Liberia

Liberia reached the Heavily Indebted Poor Countries (HIPC) Completion Point in October 2010. This has not only led to the writing off of 4.6 billion US dollars (USD) by Multilateral Development Banks, Paris Club members and commercial creditors, but has also created a positive reform dynamic in the country.

The challenge for Liberia is to make the transition from post-conflict reconstruction to sustainable development. This can only be achieved through further regional integration and regional infrastructure projects, as Liberia is a small country with limited purchasing power.

Companies from emerging partners are mainly active in the extractive industries and palm oil sectors. Of these, China is the largest provider of development assistance and its aid efforts are coordinated with other traditional donors.

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

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

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

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

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

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

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

Table 1: Macroeconomic indicators

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

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

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

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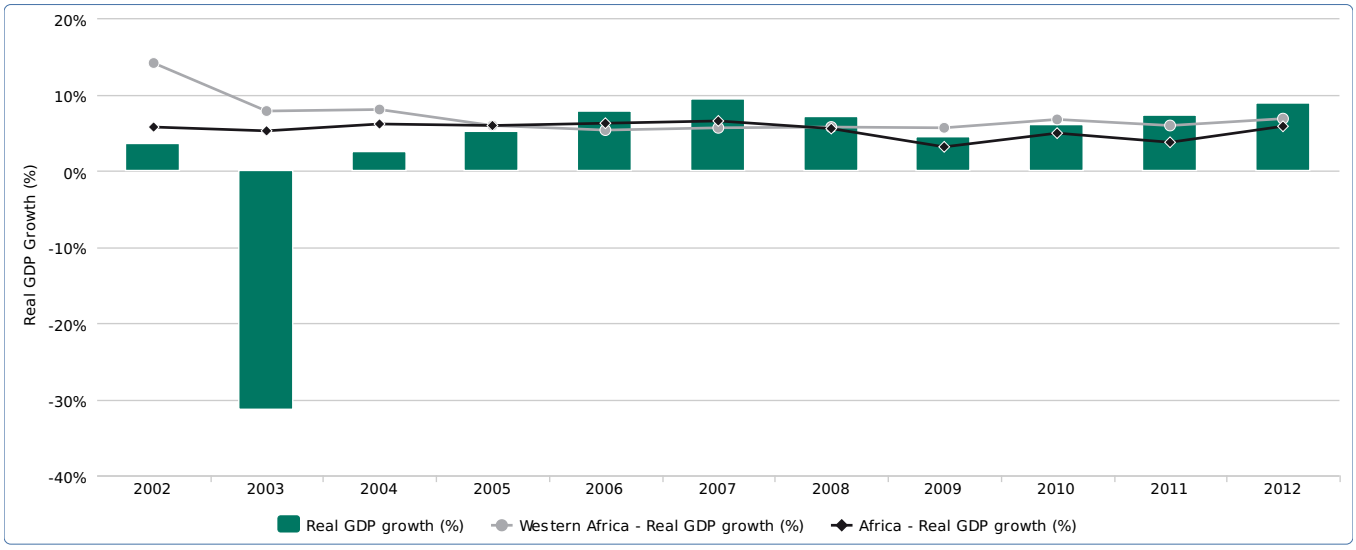
Figure 1: Real GDP growth (W)



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

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

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