



**C. KELVIN MARVIE II**

**“ECONOMIC GROWTH AND JOB CREATION: THE  
CASE OF LIBERIA”**

***“CRESCIMENTO ECONÔMICO E GERAÇÃO DE EMPREGO: O  
CASO DA LIBÉRIA”***

**Campinas  
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**UNIVERSIDADE ESTADUAL DE CAMPINAS**  
**INSTITUTO DE ECONOMIA**

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**Orientador(a): Prof. Dr. Carlos Salas Paez – orientador**

***“CRESCIMENTO ECONÔMICO E GERAÇÃO DE  
EMPREGO: O CASO DA LIBÉRIA”***

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DR. CARLOS SALAS PAEZ.**

  
Orientador

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**Banca examinadora:**

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Anselmo Luis dos Santos

Leandro Pereira Moraes

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## DISSERTAÇÃO DE MESTRADO

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Defendida em 05/08/2013

COMISSÃO JULGADORA

A handwritten signature in blue ink, appearing to read "C. Paez".

**Prof. Dr. CARLOS SALAS PAEZ**  
Instituto de Economia / UNICAMP

A handwritten signature in blue ink, appearing to read "Anselmo Luis dos Santos".

**Prof. Dr. ANSELMO LUIS DOS SANTOS**  
Instituto de Economia / UNICAMP

A handwritten signature in black ink, appearing to read "Leandro Pereira Moraes".

**Prof. Dr. LEANDRO PEREIRA MORAIS**  
PUCCAMP / FACAMP



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## **RESUME**

Liberia like many developing economies have endeavored to encourage investment in a bid to facilitate economic growth and job creation. This has been enhanced by the government's efforts to attract investors through many favorable investment policies.

The fairly decent growth performance of the Liberian economy has been somewhat dented by the increasing rate of informality and underemployment. Policies narrowly focused on achieving macroeconomic stability and accelerated growth without adequate employment consideration and facilitation. This situation is probably a reflection of the fact that the growth impetus achieved in Liberia is either inadequate or does not come from investment directed into the labour intensive activities. Sectors with high labour absorption rate such as manufacturing, tourism, merchandize agriculture and exports have not attracted the necessary investment to enhance growth and employment performance. The Liberian economy therefore requires a thorough review of the current national development policies to generate growth that would promote job creation and improve incomes for the realization of its poverty reduction goals. For employment-friendly growth to be realized, this paper attempts to propose various initiatives aimed at enhancing employment.

## **RESUMO**

Libéria, como muitas economias em desenvolvimento têm se esforçado para incentivar o investimento em uma tentativa de facilitar o crescimento económico e a criação de emprego. Este tem sido reforçada pelos esforços do governo para atrair investidores através de políticas favoráveis ao investimento.

O desempenho recente da economia da Libéria tem sido um pouco prejudicada pela taxa de aumento da informalidade e do subemprego. Políticas voltadas estritamente para alcançar a estabilidade macroeconômica e ao crescimento do emprego acelerado sem consideração aos problemas da qualidade do emprego criado. Esta situação é, provavelmente, um reflexo do fato de que o ímpeto de crescimento na Libéria é alcançado inadequadas ou não está direcionado para as atividades de trabalho intensivo. Setores com alta taxa de absorção de trabalho: como a manufatura, turismo, agricultura e exportações de mercadorias não têm atraído o investimento necessário para aumentar o crescimento e desempenho do emprego. A economia da Libéria, portanto, requer uma revisão profunda das atuais políticas nacionais de desenvolvimento para gerar crescimento que iria melhorar as condições de vida da população. Promover a criação de emprego e renda para a realização de suas metas de redução da pobreza, é uma tarefa inadiável. Para que o crescimento do emprego possa ser realizado, este texto propõe várias iniciativas destinadas a reforçar o emprego.



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## ACRONYMS

ACS	American Colonization Society
AIDS	Acquire Immunodeficiency Syndrome
BOI	Board of Investment
CBR	Crude Birth Rate
CDR	Crude Death Rate
CUT	Central Única dos Trabalhadores/English: Unified Workers' Central
CWIQ	Core Welfare Indicators Questionnaires Survey
DCs	Developed Countries
ECOWAS	Economic Community of West African States
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HDR	Human Development Report
HIV	Human Immunodeficiency Virus
IDP	Internally Displaced People
ILO	International Labour Organization
IMF	International Monetary Fund
KILM	Key Indicators of the Labour Market
LACs	Latin American Countries
LDC	Less Developed Countries
LDHS	Liberia Demographic and Health Survey
LEAP	Liberia Employment Action Program
LEEP	Liberia Emergency Employment Program
LEITI	Liberia Extractive Industries Transparency Initiative

LFS	Labour Force Survey
LIFZA	Liberia Industrial Free Zone Authority
LISGIS	Liberia Institute of Statistics and Geo-Information Services
M&A	Mergers and Acquisition
MNEs	Multinational Enterprises
MOL	Ministry of Labour
NAC	National Aids Commission
NIC	National Investment Commission
NICs	Newly Industrialized Countries
NPHC	National Population and Housing Census
NRI	Natural Rate of Increase
OECD	Organization for Economic Co-operation and Development
PRS	Poverty reduction Strategy
ReSAKSS	Regional Strategic Analysis and Knowledge Support System
SAP	Structural Adjustment Program
SEL	Social Economy and Labour
TNCs	Trans-National Co-operations
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNHCR	United Nations High Commission for Refugee
UNMIL	United Nations Mission in Liberia
UNCTAD	United Nations Conference and Trade Development

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## INTRODUCTION

For the poor to participate in, and benefit from economic growth, they need access to what (Amartya Sen: 1999) 'referred to as asset and exchange (or market income) entitlements. Asset entitlements refer to the relative distribution of capital assets so essential for present and future production (land, credit, human capital, and social capital such as health, amenities and social security, and physical and economic infrastructure)'. Exchange entitlements are non-existent for those unable to find decent formal sector jobs. The complementary access to education and capital, and infrastructure such as rural feeder roads, electricity, and irrigation, make land assets productive. These broader assets allow the rural poor to connect to markets for their goods and to access inputs for their production. In cases where there are relatively high levels of inequality in land holdings, agricultural growth does less than non-agricultural growth to raise the incomes of the very poorest.

The goal of achieving full employment among other macroeconomic goals remains a very important one in many developing nations where unemployment and underemployment has been a major cause and consequence of widespread poverty. According to the Liberian Labour Force Survey 2010 report, 'the current high rates of informality (68.0%) in Liberia have raised concerns about the relevance of the current macroeconomic policies within the context of a broad development agenda'. Current economic policies may be traced back to World Bank and International Monetary Fund sponsored economic reforms which have emphasized restrictive macroeconomic policies and a more open trade environment with a greater private sector role in direct productive activity. The reforms were meant to restore macroeconomic stability, provide an incentive framework to enhance efficiency, encourage savings and investment, create an enabling environment to facilitate private sector development, and improve the efficiency of public sector resource management (World Bank, 1995).

Since the end of the Liberian civil war (1989-2003), private domestic and foreign direct investment has been characterized by brown-field investments, and the patterns of investment haven't been directed to labour intensive or agro-based industrial activities. However, the social problems including unemployment and underemployment, high poverty prevalence, and income inequality that followed afterward caused many critics to argue that the social and structural implications of the restructurings were ignored.

This suggests that getting fiscal, monetary, and trade policies right does not necessarily translate into employment creation and the necessary growth to reduce poverty. These policies need to be complemented through state interventions, for without those regulations the persistence results of high incidence of inequality that can be largely explained by the poor performance of the labour market. Weak state institutions have been one of the major factors that hinder employment quality.

The Liberia Poverty Reduction Strategy (PRS), introduced in 2008 was intended to address deteriorating social conditions especially the high incidence of poverty and the widening income distribution that emerged with the reforms. Employment generation was considered as the core objective of the policy framework with more emphasis on laying the foundation for rapid, inclusive and sustainable growth in years to come. However, the apparent overconcentration of effort in achieving macroeconomic stability through restrictive fiscal and monetary policies within an over-liberalized external trade system continues to constrain the expansion of the private sector, including the employment-friendly sectors. The difficulty faced by local enterprises in competing effectively in the globalized trade environment has contributed to dislocations and job losses in the labour market. The growing informality in the midst of seemingly consistent robust growth performance has raised doubts about whether employment has been a significant factor behind growth.

**Keywords: Economic Growth, Investment, Decent Work, Informal Sector, Informal Economy, Informal Employment, Underemployment.**

**Research Question**

Have Liberia's economic growth pattern created the necessary jobs needed to combat poverty and reduce informality?

**Hypothesis**

Sustainable employment enhancing policies must be reintroduce, implemented and prioritized, so as to create the necessary jobs needed to reduce informality.

**OBJECTIVE**

The objective of this study is to examine Liberia's economic growth and its impact on job creation within the economy. To assess this role of investment promotion, facilitation, and recommend measures for enhancing the favorable growth and employment creation, the study seeks to examine the pattern of growth, by reviewing the occupational structure of the labour market and makes recommendation on the need for more robust criteria that incorporate the strategic need of promoting investment for better employment creation.

**THESIS OUTLINE**

The first chapter discusses the geography and historical evolution of Liberia since independence. It further describes the general macroeconomic conditions and those economic changes within the Liberian economy, and provides those principal sector performances. It further discusses the population and demographic structure of Liberia, including the framework of the Liberian labour market indicators as prepared by the Liberian Labour Force Survey Report 2010.

Chapter two of this discussion focuses on theoretical and empirical studies estimating the impact of economic growth on employment for different periods and different countries. It further expand on some economic and motivational theories relating to employment.

The third chapter examines the employment trend in Liberia, and review of economic policies and outcomes. It further expand on the implementation of national policies.

This thesis concludes with an argument for more coherent and social policies to foster employment creation.

### **Limitations of the Study**

Due to the fourteen years of civil war in Liberia (1989-2003), it was difficult to obtain some specific data/information for the purpose of this thesis. Therefore, secondary materials from sources like World Bank, IMF, Articles, Journals and publications were used.

# **1 CHAPTER ONE: THE LIBERIAN ECONOMY**

The first chapter discusses the geography and historical evolution of Liberia since independence. It further describes the general macroeconomic conditions and those economic changes within the Liberian economy, and provides those principal sector performances. It further discusses the population and demographic structure of Liberia, including the framework of the Liberian labour market indicators as prepared by the Liberian Labour Force Survey Report 2010.

## **1.1.1 Overview of Liberia**

The history of Liberia is unique among African nations because of its relations with the United States of America. As Africa's oldest nations, it is a country on the west coast of Africa with its direct neighbors Guinea on the north, Sierra Leone by the west, Côte d'Ivoire by the east and south by the Atlantic Ocean. Its total area in square kilometers is 111,369 in which water (%) is 13.514.

Liberia was founded in 1821 by former slaves from the United States of America as a result of the end of the transatlantic slave trade, through the efforts of the American Colonization Society (ACS). The colonist known as (Americo-Liberians) on the 26<sup>th</sup> of July 1847 declared the independence of the Republic of Liberia, establishing a government modeled on that of the United States and naming the capital city Monrovia after James Monroe the fifth president of the United States of America, and a prominent supporter of the colonization. The colonists lead the political and economic sectors of the country until the 1980s.

### 1.1.2 Historical Background of the Economy

According to a research done by (Carl Patrick Burrowes, Ph.D) author of *Power and Press Freedom in Liberia, 1830 to 1970* (Trenton, N. J.: African World Press: 2004), and co-author, *The Historical Dictionary of Liberia* (Lanham, Md.: Scarecrow Press, 2001) The Firestone Tire & Rubber Company involvement in Liberia can be far dated to January 19, 1925 when the National Legislature approved a three draft agreement between the Republic of Liberia and the company. The first known as the “Mount Barclay Lease” transfer property formerly held by a British Rubber Company. The second granted Firestone a lease agreement to one million acres of land for 6 United States cents per acres over a period of 99 years. The third agreement committed Firestone to building a harbor.

In an article appearing on a front page in *The Washington Post* July 2, 1931, by an African-American author (George S. Schuyler) further discussed that by 1928, "Firestone's investment in Liberia had seen initial success, the new rubber plantations employed approximately 20,000 men as much as 15,000 acres had been planted including approximately 10,000,000 rubber trees and approximately 55,000 acres had been reclaimed from the jungle.<sup>1</sup> With the entrance of Firestone into Liberia, rubber became crucial to the Liberian economy". For most of its operations, Firestone was the largest source of government revenues through payroll taxes and import duties. (IMF, 1975), the more modern role of rubber in Liberia (and Liberia in the world market for rubber). Prior to the development of the iron ore industry in the 1950s and 1960s, rubber was the single most important industry by all measures, in the Liberian economy.

Even before Firestone started recruiting workers for its plantation work in 1926, the Liberian government already had a history of contentious labor practices *vis a vis* the rural, tribal groups. Uncompensated work by rural Liberians had long been demanded for government work, mostly building infrastructure like roads. With the imposition of a “hut tax” by the government in Monrovia, many rural

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<sup>1</sup> <sup>1</sup> Liberia was the leading producer of natural rubber in Africa. In 1970 its output accounted for 2.7 percent of total world production and 40 percent of African production. Rubber accounted for some 57 percent of the value of agricultural output in 1972 and 6 percent of GDP at factor cost in the same year.

Liberians found themselves without the financial resources to pay the tax and were recruited into uncompensated work to pay off the debt. In some extreme cases, rural Liberians found their debts so extreme they were forced to “pawn” their children, sell them into a forced indenture system which amounted to little more than slavery (Hinzen/Kappel,1980) pp. 199-226 NL Diverse.

From the beginning of its operations, Firestone became a unique player in the complex tapestry of labour demand in Liberia. Immediately it became the second largest employer in the money economy (the largest being the Liberian government). Given its large demand for labour, despite its efforts to the contrary Firestone quickly became dependent on the labour recruitment mechanisms of the government. Firestone was originally hoping to deal directly with workers: in 1927, 90% percent of laborers working for Firestone were employed through direct worker-Firestone negotiations. With the possibility of recruitment fees recognized by the original concession agreement, the government and coastal Liberians were not satisfied with allowing Firestone’s direct hire of employees.

The Liberian Labour Bureau, existing almost solely to deal with Firestone matters, took extreme measures to control the recruitment of labourers. In particular, with the assistance of District Commissioners posted at every tribal community as well as strong-arm tactics by the national military (the Liberian Frontier Force), the Liberian government was able to intercept laborers before they could reach Firestone. When officially recruited, the District Commissioners were able to collect the one-half cent that was paid to the government and to the tribal chief for each day a laborer remained at work. In effect, Firestone found itself paying into a system of recruiting costs. Thus, Firestone plantation work became diverged at this time based on the mechanism through which the workers found themselves on the plantation.

### 1.1.3 Economic Collapse

Liberia's 14 year war delayed a generation of new entrants to the workforce and left gaping holes in the infrastructure critical to investment and recovery.

As quoted by (Steve Radelet, 2007), Working Paper No 92, "prior to the civil war, Liberia's economy was concentrated in agriculture and the service sector, including water, electricity, transport; and in production of iron ore, timber, diamonds and palm oil. When the crisis erupted, production in agriculture dropped dramatically with rubber and timber shut down".

Iron ore extraction, construction and manufacturing ceased. Only charcoal and wood production which Liberians depended on to meet basic energy needs, continue. Infrastructure was destroyed, making transportation even more difficult. Water service and electricity were no longer accessible for the majority of Liberians. The fall in production placed a tremendous strain on the economy and the country is still struggling to recover pre-war production levels.

