

BTI 2008 | Liberia Country Report

Status Index	1-10	4.20	# 98 of 125	
Democracy	1-10	5.25	# 74 of 125	↑
Market Economy	1-10	3.14	# 118 of 125	↗
Management Index	1-10	4.96	# 66 of 125	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	3.3	HDI	-	GDP p.c.	\$	191.5
Pop. growth ¹	% p.a.	1.3	HDI rank of 177	-	Gini Index		-
Life expectancy	years	42	UN Education Index	-	Poverty ³	%	-
Urban population	%	58.1	Gender equality ²	-	Aid per capita	\$	71.9

Sources: UNDP, Human Development Report 2006 | UNDP, National Human Development Report Liberia 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

Executive Summary

The National Transitional Government of Liberia (NTGL), which was formed in Accra in August 2003, stepped down after presidential and parliamentary elections in fall 2005. Ellen Johnson-Sirleaf was inaugurated in January 2006 as Africa's first elected female head of state after she won a runoff ballot against former football star George Weah. A new parliament with representatives from more than ten political parties was formed and the NTGL, which had been composed of various members of warring factions as well as members of civil society, was replaced by a newly appointed government of highly skilled technocrats. It is widely hoped that the elections of 2005 have marked a clear starting point for the development of a democratic society and a free market economy in Liberia.

The president and new government continued some of the policies of their predecessors, but announced new policies to combat nepotism and corrupt practices. Efforts to improve living conditions and reconstruct Liberia's social, educational and physical infrastructures remain of utmost importance. New relationships between the executive, legislative and judicial branches must be re-established, and the court system needs to be reformed from top to bottom. The president and her government must facilitate the population's confidence in democratic institutions and procedures. Core measures have included formulating new economic policies, including the reorganization of financial institutions and the continuation of the Results Focused Transitional Framework (RFTF), a program initiated during the transitional period under the NTGL, assisted by the IMF, controlled by a Governance and Economic Management Assistance Program (GEMAP), and inspired by the international donor community. The planned publication of an investigation into the financial practices of the NTGL conducted by ECOWAS and the promise to fight rampant corruption signifies the desire for a complete break with the past, though the results of the

ECOWAS study have yet to come in. Also, the revenues from foreign investments may improve under new guidelines being formulated for concessions in timber production – UN sanctions were provisionally abandoned during 2006 – and the revised agreement with ArcelorMittal, which has expressed the intent to resume iron ore production.

Living conditions for the population have gradually improved, but many problems remain, including extremely high unemployment levels, reintegrating refugees, internally displaced persons and former combatants into society, and resuming subsistence and cash crop production. The lack of employment opportunities has contributed to increasingly high crime rates. As the police and army have yet to be fully re-established and rely on both financial and advisory support from the international community, Liberia's internal and external security continues to depend on the presence of UNMIL soldiers. Johnson-Sirleaf's policies need to yield some positive results if Liberia is to prevent setbacks and keep warlord aims from tearing the country apart again.

History and Characteristics of Transformation

A 1980 coup led by Samuel Doe ended over a century of dominance by Americo-Liberians, descendents of former slaves who returned to Liberia after 1822. The dissolution of the state accelerated in the wake of the 1980 coup, but Liberia returned to presidential rule with a bicameral parliament in 1986. Following the suppression of an overthrow attempt, Samuel Doe entrenched his power by exploiting ethnic tensions and exercising repression with a security apparatus led by members of his Krahn ethnic group from the northeast.

When the National Patriotic Front of Liberia (NPFL) launched a civil war at the end of 1989, the corrupt kleptocracy of the second republic collapsed within a few months. A rapid-response ECOWAS force failed to establish peace. When a final attempt to resolve the issue of power through military means ended with the destruction of the capital city Monrovia in April 1996, all parties of the conflict agreed to elections. The NPFL won in 1997, and Charles Taylor was inaugurated as president. Taylor's failure to bridge political cleavages, however, led to a second civil war beginning in 1999.

During the first half of 2003, Liberia's political and economic framework deteriorated considerably. The Movement for Democracy in Liberia (MODEL) challenged Taylor's rule in the southeast. With backing from Côte d'Ivoire and Guinea as well as the tacit consent of the U.S. government, the northwestern-based military faction Liberians United for Reconciliation and Democracy (LURD) pushed south and reached the area surrounding Monrovia by mid-2003. Finally, Taylor was forced to accept the Nigerian President Obasanjo's offer of asylum as a necessary precondition for the installment of

a transitional government. The National Transitional Government (NTGL) was formed in accordance with the Comprehensive Peace Agreement (CPA) of the Accra Conference in August 2003. One of its most prominent tasks was to pave the way for democratic legislative and presidential elections, to be held in October 2005. Much of that year was devoted to the preparation of these elections. In October 2005, representatives of more than twenty political parties and independent candidates presented themselves to the voting public. As expected, George Weah of the Congress for Democratic Change (CDC) and hero of the poor masses won the first round with approximately 30% of the ballot, while Ellen Johnson-Sirleaf of the Unity Party (UP) came in second with approximately 20%, followed by a multitude of further middle class competitors of various ethnic backgrounds. Johnson-Sirleaf won the runoff election by a considerable margin (gaining approximately 60% of the vote, in contrast to Weah's 40%) and was inaugurated in January 2006. In the legislative elections, nine parties won seats in the Senate and eleven won seats in the House of Representatives, though both bodies included a number of independents.

