

del Castillo, Graciana

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Aid, employment and inclusive growth in conflict-affected countries: Policy recommendations for Liberia

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Working Paper No. 2012/47

Aid, Employment and Inclusive Growth in Conflict-Affected Countries

Policy Recommendations for Liberia

Graciana del Castillo*

May 2012

Abstract

The experience and lessons of the last two decades have shown that ignoring the key differences between the economics of peace and the economics of development has been a major reason why countries relapse into conflict. This paper briefly analyses such differences and their important implications for effective policymaking in war-torn countries, and against this background, it makes recommendations for the creation of reconstruction zones in Liberia.

Reconstruction zones would have two distinct but linked areas to ensure synergies between them—an export-oriented reconstruction zone, consisting of any existing agricultural or mining foreign concession, and a local production reconstruction zone focusing on rural development, that would produce agricultural goods, food, light manufacturing and services for the domestic market, including for the concessions.

.../.

Keywords: international relations and international political economy, conflict, natural resources, agriculture, sustainable development, public policy, Africa

JEL classification: F5, D74, O55, Q34, Q0, Q1, Z18

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* Macroeconomic Advisory Group, New York, email: gracianadelcastillo@macroadvisory.com

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The purposes of reconstruction zones are as follows. First, to create links between the concessions, operating as enclaves, and the domestic economy, particularly with the rural communities in their vicinity that have often been displaced or their livelihoods threatened by them. Second, to focus on rural development to improve food security and decrease dependence on imports. Third, to support business development through the creation of a level playing field in infrastructure and credit for micro and small enterprises, including small farmers. Fourth, to move away from the fragmented aid and investment strategies of the past, to a more integrated and effective aid strategy. Last but not least, to achieve more inclusive growth that could help to consolidate peace and avoid that Liberia relapses into conflict.

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Acronyms

Given at the end of the document.

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UNU World Institute for Development Economics Research (UNU-WIDER)
Katatanokanlaituri 6 B, 00160 Helsinki, Finland

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1 Introduction

It is rare the opportunity that one has to travel from the United States to countries as different as Germany and Italy in Europe, to higher-income emerging markets in Latin America such as Brazil and Uruguay, and to countries as poor, conflict-ridden and aid-dependent as Liberia and Afghanistan in a matter of a few months in the summer of 2011. Despite the striking contrasts with regard to national performance and to their level and type of integration and dependency on the global economy, the overwhelming concern of all these countries seemed to be the same: how to employ productively the large number of unemployed and underemployed people and/or how to improve the quality and pay of those employed. There is a widespread recognition of the need to think outside the box with respect to job creation.

Countries emerging from conflict or other chaos often have a large part of their population, particularly the youth, unemployed or in jobs that can hardly allow for their subsistence. In Liberia and Afghanistan, the two most aid- and security-dependent countries, government policies, aid, and foreign investment have mostly benefited elite groups, both national and foreign, to the detriment of the large majority of the local population that remains largely unemployed and excluded from any peace dividend.

These countries often have fast growing populations, where those below 30 years of age may represent about 60-70 per cent of the population. A young labour force can be an asset but it also represents the greatest challenge to these countries: how to provide services and create jobs for these people given that many of them have spent their adolescence and early adulthood fighting rather than at school. Uneducated and unemployed youth can easily become a source of resentment and instability in society, which in turn makes it difficult to reduce the number of foreign forces or UN peacekeepers maintaining a fragile peace.

Spikes of aid to these countries are short-lived which makes it imperative that governments vigorously support private sector development that is dynamic, inclusive and sustainable. By contrast, many of the activities that create growth—particularly natural resource concessions and free trade or special economic zones for production of low-skilled manufacturing—have operated as enclaves within the country, without a positive impact on the population at large. Enclave production has not only created economic problems but has often become a threat to human security. Enclaves are generally a source of labour exploitation and often displace indigenous communities and endanger their livelihoods, as well as destroying forests and wildlife. Despite all this, aid is often focused on improving infrastructure for enclave production, to the neglect of creating a level playing field for local companies.

The record of war-torn countries is indeed dismal and the stakes are high: Roughly half of the countries that embark in the transition to peace relapse into some kind of conflict; of the half that manages to keep the peace, the large majority becomes highly aid dependent. The purpose of this study is to make policy recommendations for Liberia to ensure that the transition to peace becomes irreversible and that the country can be weaned off its high dependence on aid.

After a short introduction, section 2 will discuss the differences between the economics of peace and the economics of development, which have important implications for

effective policymaking in war-torn countries. The experience and lessons of the last two decades have shown that ignoring such differences has been a major reason why countries relapse into conflict.

Against this background, section 3 will make recommendations for the creation of reconstruction zones (RZs) in Liberia. RZs could allow the government to promote its own agenda for rapid, inclusive, and sustainable growth, promote national reconciliation and peace consolidation, address head on the main impediments to private sector development in rural areas, strengthen local governments and communities, promote gender equality, foster environmental sustainability and protect biodiversity. Concluding remarks will follow.

2 The economics of peace versus the economics of development

Countries coming out of war or other chaos confront a multi-pronged transition. Crime and violence must surrender to public security (security transition); lawlessness and political exclusion must give way to the rule of law, participatory government and respect for human and property rights (political transition); class, ethnic, or religious confrontation must give in to national reconciliation (social transition); and war-ravaged economies must reconstruct and become functioning economies that enable ordinary people to earn a decent and honest living (economic transition).

The fact that the economic transition (also referred to as ‘the economics of peace’ or ‘economic reconstruction’) takes place amid this multi-pronged transition makes it fundamentally different from development as usual (or ‘the economics of development’). In fact, the economics of peace is an intermediate and distinct phase between the ‘economics of war’—in which the underground economy of illicit and other rent-seeking activities thrive¹—and the economics of development.

ECONOMICS OF WAR →	ECONOMICS OF PEACE →	ECONOMICS OF DEVELOPMENT
	(or economic reconstruction)	(or development as usual)
	(or economic transition)	(or normal development) ²

The main objective of this intermediate phase should be to make peace irreversible. Thus, in addition to the normal challenge of socioeconomic development, the economics of peace entails the need to accommodate the extra burden of economic rehabilitation and national reconciliation. Effective reintegration of former combatants and other war-affected groups into society is a condition *sine qua non* for national reconciliation. This is why the creation of sustainable jobs is so crucial during this

¹ These activities involve criminality rather than solely informality associated to tax avoidance. For example, in the case of Liberia, illicit activities have involved logging in violation of Security Council sanctions as well as drug trafficking, smuggling, robbery, prostitution and forgery, all of which have been linked to money laundering. See Seaklon (2011).

² To avoid repetition, these terms will be used interchangeably throughout the text.

phase. Without this, effective reintegration of these groups into productive activities will not be feasible.³

Because the overriding objective of the economics of peace is to avoid reverting to war or aggravating social conflict, policymaking will need to be more pragmatic and *ad hoc*. It will often require adopting emergency policies decisively and without delay, even if they are not optimal from a purely economic or financial point of view, or may even be expected to have other unintended consequences or distortions in the long run. The luxury of planning policies with a medium- and long-term horizon in mind—typical of the economics of development—does not exist during this phase (see del Castillo 2008a, 2011a).

At the same time, policymaking during the economics of peace also requires putting aside the ‘equity principle’—that is, the typical development principle according to which all groups with the same need are treated equally—in favour of the ‘reconstruction (or political) principle’—which justifies giving special treatment to groups most affected by or more likely to revert to conflict, even in the presence of others with similar needs (*ibid.*).