"The destruction of manufacturing plants and mines, as well as the embargos placed on the country by the United Nations and the international community, diverted resources away from certain sectors, inevitably resulting in a shift from a once diverse economy to the production of selected commodities. In comparison with 1984 and 1985 levels, sectoral contributions to GDP shifted drastically to the services sector, which was then predominately State run. Although the contribution of agriculture to GDP increased, this was principally due to activity ceasing in manufacturing and mining" (Liberia Economic Review, 2008).

Foreign direct investment (FDI) suffered a dramatic decline with the start of the civil war. The period between 1995 and 1997 saw another sharp reduction in FDI. The United Nations embargos on Liberian commodities, particularly diamonds and timber, together with the sanctions imposed by the United States and other countries, forced many companies in mining and agriculture to close down their business.

Unemployment rose to unprecedented levels and the country lost the majority of its skilled workers, as thousands fled overseas or became refugees or internally displaced persons (IDPs). With grim prospects of obtaining an education and finding a job, some youth were pushed into the informal economy and many joined the fighting. According to the (UNDP) National Human Development Report, over 70 percent of combatants engaged in the civil war were young people.

#### **1.1.4 Structure Adjustment Policies**

In a journal written by (Dr. Peter Custers, April 4 2006), No.101, September 2004, p.441"over a period of just four years, between September 1980 and December, 1984, the I.M.F. approved no less than five standing agreements with the Doe's military dictatorship, the then Liberian government".

As a consequence of these agreements, outstanding credit (excluding Trust Fund loans) of the IMF to Liberia increased from 30 Million in 1979, to a peak of about 121 Million by the end of 1984. These loans provided by the IMF were short-term loans issued on non-concessional terms. For a tiny country like Liberia, the loans were large-scale in size. They reportedly were accompanied by rigid schedules for repayment, and rapidly led to the emergence of arrears on repayment of the given debts. The first comment to be placed is that the effect of the loans was to significantly increase Liberia's external dependence. Whereas the country had been drawing on the IMF's finance since the early 1960s, the stand-by-arrangements of 1980-1984 importantly increased the country's dependence on the world financial institution.

Further, it needs to be noted that the stand by arrangements dramatically failed to achieve their principal target, namely to support the country's economic growth. Liberia in the past had witnessed high growth rates, for instance in the decade of the 1950s. Whereas the IMF had projected a positive growth rate for Liberia as a consequence of its proposed stabilization measures, agreed under the standby arrangements. Liberia saw a decline in its real (GDP) Gross Domestic Product averaging 3.6 percent per year between 1980 and 1985. The cumulative

decline in real GDP, according to (J. Mills-Jones, 1988), Vol.XI, no.2, p.166; amounted to more than 18 percent between 1980 and 1985". There is thus a pressing need to analyze why the Liberian government failed to achieve the IMF's targets, and understand whether the then military government of Liberia is to be blamed, or the IMF, or perhaps both. The negative growth rate throughout the period when stand by arrangements were signed, in any case, brings out that these did not help the Liberian economy to resume its process of growth.

It is evident that the Liberian economy suffered from the same kind of external constraints, which affected many other Third World countries in the given period. From the late 1970s onwards, the terms of trade for most raw materials traded by Third World countries on the world market fell, and this was also true for the raw materials on which Liberia depended at the time, i.e. rubber and iron ore. Moreover, contrary to Middle Eastern countries possessing rich oil and natural gas resources; and similar to other Less Developed Countries (LDCs) which are exporters of non-fuel raw materials, Liberia was dependent on the importation of oil, the price of which skyrocketed at the time of the second oil shock in 1979, i.e. on the eve of the first standby arrangement. Thus, throughout the years when Liberia implemented the IMF's prescriptions, the country's terms of trade continued to deteriorate (Custers, 2006) working paper No.101.

Now, the IMF's prescriptions were aimed at helping the Liberian government to stabilize the situation through a combination of measures. On the one hand the measures included devaluations, which presumably would help to stimulate the exports of raw materials. On the other hand, the government was also put under pressure to achieve a better budget balance. Neither of these prescriptions, however, bore the country convincing results. Noteworthy is the continuing imbalance in the government's budget. In the second half of the 1970s the budgetary surplus of \$ 3.4 million (1975) had already turned into a deficit of \$ 16 million (1976). The deficit reached the figure of \$ 141 million by 1979. And the problem worsened under the IMF's structural adjustment programs of 1980-1984"

(Cluster, 2006). As quoted by (Mills Jones, 1988), "the budget deficit was higher in 1985 than it had been in 1980, and now was equivalent to more than 12 percent of Liberia's GDP.

However, whereas the ineffectiveness of the IMF's policies towards Liberia was clearly stated by (Mills-Jones, 1998), the biased nature of the prescriptions of the international financial institution was not fully revealed in his analysis. In order to fully expose the biases underlying the IMF's policies, we need to reflect more on the austerity measures which the Liberian government was obliged to undertake. First: these measures included savings and taxation schemes, such as a compulsory national savings scheme, a national reconstruction tax and higher excise taxes, proposals which targeted Liberian citizens, instead of Liberia's foreign concession holders. "This was a grave injustice to the Liberian people, as research undertaken by the Dutch academician (F.M.P.van der Kraaij 1983), p.330 brings out crystal clear".

In his comprehensive investigation of the role of concessions in the Liberian economy completed in 1983, (van der Kraaij) argues that the Liberian treasurer lost potential revenues of nearly \$ 300 million during the period from 1975 to 1979. According to him, \$ 60 million or 40 percent of the average annual domestic revenue was foregone in consequence of poor taxation policies vis-à-vis foreign companies.

Secondly: the austerity measures imposed by the IMF also comprised cuts in the salaries of state employees. And the cuts were major cuts. They amounted from 16 2/3 percent up to 25 percent in January, 1983. From the IMF's ideological point of view these cuts may have seemed a very logical step. The IMF believed that the role which government institutions play in Southern economies should be restricted, and that bureaucracies need to be slimmed. Yet whereas the salary cuts obviously served to weaken the morale of Liberia's civil servants, they did not serve to strengthen the key function which Liberia's state functionaries were

supposed to play, namely to oversee the activities of the foreign concession holders. And whereas it is true that Liberia's bureaucracy suffered from management deficiencies, the deficiencies were most marked with regard to supervision of the operations of the foreign concession holders present in Liberia (Dr. Peter Custers, April 4 2006).

A close review of the structure of the Liberian economy at the beginning of the 1980s, then brings out that the IMF's structural adjustment policies were not only ineffectual and helped aggravate the crisis which the Liberian economy already was suffering from "It also brings out that these policies were heavily biased against the interests of the Liberian people, and were implicitly biased in favor of the foreign concession holders".

As written in 'An Economic History of Modern' Liberia by (Bremer Afrika Archiv, 1983, p.319), under which foreign companies were granted ample privileges tax exemptions, the freedom to repatriate profits, etc. was exceptionally lenient towards multinationals investing in the Liberian economy. Instead of addressing these biases in policymaking, the IMF designed policies which precisely played into the hands of the concession holders. In short ill-designed structural adjustment measures contributed tremendously towards the downslide of the Liberian economy in the decade preceding the outbreak of civil war. They distinctly contributed to the dramatic collapse of the Liberian state in 1989.

#### **1.1.5 Growth Structure**

"Following the economic downturn from 1989 to 2003, growth has been fairly strong over the past years. The pattern of the economic performance over the years suggests little evidence of structural transformation. The economy still depends largely on agriculture accounting for approximately 43 percent of GDP, and sector accounts for employment of nearly 47.3 percent of the economically active population" (IMF, 2012).

The marginal expansion of infrastructure has largely contributed to the slow growth of the mining sector while manufacturing has declined gradually but consistently. The rise in the share of services over the period 2008 to 2012 emanated largely from banking, telecommunication, wholesale, retail, restaurants and hotels. (NIC, 2009) described the shift towards services as an indication of the direction of the new private investment following the removal of policy bottlenecks. It is seen as temporary and no indication of steady structural change. The (U.S Geological Survey, Reston, Virginia 2004) reported that prior to 1989, Liberia's mineral sector had contributed more than 65% of the country's export earnings and representing about 25% of the country's Gross Domestic Product (GDP), but political disorder and economic collapse, which sunk the nation into civil war, brought all mining activities in the country to a standstill.

#### **1.1.6 Employment and Wages**

Reliable labour market data are difficult to come by in Liberia and this continues to hamper effective discussions of the labour market effects of economic policies. Available data however points to the changing composition in overall employment since 2008 in line with the pattern of sectoral distribution of production (CWIQ, 2008). Agriculture continues to employ a majority of the Liberia workforce although its share in employment fell from 68 percent to 47.3 percent between 2004 and 2010. The gain in employment by the services points was driven largely by the trade sector where women are the dominant force. The mining sector witnessed a marginal improvement in employment. Similarly, expansion of manufacturing employment has been slow (Liberia LFS 2010).

Agriculture continues to provide the mainstay of the economy through the Liberian conflict and has accounted for over half of the GDP in the postwar period compared to one-tenth in the late 1970s. The sector accounted for 42.2% of real GDP for 2008. Agriculture remains one of the major source of employment, with nearly 47.3% of the work force engaged in the sector according to data from the (Liberia LFS, 2010). Agriculture is the dominant contributor to export trade and earnings, and a source of livelihood for a greater number of people than any other

sector. A large proportion of the economically active population is engaged either directly or indirectly in smallholder subsistence agriculture or fisheries.

As reported by the (Ministry of Agriculture, 2008), based on the modeling conducted by ReSAKSS - West Africa, "total employment in the sector more than double from 295,354 in 2008 to 507,000 in 2010 with agriculture and forestry accounting for nearly 60% of that increase".

Women, who are the major players in the agriculture sector, constitute the majority of smallholders' producer and agriculture labour force.

The significance of formal sector employment prior to the introduction of economic reforms declined in favour of the informal sector, especially during the 1980s and the crisis that followed in the 1990s. The loss of employment in the formal sector occurred in the public sector largely as a consequence of public sector downsizing. Public sector employment dropped significantly by about 60 percent compared with a 67 percent decline in formal private sector between 1980 and 1985. The smooth transfer of labour to the informal sector was due to the flexible skill requirements of the sector. The declining trend in public sector employment further continued in the 1990s (Custers, 2006) paper, No.101.

With a population of approximately 3.5 million (LISGIS: 2008), the labor force participation rate or economically active persons constitute about 62.8% (1,133,000 million out 1,804,000 million who are either working or looking for work). About 68.0% of the national labor force is engaged by the informal sector. The Liberia Labour Force 2010 reported that about 16.2 % of economically active population is contributing to family work on household enterprise to varying extends. Household enterprise activities are mainly in small skill manufacturing, construction and services; trading is the predominant household enterprise activity, with 24.8% worked on family plot/livestock. Most of household enterprise requires relatively low capital. Because they do not have land deeds or other significant collateral that would give them access to big loans, they usually borrow from relatives or friends to commence their businesses.

This is an indication of the growing number of economically inactive population and increasing dependency ratio of the economy. One obvious change the labour market has witnessed over the last two decades is the rising incidence of open informality and underemployment. Despite the fairly decent rates, the growth performance of the economy has not been sufficient to meet the employment needs of the rapidly expanding labour force thereby contributing to the creation of a state of joblessness. The labour force in Liberia saw an annual average growth of 3.04 percent between 1984 and 2000, with labour intensive activities such as mining and manufacturing hardly recording any significant expansion in employment.

The rising informality and underemployment rates against a falling labour force participation rate are partly explained by the movement of people from the labour force into non-economic activity; particularly as many people move on to seek higher education. School enrolment at all levels has also increased over the past years resulting in the improvement of the literacy rate and level of educational attainment, especially at the post-secondary level. The attempt by people facing the risk of unemployment to seek more education is largely a consequence of the fact that higher education is relatively funded. Generally, these observed structural problems of the Liberian economy could be blamed on the apparent failure of the reform to pay adequate attention to the social dimension of structural adjustment.

Generally, earnings are low as evident in the high poverty incidence in the economy which stood at 64 percent as of (2007 Core Welfare Indicators Questionnaire survey) (CWIQ). The minimum wage appears to have lost its practical relevance for most workers, especially those in the formal sector since the private sector pay well above the minimum wage. Arguably, it only provides a guide to salary adjustment particularly in the public sector. Many workers in the informal sector however earn below the minimum wage largely due to the weak compliance by employers in the sector.

Invariably, low wages relative to a high cost of living have been blamed for the apparent low productivity in the economy as it provides little incentive to work. The compressed wage structure, particularly in the public sector, coupled with inefficient supervision offered little reward to greater skills and productivity. While the productivity of Liberian workers is generally low, it is matched by a low wages which could be derived from a rapid labour force growth and unemployment

### 1.1.7 Current Macroeconomics Developments

Liberia has experienced strong macroeconomic performance over the last three years, in spite of continued weakness in the global economy, with rapid growth projected to continue in the short-to-medium term. Inflation is expected to remain at (7%) and, although the current account remains in deficit, exports are forecast to increase over the coming years. Gross Domestic Product (GDP) grew in real terms at 6.1 percent in 2010 and 8.2 in 2011, and growth was expected to reach 8.9 in 2012. The composition of GDP is also changing, with services and small industries growing more quickly than agriculture. A significant proportion of expected growth over half in the very near term is driven by the mining sector; particularly, the expected increase is in the iron ore sector, which resumed exports in 2011 for the first time since the end of the civil war.

Table 1

<b>Sectorial Composition of GDP 2010</b>							
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>Average</b>
<b>Agriculture &amp; Fisheries</b>	44.3%	42.9%	42.6%	42.2%	42.9%	42.2%	42.8%
<b>Forestry</b>	14.7%	14.0%	12.6%	15.6%	15.2%	16.0%	14.7%
<b>Mining</b>	0.3%	0.2%	0.8%	1.6%	1.7%	1.7%	1.1%
<b>Manufacturing</b>	12.9%	13.9%	14.3%	11.1%	10.2%	10.0%	12.2%
<b>Service</b>	27.9%	29.0%	29.3%	29.4%	30.1%	30.1%	29.3%

Source: Micro Fiscal Analysis Unit and IMF Estimates/www.mof.gov.lr/

## **Real Economy**

### ***Agriculture***

Approximately 60 percent of the population depends on agriculture for their livelihood. The share of agriculture in national output has been substantial, contributing about half of nominal GDP in 2008. As the economy continues to diversify this is expected to decline to around 35 per cent in 2012, but may increase again as new agricultural concessions begin production. These concessions have so far been concentrated in the rubber and oil palm industries in six counties.

The sector's share of export earnings has been on the rise, nearly doubling from \$145 million in 2008 to \$280 million in 2011 (MoF, 2012). Rubber contributes more than 90 per cent of this, though palm oil and cocoa bean exports are also increasing. While the cash-crop subsectors have made steady gains over the period, outputs of the country's major staples, rice and cassava, have been much poorer. Rice output dropped slightly in 2011, after a minimal increase in the previous year, while the output of cassava has fallen consistently over the last 4 years. The demand for rice far exceeds domestic supply; in 2010, Liberia's domestic demand for rice was 465,276 metric tons, but the domestic supply only amounted to 296,090 (MoF, 2012). This means the nation depends heavily on imports to compensate for the shortfall.

### ***Forestry***

As at end of 2012, the Government of Liberia had issued 80 forest resource licenses, including 7 Forest Management Contracts, 10 Timber Sales Contracts and 63 Private Use Permits, covering approximately 3.6 million hectares. The sector's total output has steadily increased over the last 4 years, with exports also growing rapidly.