Because some elected representatives are compromised by their activities during the civil war, the president is forced to work with shifting majorities, with her own party representing the minority in both houses. However, the multitude of parties, including Weah's CDC, promised constructive cooperation with the president, whose government includes a number of highly-skilled technocrats, some of them belonging to parties other than her own. Under pressure from the United States, Liberia demanded the extradition of former President Charles Taylor to the Special Court in Sierra Leone in March 2006. Fears of violent conflict with his followers proved to be groundless. At the time of writing, Taylor was awaiting trial on charges including war crimes and crimes against humanity. He has since been transferred to The Hague, where he will be tried by the Special Court, using the facilities of the International Court in The Hague.

Liberia's economic prospects have remained unstable and weak. In September 2005, the NTGL bowed to pressures from international donors, international financial institutions and a number of states, among them the United States, to accept a Governance Economic Management Assistance Program (GEMAP). This program intends to rebuild key economic institutions and to strengthen economic governance and financial management. GEMAP will remain in effect until Liberia reaches the Heavily Indebted Poor Countries (HIPC) completion point. GEMAP obliges Liberia to a balanced budget and strict expenditure discipline, which are supported and controlled by foreign experts placed in strategic positions within Liberia's bureaucracy.

Immediately after inauguration, President Johnson-Sirleaf signaled continuity with the policy of the Results Focused Transitional Framework (RTFT), which was started by the NTGL in 2004 and is supervised by GEMAP. Johnson-Sirleaf resumed cooperation with the IMF, which resulted in a Staff-Monitored Program (SMP) in line with the RTFT. Economic indicators at the end of 2006 promise first results of the economic measures. Sanctions on timber exports were provisionally lifted, those on diamonds,

however, remain. The population's living conditions remain poor. A good portion of the population has been dependent on international humanitarian aid for several years now. The reconstruction of the logistic, social and administrative infrastructures is underway, but progress is slow and the security situation remains tense. There are currently no military conflicts due to the presence of the UNMIL forces. However, the after-effects of the civil war have pushed crime rates up.

Transformation Status

I. Democracy

1 | Stateness

One of the tasks of the National Transitional Government of Liberia (NTGL) in accordance with the Comprehensive Peace Agreement (CPA) of 2003 was to conduct the Containment, Disarmament, Demobilization, Rehabilitation and Reintegration of former combatants (CDDRR). The respective programs have had only partial success in rehabilitating and reintegrating the former youth combatants and child soldiers, whose integration is dependent on their acceptance by the village populations and the presence of job opportunities in urban and rural areas. While such programs continue to help prevent the formation of new armed bands and warlord followings that question state authority, there are still groups of former combatants who did not surrender their arms operating illegally. The continued presence of more than 15,000 soldiers with the UNMIL mission is the decisive factor in maintaining peace and preventing violent conflict. The Liberian Army was dissolved and is presently being restructured and rebuilt as the Liberian National Army under Nigerian command. However, neither it nor the Liberian National Police – which is largely unarmed and only functions in cooperation with the UNMIL forces – is currently ready for action.

Monopoly on the use of force

General rights of full citizenship, which is granted exclusively to those of black African descent and includes, for example, the right to own real estate, are not disputed, and the constitution of 1986 is generally accepted. There are discussions from time to time concerning the national status of the Lebanese and some of the Mandingo population, which is mainly of Guinean origin.

State identity

Liberia still identifies itself as a Christian nation, but in terms of governance, it is a secular state. There have been recent efforts of the Muslim population to enhance the public presence of Islam. There have been religious overtones to the war and armed conflicts of the past decades. The present ethnic tensions between returning Mandingo, many of whom are Muslims, and Dan (Gio) and Mano in Nimba, and between Mandingo and Lorma in Lofa and Bong counties are rooted in power struggles and popular sentiments that have been exploited for political

No interference of religious dogmas

purpose. Furthermore, ethnic conflict between the Krahn and Dan communities persists in the north. Last year, the new government established a Truth and Reconciliation Commission (TRC) to address the urgent question of national reconciliation.

During the civil war, Liberia's basic administrative institutions functioned differently in different places throughout the country, or, in some areas, they were replaced entirely by the arbitrary "rule" of marauding bands of fighters. Presently, these institutions are in the process of being reconstructed despite profound financial and capacity problems in all sectors. Replacing the centralized administrative system of counties, districts, paramount and clan chiefdoms with a more decentralized system with more responsibility and accountability focused at the county level and below is under consideration. But such reforms would require constitutional change and could therefore effect changes in local government only over the medium or long term.

Basic
administration

2 | Political Participation

All observers agreed that the elections of 2005, in contrast to those of 1985 and 1997 were free and fair, although the electioneering process seemed to have been very short. The loser of the presidential runoff vote, George Weah, explicitly renounced his initial protest against the results of the second ballot. The results of the parliamentary elections were generally accepted without protest.

Free and fair
elections

Since the governmental structures and the almost autocratic position of the president have remained unchanged, it will depend on the incumbent of the office whether the democratically elected leaders, the appointed government officials and the parliamentarians will help restore the lost credibility of state institutions. It was noticed with some distrust that a number of former prominent war participants of various factions, without any reputation as democrats, were elected as legislators, nominated either by parties or running as independent candidates. The tenure of senators (9 years) and of members of the House of Representatives (6 years) is too long to constitute or even allow for a reform of government. A constitutional amendment could be initiated to address the issue.

Effective power
to govern

There is almost unrestricted freedom of association and of assembly. A great number of organizations exist, including political parties, voluntary associations, economic interest groups, religious organizations and churches, human rights groups and others.