Peace and national reconciliation are not only difficult to build, but, like war, have important economic and financial consequences that compete for financial resources with the normal socioeconomic challenges of development. However, for the fragile peace to prevail, governments need to carry out such peace-related efforts continuously and implacably—from the early emergency phase to the end of economic reconstruction when these key activities are completed and the country can move back to the normal development path.

The fact that national reconciliation is a key goal of the economics of peace cannot be ignored. The fact that without the creation of dynamism and social inclusion in the economy the path to peace and national reconciliation will be elusive, makes reconstruction particularly challenging. The fact that countries in the transition to peace have roughly a fifty-fifty chance of reverting to conflict makes reconstruction a high risk/high reward investment for the international community and the respective countries.

A hotly debated controversy over aid has raged in recent years, wrongly focusing on whether it should be increased or eliminated altogether rather than on how it can be made more effective and accountable. The debate has also failed to distinguish between ‘development aid’ and ‘reconstruction aid’. Countries in the normal process of development receive stable levels of development aid—expressed as official development assistance (ODA) over gross national income (GNI)⁴—of between 3 to 5 per cent of GNI, with few exceptions. Reconstruction aid to war-torn countries, on the other hand, could spike as high as 50 to 100 per cent of GNI, or even higher, and will

³ The experience of the last two decades shows that most reintegration programmes have provided some kind of temporary employment for disarming and demobilizing groups, including short-term public employment for rehabilitating services or infrastructure, which are not fiscally sustainable. Food-for-work or money-for-work programmes financed through aid and jobs provided by NGOs, UN agencies and bilateral donor communities are also short term and unsustainable.

⁴ For ODA data throughout the paper, see OECD Statistical Data Bank.

wither after a few years. Such sheer volume of aid and the concomitant large presence of the international community not only create all kinds of distortions but they also provide a serious challenge to its effective and non-corrupt utilization.⁵

At the same time, lack or poor quality of data, as well as the short number of observations for empirical analysis in war-torn countries, make econometric and other quantitative studies on the effectiveness of reconstruction aid of dubious value for policymaking purposes. Thus, a careful qualitative analysis of these countries is required to assess the impact of aid and to design policies to make it more effective and accountable.

Another problem in war-torn countries is the fact that the disbursement of ‘reconstruction aid’ is often delayed waiting for the country to have the right conditions in terms of political leadership, governance, institutions, and human capacity. In the meantime, ‘humanitarian aid’ continues to be disbursed.⁶ While humanitarian aid, to save lives in emergency situations should not be neglected, it should be recognized that such aid promotes consumption (rather than investment), creates price distortions and work disincentives (just as welfare programmes do in industrial countries), and fails to build local capacity. It is most unfortunate that the striking differences between these two types of aid have become blurred in the present context—with the same agencies, NGOs or military forces often providing both.⁷

For the economics of peace to succeed, it is necessary to wean countries off humanitarian aid as soon as feasible to avoid distortions and aid dependencies. Food aid for example, by changing relative prices, discourages local production and work. At the same time, policies to liberalize trade imposed by donors—including the international development and financial institutions as well as bilateral donors—have led to cuts in tariffs on rice and other staple products. This combination of policies has deterred food security and has often led to floods of imports that war-torn and other crises-affected countries can ill afford and that create permanent dependency.⁸

⁵ In countries such as Liberia and Afghanistan the spikes have been unusually large and long in duration. For a detailed discussion of the distortions created by aid in war-torn countries, see del Castillo (2011a).

⁶ A serious problem with aid in Afghanistan and in Haiti has been the exorbitant humanitarian aid in relation to reconstruction aid provided over the years. See de Castillo (2011a, 2011b).

⁷ The different impact of these two types of aid was actively debated at the time of the Marshall Plan. Dulles (1993: 70-1) argues that it would be a waste of money merely to provide humanitarian aid to feed the Europeans for a year or two. Reconstruction aid was necessary to give them the tools without which they would have little chance of righting their own (post-war) economies. He stressed that policies adopted in the first year of the Plan would be decisive in determining how effectively reconstruction proceeded. Despite the very different context in which countries at very low levels of development carry out reconstruction in the present context, the point made by Dulles is just as valid as it was in the past.

⁸ For example, President Clinton publicly apologized on March 2010 at the Senate Foreign Relations Committee for championing policies that destroyed Haiti’s rice production. As he pointed out, ‘It may have been good for some of my farmers in Arkansas, but it has not worked. It was a mistake’. See Katz (2010).

3 The creation of reconstruction zones: policy recommendations for Liberia

In 2003, Liberia emerged from a civil conflict of tragic consequences to establish a fragile peace. Given that there is no dearth of papers and case studies on Liberia, our intention is to provide only a cursory discussion of the background within which our recommendations are made.⁹

Put together, and despite the many data problems, these studies are illustrative of both the high potential and the difficult situation in which Liberia finds itself.¹⁰ Income per capita is about US\$150-175¹¹ and poverty is dire: two-thirds of the population of about 3.5 million¹² find themselves below the poverty line and roughly half suffer extreme poverty.¹³ Unemployment is estimated at about 80-85 per cent and two-thirds of the population is illiterate. The Liberia Labour Force Survey 2010 indicates that about 70

⁹ There are, in fact, excellent analyses of political, security, and socioeconomic conditions and prospects for the country. See, for example, Werker and Beganovic (2011), Werker (2010), McGovern (2008), Adebajo (2004) and various reports of the IMF and World Bank. There are also studies on specific issues such as on land tenure problems (USAID n.d.), on ways to create links between the plantations and the rest of the economy (NIC 2011), and on the problems created by the concessions (Lanier, Mukpo and Wilhelmson (2011), and ICAF (2010)). A High-Level National Economic Forum held in Monrovia in September 2011 to discuss the strategic options and policy choices for the medium-term poverty reduction strategy produced 39 papers, including on growth corridors and the Liberia Vision 2030. See www.sites.google.com/site/liberiaeconomicf/home (some of these papers do not have a cover page and it is not clear who wrote them, hence papers in this webpage are often listed as WP to acknowledge the place in which they are listed in this webpage). Contradictions among these papers are illustrative of some of the major data problems in the country where there are no reliable data on national income accounts or public finance, and we rely mostly on IMF estimates.

¹⁰ RoL (2011/WP38: 1), for example, notes ‘Liberia has a lot going for it. The country is indeed asset-based, rather than a “basket-case” like other countries in the transition from war’.

¹¹ Data problems are a major disadvantage, including the lack of reliable national income accounting (NIA) data. In fact, the first post-war NIA survey was conducted in 2009 covering data from 2008 and results are yet to be published. Comparisons of GDP between old and rebased estimates may increase GDP by as much as 100 per cent from slightly less of US\$1 billion to US\$2 billion and radically change the distribution between agriculture and services. For preliminary results see RoL (2010/WP18). On a purchasing power parity (PPP) basis, the World Bank (2011e: 55) reports an income per capita of US\$300 in 2009, that is, less than US\$1 per day and cites a recent survey which estimates that close to 90 per cent of Liberians have incomes under the US\$1.25 a day poverty line.

¹² The rate of growth of the population also varies across different sources. The most widely used is 2.1 per cent in 2008, falling from 3.4 in 2000. In 2008, about 40 per cent of the population was urban, with over 70 per cent living in Monrovia. The urban population is projected to grow by 40 per cent by 2028. Urban migration, which follows basic social and economic opportunities in the cities, undermines rural development by taking away the youth (RoL 2011b/WP7: 10, 42, using data from 2008 national population and housing census).