## ***Commerce and Industry***

Commercial and industrial activities have seen considerable improvements, reflected by a growing number of businesses and a substantial rise in the number of light manufacturing industries owned by Liberians. This signals increasing confidence in the business environment, which is expected to encourage further business development and enhance revenue generation capacity for the government. Most Liberian owned firms are concentrated in the areas of water processing and bottling, woodwork, and printing all of whose outputs are mostly domestic-market oriented. There is a small number of firms, mostly foreign owned, also engaged in light manufacturing including paint and rubber industries.

## ***Mining and Petroleum***

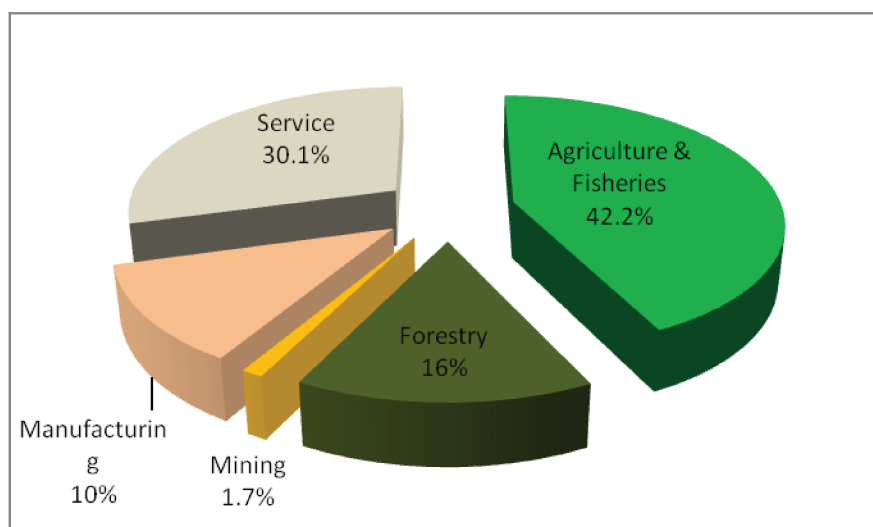
The Liberian government has attracted significant investment into the mining sector. It has also granted mining concessions to five iron ore mining companies, and eighteen companies in the Gold and diamond mining sector; and signed offshore oil exploration agreements with ten companies in the petroleum sector. The mining sector therefore remains one of the growing sources of export earnings and government revenue in the economy, with the contribution from iron ore growing the most rapidly: according to the Ministry of Finance, Liberia mineral royalties from iron ore surged from about US\$0.65 million in 2011 to more than US\$6 million as at December 2012. While this is expected to rise further as mineral exports increase, a decline in demand for iron ore, particularly in China, one of the main export destinations, could result in lower prices and export volumes and, as a result, lower royalties to the government in the future.

## ***Services***

The services sector has become one of the booming sectors of the economy representing around 30.1% of GDP in 2010. This sector is dominated by government services, wholesale and retail trade, real estate, hotels and catering, banks, transport and communication, and construction (2013, African Economic Outlook). The sector is largely supported by the expatriate community, including

the United Nations Mission in Liberia (UNMIL). Growth is expected to remain steady in 2012 (2013, African Economic Outlook).

Figure 1 **Sector Contribution to GDP, Liberia 2010**



Source: Micro Fiscal Analysis Unit and IMF Estimates/[www.mof.gov.lr/](http://www.mof.gov.lr/)

To sum up, despite experiencing strong macroeconomic performance over the last few years, growth continues to be constrained by poor infrastructure, including a lack of paved roads, inadequate port facilities, and electricity, which costs three times more than the West-African average. This affects the distribution of the benefits of growth, since labour-intensive industries such as forestry rely more heavily on road and port infrastructure. Broad-based growth is also constrained by a severely limited skills base, with an overall literacy rate of 57%. During the war, educational institutions were largely non-functional and much of the formal private sector was disrupted, while most of the skilled work force emigrated. The war generation had little opportunity to develop productive skills, and this situation is now exacerbated by the lack of training provided by the informal sector work.

In a 2012 edition of the (IMF/African Economic Outlook), it was reported that the economy is highly exposed to international shocks. It is susceptible to

commodity price swings, especially for its iron and rubber exports. With much of its iron ore low-grade, mining is only profitable when prices are high. Additionally, it also imports most of its rice, the main staple food, making social conditions vulnerable to international price fluctuations. The country is also still highly vulnerable to a reduction in FDI and aid inflows, including a reduction in the (UN) peacekeeping force, which could result from austerity measures in advanced economies. The country will eventually replace a donor-driven agenda with revenues from resource extraction, and this will test its hard-earned improvements in economic governance.<sup>2</sup>

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<sup>2</sup> Annual Economic Review; Ministry of Finance, Republic of Liberia, December 2012

## **1.2 POPULATION AND LABOUR MARKET**

The relatively small population of Liberia is ethnically diverse, consisting of about 16 ethnic groups. The comparative share of the population of each ethnic group has not changed much over the last three censuses.

Liberia's population can be roughly divided into two major categories, indigenous Liberians and Americo-Liberians. Indigenous Liberians are descendants of African ethnic groups who already inhabited the area when the first African American settlers arrived making up 95% of the country's population, and the Americo-Liberians are Liberians of African American descent. Their ancestry can be traced to freeborn and formerly enslaved African Americans who immigrated to Liberia in the 1800s and they constitute 5% of population (Nelson, D. Harold, Sept. 1984) handbook Series p. 92.

According to the Liberia Institute of Statistics and Geo-Information Services (LISGIS, 2008) report, Liberia conducted its first ever census in 1962, with an estimated population of 1,016,443 followed by 1974 and 1984. The results of the 1984 census were lost in the civil crisis before they were analyzed and published. Liberia did not conduct a census in 1994 and 2004, and most of the Liberia's data banks were completely destroyed in the civil crisis.

Demographically, Liberia is within the fertility zone of West Africa, but not until in 1962 when the first population census was conducted. Prior to this time, a guessed figure of 2.5 million was determined as Liberia's population. Historical writings have carried this guessed figure up to 1962 when the population was observed to be far less than 2.5 million. The results of the census figure showed a population of 1,016,443 million (2008, NPHC).

In the past, besides head counts for tax purposes, vital registration and censuses which are used to determine the population, its growth and size were not in existence. Because of the lack of such information, demographic parameters such as Crude Birth Rate (CBR), Crude Death Rate (CDR), Natural Rate of Increase

(NRI), etc. which determine the size and growth of any population never existed in Liberia (2008, NPHC).

The result of the 1962 census would mean that the Liberian population had declined, but in reality this could not have been possible since there was no record of any major catastrophe such as war, earthquake, famine or epidemic.

Even though there would have been some amount of under enumeration in the census due to the inaccessibility of some remote areas at that time, we can safely say that the estimate of 2.5 million was at all cause too high (2008, NPHC).

In 1969 the Government of Liberia began a Population Growth Survey in an attempt to provide more accurate and current estimates of births and deaths, migration, age and sex distributions, marital status, literacy and school attendance.

The estimated population of Liberia in 1974 was 1,503,368 with, 72 percent living in rural localities and 28 per cent living in urban localities (2008, NPHC). According to the 2008 National Population and Housing Census (NPHC) conducted in Liberia, results show that the population was about 3,489,072 million, with a population growth rate of 2.1 percent.

### **1.2.1 Demography and Environment**

Demographic factors have major effects on security, poverty, growth potential, labor markets, and comparative advantages in international trade and the quality of public services. Population pressures are also related to conflict and environmental conditions.

Liberia's population, estimated at 3,489,072 in 2008, has experienced varying growth rates in recent years. Although the population growth rate for 2006 was estimated at 2.9 percent in the (World Development Indicators), the population grew by 2.1 percent in 2008. Both rates are high in absolute terms, reflecting the return of refugees from neighboring countries and high fertility rates. The 2008 rate is the same as Mozambique's growth rate in 2006, significantly below Sierra Leone's growth rate of 2.8 percent. About 60 percent of the land is forest land;

twenty percent is savannah; 6 percent is farmland; and 14 percent is residential. Along the coast of the Atlantic Ocean are flat plains that rise to a rolling plateau, with low mountains in the north-west. The climate is typically hot and humid, with two seasons namely rainy and dry (2008, NHPC).

One direct result of this demographic pressure is a high youth dependency ratio: 47 dependents for every 100 working-age adults (15–64 years). This is higher than the Mozambican rate 44 dependents, and Sierra Leone's 43 dependents (2011, HDR). The high youth dependency rate, coupled with a substantial increase in population, will place pressure on already strained social services and environmental resources. Furthermore, population pressure on the land can be a cause of political instability in the absence of economic opportunity (2011, HDR).

*Table 2*

<b>Demographic Indicators Liberia, 2008</b>		
<b>Indicator</b>	<b>Value</b>	<b>Unit</b>
Total households	670,295	number
Average household size	5.1	number
Dependency ratio	83	Per 1,000 Population
Total fertility rate	5.8	Per woman
Infant mortality rate	78	Per 1,000 live birth
Under 5 mortality rate	119	Per 1,000 live birth
Child mortality	41	Per 1,000 live birth

*Source: LISGIS 2008 NPHC*

There has been a substantial change in the distribution of urban and rural areas in the last 25 years. At the time of the 1984 Census there were 4,602 enumeration areas, of which 1,155 were designated as urban and 3,447 as rural (2008, NPHC). At that time the urban areas in each county consisted mainly of the county capital. By the 2010 survey, there were 6,934 enumeration areas, of which

3,174 were urban and 3,760 rural. In Liberia the definition of an urban center had been widened to include all settlements with a population of 2,000 or more (2008, NPHC). Urban dwellers make up 47 percent of the total population in 2008, well above the rates for Mozambique (35.3 percent) and Sierra Leone (41.4 percent).

On the (Environment Performance Index, 2006), which tracks environmental health, air quality, water resources, biodiversity and habitat, productive natural resources, and sustainable energy, 'Liberia received a score of 51 out of 100'. Liberia's environmental issues include tropical rainforest deforestation, as the lack of electricity has spurred the use of charcoal; soil erosion, especially along the coast; loss of biodiversity as deforestation and uncontrolled hunting threaten wildlife; and pollution of coastal waters from oil residue and raw sewage. Moreover, because natural resources such as timber and diamonds were a source of conflict in the past, as economic activity increases, the government has enforce environmental standards to protect its natural assets. The table below shows the population, percentages sex and age structure.

Table 3

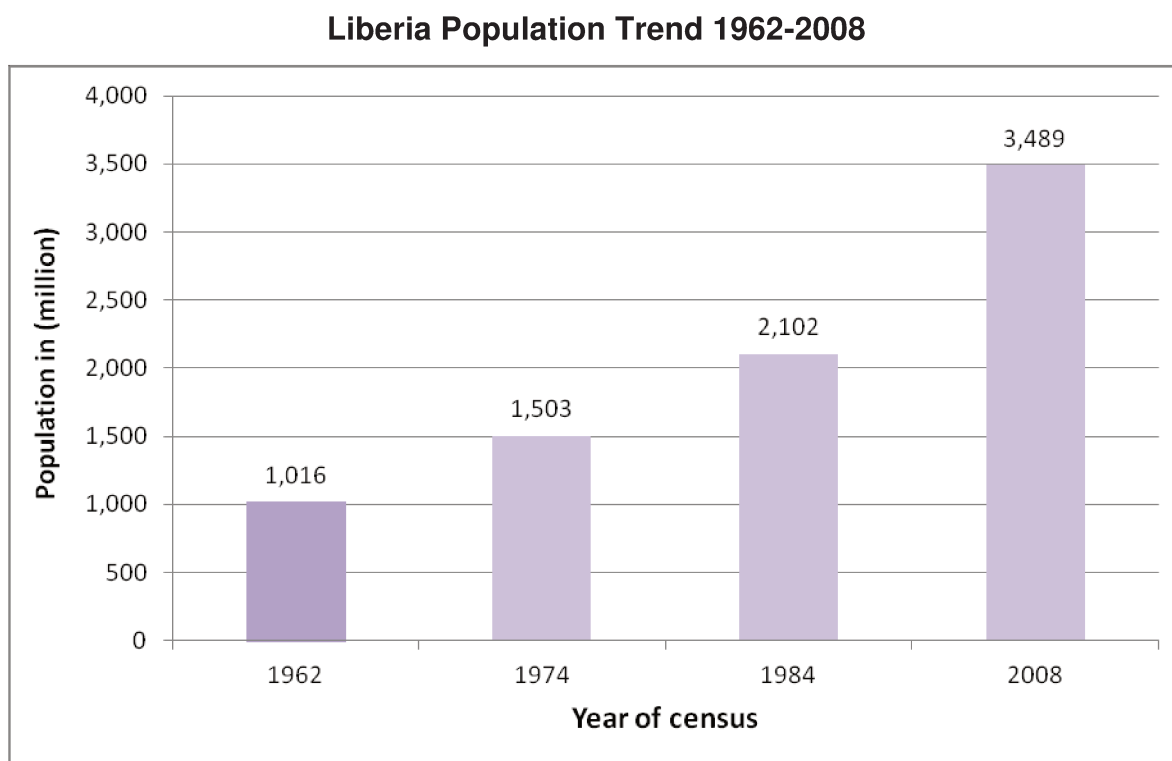
**Population Distribution by Age Liberia, 2008**

<b>Age</b>	<b>% Male</b>		<b>% Female</b>		<b>% Total</b>	
<b>Group</b>	<b>Male</b>	<b>Population</b>	<b>Female</b>	<b>Population</b>	<b>Total</b>	<b>Population</b>
0-19	926,241	53.2	907,526	52.3	1,833,767	52.7
20-39	509,419	29.3	548,537	31.6	1,057,956	30.4
40-59	221,342	12.7	192,602	11.1	413,944	11.9
60-79	68,646	3.9	72,650	4.2	141,296	4.1
80+	14,297	0.8	15,348	0.9	29,645	0.9
<b>Total</b>	<b>1,739,945</b>	<b>100.0</b>	<b>1,736,663</b>	<b>100.0</b>	<b>3,476,608</b>	<b>100.0</b>

Source: LISGIS 2008 NPHC/[www.undp.org/liberia/unfpa](http://www.undp.org/liberia/unfpa)

The United Nations Development Program's Human Development Report (UNDP/HDR, 2007/2008) "gives an estimated population of 3,442,000 for Liberia". Given the population in 1984 as 2,101,628, there has been a rise of 1,387,444 people and this increasing trend has been seen since 1962 (2008, NPHC).

Figure 2



Source: LISGIS 2008 NPHC/[www.undp.org/liberia/unfpa](http://www.undp.org/liberia/unfpa)

The average annual increase rose between 1974 and 1984 but declined slightly by 2008.

Table 4

**Liberia Population Trend, 1962-2008**

<b>Index</b>	<b>1962</b>	<b>1974</b>	<b>1984</b>	<b>2008</b>
Population	1,016,443	1,503,368	2,101,628	3,489,072
Population change		486,953	59,826	1,387,444
Average annual increase		40,577	59,826	57,810
Percentage increase		48	40	66
Annual growth rate		3.3	3.4	2.1

Source: LISGIS 2008 NPHC/www.undp.org/liberia/unfpa

In comparison with other countries around the region, the population size of Liberia is relatively small. This notwithstanding, the yearly rate of growth of the nation at slightly over two percent is still on the high side as indicated below.