Association /
assembly rights

In theory, there is unrestricted freedom of opinion. The press and other media express opinions freely. The question of the distribution of short wave transmitter licenses, which had been withdrawn by the Taylor government, seems to be

Freedom of
expression

resolved satisfactorily. However, during and after the election campaign there were numerous threats towards candidates and journalists, and Freedom House ranked the country's press at 137th of 194 countries, as "not free" in 2006.

3 | Rule of Law

Since Johnson-Sirleaf's inauguration as president the opportunities for developing a more democratic system of checks and balances between the executive and the legislative branch of the state have improved, although the constitution has not been revised. The president's Unity Party (UP) is in the minority and depends on cooperation (or co-optation) of various other groups to challenge the strongest opposition party, the Congress of Democratic Change (CDC). Fully balanced relations between the government and parliament are constrained to some extent by the capacity problems of the executive, but even more by the majority of representatives in the House of Representatives and the Senate's lack of experience with democratic process.

Separation of powers

Like the legislature, the judiciary has been damaged not only in the recent decades; both were unable to resist the almost unrestricted power claims by former presidents supported by a one-party system, the military and/or by warlordism. As a result, the relationship between the executive and the judiciary has had to be entirely re-instituted. As a report published by the International Crisis Group (ICG) in April 2006 states, necessary reforms of the justice system include a nationwide court-rebuilding project, a training program for judges, magistrates, justices of the peace and customary law officials as well as the dissemination of legal texts of the constitution, the codes of civil and criminal law and court procedures. The relationship between the statutory and customary law system is to be reformed, and a community-based justice program is to be designed, funded and implemented. Adequate funding of the judiciary is necessary to make it independent of the executive and immune against corruption. Finally, a profound reform of the prison system is long overdue.

Independent judiciary

One of the publicly announced goals of the president's new government is to fight against and eradicate corruption. The publication of an ECOWAS-conducted investigation on corrupt activities of members of the NTGL, which included the transitional president Gyude Bryant, forced the government to react. While allegations and even arrests on the charges of corruption and misappropriation of public funds have taken place, it remains to be seen whether the arrests represented merely gesture to the public, as well as how effective measures like the administrative restructuring of the Ministry of Finance and the exchange of staff will be.

Prosecution of office abuse

Another key policy area of the new government is the respect of civil rights. The dissolution of the army, the police and the secret services as well as the appointment of Boima Fahnbulleh, a veteran opposition politician, as national security adviser to the president have to be regarded as effective steps toward breaking with the past abuse of state forces for personal gain and as war factions. These were the main reasons for gross violations of human and civil rights. A host of local civil rights groups and associations, some of them branches of international organizations may serve a watchdog function, pushing further developments in a peaceful direction.

Civil rights

4 | Stability of Democratic Institutions

The elections of October and November 2005, the inauguration of the new president, and the institution of a new government and a new legislature are further steps toward the development of democracy, the rehabilitation of state institutions, the employment of democratic procedures and mechanisms to ensure their effective performance. A Governance Reform Commission (GRC) is still working on a program for the promotion of good governance, to develop suggestions for public sector reform and management and to ensure transparency and accountability of all state offices and administrative structures. Far-reaching suggestions regarding the decentralization of power, regional participation and maintenance of national and regional balances will be effective only in the long term. Presently, there is no observable change in the authority structure. Power is concentrated in the office of the president and all hope is vested in its incumbent to effectively alter the postwar and post-transitional economic situation with external support. The success of these efforts will be the most important factor in realizing a democratic process on the national level and in gaining the support of democratic institutions and procedures by all relevant actors.

Performance of democratic institutions

Presently, there is no vocal opposition from any relevant actors against democratic institutions and procedures. The standard bearers of the parties, founded by former military or warlord-like leaders (Doe, Taylor) won only single-digit numbers of seats in parliament. It must be borne in mind, however, that nearly all active political parties are personality centered political movements without stable democratic structures and procedures. The House of Representatives and the Senate are highly fragmented. Religious leaders, civic associations, trade unions and other relevant societal groups support the present political leadership, although it is not always clear the extent to which their support of the personalities at the head of the government implies agreement to democratic structures and procedures.

Commitment to democratic institutions

5 | Political and Social Integration

More than 20 parties participated in the general elections. As noted, most of them are highly personalized, centering around one single leading personality during election times. The election results in general reveal ethnic and regional affiliations. The roots of only a handful of the parties go back to the 1980s, when the de facto one-party system of the True Whig Party (TWP) under Americo-Liberian rule had come to an end during the coup d'état of 1980. Some of these older parties still exist today, but they are losing ground; others have survived in coalitions and wield moderate influence. Sometimes programs are restricted to general declarations without any relevance to the urgent need for reconstruction in a society devastated by civil war and the necessities of reconstruction. Others design detailed programs for national reconstruction, but it remains to be seen whether they can serve as platforms for opposition politics. As already noted, there are many political parties represented in both the Senate and the House of Representatives. (Laakso/Taagepera index > 5)

Party system

Interest groups have alternately established, re-established or reorganized themselves during the transitional period. Various sectors of the business community, workers' unions, professional associations, religious organizations and other civil society groups formed to defend various interests. Old and new voluntary associations at the county, district and community levels are also organized to convey their concerns to the government. Many with more general concerns are dependent on support from abroad, others, lacking support, concentrate on the alleviation of the hardships of everyday life. Self-organizational activities are flourishing, but must overcome the extreme poverty and the level of destruction that affects all elements of daily life. As such, a democratic culture is not yet fully developed.

