government a stronger stance against pressure for ad hoc benefits to companies. If unavoidable, explicitly linking temporary benefits (e.g. reduced royalty payments) to global commodity prices represents one strategy for making sure that the any crisis related benefits to concession holders are temporary. Leniency can be granted to concession holders while global markets are depressed, but then removed once they have recovered. In this way, during boom periods, government's share of the country's natural resource rents would rise.

Mobilise the resources of the private financial sector to improve employment opportunities. The domestic banking sector has the capacity to extend additional credit which could support productive investments in Liberia. Already, several domestic banks have created microfinance programmes. These could be expanded within a coherent framework for financial sector reform, with government support. Informal and small-scale enterprises face multiple constraints in Liberia, and providing credit without addressing these other needs will have a limited impact. There is a need for a coordinated approach which pulls together small loans, capacity building, and market facilitation. Formation of cooperatives is another complementary strategy in which savings can be pooled and business activities made more viable. Not all enterprises will be prepared to take advantage of micro- and small-scale loan programmes. However, for those who are ready, such initiatives could help address the negative impacts of the crisis on small-scale enterprises, the vulnerable self-employed, and smallholder agricultural producers.

Use social dialogue institutions and processes to resolve conflicts and disputes arising from the crisis. As has been noted, the potential for increased industrial disputes and conflicts linked, at least in part, to the crisis is significant. Such conflicts can be costly in economic, social, and human terms, and processes of social dialogue can reduce these costs. In anticipation of these growing tensions, government, along with the social partners, should be prepared to set up, as well as to strengthen existing, social dialogue bodies where they are needed and to make effective mediation services available.

The Central Bank of Liberia should continue to stabilise the nominal exchange rate as needed. The report's analysis has suggested that a depreciating exchange rate may hurt low-income households, small businesses, and those in informal employment. The Central Bank can help prevent a rapid depreciation of the Liberian dollar by intervening in foreign exchange markets. To the extent that resources allow, the Central Bank should pursue policies that support the currency in order to minimise the negative impact. Given the high levels of dollarisation among larger firms and in international markets, a stronger Liberian dollar should not compromise the country's export performance.

Implications for a national employment strategy: longer-term policies

The overarching goal of this assessment is to shed light on the impacts the global economic crisis has had on Liberia and to suggest viable, short-term responses. In pursuing this objective, numerous issues emerged from our interviews and investigations, all of which affect Liberia's ability to generate decent, productive employment, but very few of which have simple, short-term solutions. Many of these issues are reflected in policy documents, such as the Liberia Poverty Reduction Strategy and the draft National Employment Policy. The overlap between employment policies and national development strategies is no coincidence: in Liberia employment is a development challenge, one with far-reaching consequences for sustainable poverty reduction and the well-being of the entire population.

It is beyond the scope of the current report to outline a comprehensive framework for long-term sustainable employment in Liberia. However, in this concluding section, it is worth highlighting selected issues which came up in the course of the assessment.

There is a need for the National Employment Policy and a potentially strong role for the National Bureau of Employment. A national policy framework for creating decent jobs and supporting livelihoods is essential if Liberia is to lay the foundations for equitable and shared growth. Ensuring that the National Employment Policy is a comprehensive and visionary document with broad ownership is a good investment. The priorities identified in the Employment Policy should also be reflected in future revisions of the Liberia Poverty Reduction Strategy to secure the centrality of employment in the nation's development strategy. Strong institutions are needed to implement such a policy. The creation of the National Bureau of Employment represents an important step in this direction. With appropriate financial, technical, and political support, the National Bureau of Employment can coordinate efforts to improve employment opportunities across Ministries and to implement active labour market policies to facilitate equitable access to employment.