Table 5

**Population, Density and Growth Rate of some Sub-Saharan African Countries**

<b>Country</b>	<b>Year</b>	<b>Population</b>	<b>Growth Rate</b>
Liberia ***	2008	3,489,072	2.1
Sierra Leone**	2004	4,976,871	1.8
Côte d'Ivoire*	2005	18,154,000	1.6
Sudan*	2005	36,233,000	1.9
Guinea*	2005	9,402,000	2.2
Ghana*	2005	22,113,000	2.1
Nigeria*	2005	131,530,000	2.2

Sources: \* United Nations: World Population Policies 2005, Department of Economic Affairs, Population Division, ST/ESA/SER.A/245:New York, 2006

\*\* Government of Sierra Leone, 2004 Population and Housing Census

\*\*\* Government of Liberia, 2008 Population and Housing Census

**1.2.2 Poverty and Inequality**

"The income approach views poverty simply as lack of income (or consumption). Poverty exists when some persons in the society have so little income that they cannot satisfy socially defined basic needs. But lack of income is

not the only kind of deprivation people may suffer. Indeed, people can suffer acute deprivation in many aspect of life, beyond those defined as basic needs, even if they possess adequate command over commodities (for example, ill health or lack of education and so on)." The conceptual distinction between deprivation of this kind and that primarily resulting from inadequacy of income is of fundamental importance (Nanak Kakwani – IPC, 2009), Poverty Practice, Bureau for Development Policy, UNDP.

Widespread poverty and income inequality are multidimensional conditions related to a lack of security, education, health, income, and employment opportunities. Moreover, high levels of poverty, and particularly high inequality, can fuel political instability. Although the lack of up-to-date, reliable data makes measuring current poverty conditions difficult and measuring inequality impossible, poverty levels in Liberia are clearly high, and there is an urgent need to improve the situation.

According to the (2007 Core Welfare Indicators Questionnaire survey) (CWIQ), a staggering 64 percent of the population was living below the national poverty line, and in 2001 (the latest data available), 76.2 percent of the population were living on less than US\$1 PPP per day. This is extremely high in absolute terms and approximately twice the estimate for Mozambique (36.2 percent in 2002, HDR).

Not surprisingly, food poverty is also a major problem. "Before the war, Liberia achieved better than 50 percent food self-sufficiency. Rice and cassava production, after falling drastically, recovered in 1998 to 70 percent and 90 percent, respectively, of pre-war levels (Ministry of Agriculture, Food and Agriculture Policy and Strategy, December 2007). In 2002 nearly half (49 percent) of Liberia's population was below the minimum dietary energy consumption threshold.

### **1.2.3 Migration**

The Liberian civil war caused a great amount of migration in the early 1990s. In May 1997, there were still 210,000 refugees in Côte d'Ivoire, 420,000 in Guinea, 17,000 in Ghana, 14,000 in Sierra Leone, and 6,000 in Nigeria. Since the beginning of 1997, the situation in Liberia had improved as the warring factions have been disarmed. Repatriation is only possible after the rainy season ends in October and the roads become passable again; however, between 1997 and 1999, as many as 120,000 refugees were repatriated back to Liberia. Insurgencies that struck (Lofa County) one of Liberia's political sub-division, in April and August 1999 caused major setbacks for the programs of the United Nations High Commissioner for Refugees (UNHCR, 1998), as Lofa has been the single largest county of return for Liberian refugees, mainly from Guinea.

Quoted by the (UNHCR, 1999), "Liberia was host to 90,000 refugees from Sierra Leone. In that year all Liberian refugees who had fled were presumed to have returned to their homeland".

In March 2003, armed conflict between the government and two rebel groups spread to nine of Liberia's (fifteen counties) political sub-divisions. A ceasefire agreement was broken soon after signing. The end of the war that killed a quarter of a million people, uprooted almost a third of the population, and left the country's infrastructure in ruins did not occur until 2005". A 15,000 strong UN peacekeeping force restored security to the country and disarmed and demobilized over 100,000 former fighters, allowing presidential elections to be held in November of 2005.

According to UNHCR, by the end of 2004 there was an internally displaced population of 498,566 in Liberia. In addition, there were 56,872 returned refugees. In 2004 Liberia had 15,172 refugees from other countries (mainly from Côte d'Ivoire) and 5 asylum seekers. In that same year, Liberia ranked eighth-highest for the origin of refugees, with 335,500 by year end in Guinea, Sierra Leone, Côte

d'Ivoire, Ghana, and the United States. In that same year over 5,000 Liberians sought asylum in Ghana, Guinea, Italy, Germany and France.

In 2005, the net migration rate was an estimated zero migrants per 1,000 population, compared to 36.5 migrants per 1,000 population in 2000. These were significant changes from 1990, when the net migration rate stood at -27.0 per 1,000 populations (UNHCR-Liberia).

#### **1.2.4 Employment Profile**

Liberia is classified as a developing country with a population of 3,489,072 million people in 2008, which ranks among the smallest in the ECOWAS Zone. The Labour Force Survey of 2008 shows that 53 percent of the population lives in rural areas. Females account for approximately 50 percent of the population. Liberia has a relatively young population, with 63 percent of the population below the age of 25 years (IMF/African Economic Outlook, 2012). With such a young population, it is therefore not surprising that the age dependency ratio, the ratio of children aged 0-14 and persons aged 65 years and above per 100 persons in the age group 15-64, is high at 83 per-1000 persons (LISGIS, 2008). The dependency ratio is higher in rural areas as compare to urban areas (LISGIS, 2008).

The 2010 Labour Force Survey shows that the working age population in Liberia is 1,804,000, of which 955,000 (52.9 percent) are females and 849,000 (47.0 percent) are males. Of the total working age population, only 1,091,000 (60.4 percent) were employed which is a relatively high employment ratio compared to other Sub-Saharan countries (about 75% in average according to ILO/KILM indicators). One of the main characteristic of the labour market in Liberia is the high informality and its weak labour force participation as only 18.1 percent of the working age population is paid employees (LFS, 2010).

#### **1.2.5 Labour Market Overview**

Decent job creation is the single most important socio-economic and political challenge facing policymakers in Liberia. Unemployment and underemployment

particularly among the youth is still very high despite a consecutive eight year post-war impressive economic growth rates. With a great majority of the labour force is in their productive ages of 25 to 54, and dominated by young people particularly in rural areas surprisingly. The (LFS, 2010) reported that two-third of the country's economically active labour force work within the informal economy. Currently, only about 15 percent of the workforce is employed in the formal sector.

During the early 1980s when the neo-liberal economic reforms were introduced in Liberia as part of the Structural Adjustment Program (SAP), the private sector which has been described as the 'engine of growth' and was expected to replace the public sector as a major source of employment could not live up to expectation as a result of number of policy and structural constraints. Key among these constraints was trade and financial market liberalization that were implemented as a part of the (SAP). The formal sector by then accounted for about 20 percent of the total workforce. The public sector in particular was a major source of employment for the majority of labour market entrants from the universities, polytechnics and other formal educational institutions.

As a result of the neo-liberal economic policies that were implemented throughout the 1980s and with the inception of the 1989 civil war, the share of the formal sector declined significantly. As government continues to implement a policy of net hiring freeze in public sector as part of IMF conditionalities, coupled with the inability of the formal private sector to create job opportunities for the growing number of jobseekers, the informal economy became “the haven for people desperately seeking employment opportunities because they are unable to secure wage or salaried employment in the formal capitalist sector” (Kwame A. Ninsin, 1991) *Informal Sector (Economics)* p. 117-127.

The occurrence of the war also exacerbated income disparities. Presently the informal sector provides employment for many without formal employment and is currently the most important primary source of household heads. This partly

explains the phenomenal expansion of the informal economy in the past two and half decades. In 2010, the Liberian Labour Force Survey estimated the size of the formal sector at 15 percent and the informal sector at 68.0 percent in terms of its share of total employment.

Over half of all Liberian adults are self-employed or own-account workers. For those who are in wage employment, a significant proportion does not have formal employer-employee relationship making it extremely difficult to provide them with any form of social and legal protection. Another feature of the Liberian labour market is the low levels of wages. Even those who are privileged to have jobs in the formal economy continue to face the challenges of job insecurity and low incomes.

Part of the problem is that the neo-liberal economic policies that underpinned the structural adjustment program in the early 1980s until the inception of the crisis by late 1989 made employment creation a 'left behind' outcome of economic growth. The adjustment program itself entailed a large scale downsizing of the public sector. It is estimated that the adjustment program involved the retrenchment of about 15 percent of public sector employees. The total effect of the adjustment policies on employment was even more severe when one takes into the account the policy of employment freeze that was implemented in the public sector during that period.

Many local industries were out-competed from the domestic market. Some resorted to the importation of the items they used to produce locally because it was easier for importers to have access to credit. This descriptive analysis of the Liberian labour market is based on the labour market component of the report on the Liberia Labour Force Survey 2010 data. According to the Liberia Labour Force Survey, it is estimated that the number of people aged 15 and over in each activity status are shown in the tables below:

Table 6

**Liberia 2010, Labour Market Indicator-Absolute Number (Persons Aged 15 And Over)**

	Eligible Population	Labour Force	Inactive Population	Employed Population	Unemployed Persons
<b>Liberia</b>	<b>1,804,000</b>	<b>1,133,000</b>	<b>671</b>	<b>1,091,000</b>	<b>42</b>
Urban Areas	932	512	420	484	28
Rural Areas	873	621	251	607	14
Male	849	561	288	542	19
Female	956	573	383	549	23
Greater Monrovia	569	301	269	281	20

Source: Liberia LFS 2010

As per the Liberia Labour Force Survey definition, person is considered as currently employed if he/she have done any work at all (paid or unpaid) during a short reference period (previous week). A person doing as little as one hour's work therefore counts as being employed. Accordingly, this definition was used so that the contribution of all work activity can be measured, since it contributes to the overall productivity of the country.

Table 7

**Liberia 2010, Labour Market Indicators: Various Ratios**

	Labour force participation rate (%)	Inactivity rate (%)	Employment- to-population ratio (%)	Unemployment rate (%)	Informal employment rate (%)
<b>Liberia</b>	<b>62.8</b>	<b>37.2</b>	<b>60.5</b>	<b>3.7</b>	<b>68.8</b>
Urban areas	54.9	45.1	52.0	5.5	59.3
Rural areas	71.2	28.8	69.6	2.3	75.0
Male	66.1	33.9	63.8	3.4	61.3
Female	59.9	40.1	57.5	4.1	74.7
Greater Monrovia	52.8	47.2	49.3	6.5	56.6

Source: LFS 2010

The unemployment rate as shown is not the most relevant indicator in this table, rather a more useful indicator such as the 'informal employment rate'. Liberia as whole (including the agricultural sector), 68 percent of all employed persons work in the informal sector. The rates of informal employment are much higher in rural than urban areas, and much higher for females than for males.

### **1.2.6 Labour Force**

As define by the Liberia Labour Force Survey 2010, the currently active population (also referred to as the labour force) include all those who are currently employed as well as those who are currently unemployed. It should be recalled that anyone who did any 'work' during the one-week reference period counts as being employed, even if they only worked for as little as one hour, and irrespective of whether they were paid for their work. In the case of the unemployed the 'relaxed' definition was used, which requires that a person should not be working during the reference period but be available to start work, even if they are not actually looking for work.<sup>3</sup> The table below shows the size of the Liberian labour force, in terms of sex and age group, separately for urban and rural areas.

If all ages are considered, there are about 1.3 million people in the Liberian labour force; the comparable figure for the adult population is about 1.1 million. There are approximately equal numbers of males and females in the labour force, and slightly more of them in rural areas than in urban. The great majority of the labour force is in the productive ages of 25 to 54, but there are number of younger people in the labour force, particularly in rural areas.

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<sup>3</sup> The 2010 Labour Force Survey was the first, and remains the only Labour Force Survey conducted since the end of the crisis in 2003.

Table 8

## The Size of the Liberian Labour Force, By Sex, Locality and Age Group, 2010

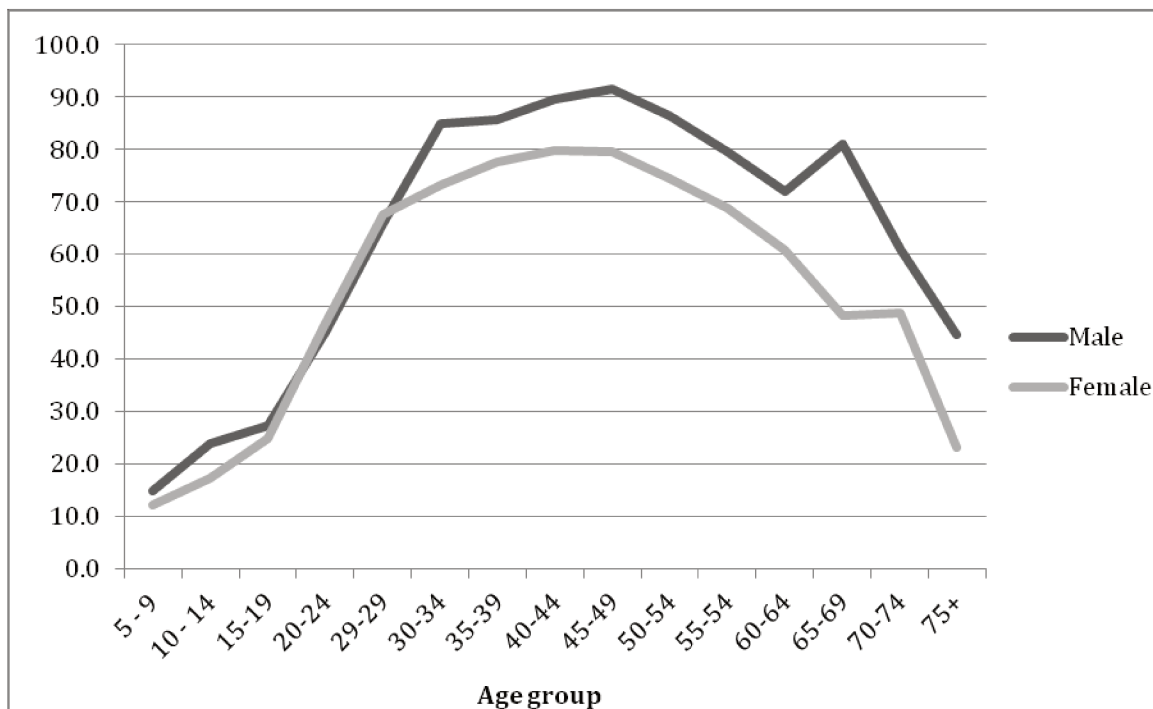
	15-14	15-24	25-34	35-54	55-64	65+	Total	15+	15-64
<b>Urban</b>									
Male	54%	46%	44%	51%	58%	65%	49%	49%	48%
Female	46%	54%	56%	49%	42%	35%	51%	51%	52%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Rural</b>									
Male	59%	48%	45%	50%	55%	63%	51%	50%	49%
Female	41%	52%	55%	50%	45%	37%	49%	50%	51%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Liberia</b>									
Male	58%	47%	45%	51%	55%	63%	50%	49%	49%
Female	42%	53%	55%	49%	45%	37%	50%	51%	51%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: LFS 2010

Another useful indicator is the employment to population ratio, which shows for any group of the population the proportion that is employed. Overall, 60 percent of the adult population is occupied as graphically indicated below but, as we would expect, there are substantial variations by age. A third of the youth aged 15-24 remains within the workforce, while for the main age group 35-54 the proportion occupied is over 80 percent. Even among the elderly (65 and over) as many as a half are still a part of the workforce. Across all ages, but particularly for the young, the proportion employed is higher in rural than in urban areas. (LFS, 2010).