Interest groups

Representative survey data on citizens' consent to democracy does not exist and as such cannot be adequately evaluated. In any case, the bulk of the urban and rural population is occupied with basic problems of survival and everyday life: the reconstruction of houses; procurement of tools and seeds for subsistence production; functioning roads and markets; jobs, reintegrating refugees, internally displaced persons (IDPs) and former combatants (including child soldiers); reopening schools and clinics; and a functioning administration. Participation in the elections was high, and the results were generally welcomed. George Weah's acceptance of defeat – notwithstanding his initial protest and claims of fraud following the runoff ballot – was a decisive factor in encouraging citizens' consent to democratic norms. If this consent is to be consolidated, Liberia's various stakeholders – especially the incumbent government – will need to deliver a strong performance to restore trust in institutions. Other stakeholders

Consent to democratic norms

include cabinet members, representatives of the parastatals, the administration, the army and the police. A stable consent will also depend on the outcomes of economic recovery efforts, of the fight against corruption, of Taylor's prosecution as well as the results of the TRC's work.

The extent of damage to ethnic traditions and the question of their restoration are key issues for social integration in postwar Liberia. It is not clear whether the Poro (and Sande) secret societies in the northwestern parts of Liberia and the mechanisms of social integration in the elementary societies of the southeastern region will regain sufficient strength to influence the construction of social capital in the rural areas. The Poro, victims of various factions during the civil war between 1990 and 2003, have the potential to either help resolve or exacerbate social and ethnic conflicts. A prominent example could be the reintegration of Muslim refugees in Lofa County (and in Nimba County, although in this case causes other than Poro politics are at the heart of the difficulties). It seems unlikely that traditional structures will be rebuilt in the cities, especially in Monrovia. Here, all sorts of associations without traditional orientations prevail, perhaps using mechanisms for adaptation derived from respective ethnic traditions.

Associational
activities

II. Market Economy

The NTLG tried (and the new government is trying) to revive the economy by reorganizing the production of rubber and other agricultural products, as well as iron ore, and expanding the export sector, by working to have the UN sanctions on diamonds, gold and timber lifted. The revitalization of the subsistence sector (which includes rice, cassava, greens) and cash crop production of cocoa, coffee and fruits is left to the population's self-help efforts with the help of the international community and welfare organizations. However, the state's efforts to restore infrastructure does provide support for the revitalization process. Liberia is still dependent on international aid and there is no extended market for consumer goods, with the exception of foreigners with money to spend. Many Liberians are engaged in petty trading and other occupations in the informal sector.

6 | Level of Socioeconomic Development

The high rate of unemployment (estimates have for years ranged between 80% to 85%), the hundreds of thousands of refugees and internally displaced persons who have not yet returned to their home towns and villages, a shortage or lack of

Socioeconomic
barriers

employment opportunities, and extremely difficult living conditions for the vast majority of the population create major socioeconomic barriers between the majority of the country and a relatively small group of well-off people, including foreigners living in Liberia. This state of affairs did not change during the transitional period and the first year of the new government. Most Liberians live outside the market economy; many are engaged in subsistence farming and informal economic activities where possible. Paid employment can be found in the state institutions, some trade, in NGOs, on rubber plantations and in the logging industry, which produces for the local market.

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	559	435	497	548
Growth of GDP	%	3.7	-31.3	2.6	5.3
Inflation (CPI)	%	-	-	-	-
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	0.5	85.5	41.6	35.4
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ mn.	-	-	-	-
Public debt	\$ mn.	1,064.6	1,126.8	1,176.9	1,114.7
External debt	\$ mn.	2,324.4	2,567.5	2,715.1	2,580.8
External debt service	% of GNI	0.2	0.1	0.2	0.2
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	13.7	8.0	9.6	10.8
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	0.9	2.0	3.6	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	7.5	-	-	-

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

7 | Organization of the Market and Competition

Market competition is present only in segments, the informal sector is large and substantial. The new government's economic policies favor a free market system, but in reality, the government feels compelled to control the import of certain basic commodities (especially rice and crude oil or oil products) and to fix prices. There is reliable evidence that these practices, which Johnson-Sirleaf criticized during her campaign, are continued under the current government. CEMENCO's monopoly on the import of cement and the suspension of a protective tariff were lifted in mid-2006, but these measures have so far not resulted in the competition, cost reduction and lower prices expected.

Market-based
competition

Little is done to combat the formation of monopolies. The Liberia Petroleum Refining Company (LPRC) parastatal, for instance, retains exclusive rights in the import, sales and distribution of petroleum or petroleum products. A local refinery is still in need of restoration. Local prices do not only depend on world market prices, but they are also influenced by the Liberian government and events in Nigeria, which constitutes the country's main supplier.