¹³ World Bank (2011e) data based on GDP at power purchasing parity (PPP). As RoL (2011b/WP7: 31) also notes, ‘the latest report indicates that 64 per cent of the Liberian population lives on less than US\$1 a day’. The report also cites 2007 data from the Liberia Institute of Statistics and Geo-Information Services LISGIS (2007) indicating that poverty was 68 per cent in the rural area compared to 55 per cent in the urban area’. The same reports notes that, according to the 2008 Population and Housing census, essential assets deficiency in the country was estimated at about 85 per cent and non-essential assets deficiency was 96 per cent, concluding that only 15 per cent of the households can afford basic essential goods such as furniture, radio, and mattresses.

per cent of all employed persons work in the informal sector and about 80 per cent of all employment are vulnerable.¹⁴

While the international community has been desperate for a ‘success story’ in establishing peace after civil war in Africa, doubts about the growth path adopted by the country have been increasing over the last few months. In a major study on current conditions and prospects for inclusive growth, the World Bank (2011e) notes that the government has been successful at both stabilizing the macro environment and regaining the confidence of the international community. The Bank also points out that the ‘growth without development’ policies of the past, driven by enclave growth in iron ore and cash crops, led to civil war rather than to middle income status as many thought it would. The Bank warns that the continuation of such policies has led to a lack of ‘inclusive growth,’ which in their view is one of the main determinants of increased social conflict in the country. In fact, the report lists the ‘latent risk of disruption of peace, political and economic stability’ as one of the concerns in Liberia going forward.¹⁵

This risk was put in evidence by the recent presidential and parliamentary elections in October 2011. The election, which required a second round in November that was marred by violence and boycotted by the opposition, has created a new sense of urgency. Soon after the election President Ellen Johnson Sirleaf acknowledged having heard ‘loud and clear’ the message from her people of their demand for decent jobs and better services. Her announcement that her second term would focus on national reconciliation—a clearly neglected aspect of her first term—is hopefully a harbinger for a more inclusive and just model.¹⁶

Such model is indeed imperative. As an article by Silas Siakor¹⁷ and Rachael Knight in the *New York Times* on 20 January 2012 has indicated, ‘unknown to many outside Liberia, Ms Johnson Sirleaf’s government may now be sowing the seeds of future conflict by handing over huge tracts of land to foreign investors and dispossessing rural Liberians’. The article describes how the government has granted more than a third of Liberia’s land to private investors to use for logging, mining, and agro-industrial enterprises from 2006 to 2010. In only two years (2009-10), more than seven million acres were granted to Sime Darby, a Malaysian company, and Golden Veroleum, a

¹⁴ See RoL (2011b/WP6: 9; WP10: 2, and WP11: 13) on employment and RoL (2011b/WP11: 8) on illiteracy. For information on the Liberia Labour Force Survey 2010, see RoL (2011b/WP15: x-xi).

¹⁵ See World Bank (2011e: 1 and 24) for a growth diagnostic of inclusive growth, including a diagnostic matrix. It is interesting to point out that other work by World Bank staff for the same High Level National Economic Forum reaches a quite different conclusion. In fact, the team that was involved in modelling for the Medium-Term Growth Strategy and National Vision naively concludes, ‘during the period, the government successfully stabilized the country politically, socially and economically’. See Dessus, Lofgren and Hoffman (2011) or RoL (2011b/WP20: 1). It is this type of misconception that may lead to an unrealistic strategy.

¹⁶ See *Financial Times* (2011) and BBC News (2011).

¹⁷ Silas Siakor, of The Sustainable Development Institute in Liberia, exposed evidence that Liberia President Charles Taylor used the profits of unchecked, rampant logging to pay for the costs of the civil war. This evidence was key to the imposition of UN sanctions on logging in Liberia. See www.goldmanprize.org/node/442.

subsidiary of New York-based Verdant Fund LP. To date, it has been estimated that 1.5 million hectares have been made available for oil palm cultivation.¹⁸

As the authors indicate, more than a million people live in the regions where the oil palm concessions were granted and roughly 150,000 of them will be directly affected in the first five years of plantation development. 'Many could lose access to their homes, farms, cemeteries and sacred sites as well as the forest and water resources they depend on for survival. Yet the government negotiated these deals without consulting those who would bear the greatest burden'.¹⁹

Although the president is correct when she tells the communities that the government has the right to negotiate with foreign investors, communities are not undermining governance when they try to protect their homes, livelihoods, environment and rich biodiversity from abuse from the corporations, as Siakor and Knight rightly point out.

As the Liberia Interagency Conflict Assessment Framework Report (ICAF 2010) had already warned, 'the government of Liberia expected eviction of 25,000 squatters on land controlled by Sime Darby as part of its concession agreement could easily lead to growing social instability'.²⁰ Local-level land disputes are not only widespread but they will most probably be on the rise as new concessions develop.

It is precisely under such conditions that our proposal for reconstruction zones (RZs) to create inclusive growth and food security around the concessions could be most effective, if the government gave it the priority that it requires. Such a move is not only necessary to keep the peace but it is also necessary to decrease Liberia's high dependency on aid and its reliance on the UN peacekeeping operations (UNMIL) for security.

3.1 Background

The 2003 Accra Comprehensive Peace Agreement put an end to fourteen years of civil war in Liberia, which took the lives of 150,000 to 300,000 people.²¹ Although there were ethnic divisions as well, the conflict resulted mostly from grievances of the 'indigenous' or 'native' Liberians, representing roughly 95 per cent of the population,

¹⁸ See 'Sime Darby plants first fruit' in *Liberia Economic Journal*, available at: www.lejm.cfsites.org.

¹⁹ The ongoing conflicts and the potential for more violent ones in relation to four concessions are well analysed and detailed in a study by Columbia University graduate students at the Center for International Conflict Resolution. See Lanier, Lofgren and Hoffman (2011). See also RoL (2011b/WP10) for a discussion of environmental, biodiversity, and other problems, including with the indigenous populations, created by the current model of production.

²⁰ The report also notes 'if existing patterns of key actors mobilizing constituencies around grievances related to land are seized by politicians seeking to increase their own power, they may take the opportunity to rally squatters around core grievances linked to land control and encourage people to resist and protest. This could easily result in overt conflict and violence and further divide the people and the government and inflame disputes linked to rhetoric between sitting politicians and opposition candidates'. This, to some extent, happened during the October elections.

²¹ An article on Silas Siakor quotes a figure of 150,000 (www.goldmanprize.org/node/442), RoL (2011b/WP38: 40) a figure of 250,000 and (WP8: 1) a figure of 300,000 for the estimated dead. The first civil war lasted from 1989 to 1996 and the second one from 1999 to 2003.

against the ‘Americo-Liberians’ or ‘Settler-Liberian,’ the former slaves and free-born blacks who came from the United States to settle in Liberia in the 1820s, founded the Republic of Liberia in 1947, and held power until a coup d’etat overthrew the government in 1980 (see McGovern 2008). Kollehlon (2011) notes that at the time, ‘four per cent of the Liberian population owned more than 60 per cent of the wealth’.