## Labour force participation rates by sex and age, Liberia 2010

Figure 3



Source: LFS 2010

### 1.2.7 The Employed Population

Since the beginning of 2004 up to present, the government has been tackling job creation through Foreign Direct Investment within the Liberian Economy. Although this has been done, it is not achieving the necessary expected results, because of the investment type (brown field investment), and due to poor infrastructure for facilitation. This has resulted into a majority of the active labour force still under informal employment and it is a contributing factor to the high level of poverty. The table below shows the distribution of the employed population in terms of their main occupation.

Table 9

Employed persons age 15 and over, by sex locality and main occupation, Liberia 2010									
Occupation Major Groups	Urban			Rural			Total		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Percentages									
Managers	3.2	0.6	1.9	1.1	0.5	0.8	2.0	0.5	1.3
Professionals	12.4	7.9	10.1	4.7	2.4	3.6	8.1	4.8	6.5
Technicians & associate prof.	4.9	1.6	3.2	0.9	0.6	0.7	2.7	1.0	1.8
Clerical support workers	1.7	0.4	1.1	0.4	0.1	0.2	1.0	0.3	0.6
Service & sale workers	29.0	49.7	39.4	6.1	16.3	11.2	16.2	31.1	23.7
Skilled agriculture workers	12.0	12.1	12.5	63.0	57.9	60.4	40.9	37.5	39.2
Craft & related trades	12.9	5.3	10.8	3.3	1.9	2.6	9.1	3.4	6.2
Plant/machine operators	16.4	1.2	4.2	1.7	0.5	1.1	4.2	0.8	2.5
Elementary operations	7.4	21.2	16.6	18.7	20.0	19.4	15.7	20.5	18.2
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: LFS 2010

Most of the occupational groups are more likely to be found in urban rather than rural areas, except for skilled agricultural workers and elementary occupations which occur more often in rural areas. Almost 47.3% of the workforce (i.e. all those who are employed) are employed in agricultural sector, and a quarter 25.1% is employed in wholesale/retail trade. Together, these two sectors employ nearly 72.4 percent of the workforce. It should be noted that these sectors are highly informal. This explains the high rate of informality of employment in Liberia. Agricultural employment is overwhelmingly rural. Approximately 70% of the workforce in rural areas and about (5% in the urban areas are employed in the agricultural sector (LFS, 2010).

Table 10

**Employed persons aged 15 and over by locality and sector of economic activity in main job, Liberia 2010.**

<b>Sector of economic activity</b>	<b><u>Urban</u></b>	<b><u>Rural</u></b>	<b><u>Total</u></b>
	<b>Percentage</b>		
Agriculture, forestry, fishing	15.4	72.5	47.3
Mining & quarrying	1.3	1.8	1.6
Manufacturing	7.5	5.6	6.5
Electricity, gas, etc.	0.5	0.0	0.2
Water supply, sewerage	0.1	0.0	0.0
Construction	4.6	0.8	2.4
Wholesale/retail trade	42.1	11.8	25.1
Transportation, storage	4.3	0.6	2.3
Accommodation & food	4.1	1.5	2.6
Information communication	1.1	0.1	0.5
Finance & insurance	2.2	0.1	1.0
Real estate activities	0.3	0.0	0.1
Prof, scientific, technical	0.6	0.2	0.4
Administration & support service	4.0	0.8	2.2
Public Administration	1.0	0.3	0.6
Education	5.2	2.6	3.7
Human health, social work	2.6	0.7	1.5
Arts, entertainment, etc.	0.5	0.1	0.3
Other services activities	1.7	0.5	1.0
Activities of employer households	0.8	0.1	0.4
International organization	0.1	0.0	0.0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: LFS 2010

### **1.2.8 Status in Employment**

The Liberia Labour Force Survey defined the “employed” as all persons who did some work for pay, profit or family gain during the reference period of the survey regardless of the number of hours they worked (LFS, 2010). The employed people constitute the majority of the economically active population aged 15 and over totals about 1.1 million persons. There are about equal numbers of males and females who are employed, and rather more in rural areas about 600,000 than in urban areas nearly 500,000. Among the workforce, about 62.7% are self-employed; the so-called own-account workers with majority of them operating outside of the formal labour market, and 16.2% within family-based enterprises. A further 22.1% of the employed are participating in the labour market either as employees 18.1% or employers 2.0% (LFS, 2010).

As shown in the table below, self-employment is more dominant in rural areas 65.5% compared to urban areas 59.1%. In urban areas, females 72.0% are more likely to be self-employed compared to males 46.2%. Similarly in rural areas the proportion of males who are self-employed 64.2% are slightly less the proportion of females self-employed 66.7%. In addition, the proportion of those employed (i.e., those in wage employment) in urban areas 27.3% is more than double the proportion employed in rural areas 10.8%. In addition, the proportion of persons working in family-based enterprises in rural areas 21.7% is about two times higher compared to their counterparts in urban areas 9.3% (LFS, 2010).

Table 11

**Employed persons aged 15 and over by sex, locality and status in employment in their main economic activity, Liberia 2010**

Status in employment	Urban			Rural			Total		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Paid employee	40.5	14.2	27.3	17.2	4.4	10.8	27.5	8.7	18.1
Employer	3.8	2.5	3.1	1.1	1.2	1.1	2.3	1.8	2.0
Own account worker	46.2	72.0	59.1	64.2	66.7	65.5	56.2	69.1	62.7
Member of producers' cooperative	1.6	0.8	1.2	1.2	0.6	0.9	1.4	0.7	1.0
Contributing family worker	7.9	10.6	9.3	16.3	27	21.7	12.6	19.8	16.2
Total	100	100	100	100	100	100	100	100	100

Source LFS 2010

### 1.2.9 Informal Sector

#### The Informal Sector in Liberia

The origin of the informal sector in Liberia can be traced back to the very beginnings of colonial capitalism. Even at such an early stage an essential feature of labour in the informal sector was its diverse character that provided for varieties of peasant proprietors and agricultural labourers, distribution agents, buyers, transport owners and employees, repairers, etc. Throughout the decades, instead of disappearing as the modern economy expanded, the informal sector has actually grown in the rural and urban areas of Liberia. The size of the Liberian informal sector is placed at 68 percent of the total labour force (LFS, 2010).

The sector is characterized by underemployment, bad working conditions, uncertain work relationships and low wages. The majority of people are living with high income insecurity and it is prevalent within rural areas. The large scale retrenchment of labour as overriding consequences of structural adjustment in Liberia in the mid-1980s, coupled with the inability to provide employment for the

emerging labour force has created a large pool of unemployed persons who have naturally gravitated towards the informal sector.

The inability of the formal private sector to generate jobs in their required quantities as per the size of investment has also pushed many into the informal sector. As government continue to maintain a policy of net hiring freeze into the public sector and private sector firms fold up or switch to importation due to unfair competition from foreign companies, the formal sector continues to lose grounds in terms of its share of total employment. In the absence of appropriate social protection mechanisms (i.e. unemployment benefit) informal activities have become survival strategies for many Liberian; young and old.

The informal sector in Liberia is made up of proprietary of micro and small-scaled enterprises. It consists of producers, wholesalers, retailers and consumers. There are also intermediary service providers along the value chain such as suppliers of raw materials to manufacturers on contractual basis. Most of the informal employment is provided in just two sectors: agriculture provides over a half of total informal employment, and wholesale/retail trade over a quarter (LFS, 2010). The sector consists of mixed activities. In rural Liberia, informal sector work mainly involves agriculture 75% and, in contrast, more urban workers 59.3% are engaged in non-agricultural activities, see table below.

Table 12

**Number of persons aged 15 and over in informal employment, by sex and locality, Liberia 2010**

	Informal employment	Total employment	Informal employment rate (%)
<b>Liberia</b>	<b>742,000</b>	<b>1,091,000</b>	<b>68.0</b>
Male	332	542	61.3
Female	410	549	74.7
Urban	287	484	95.3
Rural	455	607	75.0

*Source: LFS 2010*

Labour for rural agriculture activities is in the forms of family, casual or permanent, and communal. Permanent labour relations are common on plantations such as rubber, oil palm, and cocoa. Casual workers earn daily wages in performing activities such as land clearing, weeding, planting, chemical application and harvesting. Again and in contrast with urban centers, labour is largely wage-based, either on piece rate or fixed daily/monthly wage. Child labour is also prevalent in both urban and rural areas (LFS, 2010). A significant number of informal sectors workers in Liberia are trapped in poverty as they do not earn enough to lift themselves and their families out of poverty. Linked to the high prevalence of poverty among informal economy operators is the lack of access to productive resources, especially capital.

As a result of all the above challenges, the sector has received increasing attention in the labour and development discourse of Liberia. It has, in effect, been the target of some policy initiatives and activities by certain governmental and nongovernmental institutions and organizations, including the trade unions. Unfortunately however, not much progress has been made in transforming the sector by the government but also trade unions. Traditionally, trade unions have

organized from formal sectors. Although some trade unions have in the last three decades been organizing informal workers, very little has been attained.

### 1.2.10 Unemployment

The unemployed is defined by the Liberian Labour Force Survey to include all persons who did not work but were actively seeking work or were at least available to take up work if they were offered one during the reference period of the survey (i.e., the last seven days prior to the survey). As discussed earlier in this paper, the unemployed are part of the economically active population or the labour force because even though they are currently not working they are actively looking for work (LFS, 2010). Based on this definition, the overall unemployment rate was estimated at 3.7 percent for those 15 years or older

Table 13

<b>The unemployment rates, by sex, locality and age group, Liberia 2010</b>									
<b>Age group</b>	<u>Urban</u>			<u>Rural</u>			<u>Total</u>		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
<b>Percentages</b>									
15-24	6.8	14.6	11	2.1	3.2	2.7	4.0	0.8	6.1
25-34	5.6	6.1	5.9	3.4	2.1	2.7	4.4	4.0	4.2
35-54	3.8	4.0	3.9	2.1	2.1	2.1	2.9	3.0	2.9
55-64	2.3	0.8	1.6	1.0	1.3	1.2	1.6	1.1	1.4
65+	2.9	0.2	2.0	2.3	0.6	1.7	2.5	0.5	1.8
<b>Total</b>	<b>4.6</b>	<b>6.3</b>	<b>5.5</b>	<b>2.4</b>	<b>2.2</b>	<b>2.3</b>	<b>3.4</b>	<b>4.1</b>	<b>3.7</b>

Source: LFS 2010

As shown in table above, unemployment is higher in urban areas at 5.5% compared to rural areas 2.3%. Further analysis shows that total unemployment is higher among female 4.1%, than male 3.4%. The rate of unemployment among urban males 4.6% is slightly lower than the rate among their female counterparts 6.3%. But in rural areas, female unemployment rate 2.2% is lower than male

unemployment rate 2.4%. The data also show that unemployment affects the youth disproportionately higher compared to other age groups. Unemployment among those within the 15 and 24 year age bracket 6.1% is higher compared to the rates of the older labour force (LFS, 2010).

In brief, as the Liberian economy is stabilizing and gradually making its way back to pre-war size, it's sad to know that the recovery is fueled by the same amount of goods and services as in 1989 with fewer workers. Most of the unemployed are young people. Liberia's population increased by approximately 1.3 million between 1984 and 2008, a 65% jump over the 1984 census figure.



## **2 CHAPTER TWO: LITERATURE DISCUSSIONS**

This chapter focuses on theoretical and empirical studies estimating the impact of economic growth on employment for different periods and different countries. It further expand on some economic and motivational theories relating to employment.

### **2.1.1 Theoretical Issues**

In spite of its importance, the implementation of policies on employment creation in many developing nations has not yielded much impact as there is a wide gap between the jobs available and the number of job seekers actively seeking work in most poor nations. Not only is the level of decent jobs diminishing, the challenges of globalization and economic liberalization has brought about new realities having uncertain implications for employment creation in many developing nations.

The high rate of labour force growth vis-a-vis the low and declining rate of formal sector job growth has made the labour market in developing nations exhibiting similar characteristics.

- First and foremost, is the widening of the informal sector where many who would have remained in open unemployment take up low-wage jobs or even self-employment while still hoping to secure a formal sector job.
- Secondly, the unemployed population within the labour market in poor nations does not enjoy any form of unemployment insurance or any social benefit from its government.

- Thirdly, the reported unemployment rates in official documents are usually very low due to high rate of disguised employment and underemployment in the informal sector.
- Fourth, self-employment, part-time employment, and unpaid employment family workers have an uneven share in total employment.

These are all points to consider a search for solution to employment problems in developing nations. In an attempt to explain the concept of employment and unemployment, John Maynard Keynes analyze, the classical view of wage flexibility and its acceptance by labour was rejected while the power of the invisible hands to restore employment level and output after a recession/depression did not materialize during the depressions of the 1930's. Keynes assumed that workers will not be willing to accept wage cut to secure more employment even if they will accept reduction in real wage brought about by rising prices at constant money wage. His weight of analysis rests on the influence that government policy can have in influencing the level of aggregate demand in the economy.

Full employment will only be restored through an increase in aggregate demand and not through the classical prescription of falling money wages. This is because, Keynes believed wages to be inflexible in the downward direction, as workers through their union will resist wage cut. Thus, the combined influences of union militancy, worker's obstinacy in resisting money wage cut and the fact that product price might fall in the same proportion with wage cut, thereby leaving real wage unchanged might make classical predictions unrealistic. Rather than relying on wage flexibility, Keynes recommended fiscal policy measures in form of government deficit budgeting spent on public works. This has the potentials of increasing aggregate demand and hence, removing the incidence of involuntary unemployment.

For a developed economy, Keynes' counteractive policy for removing involuntary unemployment might be applicable but its potency for solving unemployment problem in developing countries are rather very doubtful for two reasons. First, the nature of unemployment in these countries differs from those in the developed nations. While developing countries suffer from chronic unemployment for a long period of time due to either deficiency or inefficient use of capital and other co-operant factors, unemployment in developed nations is cyclical resulting from low level of aggregate demand. "Thus unemployment in poor nations might not be receptive wholly to demand-augmenting policies due to structural rigidities especially with regards to the supply of output" (Jhingan, 1997). As a result, increases in aggregate demand will only lead to rising product prices rather than increasing employment. Second, Keynes' policy prescription relates to open unemployment rather than disguised unemployment which has assumed enormous dimension in developing nations. However, this did not receive attention in his analysis since it is not an important phenomenon in developed nations.

In spite of these however, Keynes analyses reflect some aspects of labour market behaviors in developing nations. For example, in the formal wage sector of the economy, the market is not usually cleared as a result of too high a wage level which is policy, rather than market-determined. Moreover, the actions of unions and government minimum wage laws help to keep wages above the market clearing level. In most cases, this wage does not decline appreciably despite the usually long queue of the unemployed willing to take up formal sector jobs. However, with time, workers who are not able to get formal sector job usually lower their expectations by taking up informal employment at the going level of earnings. In most developing nations, the informal sector is therefore relatively large and growing as a result of low labour absorptive capacity of the formal sector.

### **2.1.2 Brief Survey of Literature**

#### **Economic Growth Process on Employment**

One of the major problems of the national economies is their small capacity to create employment under the conditions of the existence of an economic growth process. The economic literature and practice proves the fact that a high rate of economic growth is a previous condition necessary for economic development, poverty reduction respectively, but the socio-economic impact of economic growth is different in terms of the effect that this growth has on employment. Employment is considered a key intermediary between economic growth, being the one that makes the significant difference in terms of the impact of economic growth on human development. The way in which employment growth is affected by economic growth has become an issue extensively debated. One of the reasons for this is that most of the countries have a persistent job deficit and they have to deal with the problem of unemployment, and on the other hand, because employment does not grow enough while the economy is growing.