Revitalise rice production, including among smallholders. Rice is a critical commodity for Liberia. It is the staple food crop. It has important implications for social and political stability. And it has an enormous potential for employment creation. However, there are currently significant barriers to revitalizing rice production in the country – including land tenure issues, lack of transportation, storage, and milling infrastructure, access to inputs, and limited technical know-how. In the course of this assessment, the Ministry of Agriculture recommended that several pilot projects be launched to improve the viability of smallholder rice cultivation in targeted communities. This would require solutions to the land tenure issues, commitments of public investment in infrastructure, targeted extension services, and, at least initially, provision of key inputs. If successful, the pilots could serve as a model that could be replicated in other communities in the country. Such initiatives could be pursued along with larger scale rice production – ideally using less capital intensive production techniques than those currently in operation. Cooperative arrangements between large producers and smallholders would help guarantee a market for the output of small-scale operations.

Create a development finance system for Liberia. As this report has noted, Liberia's financial sector is getting back on its feet and it has a central role to play in the country's future. A developmental financial system channels resources to productive uses and facilitates the management of risks associated with the process of development. There is a need to create a financial system in Liberia which supports the country's growth and development goals. As this report has suggested, the banking sector has the potential to play a much greater role in this regard, with appropriate safeguards in place and targeted government support. Formal commercial banks represent only one type of financial institution. Informal financial institutions – such as small scale savings and credit collectives and susu collectors – often provide basic financial services to those without access to formal banks. Credit to small scale producers could be scaled-up, if a comprehensive framework for coordinating microcredit activities is established. However, development finance is not limited to small-scale and micro-credit. Development banks, specialised public institutions that have been capitalised by government, have played an instrumental role in the industrial development of many countries by mobilizing large-scale financing for investment. In the long-term, Liberia could move towards a development finance system which links commercial banks, micro-finance, small scale credit unions, and specialised development banks. The components of such a system could be built step-by-step, beginning with what currently exists. Such a system would play an instrumental role in creating new employment opportunities and diversifying the economy.

Develop a national strategy for informal employment. Informal employment is one of the largest categories of employment in Liberia. A comprehensive and integrated strategy is needed to improve the earnings, productivity and working conditions of those employed in informal activities. This would involve the 'formalisation' of informal employment, in the sense that strategies to support these workers and their livelihood strategies would be developed, and, in turn, those in informal employment would be expected to contribute to government tax revenues at an equitable rate. Such strategies require an integrated approach involving training, finance, technical support to enterprises, targeted public investments, improved labour force information, and regulatory changes to support the growth of SMEs. Coordination across various Ministries (e.g. Commerce, Labour, Finance, Agriculture, Gender, Youth, and Planning) would be needed to create an integrated approach to addressing informal employment.

Natural resource exports and public investment. Liberia will depend on natural resource exports to fuel its economy for many years into the future. Many countries that depend on natural resource exports experience a 'resource curse' (sometimes called the 'Dutch disease') with lower rates of growth, an overvalued exchange rate that undermines competitiveness in non-resource exports, and slower improvements in average living standards. However, not all resource rich countries experience these problems to the same degree.[33] There is no simple relationship between natural resource exports and economic outcomes. Policy choices matter – if Liberia makes the right policy choices, it can turn a potential natural resource curse into a natural resource opportunity. If the resources from commodity exports are used to fund strategic investments, instead of simply raising consumption spending, the risk of a resource curse will

[33] Humphreys, Macartan, Jeffrey D. Sachs, and Joseph Stiglitz (2007). 'Introduction: What is the problem with natural resource wealth?' In M. Humphreys, J.D. Sachs, and J.E. Stiglitz, eds. Escaping the Resource Curse, New York: Columbia University Press, pp. 1-20.

be minimised.[34] For example, natural resource revenues and concession agreements can be used to supply infrastructure investments that improve productivity and employment opportunities. A national policy for the development of the country's natural resources would provide a framework for ensuring that an adequate share of the income from Liberia's rich resource endowments is re-invested in the domestic economy.

[34] Sachs, Jeffrey D. (2007). 'How to handle the macroeconomics of oil wealth,' In M. Humphreys, J.D. Sachs, and J.E. Stiglitz, eds. Escaping the Resource Curse, New York: Columbia University Press, pp. 173-93.