In 2005, after three years of an interim government, Liberia had free and fair elections and embarked in a complex multi-pronged transition. Violence had to surrender to public security and security institutions had to be built. Lawlessness, warlordism, and political exclusion had to give way to the rule of law and participatory government. Class, ethnic and gender confrontations had to give in to national reconciliation. And the war-ravaged economy had to be stabilized and reactivated so that citizens could make a decent and licit living.

This multi-pronged transition to peace has proceeded at different speeds. On the one hand, an elected and representative government was put in place, major efforts were undertaken to stabilize the economy and create growth, and women were given key positions in government. On the other, national reconciliation efforts lagged, to a large extent due to failure at providing productive employment and basic services for the population at large. Not surprisingly, the UN peacekeeping operation, brought to keep the peace in 2003 with a force of up to 15,000, still has over 9,000 forces and continues to play a key role in maintaining the fragile peace.²²

On the economic front, stabilization of the Liberian economy proceeded smoothly but the country has gone back to the old model of export-oriented growth based on the exploitation of natural resources by foreign investors, which has been appropriately labelled by Robert Clower as a policy of ‘growth without development’ (see Clower et al. 1966). The US dollar, widely used today, was introduced at the time the Firestone Rubber Concession was established in the country in 1926. During the ‘Open Door Policy’ of President Tubman, European and American entrepreneurs invested in timber, rubber, gold and diamonds, and the country grew rapidly from the mid-1940s to 1960.

During this spurt in growth, however, the country’s infrastructure, both physical and human did not catch up with the economy and wages were very low. As commodity prices rose in the 1970s, particularly for rice, people’s frustrations increased, a situation that led to the 1979 Rice Riot and to the violent overthrow of President Tolbert. Likewise at the present time, lack of reconciliation and people’s frustrations with lack of employment and services and dependency on food imports present similar risks.²³

²² RoL (2011b/WP 11: 4) comments on the fragility of the current peace. ‘Fragility is the outcome of the unresolved issues of the Liberian history and is continued by the contemporary preoccupation with [physical] reconstruction that adopts “politics as usual” ’ and concludes that ‘rejecting a return of politics as usual is identical to rejecting *Liberia Rising 2030*. ... As in the past, the 1989 to 2003 conflict was terminated, not resolved, as no attention has been paid to the root causes of the conflict’.

²³ See Kollie (2011: 9). In 1980, Samuel Doe led a military coup and killed President Tolbert, ending the domination of Americo-Liberians in government. His regime, which had had strong support from indigenous groups early on, was marked by violence and disregard for human rights. His efforts to legitimize his position led to fraudulent and unrecognized elections in 1985. By 1989, the first civil war started and Doe was killed in 1990. By 1997, a peace deal had been reached and Charles Taylor became president, after terrorizing the population into voting for him. By 1999, the country had slid back into civil war.

Since Charles Taylor resigned in 2003 as part of the peace deal, ODA increased rapidly. In 2004-06, ODA amounted to slightly over 50 per cent of GNI by year on average, but it jumped to 125 per cent in 2007 and to 180 per cent in 2008 (over a third of which represented net debt relief grants). ODA fell to 78 per cent of GNI in 2009, after averaging 84 per cent annually in 2003-09. This amount of ODA is unprecedented in any other country. In per capita terms, this represented an annual average disbursement of US\$127 per person during the 2003-09 period. To understand the magnitude of these amounts it suffices to say that after several years of fast growth in which per capita GNI doubled, per capita income was only US\$127 in 2009.

Roughly half the population lives from subsistence agriculture and about one-third lives from petty trading, which is another form of subsistence living. Workers in the formal sector represent about 20 per cent.²⁴ This is typical of dual economies where a small formal or monetized sector comprising the government and foreign-owned investments (plantations, mining concessions, the Monrovia free port, trading houses and services for expatriates)²⁵ coexists with an informal and low productivity agricultural and trading sectors in which almost 80 per cent of the active labour force is engaged and in which women play a critical role. In fact, women are estimated to produce 60 per cent of agricultural production and constitute the majority of smallholder producers and the agricultural labour force.²⁶ Liberia is ranked among the top ten countries in attracting foreign direct investment jobs in relation to its population.²⁷

As in other countries coming out of prolonged conflict, Liberia has found it easier to achieve broad macroeconomic and financial stability than to create broad-based growth and employment and to deliver basic services to the large majority of the population. Inflation fell from 18 per cent in 2008 to about 7 per cent in 2009-11.²⁸ Growth has increased by about 6-7 per cent in 2010-11, following growth of less than 5 per cent in 2009.²⁹ Growth is expected to be about 9 per cent in 2012. The IMF estimates that roughly half the growth is related to enclave-type production and exports.

The country reached HIPC completion point in mid-2010 when over US\$4.6 billion in external debt was waived and the country's rights to borrow were restored. Liberia also obtained a 100 per cent debt waiver from the Paris Club creditors and bought back most

²⁴ See RoL (2011b/WP 38: 25) for data on employment.

²⁵ Entrepreneurs of Lebanese and Indian origin provide a large part of the services for expatriates in Monrovia and also in Buchanan.

²⁶ See RoL (2011b/WP6: 10).

²⁷ The IBM Global Business Services, a division of IBM Corp, publishes a Global Location Trends Report for which it develops a ranking of the 20 countries that received most FDI relative to its population. FDI in Liberia created 90 jobs per 100,000 people. See IMB (2010).

²⁸ Through moral suasion the Central Bank of Liberia (CBL) has imposed a cap on the average lending rate which dropped to 14 per cent. The CBL believes that by keeping lending rates low there will be more activity and the non-performing loans would decline as loans are more affordable. The problem has been that banks are not lending at that rate because it is not profitable for them in relation to their costs.

²⁹ See IMF (2010b). On the occasion of the High Level National Economic Forum in September 2011, the government reported growth of 6.4 per cent in 2010 and projects growth of 7.3 per cent in 2011 and 8.9 per cent in 2012.

of the commercial debt from its creditors. This has brought external public debt obligations to less than 10 per cent of GDP.³⁰

The government has also made significant progress in strengthening the economic and financial framework, in improving governance, in reducing corruption (although much remains to be done),³¹ and has lowered tax rates and import duties.³² Commercial bank credit expanded by over 30 per cent in 2010 but remains a challenge, particularly for the financing of micro and small enterprises (MSEs). At the end of 2010, the Central Bank of Liberia launched an initiative to expand MSEs' access to credit, which may not suffice to finance small entrepreneurship in the country. The CBL intervenes in the foreign currency market to keep the exchange rate stable (at about L\$72/US\$1).³³

Balance-of-payments data show that of total transfers to Liberia³⁴ averaging roughly US\$1 billion a year in 2009-11, the UN peacekeeping operation in Liberia (UNMIL) accounted for about US\$600 million a year. An operation of this size is unusual since it costs the equivalent of two-thirds of GDP, which averaged only US\$900 million a year during this period. It underlines the challenge to Liberia of UNMIL's exit,³⁵ which will require a major effort on the part of the government to maintain security and a painful reallocation of budgetary resources to finance such effort in coming years.

³⁰ As President Johnson Sirleaf has said (2011), the HIPC debt reduction, together with relief from Paris Club creditors, is one of the most successful achievements of her administration.

³¹ The article on 'Hold your breath' on Liberia in *The Economist* (10 September 2011) likely confuses Liberia with Somalia, which is positioned last in the 2010 Transparency International Index. In fact, Liberia has progressed to 87th position (out of 178 countries) in the index, in the same position as India, from a 137th position (out of 158 countries) in 2005.