According to Robert Wade, the current neoliberal World Trade Organization regime “actively prevent(s) developing countries from pursuing the kinds of industrial and technology policies adopted by the older developed countries when they were developing” (Wade, 2003). He thus argues that the now more economically developed countries have not developed as a result of the same policies neoliberalism currently recommends to less developed countries.

Examining the relationship between economic growth, employment and unemployment in the European Union, (Walterskirchen, 1999) analyzed the link between economic growth and the labour market. He found that the relationship between GDP growth and change in unemployment is divided into two components: those changes in employment and unemployment rates governed by economic factors as well as those governed by demographic influences and labour market policies. He employed time series analysis for individual country, while for all the countries he employed the use of panel data. The finding of the study

showed a strong positive correlation between GDP growth and change in the level of employment.

Swane and Vistrand examined the GDP-employment growth relationship in Sweden. Using the employment-population ratio as a measure of the extent of employment generation, the study found a significant and positive relationship between GDP and employment growth. This finding supports the strand of theory suggesting that the positive relationship between GDP and employment is normal and that any observed jobless growth might just be a temporary deviation. They however make useful suggestion for further research on the causal relationship between employment and GDP (Swane and Vistrand, 2006).

Analyzing employment intensity `the effect of economic growth on employment or the employment intensity of economic growth`<sup>4</sup> between 1991 and 2003, for 160 countries, from different regions of the world, shows that, at global level, employment elasticity has decreased, fact that reflects the employment performance following the global economic slowdown. According to the author's estimations, at regional level, the highest employment elasticity is to be found in Africa and the Middle East, but here the labour productivity growth is extremely reduced. Therefore, the number of poor workers has continued to increase in this region.

The analysis of employment elasticity together with economic growth, productivity growth, unemployment and poverty evolution shows that, in the regions in Asia and the Pacific and particularly in East Asia, the rapid economic growth has led to important earnings in labour productivity as well as in employment growth, contributing to the increase in living standards (Kapos, 2005/12. ILO). Other studies state that employment elasticity had a growth tendency from one period to the other. Thus, (Padalino, S., Vivarelli, M. 1997, International Labour Review 136: 191-213) catching the effect of the technological

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<sup>4</sup> Employment elasticities provide a numerical measure of how employment growth varies with growth in economic output.

changes on employment intensity show that employment elasticity increased in the 1980-1994 period compared to the one between 1960 and 1973 (period in which the main production method was Fordist).

Examining the effect of economic growth on employment in 11 Transition Economies in Central and Eastern Europe and the Commonwealth of Independent States for the period 1989-1998, (Saget, C. 2000) identifies three types of elasticity patterns in the region. First of all, in countries such as Poland, Hungary and Slovenia, employment growth appears closely linked with GDP growth, as evidenced by relatively high employment elasticity.

In the second group, including the Baltic States, the Slovak Republic and the Russian Federation, the elasticity is much lower. In the third group (Bulgaria, Romania and Ukraine), a statistically significant relationship between employment and GDP was not identified. The authors consider the high share of national output in the informal economy responsible for the weak relationship between employment and economic growth.

Although some studies claim that in economy the phenomenon of “jobless growth” emerges, the authors of other studies struggle to provide empirical evidence that prove the contrary. Thus, (Dopke, J. 2001- Working Paper No. 1021) demonstrating the close relationship between aggregate production growth and employment growth, shows that the relatively poor performance of employment in Europe (compared to the USA) is partially due to the low employment intensity. Through the comparative analysis of the data for the 1971-1999 period, on the OECD countries, the author proves that the countries which are successful in the fight against unemployment, for example the USA, generally have a lower unemployment threshold. On the other hand, the results of the study suggest that there is no evidence that supports the existence of jobless growth.

The explanation for the existence of different employment intensity must be looked for in many directions. The rhythm of job creation in relation to economic

growth can be explained by the type of economic growth 'extensive or intensive', which has suffered important changes lately. The GDP growth aggregate production as reaction to the aggregate demand growth can be achieved in different ways: either the quantity of inputs 'labour force, capital etc' increases and then we talk about extensive growth, or the production factors productivity increases intensive growth, or a combination of the two possibilities. It is stated, in the economic literature, that the shortage of labour demand is based on the fact that economic growth and development predominantly take place based on the intensive factors, labour productivity having an important role.

Conceptually, employment intensity of economic growth as measured by the elasticity of employment with respect to output is inversely related to labour productivity. However, if employment-intensive growth were achieved through higher growth of labour-intensive sectors, it would not necessarily imply the reduction of labour productivity altogether, being able to combine high elasticity of employment with some increase in labour productivity. On the other hand, the studies prove the fact that there is no contradiction between, on the one hand, the necessity to increase labour productivity in the sectors that take part in the international competition, and on the other hand, the necessity for the share of the sectors with a slower productivity growth to increase. It is important for the wealth resulted from increasing productivity in the first sectors to be distributed to the benefit of the entire society.

### **Infrastructure Investment and Economic Growth**

The importance of investment in infrastructure to the socio-economic advancement of a nation cannot be overemphasized. Insufficient or poor infrastructure limits citizens' access to markets, as well as livelihood opportunities and services such as clean water, education, health, transport and communication. According to an ILO report, although infrastructure development is not identified as a direct Millennium Development Goal target or indicator, without it many of the targets will not be met and that sustainable infrastructure is not only an essential

part in improving the livelihoods of the poor; it also provides opportunities for creating jobs during development, operation and maintenance (ILO 2010).

Obviously, infrastructure development is a prerequisite for poverty alleviation and employment creation in poor countries. But rapid modernization of infrastructure is indispensable for sustainable development of advanced economies as well. Well-developed infrastructure ensures better living conditions for the general population and improves the competitiveness of the private businesses. For instance, the latest enlargement of the European Union highlighted the importance of bridging the infrastructure gap between the old and the new member states.

"It is argued that without the creation of good basic infrastructure in the new member countries in sectors such as electricity, gas, water, telecommunications, postal services, local transport and waste disposal, the vision of a modern Europe with favorable living conditions in all regions will only remain a dream" (Euractiv, 2010).

Aschauer pioneered the research on the impact of the infrastructure investment on output and productivity growth. He found that relatively slower growth in public capital accumulation in the United States during the 1970s and 80s was largely responsible for the private sector productivity slowdown. He found that the private output elasticity with respect to public capital was about 0.42 indicating a sizable level of sensitivity (Aschauer, 1989 Vol. 23, No. 2).

Following (Aschauer, 1989), (Lynde and Richmond, 1993; pp. 401-414) also investigated the causes for the decline in the United States output and productivity growth since the early 1970s. They found that the services of the public capital are an important part of the production process and that about 40% of the productivity decline in the United States was explained by the fall in public capital-labour ratio. Furthermore, (Ford & Poret, 1991; OECD Working Papers 91) "suggest that cross country differences in productivity growth might also be explained partly by differences in levels of infrastructure spending".

Aschauer further argues that the public infrastructure such as streets and highways, mass transit, water and sewer systems, and the like should be considered as a factor of production, along with labour and private capital, in the private sector production process. Therefore, to raise productivity growth countries must boost the rate of capital accumulation on the tangible capital such as plant and equipment, or intangible capital such as that generated by research and development expenditures. Economic theory identifies five channels through which infrastructure can positively impact on economic growth (Aschauer, 1993; pp.380 – 390):

- I. Infrastructure may simply be regarded as a direct input into the production process and hence serve as a factor of production;
- II. Infrastructure may be regarded as a complement to other inputs into the production process, in the sense that its improvements may lower the cost of production or its deficiency may create a number of costs for firms;
- III. Infrastructure may stimulate factor accumulation through, for example, providing facilities for human capital development;
- IV. Infrastructure investment can also boost aggregate demand through increased expenditure during construction, and possibly during maintenance operations; and finally;
- V. Infrastructure investment can also serve as a tool to guide industrial policy; Government might attempt to activate this channel by investing in specific infrastructure projects with the intention of guiding private-sector investment decisions (Fedderke and Garlick, 2008).

Infrastructure investment is one of the main preconditions for enabling developing countries to accelerate or sustain the pace of their development. Furthermore, the future investment needs of developing countries in infrastructure far exceed the amount being spent by the governments, the private sector and

other stakeholders, resulting in a significant financing gap. According to a World Bank estimate, on average, developing countries currently invest annually 3-4% of their GDP in infrastructure; yet they would need to invest an estimated 7-9% to achieve broader economic growth and poverty reduction goals (UNCTAD, 2008).

Theoretical and empirical literature suggests the existence of positive relationships between infrastructure investment, poverty reduction, employment creation and sustainable growth and development. Labour intensive infrastructure construction program particularly in rural areas of developing economies often lead to short and medium term employment opportunities thereby reducing rural poverty. Access to improved infrastructure in inaccessible areas in turn spurs private sector investment, leading to further job creation and economic growth. International Labour Organization (2010) states that around the world more than 1 billion people lack access to roads with nearly 1 billion without access to an all-weather road, while 884 million do not have safe drinking water, 1.6 billion have no reliable sources of energy, 2.4 billion lack sanitation facilities and 4 billion are without modern communication services. Infrastructure investments to address these gaps have the potential to alleviate the poverty of many through the jobs they create. Unfortunately, this potential is often not realized, as many projects are equipment-intensive and frequently rely on foreign contractors. Studies have shown that making greater use of local labour and resources is usually 20% less costly and save as much as 50% of foreign currency requirements, in addition to creating three to five times more jobs with a multiplier effect of indirect benefits of 1.6 to 2.0 more jobs.

Among the limited research in this area, (Canning & Pedroni, 1999; *No. 57*) conducted a test between investments in three types of economic infrastructure i.e., kilometres of paved road, kilowatts of electricity generating capacity, and number of telephones based on data from a panel of 67 countries for the period 1960-1990. They found strong evidence in favour of causality running in both directions between each of the three infrastructure variables and GDP among a significant number of the countries investigated.

Fedderke and Bogeti investigate the direct impact of infrastructure investment on labour productivity and the indirect impact of infrastructure on total factor productivity. They argue that growth and productivity impacts of infrastructure have been characterized by ambiguous results with little robustness. They offer a number of explanations for the contradictory findings including possible crowding-out of private by public sector investment, the possibility of infrastructure overprovision, simultaneity between infrastructure provision and growth, and the possibility of multiple (hence indirect) channels of influence between infrastructure and productivity improvements. They investigate these possibilities using data for South Africa over 1970-2000, and a range of 19 infrastructure measures.

Herranz-Loncan analyzed the impact of infrastructure investment on Spanish economic growth between 1850 and 1935. Using new infrastructure data and techniques, he shows that the growth impact of local scope infrastructure investment was positive, but returns to investment in large nation-wide networks were not significantly different from zero. He provides two complementary explanations for the latter result. On the one hand, public intervention and the application of non-efficiency investment criteria were very intense in large network construction while on the other hand, returns to new investment in large networks might have decreased dramatically once the basic links were constructed (Herranz-Loncan, 2007; pp. 452-468).

Furthermore, statistical evidence for United States showed that there is a direct positive link between infrastructure investment and GDP. For instance, for the period 1950-79, growth in public infrastructure contributed almost one-for-one to economic growth. During this period infrastructure investment in core areas such as transportation, water management and electricity generation grew at an average rate of 4% while the overall economic or GDP growth averaged 4.1% during the same period. On the other hand, during the period 1980-2007 growth in public infrastructure investment drastically fell to 2.3% while average annual GDP growth fell to 2.9 percent over the same period (Heintz et al. 2009).

In addition to the output and productivity effects, infrastructure investment is believed to create more jobs than other types of investment through direct, indirect and induced jobs. However, the size of indirect and induced effects depends on the magnitude of the infrastructure investment multiplier.

In summary, economic theory and empirical research suggest that investment in economic infrastructure spurs economic growth. It is also expected to generate employment directly through the actual construction, operation and maintenance requirements but also through indirect multiplier effects across the economy.

### **3 CHAPTER THREE: EMPLOYMENT TREND AND REVIEW OF ECONOMIC POLICIES AND OUTCOMES**

This chapter will describe examines the employment trend in Liberia, and review of economic policies and outcomes. It further expands on the implementation of national policies.

#### **3.1.1 Employment Trend**

Employment and capacity development is a critical issue for Liberia, with 63 percent of the population under 25 years of age. Although Liberia has experienced strong economic growth since the end of the conflict, there is insufficient job created to absorb young jobseekers. Since its election in 2005, the Government of Liberia has prioritized job creation through attracting foreign direct investment (FDI) to exploit the country's natural resources. Primarily concentrated in the agriculture, mining and petroleum sectors. FDI in some of these sectors has been growing at a consistent rate. The potential for youth employment is high in industries such as mining, timber and agriculture (cash crops), with further potential in their value chains. However, these jobs are often filled by foreign workers due to weak policies; and MNEs are consistently importing goods and services rather than procuring them locally in view of the insufficient capacity of the local market. More jobs could clearly be generated if MNEs were to source more goods from local producers.

#### **3.1.2 Employment Trend and Government Employment Policies**

The Liberia Labour Force survey calculated the national unemployment rate in 2010 at approximately 3.7 percent for an adult labour force (15 years of age and above) that is; about 1.1 million persons who were working or available for work. However, of the adults that were employed, only 18.1 percent held paid jobs of at least one hour of work in the week. Furthermore, with an Informal Employment Rate of 68 percent of the total labour force (MoL, 2009).

The Government in 2006 launched the Liberia Emergency Employment Program (LEEP) and the Liberia Employment Action Program (LEAP) to boost employment through private sector contracts for labour-intensive rural road projects linked to agricultural production and marketing, solid waste management program in urban areas and other essential public works. The program led to the creation of 90,000 short-term jobs within two years (MOL, 2009).

In 2009, the Government developed the National Employment Policy, with the assistance of the ILO. The policy establishes a platform for creating decent jobs for the Liberian population, taking into consideration the current employment situation in the country, including poverty rates, employment statistics and the linkages between poverty reduction, employment and the attainment of the objectives of the Poverty Reduction Strategy. It adopts a two-pronged medium-term approach of emergency employment and sustainable productive employment. The emergency employment scheme links food security with employment, placing great emphasis on the agricultural sector and the need for it to be revitalized to develop its full potential to contribute to inclusive and sustainable economic growth, food security, job creation and poverty reduction. The second pillar, sustainable productive employment, was aimed at promoting productive employment that will reduce poverty, ensure peace and stability, and enhance the overall well-being of the Liberian population (2009, Employment Policy/MoL)

### **3.1.3 Employment in Agriculture and Agro-Forestry**

Liberia's economy is largely dominated by the agriculture and agro-forestry sector. Prior to the war, agricultural commodities accounted for over 40 per cent of GDP and 90 per cent of total exports. Rubber was the most important cash crop, followed by coffee, cocoa and palm kernels (MoA, 2009).

During the war, agricultural production declined and in some sub-sectors nearly disappeared. Illegal logging eventually led to a United Nations Security Council embargo in 2003 on all timber from Liberia, and illegal rubber tapping in the rubber sector resulted in the deterioration of hundreds of hectares of land and

forced many families to abandon their farms. Production of cash crops such as cocoa also fell drastically. From 1990 to 2002, the country's agricultural exports fell dramatically, reaching an all-time low of USD 10 million in 1993. Employment in agriculture tumble and investment in training, research and development and new technology collapsed (ILO, 2010).