13. Concluding remarks

This rapid impact assessment of the global economic crisis in Liberia has documented the significant negative effects that the downturn has had on employment, the Liberian economy, and the well-being of the population. Numbers of jobs lost do not capture the full impact: the quality of employment has also suffered, with more people working in marginalised and precarious activities. Conditions among informal workers and smallholders appear to have worsened significantly – in these cases, the negative effects on employment manifest themselves in terms of lower and more unpredictable earnings, one of the hidden outcomes of the crisis. These changes have almost certainly resulted in an expansion in the number of working poor, since one job often supports a number of dependents. Therefore the crisis reinforces the cycle of long working hours, low pay, and low productivity that helps explain the persistence of poverty.

Perhaps the greater risk stemming from the crisis is that future jobs will not be created because of delayed investments, unfavourable concession negotiations, or the long-term consequences of short-term decisions made in the context of the immediate crisis. It is crucial that the government maintains a long term perspective with respect to its economic strategies that focuses on future employment creation and resources for development.

At first glance, Liberia may appear to have little policy space to respond to these challenges. However, as we have tried to underscore in this report, there are a number of strategies which could be pursued, and these should be considered for prioritisation within the LPRS framework. They could build on recent initiatives and points of strength. These can be combined with longer-term policies to improve employment opportunities as the single best strategy for reducing poverty and raising living standards. The Poverty Reduction Strategy and the National Employment Policy provide two complementary blueprints for moving forward. The challenge of inclusive growth and equitable development in Liberia is very much a challenge of creating decent work for all. It will take years to get there, but developing an appropriate employment-centred response to the current crisis represents a concrete step towards this ultimate goal.

APPENDIX

Part A. List of consultations, meetings, and interviews.

Government of Liberia

Central Bank of Liberia
Forest Development Authority
Liberia Institute of Statistics and Geo-information Services
Ministry of Agriculture
Ministry of Commerce and Industry
Ministry of Finance
Ministry of Labour
Ministry of Land, Mines, and Industry
Ministry of Public Works
National Investment Commission

Employers

ADA/LAP
Chico
City Builders
Ecobank
Equatorial Biofuels
Fouta Corporation
Geo-Services, Inc
Harmony Trading
International Agricultural Consultants and Suppliers
International Aluminum
Liberian Business Association
Liberian Chamber of Commerce
Liberian Bank for Development & Investment
Liberian Electricity Company
Liberia Marketing Association
Liberia Wood Management Company
Mittal Steel
Sethi Brothers, Inc.

Workers, trade unions, and labour organisations

Arcelor Mittal Steel - former and current workers
Buchanan Renewables-current workers
Dock Workers Union of Liberia-current and former workers
Firestone Agriculture Workers Union-current and former workers
Former workers in the Timber sector
Guthrie Plantation –current workers
Liberian Agricultural Workers Union-current workers
Liberian Electricity Company-current workers
Liberian Labour Congress

Other organisations and institutions

Embassy of the People's Republic of China
Embassy of the United States of America
International Fund for Agricultural Development
International Monetary Fund
International Rescue Committee
Sirleaf Market Fund
Stakeholder Working Group on Tree Crops
Sustainable Tree Crop Program
United Nations Development Program
United Nations Mission in Liberia
World Bank

Part B. Guiding interview questions for enterprises/employers.

1. COMPANY INFORMATION

Name and title of respondant(s)

Contact information (phone, email, address)

Company name:
Location:

Main activity (sector):

For your three most important products and total sales, please indicate:

Current employment structure:

2. IMPACT ON GENERAL BUSINESS SITUATION

A. How would you rate the adverse impact of the financial crisis on the business situation

	High	Moderate	Low
No adverse impact			
i. In Your Enterprise	☐	☐	☐
ii. In the Country	☐	☐	☐
iii. In Your sector of Activity	☐	☐	☐
iv. In Your Market Overseas (if applicable)	☐	☐	☐

B. Looking ahead at the next six months, what do you expect the business situation will be

	Better	Same	Worse
i. In Your Enterprise	☐	☐	☐
ii. In the Country	☐	☐	☐
iii. In Your sector of Activity	☐	☐	☐
iv. In Your Market Overseas (if applicable)	☐……	…☐	☐

C. Through which channels has your company been affected by the crisis and how would you rate them according to their severity?