Anti-monopoly
policy

There are several financial and political measures underway aimed at reviving the Liberian economy that are differentiated by sectors and branches. Rubber, the main export product (accounting for more than 50% of export revenue in 2005), is produced mainly by the Firestone Natural Rubber Company (a division of the Bridgestone Corporation), under a concession agreement with the Liberian government that dates back to 1926. Other producers' plantations, some of which have been occupied by former combatants, are recovering only slowly from the effects of the civil war. Although state income from rubber exports has increased, the new government, in accordance with the Governance and Economic Management Assistance Program (GEMAP), has decided to renegotiate the Firestone concession agreement, which was last updated in 2005. The same holds true for the contract – agreed upon by the NTGL and Mittal Steel (now Arcelor/Mittal) in 2005 – granting ArcelorMittal exploitation rights to iron ore in Nimba county, which was renegotiated and agreed upon in December 2006. Mittal announced a planned investment of nearly \$1 billion over a span of 25 years, which is to create 3,000 jobs. According to international observers, there are several unresolved issues and/or unknown problems, including control over royalty amounts, tax questions, the rule of Liberian law within the concession area, the role of a private security force and the possible expropriation of public land. All logging contracts and permits have been cancelled and new rules governing the timber production industry have yet to be developed. The enactment of a new law and the reorganization of the Forest Development Authority (FDA) parastatal were preconditions for the provisional lifting of the UN sanctions on timber exports in October 2006. Similar procedures are required

Liberalization of
foreign trade

for the diamond- and gold production sectors. Sanctions have not been lifted on these commodities, as Liberia has yet to meet provisions set by the Kimberley process meant to control the flow of conflict diamonds. The concessions for prospecting possible oil reserves on the coast remain untouched, although they too had been negotiated by the NTGL. The market for the most important staple food in Liberia, rice, is not transparent. Prices are unstable and there are frequent rumors of shortages of imported and preferred rice, which unsettles the public. Although the NTGL had established a Special Executive Rice Committee, which published a Final Report in February 2006, the market has not been liberalized. The new government has been accused of creating artificial shortages to stabilize a high price and to allow only one importer control of the market (at least for a limited period of time). This intervention clearly contradicts the committee's suggestions, as well as the new government's promise to promote a full free market system.

Presently, there are four commercial banks in Liberia that offer commercial loans. One is engaged in savings, but none in the micro-lending and credit area. After changes in the Central Bank of Liberia (CBL) the bank is still working to reach the targets which were set in 2003. As the sole receiver of taxes and royalties, the Ministry of Finance has set up its accounts exclusively with the central bank. The bank's targets include an increase in U.S. dollar reserves, sufficient supply with of U.S. dollars to the commercial sector and stimulating production activities with the Liberian dollar.

Banking system

8 | Currency and Price Stability

Following the decision of the NTGL the new government has kept both the U.S. dollar and the Liberian dollar as legal tender. The Central Bank of Liberia has maintained an almost stable exchange rate since the Comprehensive Peace Agreement. There are dangers associated with the constraints of a fully dollarized economy (the U.S. dollar dominates in the capital and the import/export sectors), which should be supervised by the central bank with the assistance of international experts within the Governance and Economic Management Assistance Program (GEMAP). In addition to a stable exchange rate, a constant supply of fresh Liberian money is a precondition to avoiding the threat of economic instability. In accordance with the Results Focused Transitional Framework (RTFT) plan of 2003, an IMF Staff Monitored Program was implemented in February 2006. An initial program review has revealed ongoing developments that are largely in line with its projected aims and goals. The methods employed to reach the targets include a cash-based balanced budget in 2006 and 2007 without domestic financing, careful and improved revenue collections by a Large Taxpayers Unit (LTPU), sound budget preparation and

Anti-inflation /
forex policy

controlled expenditure management. The risks of failure are to be diminished by a number of organizational measures, such as the inclusion of the Bureau of Budget and the Bureau of Maritime Affairs in the Ministry of Finance. Inflation during the first half of 2006 remained relatively stable. Although Liberia has imported mainly consumer goods, exchange rate stability between the U.S. and Liberian dollar contributed to currency stability, since prices are dominated by the Liberian currency. The position of the Central Bank of Liberia has improved, although there are still large claims on government funds and foreign reserves are scarce. The central bank must work together with commercial banks to clear government domestic debts and arrears in order to finalize the government's debt resolution strategy. This is part of the new policy of financial management aimed at fulfilling IMF prescriptions of enabling the central bank with the necessary capacity to fulfill its supervisory, monetary and regulatory tasks.

The present fiscal and debt reducing policies of the new government, supported by the IMF's Staff Monitored Program of 2006, are regarded as a precondition for a Rights Accumulation Program (RAP) to restore Liberia's full drawing rights with the IMF. In the medium term, the new government could work on the preparation of a HIPC document to qualify for external debt relief, provided that it succeeds in reconciling loan-by-loan debt data of the Paris and London Clubs commercial creditors. The HIPC qualification could help Liberia to further its reconstruction efforts in the long term.

Macrostability

9 | Private Property

The acquisition of property and property rights are guaranteed under the constitution. The possession of real estate is restricted to Liberian citizens (that is, only those of black African descent). Non-citizen missionary, educational and charitable institutions have the right to property as long as it is used for their specific purposes. Mineral resources belong to the government. There is no real overview of current land occupancy and ownership relationships in the country, due to the long period of military dictatorship and civil war. The majority of the population depends on land use for subsistence production. Tropical timber and raw rubber are produced by foreign firms on a license basis, while coffee and cacao are grown mainly by small landowners or as a part of subsistence production.

Property rights

A number of parastatals – including the National Port Authority (NPA), Roberts International Airport, Forest Development Authority (FDA), Liberia Petroleum and Refinery Company (LPRC), Liberia Electricity Corporation (LEC), Liberia Water and Sewer Corporation (LWSC) and others – fulfill a range of different tasks. Most of them have not worked satisfactorily; a few – LPRC, NPA and FDA have been audited by Ernst & Young because of corrupt practices or misappropriation of funds.