In post-war, the sector has rebounded; with timber production is still struggling to attain its pre-war export levels. The majority of the Liberian workforce, and particularly women, are engaged into agricultural production. The Government is seeking to revitalize the sector in particular to ensure that the country can become self-sufficient in food production. FDI in the agriculture and agro-forestry sector has decreased in the last few years due to the global financial crisis, and this has resulted into some companies halting production (MoA, 2009).

MNEs currently active in the agricultural sector are concentrated in logging, rubber production and palm oil. The MNEs are headquartered in the United States, Belgium, Britain, China, France or Malaysia. The companies range in size from 10 to over 6,000 workers.

In rubber production, Firestone Natural Rubber has been the leading producer since the early 1900s, and maintained operations during the civil war. In palm production, concession agreements have been signed recently, including a 63-year agreement with the Malaysian company Sime Darby; but most operations are at the early stages, reviving plantations which were abandoned or destroyed during the war. Other sub-sectors, such as cocoa, tea and rice, are expected to grow with future concessions (NIC, 2010).

Most materials are imported because the MNEs are unable to find the necessary products in the country, hindering local job creation. A large majority of the indirect employment opportunities generated by the sector include construction (housing, camps, etc.), restaurants and catering, and other services.

Agricultural and agro-forestry MNEs are not yet engaged in processing or manufacturing in the country, although some attempts have been made in furniture-making. Interviews revealed that at least some MNEs are interested in manufacturing rubber wood for local and international markets; sandals, soap, personal care products and other palm based goods; and a power plant to provide bio-energy for the local population and the use of wood chips to produce biomass. But the poor infrastructure in the country and the current global financial crisis are current constraints to developing such downstream activities.

The sector employs a very limited number of women (fewer than 3 per cent), who tend to occupy secretarial positions. Rubber tapping, in which the majority of the employees are found, requires physical strength and are mostly performed by male workers (ILO; 2010).

#### **3.1.4 Skills Required and Skills Gaps**

Approximately 80 per cent of the workforce fill unskilled positions, most of which are physically strenuous and require little training. Most workers hold a secondary school diploma. However, even workers with university degrees generally find employment as drivers, receptionists and in other low-skilled jobs.

"According to the MNEs surveys, the qualifications possessed by graduates do not meet the standards required by the MNEs to fill posts for which higher skills are necessary" (ILO, 2010). This concept is still debatable, as it was drawn from the neoliberal ideology.

In 2009, foreign employees comprised of 0.25 percent of the total labour force in the sector, occupying primarily senior managerial positions. Although all the companies interviewed expressed a preference for Liberian staff, three MNEs explained that, due to scarcity, the identification of skilled individuals takes time, and so they employ foreign staff to perform the job until appropriate Liberian staff are identified to take over their positions (MoL, 2009) Employment Policy Working Paper. The foreign employees are from countries such as Malaysia and Thailand which have traditionally been leaders in rubber, palm and timber development and

export. They are expected to train the local staff so that they acquire the necessary expertise.

### **3.1.5 Youth Employment in Mining**

Mining in Liberia has primarily been dominated by iron ore, gold and diamonds, although there are also reserves of phosphates, copper, nickel and bauxite. Iron ore alone accounted for over half of national export earnings in the 1970s and 1980s. However, the war brought all mining to a complete halt. Plants were destroyed, forcing many of the major MNEs to leave the country; and the United Nations placed an embargo on all diamond exports from Liberia in 2001. Mining became an informal economic activity (MLME, 2009).

Post-war the mining sector's contribution to GDP was only 4 per cent in 2008 but according to the Government, it planned was to bring production to an estimated 15.8 per cent in 2011. Arcelor Mittal a mining company has taken over one of the country's main iron ore mines, amounting to an investment of USD 1.5 billion; and will also contribute to the reconstruction of the railways and a seaport in Monrovia. China Union has signed a USD 2.6 billion contract to take over another large-scale iron ore mine; and plans to build a refinery with an annual capacity of 1 million tones. It is reported that "the investment will create 3,000 jobs in the African country within three years and jobs created indirectly in the long run could be as high as 70,000" (NIC, 2008).

Diamond extraction licenses have also increased over the past three years, with the Ministry of Mines issuing over thirteen new class B licenses in 2006, five in 2007 and eight in 2008 to both multinational and domestic companies. It will take a few years before the sector is operating at full capacity; but operations are expected to generate substantial direct and indirect employment (MLME, 2009). The MNEs involved in mining are headquartered in Africa, Asia, Europe or North America. The companies range in size from four to over four hundred and fifty employees. Although the two largest companies are involved in iron ore extraction, most are concerned with diamonds, gold and precious minerals. All have a great

deal of experience working in Liberia. Most had exploration licenses in the country prior to the war and are currently restarting their operations, although most operations are still at the exploration stage of development (ILO, 2010).

The majority of these MNEs have numerous mines in the African continent; however, unlike many of the other African countries in which they operate, their activities in Liberia are focused on raw material extraction. A high quality and consistent supply of water, electricity and basic infrastructure are required to diversify into value-added transformation, elements which are currently lacking for mining operations. (ILO, 2010)

### **3.1.6 Sectoral Outlook**

The mining sector has only recently been revitalized with the signing of several concession agreements. The majority of the companies have only been in Liberia for a few years, and their operations are at the exploratory phase. The companies have also undertaken to contribute to rebuilding roads, ports and railways, which will improve overall infrastructure in the country. These activities will generate indirect employment in construction and other services. Once the companies begin their mining operations, it is believed that majority of the jobs generated will be for miners, which involves unskilled workers to carry minerals from the depths of the mines to loading trucks and more skilled miners are required to use machinery to unearth minerals, blast appropriate areas of soil and maintain equipment (NIC, 2009).

As is the case in the agricultural sector, further development of this sector largely depends on whether the country can improve its public policies and support small holder farms. Consideration could be given to the establishment of a special fund with contributions from MNEs for skills development purposes. "A common training facility might be more cost-effective in the longer term in view of the capital-intensive nature of operations in the sector" (ILO, 2010). The MNEs in the sector also expressed interest in further development and expansion of the sector into processing and manufacturing, such as development of steel production,

although their priority is completing the first stage of exploration, determining the feasibility of mine construction (ILO, 2010).

### **3.1.7 Youth Employment in Banking**

Prior to the war, the banking sector had 15 active commercial banks. Today, there are a total of nine banks, both national and international. Several Liberian banks that had gone bankrupt during the war have been bought by foreign financial institutions, and a number of new foreign-owned banks have also entered the market since 2003. The contribution of the financial services sector to the national economy was 2 percent in 2008 (CBL, 2009), due mainly to the fact that most Liberian nationals, particularly those residing outside Monrovia, lack access to financial services. In an effort to strengthen and diversify the banking system, the Central Bank of Liberia has been encouraging new banks to enter the market. Therefore, the sector is expected to expand as new multinational banks are established in Liberia, several of which has to expanded operations outside the capital (CBL, 2009).

MNEs in the banking sector are principally engaged in commercial banking, money transfer services, export and import financing and corporate finance (CBL, 2009). The companies range in size from 100 to over 300 employees. The banks are owned by investors from several countries, including France, Gambia, Germany, Nigeria and the United States. Most of the MNEs have been operational only since early 2007. Some banks expressed interest in diversifying activities and expanding their operations outside the capital city. However, due to the inadequacy of infrastructure expansion is slow (CBL, 2009). A survey carried out by the ILO in 2010 on four of the nine multinational banks currently operating in Liberia revealed that, three of the banks are engaged in commercial and retail banking, the fourth is focused on micro-finance. At the time of the study, the number of employees per company ranges from approximately 150 to 300, for a total of 751 employees. However, this number was expected to increase double within the coming year as the banks continue to plan their expansion into rural areas (ILO, 2010).

Over 72 per cent of jobs in the banks are held by young persons under the age of 35. According to the survey, young persons are preferred because they tend to learn new technologies and systems more easily. Most of the banks also have internal policies for the active recruitment of youth. Young persons are expected to occupy over 90 percent of future positions (NIC, 2009). Of the three sectors covered by the study, the banking sector offers the greatest opportunities for women, who currently account for over 32 per cent of employees in the sector. Foreign employees represent approximately 3 percent of the total number of employees in the sector, and they primarily hold senior and technical positions. They are also employed as technicians or in many cases technical consultant accordingly, to train Liberian staff and counterparts.

The supply chain for the banking sector has not yet developed. Banks import most, if not all, of their materials and supplies from abroad. Some indirect employment opportunities generated by the sector include the construction of new branch offices and housing, as well as other services, such as catering.

To summarize this discussion, I would like to argue that strengthening national infrastructure investments is critical to boosting the employment potential of investments through their potential value chains. Currently, cooperation's import most of their supplies as necessary products are unavailable in the domestic market, reducing the possibility of job creation for the local workforce through supply chains, and unreliable physical infrastructure remain a key constraint preventing many cooperation's from manufacturing locally.

### **3.1.8 Review of Economic Policies and Outcomes**

Achieving macroeconomic stability by, for instance, cutting back on public investment may result in a lower fiscal deficit today, but will inevitably reduce long-run growth and the future tax base and may very well imply a higher fiscal deficit in the future. It has been established that instead of crowding out private investment, public investment crowds it in as it expands investment opportunities and helps raise the net return to private investment through reducing the cost of production.

Yet investment in infrastructure is widely neglected (World Bank, 2008). As the deputy chairman of the Planning Commission of India, (Montek Singh Ahluwalia) who was part of the World Bank's Growth Commission aptly put it,

“International financial institutions, the IMF in particular, have tended to see public investment as a short-term stabilization issue, and failed to grasp its long-term growth consequences. If low-income countries are stuck in a low-level equilibrium, then putting constraints on their infrastructure spending may ensure they never take off”, (World Bank, 2008).

Between the periods 1980 to 1984 and up to 1989 Liberia witnessed a drastic shift in policy direction from state control of resource allocation in an inward looking trade environment to a liberal and open economic system with a more reduced state involvement in economic activity. The move was at the instance of the Breton Woods institutions with support from Western donor communities to save the economy from total collapse (J. Mills Jones, 1988). This new economic paradigm was meant to reverse the economic decline of the country which has persisted over a long time. It necessitated a shift in economic focus of public investment towards a more private involvement in economic activity, including foreign investment, and the replacement of administrative controls by market forces in resource allocation. The parameters of macroeconomic policy were drawn up with the conviction that higher growth required the realization of macroeconomic stability and pursuance of structural adjustment program (World Bank, 2001).

Macroeconomic instruments under this open economy system such as fiscal, monetary, financial and trade reforms were critical in the framework, and were accordingly designed to achieve price stability, enhanced savings and investments, sustained economic growth and arrest structural imbalances in the economy. The theme behind this idea was the virtues of unregulated markets and recommended de-regulation, opening-up, privatization and reduced public investment.

### **3.1.9 Monetary Policy**

It is self-evident that monetary policy plays an important role in the performance of an economy of any nation. However, the effectiveness of the policy in achieving the intended goal largely depends on the institutional factors that constrain or facilitate the implementation process of the policy. Having emerged from a devastating civil war which lasted for about 14 years and exacerbated the fragility of the financial sector and the macro-economy, a formulation of a monetary policy framework for Liberia must be designed to address those issues that tend to undermine efforts at engendering improvement in the banking system in particular, and the national economy in general. This must be done in consideration of the general effect of the civil war on the economy (CBL, 2005).

The Liberian civil war which started in late 1989 brought massive destruction upon the country. Although there is now relative improvement in the general security, social and economic condition of the country, the economy continues to be plagued by a multiplicity of social and economic problems (CBL, 2005). The real sector of the economy has generally remained in a state of dormancy since the 1990s with production level of the sector far below prewar level. Developments in the external sector have generally been unfavorable for Liberia for years now. The Country has not been able to export and earn any significant foreign currency from the rest of the world (CBL 2005).

In the social sector, basic social services (e.g. pipe-borne water, electricity, medical, education, transportation, housing, etc.) are inadequate. This is largely attributed to the fourteen year civil war. Presently, the overall activities of the banking systems are grossly inadequate given the needs of the economy. Understandably, the banks, since the 1990s, have been engaged in selective lending by economic sectors, with their aggregate loan portfolio not having any significant impact on the macro-economy. Seemingly, they have been exercising strategic precautionary measures in the face of the general political and economic situation in the country. This indicates the specific circumstances, limitations and

impediments that continue to undermine efforts aimed at the social and economic development of the country (CBL, 2005).

The Government of Liberia monetary policy in the 1980s largely involved credit through IMF credit ceilings, selective credit controls, high reserve ratios, and steadily increasing administered interest rates in the country. The policy was targeted at curtailing the accelerated rate of inflation and the deteriorating level of foreign reserves. The restrictive monetary policy initiative was informed by the conviction that high inflation and balance of payments deficits are caused mainly by excessive money supply, such that controlling monetary expansion was deemed a sure way of managing domestic inflation and external payment disequilibrium (CBL, 2005).

Dollarization: Liberia has a cash-based economy with two legal tender the Liberian national currency (Liberian dollar) and the United States dollar. However, the level of dollarization in Liberia is very high and has increased in recent years. According to the CBL, this can generally be ascribed to the desire of residents who had tried to diversify and protect their assets from the risks of a perceived depreciation of the Liberian dollar and an eventual economic instability as a result of the 14-year civil war.

The apparent financial repression that arose necessitated the birth of financial sector reform that sought to deregulate the financial system and initiate various banking reforms to facilitate greater competition and efficiency in the money market. This saw a pragmatic move towards freeing interest rates by removing interest rate ceilings and adopting indirect instruments of monetary policy. The monetary and financial sector reforms did not only seek to encourage savings, investment and output but also targeted inflation. Inflation targeting is based on the principle that once price stability is achieved, nominal interest rate would decline to allow expansion of investment and growth. "Thus, the policy of

restoring a positive real interest rate was intended to accelerate the process of financial deepening" (Aryeetey, 1994).

Since 1980, the banking system in the country has been progressively liberalized. The outcome of the monetary policy backed by financial sector reforms in 2004 has been associated with a fair degree of price discipline and a more recent considerable degree of competition among banks. However, it has failed to improve the real outcome variables such as savings, investment, accelerated growth and employment. In addition, the distribution has not favored the productive and employment generating sectors of agriculture and manufacturing (CBL, June 2005).

### **3.1.10 Investment Policies and Regulation**

Since 1944, the focus of investment policies shifted towards encouraging private investment as part of the reform measures which sought to bridge the economic, social, and political gaps. In line with this goal, series of initiatives was pursued among which are: Privatization exercise as a measure of reducing government direct involvement in production. This involved commercialization of public utilities and services and creating an atmosphere conducive for private investment. The establishment of the National Investment Commission (NIC) by an Act of Legislator on September 6, 1979, is the Investment Promotion Agency of Liberia on behalf of the government (NIC, 2010/Investment Incentives Code).

The enactment of NIC Act of 2010, repealing and replacing the investment incentives Act of 1973 which brought into being the National Investment Commission with the fundamental objective of encouraging and promoting both domestic and foreign investment (NIC, 2010). The Liberia Industrial Free Zone Authority (LIFZA) was established as a public corporation in July, 1975, in accordance with government's policy to encourage and promote foreign corporation and investments within the Liberian economy. The outcome of various policy initiatives towards the promotion of private investment and greater private

sector involvement in economic activity drew some marginal success. Mining benefited most from the inflows of foreign direct investment to the extent that investment in the sector improved remarkably between 1957 and 1975 with iron ore ranking one. "This seems to confirm the common perception that FDI is largely driven by natural resources when it comes to FDI in sub-Saharan Africa" (Asiedu, 2006).