	Rank
Reduced access to finance from banks	
Reduced access to finance from parent company	
Reduced access to finance from other sources (pls. specify:)	
Reduced domestic prices	
Reduced domestic demand	
Reduced domestic product prices	
Reduced world market demand	
Reduced world market product prices	
Other(pls. specify:)	
Other(pls. specify:)	

D. If you are part of an international parent company, have operations in Liberia been hit more or less severely than overall operations? Please explain.

3. TRENDS IN KEY VARIABLES

A. How do you expect the following variables in your enterprise to change in the next six months as a result of the financial crisis?

	Expected % change
i. Volume of demand/business activity	
ii. Employment	
iii. Average selling price(s) of your product(s) and/or service(s)	
iv. Investment	
v. Expenditure on training	
vi. Profit	
vii. Exports (*If Applicable*)	

B. What has been your average capacity of utilisation over the year 2008 and what you expect it to be in 2009? *(Capacity of utilisation is the actual output produced relative to the maximum output possible using all the available factors of production. Please provide your answer as a percentage of the maximum output possible e.g. if output is at full capacity then level of capacity utilisation is 100%.)*

	Current	2009
Level of Capacity Utilisation	%	%

4. ACTIONS TO MITIGATE THE IMPACT OF THE CRISIS

A. How many workers have you laid off so far because of the crisis? How many additional workers are you planning to lay off currently, or if the current situation persists?

		Currently planning to lay off	Lay off if current	Lay off if current situation persists for another year

B. What other actions have you already taken or are planning to take currently of it the current situation persists?

	Already taken	Currently planned	If situation persists 3 months	If situation persists 1 year
i. Adjusting hours of work (e.g. reducing overtime & no. of shifts)				
ii. Reorganising work systems and functions to improve efficiency				
iii. Redundancies/downsizing				
iv. Delaying recruitments				
v. Encouraging early retirement, voluntary/negotiated departures, leaves without pay				
vi. Exercising non-replacement of departing staff				
vii. Postponing investment plans				
viii. Sale of assets				
ix. Outsourcing of activities				
x. Wage freeze/deferring wage increases				
xi. Wage moderation				
xii. Reduction in pay packets for working lesser hours				
xiii. Consultation with workers and/or unions to renegotiate labour contracts				
xiv. Streamlining and better monitoring of expenses to cut costs				
xv. Reducing management salaries and/or bonuses				
xvi. Filling work gaps with training				
xvii. Debt restructuring				
xviii. Seek financial assistance				
xix. Increased marketing/promotional efforts				
xx. Shut down operations in Liberia				

C. What measures to mitigate the impact of the crisis on your economy and enterprises has the government undertaken so far? Has your company benefited from these measures and have you been satisfied with them?

D. Do you require direct assistance from your government? If yes, please indicate what sort of assistance would enable your company to survive the current environment?

E. What interventions would assist in ameliorating the impact of the crisis on your economy?

F. What programmes should your government embark on to prepare your country for future crisis?

4. GENERAL COMMENTS

Any General Comments

Thank you for participating in this Survey

Part C. Priority themes of the workers inquiry.

For all workers discussions we need to have heading to capture relevant information such as:

Employer or former employer
Skilled –unskilled labour at site
Employment status for most (wage and salary, own account)
Age group and gender of workers (general or if statistics can be provided)
Trade union affiliation
County name
District name
Clan/township
Name of city/town/village
Whether Urban or Rural

What type of disruption has been seen in the workplace?

What impacts of the crisis have been felt: e.g. wage reductions, working hour reduction, layoffs, doing more with less?

Does everyone know why they were released-what information provided to them?

Did you look for work during the last 30 days and what action did you take to seek work? If not, why did you not look for work?

Will you:
Go back to home village
Migrate to city to find job
Migrate to neighbouring countries to find job
Run your own business
Acquire new skills (through training/education)

Among workers released are men or women likely to find a new job-or migrate?