³² The Public Financial Management Law was adopted in 2009. Progress has also been made in creating an integrated Financial Management Integration System to automate the budget preparation and execution process, in improving accounting, financial standards and tax compliance, in improving banking supervision, and in creating internal auditing practices. Both the corporate tax and the personal income tax were lowered to 25 per cent from 35 per cent. See IMF (2010b, 2011b) for details. See also 'Changing Economic Situation in Changing Liberia: Ngafuan's Success Story', in *Liberia Economic Journal* (no date, available at: www.lejm.cfsites.org/custom.php?pageid=43988) and other articles in this journal for different aspects of the reforms that have taken place or are under consideration.

³³ See IMF (2010b, 2011b). The CBL deposited US\$5 million of its funds at commercial banks at below market terms (3 per cent interest, 3 year maturity and 6 months grace). Banks, which will bear all credit risks, are expected to on-lend these funds to firms in 15 eligible manufacturing industries with at least 12-months maturity and a capped interest of 8 per cent. Given the small margins, IMF staff is sceptical about the impact it may have.

³⁴ According to IMF data, of current transfers amounting to roughly US\$1 billion in 2009-10, UNMIL accounted for US\$600 million and private transfers for about US\$65-85 million. Humanitarian and other aid accounted for most of the difference. For balance-of-payments data, see IMF. Of the US\$600 million cost of UNMIL, a large part was directly paid to troop contributors and the rest was utilized for paying salary to the civilian staff and for UNMIL procurement, most of which was done abroad. It is estimated that UNMIL spends slightly below 10 per cent in travel and 15 per cent in goods and services of its budget in the country.

³⁵ Although the UN will avoid the situation in East Timor where premature withdrawal led to relapse, which had tragic consequences and required a new political and peacekeeping involvement, UNMIL is expected to start reducing its military, police, and civilian personnel in 2012.

Although the risk of an appreciation in the real exchange rate that can reduce competitiveness outside the resource-based sector (Dutch disease) is always a concern in countries receiving such large amount of foreign direct investment and aid, it has not yet been a major problem in Liberia. This is most probably the result of a large trade deficit and the fact that a large part of the procurement for UNMIL and development partners is done outside the country.³⁶

In 2011 the government submitted a US\$460 million budget to the national legislature, US\$413 million of which represents recurrent expenditure. Budgetary allocations to education (11 per cent), and to health (close to 8.5 per cent) are indeed large, which puts pressure to invest these funds effectively.³⁷ Donors finance about 10 per cent of recurrent expenditure, and also finance investment projects outside the government budget.³⁸

According to the government, agriculture, forestry, and fisheries account for 63 per cent of GDP. The country is well endowed with plentiful fresh water, fertile lands, and large forests. It has been estimated that over 40 per cent of the West Africa's remaining rain forest is within the country.³⁹ Most agriculture production is for subsistence and the country suffers from low agricultural yields. The main staple is rice, 60 per cent of which is imported. It is estimated that roughly 70 per cent of the farm families cultivate rice, but despite this, Liberia only produces 40 per cent of the rice it needs, making it highly vulnerable to rises in import prices.⁴⁰

Rubber is the largest cash crop, currently accounting for almost 90 per cent of exports, since timber, which accounted for 50 to 60 per cent of exports before 2000, was until recently under UN sanctions. Rubber is produced mostly by large plantations but also in smallholdings as a cash crop for export. The country also has minerals and metals including iron ore, gold, diamonds and has good prospects for fuels.⁴¹

Furthermore, only 50 per cent of the population is considered food secure,⁴² which makes the country seriously vulnerable to increases in food and fuel prices.⁴³ In

³⁶ See, for example, World Bank (2011e: 9).

³⁷ See *Liberia Economic Journal* (page 49; available at: www.lejm.cfsites.org). The budget was about US\$80 million in 2006.

³⁸ A consolidation of the current and investment budget would be best but aid-dependent countries often have two separate budgets. In the meantime, the government has been working on including aid data and information as an annex to the budget. See RoL (2011a).

³⁹ See USAID Land Tenure and Property Rights Portal, cited in RoL (2011b/WP6: 9). The same source mentions that the actual amount of forest in Liberia may be smaller than reported.

⁴⁰ This will increase as the population rises to an expected 4.2 million in 2015. See RoL (2011b/WP6: 10 and WP10: 11). See also USAID (2011: 4-5), which reports that rice imports in 2010 amounted to US\$85 million, representing close to 10 per cent of GDP.

⁴¹ See Draft Agenda from the High Level National Economic Forum (September 2011). See also RoL (2011b/WP6: 13).

⁴² See Kollie (2011: 10). See also RoL (2011b/WP13: vii).

⁴³ In 2010, for example, IMF data show that despite a 50 per cent increase in exports of rubber, gold, and diamonds to US\$225 million, imports grew by close to 60 per cent to US\$740 million.

addition, the current account deficit in 2010, including official grants amounted to 43 per cent and 143 per cent if grants were excluded. Given projections for 2011-12, the external imbalance is indeed a serious challenge. It is thus imperative that Liberia increases the production of staple and nutritious foods to be less reliant on food imports in the short run and to be able to expand agro-business and other manufacturing exports in the medium and long term.⁴⁴

The poverty reduction strategy (PRS) for 2008-11, also referred to as 'Lift Liberia', consisted of four pillars: peace and security; economic revitalization; governance and the rule of law, and infrastructure and basic services and it had a price tag of US\$1.6 billion. The PRS acknowledged that Liberia could not 'simply recreate the economic and political structure of the past. It must respond to the deep wounds of the civil war while taking strong steps to establish the foundation for sustained stability and peace in the future. It must therefore create much greater economic and political opportunities for all Liberians, and not simply for a small elite class'.⁴⁵

Despite this, the most often mentioned success of the PRS has been the construction or rehabilitation of infrastructure, particularly roads and bridges as well as schools and clinics.⁴⁶ Large infrastructure projects have benefited mostly the concessions. At the same time, the provision of basic services to the population such as electricity, water and sanitation, and public education (despite the construction of schools) lags, and a large part of the population remains unemployed or involved in petty trading and lacks these basic services, even in Monrovia.⁴⁷

Various international indices seem to validate that Liberia is on the wrong track and that more inclusive growth is essential if the peace is to be maintained. In fact, the Global Peace Index, which in 2011 included 153 countries, ranked Liberia on 96th place, significantly lower than Sierra Leone (61st place).⁴⁸ According to World Bank 2000-09 Gini coefficient data, Liberia is the 3rd most unequal country in Africa.⁴⁹ The human

⁴⁴ See IMF (2011b). As RoL (2011b/WP38: 11) notes, 'trade flows are basically one-way in the corridors and for Liberia as a whole—from other Mano River Union (MRU) members and other no-MRU countries to Liberia'.

⁴⁵ RoL, PRS/WP5: 13.

⁴⁶ The Vice-President mentioned precisely the construction of schools, hospitals and roads as development initiatives that the government can boast, in a speech arguing that the government should be re-elected (*The Liberian Times* 2011) and AllAfrica (2011a).

⁴⁷ In February 2011 new power plants, a 10mw and a 3mw, constructed by the United States and Norway, were turned over to the Liberian Electricity Corporation. This is supposed to provide electricity to the average Monrovia, including industries. Although by the end of August the city was still largely dark, electricity could be used to provide a boost to production, particularly if the other serious business climate impediments could be overcome in an integrated manner (financing, other infrastructure, capacity building and training, among others).