Private
enterprise

10 | Welfare Regime

There is no public welfare system of government payments or payments by social insurance providers to alleviate risks such as illness, old age, or unemployment. The government of Liberia has no pension scheme. The National Social Security and Welfare Corporation, created under President Tolbert in the 1970s, is bankrupt. Rudimentary health care services are free of charge except for a small registration fee. Tuition is required to attend government or private schools. Most Liberians still depend upon familial support networks (including members abroad) and grassroots aid networks.

Social safety nets

Profound social inequalities have restricted equal access to health and educational institutions in the past. These inequalities increased during the civil war and left only a small group of privileged, though not necessarily rich, people with access to services such as health and education. While some of those within this category remained in Liberia, many live in the United States. International aid within Liberia (inside and outside of camps for IDPs) and in refugee camps abroad cannot compensate sufficiently for the civil war's decimation of opportunities. Nepotism determines access to jobs within the administration. Currently, there are efforts to restrict such practices by reducing staff levels in the public sector and reinforcing qualification and achievement as the bases for employment, although the civil servants census – which assesses qualifications – is not yet completed. The members of the newly founded police force and the army were recruited with the intent of creating an ethnic balance to correct ethnic imbalances that have prevailed since the 1980s and have, in the past, made the police and army forces instruments of ethnically and/or politically based power interests. The high unemployment rate exacerbates the danger that gender equality is neglected when it comes to the distribution of new employment opportunities.

Equal opportunity

11 | Economic Performance

Since the end of the civil war in 2003, Liberia's GDP has grown consistently. Projections for 2007 are as high as for 2006 (growth rate of 7.7 %). Inflation, which measured 7.5% in mid-2006, is projected to remain relatively stable. The level of unemployment, estimated at 80 to 85%, has remained high for years. Jobs outside the state sector, foreign-owned and domestic agricultural plantations, and in NGOs (including UN organizations) remain scarce. Other economic indicators are also not encouraging. There is a constant trade deficit due to rising imports, mainly of consumer goods, and stagnant exports. The cash-based balanced budget will be continued. It does not enhance the domestic or external debts, but allows only a moderate increase in investments by the government. The external debt amounted to nearly 600% of GDP in 2006.

Output strength

12 | Sustainability

In Liberian urban society, environmental consciousness is not highly developed, though tribal societies have traditionally been very conscious of the need to protect the environment. Environmental concerns were completely ignored during the civil war and during Taylor's rule between 1997 and 2003. Today, the country's environmental problems are almost ubiquitous. They include waste and wastewater in the cities and towns, the lack of safe drinking water, danger of deforestation, desertification, erosion and lack of sediment control. Although laws have been passed to enforce reforestation, these have never been implemented by the logging companies in the southeast and northwest. Since 2003, environmental activist organizations have fought an uphill battle to influence the NTGL to preserve the Sapo National Forest and to demarcate and establish additional national parks. The Firestone Natural Rubber Company has been accused of ignoring international standards in labor conditions and in protecting the environment from harmful chemicals during tapping and rubber processing.

Environmental
policy

During the civil war, most schools and other institutions of learning were destroyed and must now be rebuilt. Investments in reconstructing and re-equipping school buildings for basic and secondary education must be executed with the help of international NGOs, church organizations and private initiatives. Similarly, the entire educational system must gradually be rehabilitated. Institutions of higher learning such as the University of Liberia and Cuttington University have resumed operations. The \$10.3 million provided for education by the 2006/2007 budget amounts to about 1.7% of the GDP.

Education policy
/ R&D

Transformation Management

I. Level of Difficulty

There are massive structural constraints weighing upon Liberia that pose formidable challenges for the government. It is estimated that over 75% of the Liberian population lives in extreme poverty, subsisting on less than \$1 per day, and literacy has dropped to 38%. A considerable number of educated laborers with technical training fled during the civil war, leaving both the state's administrative infrastructure and economy without sufficiently skilled and experienced personnel. This lack is aggravated by the fact that learning capacities remained underdeveloped during the civil war. Further constraints include poverty, unemployment, destroyed infrastructures, returning refugees and IDPs, and the difficulties associated with resuming subsistence agriculture and cash crop production. The new government seems determined to meet the country's economic difficulties by implementing the financial and fiscal policies suggested by the IMF with coherence and consistency. Hopes of overcoming these difficulties focus almost exclusively on large international investments (e.g., ArcelorMittal), with increases in employment and state revenues to be secured by taxes and royalties paid by such investors. Focusing on labor-intensive projects in rural areas would however, be likely to result in more employment opportunities.

Structural
constraints

After years of civil unrest, traditions of civil society are weak. The tradition of popular protest, which reaches back to the 1970s, was maintained during military rule in the 1980s, and was active during the civil war and Charles Taylor's rule. Today, there are several indigenous NGOs with civil and religious backgrounds helping to maintain and to build political capacities. Half a dozen or more civil rights groups and the media are critically observing the government's implementation of the new policies. Especially the conditions of physical existence in urban and rural centers, corruption, nepotism and professional weaknesses are carefully recorded, published and adequate procedures for prosecution are demanded. Aside from this relatively small group of educated and interested people, however, most of the population is occupied with survival. While the population has displayed some trust in the election process, this means that the new government must meet high expectations.