### **3.1.11 Labour Market Policies**

Employment policies entails deliberate move by government to influence the level of employment in general or to enhance access to jobs for the growing population. The inward-looking economic strategy within a state-led and controlled economic environment was aimed at greater employment and self-sustained growth. In this regard, a number of strategies were pursued. Those policy initiatives resulted in a dramatic increase in urban formal employment especially in the protected industries and in the public sector.

The structural adjustment followed by the civil crisis brought a major shake-up in the labour market. The public sector retrenchment and privatization exercise caused a reshuffle of labour from public to the informal sector with some of the retrenched workers becoming jobless. The government was later compelled to undertake policy interventions to minimize the negative employment implications of the exercise. Some of such initiatives involved the establishment of community projects and employment generation for rural households, low income unemployment and underemployed urban households, and retrenched workers. In addition, the agricultural sector programs which focused on national food security, employment and income generation in the rural areas through increased agricultural research and extension, small-holder credits and provision of other services was also initiated.

In 2008, the government adopted a long-term economic framework called the Poverty Reduction Strategy which built employment promotion considerations into all macroeconomic and production policies.

In the PRS, employment generation was considered a key and was to emanate basically from economic growth through the adoption of labour intensive, agricultural modernization, agro-processing and non-traditional export development among others. The poverty reduction strategy framework recognizes skills training and retraining as means of re-shaping labour market entrants to make them employable.

Vocational and technical training as well as entrepreneurial training have also featured in annual budgets of the government as a way of reversing the growing incidence of youth and graduate unemployment in the economy. The employment outcome of these restrictive fiscal measures has rather been quite disappointing. The macroeconomic stabilization measures pursued since the early 80's appear to have caused undue distortions and dislocations in the labour market. The public sector retrenchment and privatization measures carried out as a measure to curtail growing public expenditure caused a shift in employment from the public to the informal sector with a considerable number of people becoming jobless.

### **3.1.12 Employment and Income Effects of National Policies**

The growing incidence of informality, underemployment and poverty as well as the worsening income distribution in the midst of seemingly robust growth performance has provoked a lot of concerns about the efficiency of the old and existing national policy framework. The benefits of stabilization and adjustment policies, as well as poverty reduction measures in terms of growth have not been translated into employment generation for the growing working population of the country. The persistent increase of the informal sector reflects the job creation challenges of the Liberian economy in spite of a decent growth performance.

Incidentally, the informality rate of the country has consistently increased to an unacceptably high rate. The situation is worse among the youth as well as in the urban areas. The rate reached 61.3 percent by 2010 between males, and 74.7 percent of females among urban and rural dwellers (LFS, 2010). The incidence of

underemployment also rose to 7.3 percent within the labour force by 2010. The weak employment performance of growth has also accounted for the widening income inequality in the economy. The growth performance of the informal sector which employs the majority of the Liberian workforce continues to have adverse effect on incomes of participants. These unpleasant social developments have been blamed on the negative side of fiscal, monetary, trade, investment and labour market policies implemented over the years (Ha-Joon Chang, 2012).

The inability of growth to translate into job creation may be linked to the source of growth over the past years. Growth has been based largely on exports of low value added rubber, increased timber production and also driven by the first iron ore export since the end of the war which are found to be low employment intensive sectors. Growth has rather been very slow in high labour absorption sectors such as manufacturing, and food crop activities (Erik S. Reinert, 2008). With the majority of the Liberian workforce engaged in agricultural and related activities, sluggish growth in the sector over the years has made the sector unattractive compelling the youth to migrate to the urban areas in search for non-existing jobs.

### **3.1.13 Growth and Employment Responses to Economic Policy**

The Liberian economy has been characterized by growing informality and underemployment, widening income disparity and poverty incidence in spite of the fairly annual average growth recorded since 2008. This suggests that the source and pattern of growth have not been socially and structurally compatible. Many have therefore argued that economic growth is only a necessary condition but not sufficient condition for job creation and poverty reduction.

### **3.1.14 Employment Effects of Investment Flow (2006-2010)**

The opening of the Liberia economy to foreign direct investment in 2006 and subsequent measures to liberalize the foreign direct regime, together with the fast growth had led to a rapid increase in foreign investment flow. However, the

flow remains low as compared to other African countries (NIC, 2006). Investment policies pursued over the past years appear to have benefited the mining sector most relative to the more labour absorbing sectors. This is evident in the growth performance of the sector with relatively little to show for employment generation. Despite the 6.8 percent annual sectoral growth (IMF, 2010) recorded by the mining sector, employment in the sector has been low. Mining employment accounted for only 1.6 percent of total employment in 2010. In spite of the massive resource flows into mining, employment in the mining sector continues to decline on average.

On the other hand, manufacturing, service, exports, and agriculture with high labour absorption capacities attracted far less investment to boost production. The employment effect of various initiatives towards increased investment has been marginal compared to the value of investments. "Between 2006 and 2010, a total number of 27 projects registered by the National Investment Commission (NIC) were projected to create 98,120 new jobs as shown below" (NIC, 2006). The sectoral distribution of investment shows that agriculture demonstrated high labour absorption capacity followed mining. Investment Indicators: 2006 - 2010, these projects are classified as major investments.

Table 14

## Foreign Direct Investment, Liberia 2006-2010

Sector	Capital Investment	Potential Jobs
<b>Mining</b>		
Revised Mittal Steel Agreement	\$ 1.6 Billion	3,000
China Union/Bong Mines	\$ 2.6 Billion	3,000
Severstal/Putu Mountains	\$ 2.0 Billion	2,000
BHP Billiton/Kitoma, Goe Fentro MDA	\$ 1.8 Billion	2,500
Am Lib (Kokoya & Cestos)	\$ 100 Million	200
Africa Aura/Gola Konneh	\$ 150 Million	200
<b>Agriculture</b>		
ADA/LAP Commercial	\$ 30 Million	200
Decoris Oil Palm Plantation	\$ 64 Million	1,000
Cavalla Rubber Plantation Rehabilitation	\$ 65 Million	1,000
Sami Darby Gurthrie Plantation	\$ 800 Million	30,000
Golden Veroleum/South East Plantation	\$ 1.7 Billion	40,000
Equatorial Palm Oil	\$ 100 Million	10,000
<b>Hotels</b>		
Robert L. Johnson/Kendeja	\$ 10 Million	160
Golden Gate Hotel/SKD Stadium	\$ 8 Million	100
Cape Hotel/Golden Key/Palm Spring/Royal	\$ 50 Million	400
<b>Industries</b>		
BRE/Vatten Fall Wood Chip Export	\$ 200 Million	700
BR Power 35MW Power Plant	\$ 150 Million	300
CEMENCO New Mill	\$ 20 Million	100
<b>Forestry</b>		
5 Timber Sale Contract	\$ 200 Million	500
4 Forest Management Contract	\$ 60 Million	1,000
<b>Petroleum</b>		
Anardako/Repsol/Oranto/ Africa Petroleum/European Hydrocarbon	\$ 500 Million	200
20 New Total Filling Stations	\$ 20 Million	1,000
<b>Finance</b>		
Guarantee Trust Bank	\$ 8 Million	100
Access Bank	\$ 6 Million	100
UBA Bank	\$ 8 Million	100
Lib Enterprise Development Fund	\$ 8 Million	10
<b>Infrastructure</b>		
APM Terminal, Port of Monrovia/Privatization	\$ 100 Million	250

Source: [www.nic.gov.lr](http://www.nic.gov.lr)

Clearly, the employment response to investment depends not only on the value of the investment and the number of projects, but also determined by the distribution of the investment. This seems to imply that the flow of investment is not a panacea of employment problems in the country. It rather depends on the sectors where the investment flows into. As shown in table above, the employment impact of investment would best be realized if it flows into sectors such as infrastructure, manufacturing, and merchandize agriculture rather than the extractive sector (Chang, 2012). Thus, the economy stands to benefit from employment creation if investments are directed to these sectors which have proven to have greater potential for job creation. Therefore, to achieve the objective of accelerated economic growth, in order to create more jobs, the Liberian government needs to increase and sustain the level of economic infrastructure investment into many more years in the future. This is imperative to ensure sustained reduction in current informalities, high level of poverty and underemployment in the economy.

### **3.1.15 Outcome of Labour Market Policies**

Over the past two decades, a number of changes have occurred in the Liberian labour market in response to the pursuit of economic reforms in the country. The market witnessed an expansion of the urban informal sector largely as a result of privatization and downsizing within the public sector (J. Mills Jones, 1988; LFS, 2010). The centre of employment has also shifted once more in favors of the agriculture sector on account of slow growth in manufacturing and mining employment. In addition, the economic reforms and global technological change have also contributed to changes in labour demand in favor of skilled, professional and managerial personnel across sectors (ILO, 2010). For instance, evidence that the banking sector demands a proportion of high skills.

The growing rate of informality and underemployment over the past two decades suggests that employment-generating policies have been quite disappointing. The failure of the economy to absorb the increasing labour force and

put breaks on the increasing rates of underemployment confirms the weakness of the country's growth. Apparently, growth has largely emanated from low labour absorption activities such as the extractive sectors. This accounts for the difficulty facing the Liberian economy in translating high real GDP growth into employment generation. The weak employment generating capacity of the Liberian economy in the midst of quite remarkable growth suggests that growth is necessary, but not a sufficient condition for employment generation. Output and employment expansion of the private sector have been constrained by numerous problems as already noted. The policy intervention carried out to arrest the adverse employment implication of economic reform appears to have made little impact given the growing incidence of informality and underemployment.

The impact of skill development policies has not contributed much to employment generation due to the supply driven nature of skill training. Many graduates from tertiary, vocational and technical training institutions are unable to secure placement in the labour market. Many of those who are fortunate to secure replacement find it difficult to survive in the unfriendly business environment due to high cost of doing business and low domestic demand on account of external competition.



## **4 CONCLUSION AND RECOMMENDATIONS**

As was discussed in previous chapters, over the past few years development thinking in Liberia has been dominated by emphasizes on attainment of macroeconomic stability, believing that once this is achieved, the social goals of employment creation and poverty reduction would automatically fall into place. The average decent growth performance of Liberia economic reform in sub-Saharan Africa has been somewhat dented by the increasing rate of informality and underemployment. The implementation of stabilization, investment, and trade policies that moved the economy from decline to a positive growth path could not avert the negative employment fallouts of the policies.

One of the reasons for this is that the country has a persistent job deficit and has to deal with the problem of informality and under-unemployment. On the other hand, because employment is not growing enough while the economy is growing (phenomenon called jobless growth). The inflows of investments have not benefited employment-friendly sectors such as manufacturing, tourism among others which have been found to generate more jobs with minimum investment. Instead in recent years, mining activity has been the major recipient of investment inflows. The impact of these investments from both foreign and domestic sources has not affected the labour market significantly in terms of employment.

In concluding, I will like to argue that, increased investment allows promotion of direct and indirect employment, using a local resource based approach in both rural and urban areas as earlier. The state has to developed infrastructure such as roads, educational institutions and health facilities, but investments in key economic infrastructure such as energy that have lagged far behind the domestic demand. Further, this based approach can produce much more direct employment than conventional methods for small and medium scale investment.

To ensure that the employment effect of investments are optimized, demand-side policies must be operationalized, and supply-side interventions made through training of workers and local entrepreneurs in appropriate technology options, managerial and operational requirements considering new labour entrants.

## **Transition to Formality and Decent Work**

In order to curb the spread of informality within the Liberian workforce, appropriate policies must be formulated to ensure that economic expansion is geared towards more labour intensive or inclusive growth than more capital intensive growth path, including clear and define public policies to assist this transition. The policy challenge is to move from job creation in the informal economy to significantly upgrading the scope and pace of creating formal jobs opportunities across the economy. In many African countries, macroeconomic and sectoral strategies are equally important for the informal self-employed. The domestic market is the primary source of demand for goods and services. Therefore, barriers to market access or insufficient local demand will limit the ability of these individuals to realize income from their productive efforts.

The policy framework should support improvements in the quality of employment. Possibilities for raising the quality of employment opportunities are often constrained by low productivity or the inability of workers to capture the benefits of productivity improvements. Finally, workers must enjoy sufficient economic mobility to take advantage of new and better opportunities when they become available. Barriers to mobility including labour market segmentation limit the redistributive impact of an employment centered development strategy.

To facilitate the transition to formality and decent work there is no universal policy framework to implement, but a set of multidimensional policies which can be combined in an integrated policy framework (infrastructure, industry, service, etc.) and adapted to each specific country labour market context, like investment potential, public investment and incentives.

## **Development of Capacity Building Programs**

As indicated earlier, informal operators and workers portray different kinds of skills deficits. Identifying and meeting training needs is an important area of intervention to assist with the transition to the formal economy. There is a need for structured training programs that target the needs of those in the informal economy. Such training should cover issues such as pricing and costing, labour legislation, employment and contracts. What should be taken into consideration is not necessarily how much more money can be made in the short term, but should be based on what skills can be acquired through training programs that can assist potential and successful business owners in growing their respective businesses. A coherent training strategy will be able to groom those in the informal economy and prepare them for progression towards the formal economy.

## **Employment Creation**

- Efforts to improve investment climate target to areas, activities, or firm with greater potential for job creation.
- Adoption of pragmatic measures to enhance labour absorption goals for productive employment and decent work, including guaranteed credit facilities for small and medium enterprises, providing targeted subsidies to food crop farmers to enhance demand and sustain production and employment.
- Provision of long-run co-integrating relationship between economic growth, economic infrastructure investment, formal employment, exports and imports of goods and services.
- Strengthen institutional capacity in designing, implementing, monitoring and reviewing employment generation and poverty reduction programs through investment in research programs, national employment and incomes survey, public service policies and MNE's taxation.

Much of this said, economic growth appears to be one of the main drivers of public sector jobs but not the private sector ones and that while it is perceived that the private sector employment remains one of the key drivers of growth, the latter does not seem to have translated into more jobs, reflecting the much criticized scenario of jobless growth in the economy. The best approach to improving the quality of growth is to increased public investment on economic infrastructure. This can therefore be instrumental in enhancing the private sector competitiveness and encouraging further investment.

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## KEY WORDS

**Economic Growth:** A positive change in the level of production of goods and services by a country over a certain period of time. Economic growth is usually brought about by technological innovation and positive external force (www.investorwords.com).

**Investment:** In standard economic conceptualization, investment can be defined as any use of resources intended to increase future production, output or income. In value terms, investment is money directed toward the purchase, improvement and development of an asset for creation of value in expectation of generating income or profits. Clearly, this definition distinguishes investment from trade enterprise, which is basically a business dealing with exchange of goods or services at a premium. In other words, for a particular asset or money to become an investment, it has to involve creation of output not premium (www.investorwords.com).

**Decent Work:** Sums up the aspirations of people in their working lives. It involves opportunities for work that is productive and delivers a fair income security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men (ILO/KLIM, 2010).

**Informal Sector:** a group of production units unincorporated enterprises owned by households including informal own-account enterprises and enterprises of informal employers (ILO/KLIM, 2010).

**Informal Economy:** All economic activities by workers or economic units that are in law or practice not covered or sufficiently covered by formal arrangements (ILO/KLIM, 2010).

**Informal Employment:** total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households; including employees holding informal jobs; employers and own-account workers employed in their own informal sector enterprises; members of informal producers' cooperatives; contributing family workers in formal or informal sector enterprises; and own-account workers engaged in the production of goods for own end use by their household (ILO/KLIM, 2010).

**Underemployment:** A situation in which a worker is employed, but not in the desire capacity, whether in terms of compensation, hours, or level of skill and experience ([www.investorwords.com](http://www.investorwords.com)).