⁴⁸ See Global Peace Index at: www.visionofhumanity.org/info-center/global-peace-index-2011/.

⁴⁹ Cited in RoL (2011b/WP6: 16). This source also notices that only 2 per cent of total budgetary expenditure is allocated to agriculture, despite being proclaimed as a priority and critically important to poverty reduction. Donors finance the sector outside the government budget, which is a problem since people perceive that the government is not supporting them.

development index places Liberia among the five worst performers (in 182th place out of 187 countries).⁵⁰

Despite the urgency to focus on addressing the economic grievances of four-fifths of the population, the government seems to be diverting resources and efforts towards developing a long-term economic growth and development strategy to replace ‘Lift Liberia’ with a new one entitled ‘Liberia Rising 2030’. The goal of this strategy is for Liberia to become a middle-income country by 2030 characterized by sustainable and inclusive growth with improved quality of life for each citizen where the gap between the haves and the have-nots is drastically reduced. The government has posited that implementation of this strategy will create a just, honest and educated society, with equitably distributed income, and with nobody living in extreme poverty. It will also be an economy with strong safety nets for the disadvantaged, access to quality housing and health services within a reasonable distance. Given current conditions, this seems indeed an unrealistic prospect.⁵¹

At the same time, President Johnson Sirleaf said in 2011 that the government had ‘attracted over US\$16 billion in direct foreign investment’.⁵² This gave the impression that inflows for FDI in that amount are imminent, which has built over-optimistic expectations about the immediate future. Not surprisingly, the staff of the National Investment Commission (NIC) staged a walkout protesting their low pay and complaining that they had brought in US\$16 billion into the economy, and they were only paid US\$100 a month.

The truth is that the investments from the concessions that have been signed, or are under negotiation, for a total of US\$20 billion—representing 20 times the 2010 GDP level—may take as long as 25 years to materialize. So far, concessions have been signed in mining (iron ore, gold) and in agricultural plantations (rubber and palm oil). Rights have been granted for deepwater oil and gas exploration, including to Chevron.⁵³ A concession outside the commodities sector was granted to APM Terminal, the operating arm of Danish shipping giant Maersk for the free port of Monrovia (see Werker and Beganovic 2011). In the meantime, FDI was slightly over US\$400 million in 2010-11, representing roughly 40 per cent of GDP. Thus, inflows of FDI have allowed the government to cover for the trade deficit of an equivalent amount (including grants).

Not surprisingly, the perception that the country will soon be flooded with FDI inflows, together with ‘Liberia Rising 2030’, which predicts middle-income status for Liberia by 2030, has created expectations that the government will not be able to satisfy and has already become a source of resentment and trouble.

⁵⁰ In 2010 there had been seven worse performers in the HDI than Liberia (162nd place among 169 countries).

⁵¹ See Kollie (2011). The goal of eliminating extreme poverty is indeed ambitious. Higher-income countries considered as successful emerging markets have not yet achieved it. In Brazil, for example, President Dilma Rousseff has only set this goal in 2011 for her period in office. RoL (2011b/WP11: 1) recognizes that raising per capita income to middle-income status in the eighteen years to 2030 ‘seems unrealistic’.

⁵² Speech of President Johnson Sirleaf at the United States Institute of Peace.

⁵³ In addition to these commodities, Liberia also has alluvial diamonds and timber.

This calls for a change in strategy. Without a quick solution to the lack of jobs, public education, and the provision of basic services, the country may easily relapse into conflict. As UNMIL starts downsizing, the risk will increase.

The last report of the Secretary-General on Liberia of September 2011 provides a sobering assessment of the challenges facing the country and of the urgency of addressing them (UN 2011a):

The security situation in Liberia remained generally stable, but fragile. The impact of the situation in Côte d'Ivoire on the border areas of Liberia, combined with continuing ethnic and communal tensions and disputes over land and other resources, presented significant security challenges. Limited employment and livelihood opportunities, particularly among youth, remained major factors affecting security, while serious crime and other illegal activities are still prevalent.

3.2 From enclaves to reconstruction zones: A strategy for employment and improved aid utilization

As stated by the IMF, the Liberia Rising 2030 ‘... envisages large-scale foreign investment in enclave sectors—notably iron ore and palm oil—with the resulting fiscal revenues devoted to investment in essential infrastructure. The intention is to create “growth corridors” integrating currently isolated areas and establishing links to international markets’.⁵⁴ The authorities believe that costs will decline as additional roads, power, and ports come on stream and that this will motivate a significant expansion of private sector investment in the non-enclave sectors of the economy, creating needed employment and, ultimately, broad-based and rapid growth.⁵⁵

Our proposal for the creation of reconstruction zones (RZs) falls very much within the government long-term framework (and also its five-year one), which is key to ensure government ownership. The creation of these zones, however, would imbue this framework with a sense of urgency so that it can be put to a test right away. With 50,000 youth expected to join the labour market each year and the population expected to increase by 50 per cent by 2030, creating new jobs is imperative to keep the peace (see World Bank 2011e: 32).

⁵⁴ Several studies under the direction of the Ministry of Planning and Economic Affairs have taken place and five key growth corridors along with several other feeder corridors were identified. Of those, two were selected for focus in the short run: the Monrovia-Ganta and the Buchanan-Yekepa corridors. The Monrovia-Ganta represents the backbone of the Liberian economy and includes over 40 per cent of the population. The Buchanan-Yekepa includes major transport infrastructure (rail), with a parallel road, and potentially servicing several purposes, including opening up the country trade from Guinea (RoL 2011b/WP38: 1). See also USAID (2011). The two corridors would serve over half the population of Liberia. According to USAID, the comprehensive growth strategy is expected to feed into *Liberia Vision 2030*.

⁵⁵ See IMF (2010a and 2010b). It is not clear why agricultural yields will increase so that farmers have surpluses to take to the market once roads are built. Unless an integrated strategy is implemented for rural development, this will not happen. The same logic applies to manufacturing and services. Furthermore, the corridor policy will not do much to link enclaves and non-enclaves sectors. Firestone, for example, continues to import large bags of white rice to give to its employees as payment in kind. This will hardly stimulate the production of African rice.

Despite the concessions' potential contribution to tax revenue and foreign exchange,⁵⁶ the National Investment Commission has estimated that the 30 concessions already signed since 2003 will only create 90,000 direct employment opportunities over a 10-year period, and some of these jobs will have to be filled by imported labour because of lack of local skills. RZs will create both a large number of jobs and contribute at the same time to improve the skills of the Liberian labour force and to promote business development in the zones.

Thus, rather than building a road here, a power plant there, a fruit-juice plant somewhere and a school or clinic elsewhere—as it seems to be the case at the present time—hoping that these would eventually stimulate production and employment—reconstruction zones would address issues in an integrated way. In this regard, it would integrate policies for infrastructure development with those for the creation of broad-based growth and employment in manageable, small-scale rural development projects that can have a quick impact and can be easily up scaled up later on, once they prove to be effective.

In this sense, RZs would help redress two common problems in war-torn countries, identified by Addison (2003: 10-11), which are clearly present in Liberia: an institutional and political bias in infrastructure rebuilding in favour of large plantations or other large investors which discriminates against small producers, and a long list of everyone's favourite projects (which overwhelm national capacities) and makes it difficult to prioritize. As Addison so rightly points out, trying to do a bit of everything results in nothing being done well. Furthermore, RZs would be a way to ensure the sustainability of government policies, since the concessions, operating as they are now, may well lead to social disruption and confrontations which may affect future growth and the development prospects of the country.