Civil society
traditions

Fighting between the warring factions ceased in 2003. However, the rehabilitation and reintegration of former combatants under the Comprehensive Peace Agreement has been unsatisfactory. About one-third of the former combatants have still not participated in the program. This, combined with poor living conditions, has resulted in public insecurity and increasing crime rates in both urban and rural areas, with common offenses including armed robbery, assault and sexual violence. Efforts to ease ethnic tensions between returning refugees of mainly Mandingo origin and the resident population in Lofa and Nimba counties involve traditional methods of reconciliation. However, it seems that resolving these tensions requires a new land law initiative and a national reconciliation pact to which the TRC could contribute. Despite massive levels of unemployment, labor conflicts like those that plague the Firestone Corporation, are on the rise.

Conflict intensity

II. Management Performance

14 | Steering Capability

The political leadership pursues long-term aims, but is limited by the country's structural constraints. The new government's main goals include continuing the democratic process initiated under the NTGL, implementing economic reforms, reorganizing state institutions, reconstructing the country's physical and social infrastructures and (re)gaining the population's trust in the structure and procedures of democratic institutions. Media and civil society forces must be strengthened. Whether these targets can be reached during the Ellen Johnson-Sirleaf's six-year term depends on the success of the economic reform programs.

Prioritization

The new president and cabinet have set their eyes on several political and economic targets. Thus far, however, the government has struggled with implementing its ambitious programs. It is unclear to what extent the need to improve the population's living conditions forces the government to agree to unfavorable conditions in renegotiating the concession contracts. On the other hand, Liberia does not refrain from controlling prices for basic consumer goods (such as petroleum products and rice) for fear of supply insecurity and/or future popular unrest.

Implementation

The new executive has endeavored to overcome the damages of war, Liberia's warlord economy and the corruption of former governments. It fully acknowledges past mistakes and is eager to formulate new policies and

Policy learning

implement necessary reforms. The boundaries of its efforts are set by the international donor community's willingness to maintain its aid until a substantial economic recovery yields results and the state is able to secure its own internal and external security. In the long run, success depends on securing the rule of law and respect for property rights, establishing a competent judiciary, the willingness of international capital owners to invest in Liberia's extractive industries, and opportunities for developing a modest domestic substitute industry and cash crop production in the villages.

15 | Resource Efficiency

The effective use of economic and human resources is severely hampered by the lack of sufficiently skilled personnel for the civil service and the parastatals. It is also hampered by the lack of money to adequately pay experienced employees, often returnees from abroad. One of the government's financial policies aims at cutting the number of civil employees, enabling a salary increase for the remaining civil service forces and to the ability to pay arrears. The decision to break with NTGL personnel policies could signal the start of new appointments that are based on education and achievement, but it remains to be seen whether this practice can be carried through. To satisfy its human resource demand, Liberia must hope for the return of emigrants or wait for its own educational institutions to produce the next generation of an educated labor force. Given the poor quality of education in Liberia, the latter will prove difficult to achieve within one generation.

Efficient use of
assets

Coherent policies alone cannot resolve the problems facing a war-devastated society. Furthermore, it would be somewhat unrealistic to expect the government to formulate a generally coherent policy given the conflicting objectives it must coordinate. One example thereof is visible in the contradiction between environmental and economic needs in the face of extreme poverty and the urgent task of conserving the rainforest, which has been subject to uncontrolled timber exploitation since the 1980s. Another example is the burden of excessive external and, to a certain degree, domestic debts, the dependence on donor community grants for the population's survival and the limited means for infrastructure investments within the boundaries of a cash-based budget. It will take a long time before various urgent needs can be satisfactorily balanced, insofar as it is inevitable that, by prioritizing and organizing necessary steps to fulfill some such goals, others will be deeply violated.

Policy coordination

The NTGL is blamed for bringing corruption to previously unknown levels. The NTGL commissioned the European Union to investigate the corrupt practices of Charles Taylor's government, and the donor community had demanded the investigation of the corrupt practices of the NTGL by ECOWAS. The new

Anti-corruption
policy

government has openly declared its intention to prosecute the culprits but observers remain doubtful about its persistence. Also, the UN Panel of Experts and EU-commissioned audits have already reported the continuation of corrupt practices by members of the new government. The weakness of the judicial system will be one of the most serious hindrances to combating corruption. Meanwhile, the new government has developed and put into action a code of conduct that is aimed at preventing unduly behavior in office, flanked by other measures like the augmentation of salaries for the least rewarded members of the civil service.

16 | Consensus-Building

The newly elected president, the government and the legislature seem to be determined to develop a multiparty democracy and to introduce a market-based economy. There is a kind of agreement among the existing parties to support these goals although some of the published party programs do not refer to democracy but rather to a reconstructed Liberian nation without even mentioning democracy as a constitutional goal. The same holds true for a number of Pentecostal preachers and churches whereas the leaders of the historic Protestant and Catholic churches do not allow for doubts of their commitment to the democratic ideal.

Consensus on goals

Whether the supporters of the Congress of Democratic Change, the bulk of which are war-affected youths, adhere to its openly declared democratic principles is likely to depend on the pace of improvement in their living conditions. There might be individuals like the former warlords and their inner circles who wait for another chance to reclaim power. The new government does not contradict its principles in developing a market economy, but it gives higher priority to the recovery and improvement of economic productivity and stabilizing prices than to facilitating free market activities, particularly for essential consumer goods and certain parts of the extractive industry. Doing so partly undermines the interests of an emerging Liberian middle class in need of opportunities for domestic investments. Concessions in the timber sector will be a milestone for agreements that will grant adequate taxes and royalties for the state and necessary protection of environmental concerns.