Did you get any support form employer, government, community groups and family, church groups?

Part D. Policy suggestions and priorities identified in the interviews.

During the interviews respondents were asked to suggest recommendations on how the government could help to stimulate employment growth. Some common themes mentioned were to:

- Reduce taxes during difficult times;
- Develop initiatives to promote and support business diversification and small and medium Liberian enterprises;
- Examine the dual currency issue and initiate measures to strengthen parity; and
- Improve social and physical infrastructure.

More sector specific suggestions included government intervention to mediate disputes between workers and employers, especially concerning back pay for rubber and timber workers and honouring terms of collective bargaining agreements. Others suggestions include:

- Link laid off workers' severance payments into alternative livelihood schemes with micro-loan institutions.
- Encourage more large investments through attractive investment incentives
- The royalty, import duty and tax structure should be harmonised to create a more level playing field.
- Prioritise partially mechanised commercial lowland rice production in which Liberia has a comparative advantage, using appropriate technology machines (e.g., power tillers and threshers) to improve labour productivity.
- Liberians should be educated learn to diversify their diet instead of depending solely on rice through the teaching of nutrition in schools.
- A stabilisation fund for rice should be established by imposing US$1 on each bag to stabilise the price when there is upward pressure on rice prices.
- Fast track the Land Commission Act to reduce land tenure barriers to local rice production.
- Create a friendly business environment with new investors and not concentrate on immediate revenue gains but rather, longer term benefits such as sustainable employment.
- Provide leadership and a clear strategic focus to set targets in agriculture and select three core products and focus finances, training and industry development towards meeting targets.
- Fiscal reforms including better management of public finances, systems & controls plus tax policy.
- Prioritise government budget spending in L$ rather than US$ to reduce pressure on the L$.
- The Central Bank should stimulate certain types of activity through monetary policy.
- Bank financing of local and global value chains and commercial farming of short-cycle food crops (e.g., rice and cassava) are key to improving their fortunes.
- The Investment Incentive Code should be reviewed and made more business friendly to attract investments in agriculture, real estate, hotels, energy and cement.

- There is need for transparent equivalent of the US Small Business Administration to build the capacity of Liberian businesses and economically empower them to more successfully manage their affairs in the formal economy.
- More micro-finance access is needed to reduce vulnerability of marketers by increasing their inventory and trading capital.
- Reduce corruption and improve the justice system.
- Promote alternative sources of energy production, which is necessary for job creation.

Another suggestion made was to develop a concrete plan for economic empowerment which would in turn result in the promotion of sustainable enterprises and employment. This program has been proposed and should be considered as a means to addressing local economic development. It could be a useful program to improve the Liberian economy and stimulate employment growth through a transparent governance structure. The key components of the program are outlined below.

ECONOMIC EMPOWERMENT PROGRAM

OBJECTIVES:

- To improve agricultural productivity, purchasing power & food security;
- To promote light industry via SME growth to stimulate jobs, incomes and skill levels thru value-added processing; and
- To reduce vulnerability of households through support for well structured micro-finance activities.

GOVERNANCE/PROGRAM MANAGEMENT

- 7-member Board selected out of Commerce Ministry, ILO, AfDB, LBA, USAID, Oxfam GB, Soros Foundation, USADF, IFC, LEDFC, mining and rubber companies
- Board Project Selection sub-committee for transparency. Profitability criteria
- Selection of private sector Implementing Partner through open tender process
- Quarterly project selection and M&E reporting
- Annual audit by independent audit firm

ELIGIBILITY

- Registered producer groups, FBOs, coops, micro-loan and savings groups (for petty business lending), SMEs, marketing associations, CBOs, women and youth groups
- Grants and/or interest-free loans ranging from US$ 25-100k
- Applicants to demonstrate long term project sustainability
- Maximum capacity building and business development period of 12-18 months
- Must fit within agribusiness, light industry and micro-finance sectors
- Co-financing allowed , provided no double funding of identified needs