Finally, the RZs could be the place where the government could start enforcing its 'zero tolerance policy' for corruption and nepotism so that these zones can become 'corruption free zones', as Junne, Kamphuis, and Verkoren (2011) propose.⁵⁷ It would be easier to initially enforce such policies within the RZs than across the entire country.

Annex Table 1 summarizes the reasons why RZs are necessary, why they need to be set up with a sense of urgency, and what they could achieve to make the transition to peace irreversible in Liberia. The table lists the many ways in which the proposal for RZs would promote the government's agenda, foster national reconciliation, address impediments for inclusive growth, strengthen local governments and communities,

⁵⁶ Liberia remains not only vulnerable to changes in food prices but to changes in the prices of its main exports, including rubber, iron ore, and palm oil, whose prices have been projected by the IMF to peak in 2011 and to fall by 2015.

⁵⁷ The authors argue that RZs could be improved by adopting 'corruption free zones' along the lines of the 'nuclear free zone' movement. They refer specifically to the author's proposal of RZs in Haiti and Afghanistan (de Castillo 2011b), where the ERZs are fundamentally different from the ones proposed for Liberia due to the structure of the respective economies but with the same purpose. In the case of Haiti, ERZs would consist of existing free trade zones in low-skilled manufacturing production ('sweatshops') and in Afghanistan, the proposed ERZs do not yet exist, but would consist of commercial agricultural production, including vegetables, fruits, and flowers for export to the Gulf and other neighbouring countries. At any rate, their proposal is just as valid for Liberia where corruption and nepotism are serious problems.

promote gender equality and foster environmental sustainability and protection of biodiversity.

4 What are reconstruction zones and where to start?

Reconstruction zones (RZs)⁵⁸ would consist of two distinct but linked areas to ensure synergies between them—a local-production reconstruction zone (LRZ) producing for local consumption and an export-oriented reconstruction zone (ERZ) producing exclusively for exports. Any of the agricultural plantations or mining concessions in Liberia could become an ERZ. The purpose of setting up an LRZ close to the concessions and stimulating synergies between them would be to avoid the problems enclaves continue to have in Liberia, particularly by displacing indigenous communities and endangering their livelihoods and food security, as well as the environmental problems that they can create by destroying forests and wildlife.⁵⁹

Problems of poverty, unemployment and food insecurity were root causes of the war and remain largely unaddressed. Through an integrated rural development strategy, RZs will focus on these problems, which are not being addressed upfront as they need to be to avoid the country relapsing into conflict. With some government guidelines for both donors and investors, RZs could be expected to create positive externalities or spillovers among different activities in the zones that could promote employment in the short run and, in the process, improve aid effectiveness and accountability.

For illustration purposes only,⁶⁰ we will propose to start the experiment with two RZs located within the main growth corridor and adding a third one in the second year, taking advantage of concessions operating at different stages and having different impacts on the neighbouring communities. Wherever RZs are located, it is imperative that the government consults and involves the local communities from the very beginning, particularly to avoid the conflictive issues created by the concessions. This is key to the success of the RZs.⁶¹

The first RZ could be established bordering the Firestone Rubber Company within the area surrounded by the Monrovia-Kakata road and the road from the Roberts Fields International Airport to Monrovia ('the MOKAR RZ').⁶² The advantage of this area is

⁵⁸ Although each country will end up with a different RZ depending on local conditions, there are some principles that are common to all war-torn countries.

⁵⁹ In countries such as Costa Rica, for example, open pit mining has been forbidden. In others, they are becoming increasingly restricted or put to a referendum, as in Uruguay, precisely because of the potential negative impact they often have.

⁶⁰ The government will have to consider different location alternatives for reconstruction zones in the country based on existing needs, infrastructure, food availability and other relevant factors.

⁶¹ Indigenous communities were not involved in the negotiation of the concessions and this has been a serious problem and resentment, more in some cases than in others. Also, it has led to wrong expectations about what the concession can potentially create in terms of jobs.

⁶² There could be some significance to starting a RZ in this area where 'Smell-no-taste', (or Unification town) is located. The name of this town dates from the time the Americans built the airport to use it during the Second World War. Liberians moved to this town hoping to get jobs and all they got was

that it has some infrastructure in place, such as roads and the international airport that would facilitate transportation to markets, and land for rural development. In fact, BRAC, a NGO,⁶³ is producing African rice along the road from Monrovia to Kakata with the intention of supporting farmers to plant their own rice. Being close to Monrovia has many advantages, in addition to supplying the most important domestic market. First, MOKAR RZ could be used as a demonstration case to show donors, partners, and government officials how aid can be utilized effectively in other parts of the country. Second, a training centre for those involved in rural development could be set up, to take advantage of some international expertise which will find the location more convenient.⁶⁴

The second RZ could be established bordering the ArcelorMittal iron ore mines near Yekepa in the northern Nimba County ('the AMYN RZ').⁶⁵ The advantage here is the existence of railroad access to the port of Buchanan. A project that would create food security and employment for those not involved in the mines would be particularly important in this area, since the fund, through which the company was supposed to support the indigenous communities in the area, has experienced mismanagement problems and the livelihoods of these communities have been disrupted by lack of employment and food. Furthermore, rural development could help reverse some of the environmental damage in this area resulting from the mining.

If these two RZs can develop reasonably well during the first year, a third RZ could be established bordering Sime Darby, a Malaysian palm oil producer and one of the most controversial concessions in Liberia located in Bomi and Gbarpolu, close to the Sierra Leone border (the 'SIDAR RZ').⁶⁶ Sime Darby, one the world's largest producers of palm oil, planted its first palm seedling in Liberia in May 2011. However, the company is already strongly opposed by local communities who have threatened to resist plans for expansion if the company does not respect the ways of life and the survival of indigenous populations. Reports indicate problems in terms of food security since the company has displaced thousands of indigenous people and does not allow them to utilize their traditional slash-and-burn farming practices.

Annex Table 2 shows the structure of the RZs, what the ERZs and the LRZs are each expected to contribute, what it would take to create a LRZ once the local communities

the smell from the food cooked by expatriates and military living in compounds nearby, but never the taste. See www.sixdegreesnorth.blogspot.com/2008/02/smell-no-taste.html.

⁶³ This NGO, located in Bangladesh, claims to be a development organization dedicated to alleviating poverty by empowering the poor to bring about change in their own lives.

⁶⁴ The training programmes could involve university students, faculty, and local farmers in practical forestry and horticulture skills. A Tree House Training Center, modelled after the successful Global Partnership for Afghanistan one, could have demonstration projects and training workshops. The centre would support the development of improved seeds and quality plant stock, productive orchards and woodlot enterprises, facilities for storage, and water management techniques. It would also provide farmers with basic marketing and financial training.

⁶⁵ This RZ could also involve the BHP Billiton iron ore concession located about 30 km away.

⁶⁶ Another major investment in palm oil comes from the UK's Equatorial Palm Oil Company. These projects are expected to include value-added processes to transform palm oil into biodiesel and other fuels. See Draft Agenda from the High Level National Economic Forum (September 2011).

have decided what they want to produce in them, and where the support could come from.

4.1 The creation of export-oriented reconstruction zones exclusively for export

The export-oriented reconstruction zones (ERZs) would consist of the existing concessions, which now operate basically as natural-resource enclaves, with little processing or links to the local economy.⁶⁷ Concessions have been a source of social tensions and economic grievances in the past, and are increasingly so by offering little more than subsistence wages and poor living conditions to their workers and by affecting the lives and livelihoods of indigenous populations and the environment.