Anti-democratic veto actors

There are a plethora of divisive social problems in Liberia as a result of widespread unemployment, tense labor conditions in the rubber industry, a large subsistence economy, and the integration of returning refugees, IDPs, former combatants and child soldiers. Warring factions in the civil war exacerbated existing historical ethnic and religious tensions in Nimba and Lofa counties, making the reintegration of the Mandingo population since then particularly difficult. Disagreements over property rights and land use issues are frequent.

Cleavage / conflict management

With support from the international donor community, the government aims to address these ethnic tensions, and has thus far successfully prevented cleavages from escalating.

Presently, there are no signs that the new government hampers the media, particularly radio stations and the print media. Civil society organizations and human rights groups voice opinions on a wide range of urgent problems, including the arrest, repatriation, expatriation and trial of Charles Taylor, the rampant corruption of members of the NTGL during the transitional period, the labor conditions on the Firestone plantation, and environmental issues. Although sometimes slow and hesitant, the new government is forced to respond to these pressures and take them seriously.

Civil society
participation

NTGL efforts toward reconciliation were modest. Representatives of all warring factions occupied positions in government, the transitional legislature and parastatals, whereas the common members suffered from poverty, joblessness and general social insecurity. The necessity of demanding Taylor's extradition to the Special Court in Sierra Leone or to establish a war crimes court in Liberia was discussed openly but aroused controversy. The new government was soon forced by U.S. and international pressure to demand Taylor's extradition from Nigeria. For security reasons, Taylor was delivered to the International War Crime Court in the Netherlands. If Taylor is convicted of war crimes and crimes against humanity, it is hoped that this could be a strong signal against future intentions to resume warlord activities in West Africa. The establishment of the Truth and Reconciliation Commission (TRC) was part of the Comprehensive Peace Agreement (CPA) in 2003 and enacted in June 2005 by the NTGL. Its start, however, was deliberately delayed. The TRC finally resumed operational activities in 2006. Its task is to investigate gross human rights violations and abuses, and violations of international and humanitarian law in Liberia between 1979 and 2003. The TRC, which is not adequately funded, does not function as a substitute for the courts, it cannot grant amnesty and will only formulate recommendations for providing reparations to the victims. A comprehensive report of its findings is expected for the end of the year 2008.

Reconciliation

17 | International Cooperation

Liberia depends on the support of the UN organizations (especially of the UNMIL mission for internal security), and the international donor community (including a host of NGOs) for the population's survival. It also relies on the IMF for assistance in economic and fiscal policies, and on the regional organizations and the solidarity of the international community of states to continue economic and political reconstruction. The new government has no option but to seek their support and cooperate trustfully. The United States still

Effective use of
support

plays the most important role as a bilateral political partner, though Liberia welcomed recent grant and investment offers from the Republic of China, which are part of China's growing engagement in Africa.

The new government, in contrast to its predecessor, the NTGL, acts as a reliable partner in its relations with the international community. The IMF and World Bank have been satisfied with Liberia's performance in 2006, which helps raise the prospect that Liberia could further improve its relationship with international financial institutions by winning restoration of full rights and qualification as an HIPC candidate.

Credibility

Liberia's relations with its neighboring countries remain difficult due to Charles Taylor's involvement in the Sierra Leone war and internal conflicts in Guinea and Côte d'Ivoire. There are no visible signs that the negative consequences of his involvement have been addressed, but the new government is eager to re-establish relations with the governments of these countries. It hopes to prevent conflicts in these countries from spilling over into Liberia via mercenary trafficking.

Regional cooperation

Strategic Outlook

Ellen Johnson-Sirleaf is expected to serve out her entire six-year term of presidency, continuing economic reform policies aimed at reorganizing financial and fiscal institutions, improving state income through tax collection and other sources, and consolidating the budget on the basis of a cash balance and the strict control of state expenditures. Domestic debt reduction and qualifying for the completion point of the HIPC program are medium- to long-term targets. The margins of state intervention for the reconstruction of Liberia's social, educational and physical infrastructures are expected to expand. There are no indications that Liberia will discontinue its cooperation with international financial and political institutions and the donor community; domestic efforts will succeed only if paired with continuing external aid for years. It is urgent that the UNMIL mission be prolonged as a means of maintaining the country's internal and external security. The newly rebuilt police and military forces will not, in the foreseeable future, be able to fight the country's increase in crime rates and secure the stability of borders in West Africa's war-affected region. Fighting corruption in all branches of the state and its administration is a must in domestic policy. Reconstructing these institutions is a precondition to a slow, but constant, economic recovery sought through financial and fiscal policies. It is of utmost importance to introduce transparency of procedures into the political process and prioritize achievement and accountability as qualifications for holding public office. To guarantee the judiciary's independence, the new government must also strive for far-reaching reforms of the justice system and the means to finance it soundly. Following two civil wars and more than twenty years of decay in public institutions, the new government is just starting to tackle extreme poverty, defray social inequalities and regain both the population and the international community's trust – all of which are crucial to developing the vision of a democratic society, let alone a free market system open to foreign investment. Economic success and a concomitant improvement in the population's standard of living will facilitate the reintegration of former combatants and help heal the wounds of the civil war. The potential conviction of war criminal Charles Taylor and the process set in motion by the Truth and Reconciliation Commission are also important to building a common future for both perpetrators and victims in Liberia. Exposing the truth of perpetrators' acts while addressing victims' suffering are key to developing a sense of justice and thus reconciliation; both the government as well as other stakeholders in Liberian society should take responsibility in furthering the process.