As a *quid pro quo* to the land concessions, foreign companies are required to build some of the infrastructure they need for production and exports, as well as the social infrastructure for the people who work in their companies. They also may or may not have to set up a fund to support indigenous communities whose members do not have employment in the concessions.⁶⁸

Some concession agreements require that foreign investors create natural resource funds for different purposes and different concessions have different requirements. These may include the financing of alternative livelihoods for communities displaced by the concessions, the financing of basic services to the people working within the concessions, or the creation of social development funds to compensate nearby communities for their loss of land and other costs by creating development projects for them. The effective, fair, and accountable utilization of these funds is key to maintaining good relations between investors and communities, without which keeping the peace will be difficult. The experience so far is not encouraging.

The creation of RZs would require that the government change its attitude towards the concessions. First, they should enforce that companies comply with the provisions in their concession agreements requiring social responsibility on the part of the companies vis-à-vis their own employees and indigenous communities.⁶⁹ Foreign investors need to realize that doing so, is not only a way of complying with the agreements, but also a way of reducing the possibility of confrontation and conflict with the communities which would be disruptive from an economic point of view as well.

⁶⁷ In a second phase, the government could identify higher-value exports that could eventually be produced from these zones as 'reconstruction goods'. This would provide a strong argument for the Liberian government to request donor and partner countries to extend special preferential treatment for these goods to enter their markets, of the type that the United States has granted Haiti's garment industry, for example, or even take advantage of preferences already in place in EU and US markets. With such preferences, some of the processed goods that Liberia could produce, could become competitive.

⁶⁸ In the post-war period, the government renegotiated the concessions of both Firestone and ArcelorMittal to improve the benefits from them. See Kaul and Heuty (2009).

⁶⁹ See Lanier, Mukpo and Wilhelmson (2011) and Werker (2010). There are thousands of investment treaties protecting the investors but not enough protection for the communities. Even if the concession contracts include such protection, it needs to be enforced by the government.

The government could use moral suasion for the concessions to start buying goods and services from the LRZs, such as legumes, fruits and other food,⁷⁰ and to create as many other links as possible. Concessions could procure food for their employees from the LRZs, rather than purchase imported rice and other staples. They could also purchase other goods and subcontract services such as transportation or employ construction workers, plumbers, carpenters and other from the LRZs in the ERZs.

Moral suasion could also be used to convince concessionaires to create a fellowship programme for Liberians so that they can eventually be able to assume technical, administrative, or managerial positions within the concessions. People have expectations of getting better jobs for which they are not presently qualified, which will inevitably lead to frustration and confrontation.⁷¹

Finally, the government could let it be known that a land tax is under consideration for concessions that do not create enough linkages and benefits to the Liberian economy, or for those that do not respect the environment.⁷²

4.2 The creation of local production reconstruction zones for domestic consumption

One of the problems in Liberia to reactivating investment and inclusive growth relates to the poor business climate.⁷³ As the IMF points out, the inadequate infrastructure, the insecurity with regard to land tenure, an undeveloped financial sector, limited implementation capacity and the fragility of peace are all factors impeding competitiveness outside the enclave economy in Liberia (IMF 2010b: 12-3).

Furthermore, concessions benefit from a stable legal framework for investment that other companies do not have. Micro and small enterprises and small farmers, in particular, lack a level playing-field in infrastructure, land and credit to operate competitively and a stable framework in which they could invest without the overwhelming burden of the state. Creating a level playing field and a simple and stable framework for these enterprises on a gender-equality basis is key to their development. Support for business development and entrepreneurship is critical as well.⁷⁴

⁷⁰ Firestone, for example, provides bags of imported white rice to its employees, which is an incentive for them to work in the plantation, but a big disincentive for the production of African rice.

⁷¹ The fact that indigenous communities have not participated in the negotiations of the concessions has led to unrealistic expectations. One of them is that as the concessions come to fruition, they will create technical and managerial jobs for the communities. Given the types of skills required, this will not happen any time soon. By creating fellowships or sending people to train in other operations these companies may have in other countries, most skills could be build up within Liberia in a reasonable time.

⁷² Uruguay, which has been extremely successful in attracting foreign direct investment particularly in forestry, has just adopted a land tax for large agricultural properties.

⁷³ See World Bank (2012). Despite the improvement of four positions, Liberia was ranked in 151st place out of 183 countries.

⁷⁴ Spark, a Dutch NGO, promotes entrepreneurship among young university students by supporting higher education and empowering young ambitious people to become entrepreneurs. This is the kind of programme that could be expanded to support entrepreneurship in agro-businesses in the LRZs.

One of the main purposes for developing LRZs bordering the ERZs is precisely to reverse the lack of a gender-balanced level playing-field for MSEs. In this process, LRZs will utilize large infrastructure projects built for the concessions (roads, airports, railroads) and build adequate small-scale infrastructure to jumpstart local food production and other business activity in an integrated manner.⁷⁵

Reactivating food production is key in Liberia, as it would improve the productivity of land in a country that is highly dependent on agricultural production for employment and on food imports for consumption. Agriculture is also central to the livelihoods of indigenous populations in the hinterlands—particularly women, who provide a large part of the labour for food production. Rural development involving the indigenous people living around the concessions is not only key to their survival, but it is often just as important in providing a more effective and sustainable use of land and in reversing ecological destruction.

The minister of agriculture has set the tone for rural development in the LRZs: ‘Grow more, eat what you grow, and diversify’.⁷⁶ Farmers in the LRZs could improve the yields of traditional crops such as rice and cassava, or they could plant vegetable patches for nutrients and food variety, or orchards and woodlots for fruit or tree-based businesses.⁷⁷ Communities could also raise different types of animals and develop fisheries, by capturing wild fish in rivers or by developing fish farming. Community members could also be trained in construction or in transportation and other services. Light manufacturing such as clothing and other garments could also be produced.⁷⁸ Once their needs are satisfied, communities could market their surpluses and create agro-businesses.

The developing partners can play a critical role in supporting the LRZs. Working together with the communities and local governments, they could provide the necessary social infrastructure, including well-provided schools for children and youth, technical training for workers, and access to basic health services and amenities for all. The wellbeing of the population is key for them to become more productive in agriculture and business. Developing partners could also bring improved seeds,⁷⁹ cuttings, fertilizer, and provide the communities with technical assistance and training in

⁷⁵ While other proposals, such as those for growth corridors, special economic zones (SEZs) or other manufacturing for export (Werker 2010) focus largely on projects in urban centres and require large infrastructure and improvement in the business climate that will take time, RZs focus on decentralization to rural areas and projects that can easily be started right away for domestic consumption. More worrisome, SEZs could add to the enclave nature of the Liberian economy rather than moving away from it. See de Castillo (2011b).

⁷⁶ Interview with the minister of agriculture, 22 August 2011. See AllAfrica (2011).

⁷⁷ Using the NERICA rice variety that has been used in the Millennium Village project at Kokoyah, UNDP reports a three-fold increase in yields (from own discussions with UNDP).

⁷⁸ Liberian women are incredibly elegant and well dressed, even in the rural areas. However, when one goes to stores in Monrovia looking for dresses, the quality is poor. The explanation given is that people have their clothing made or import them from neighbouring countries. This is an area in which technical support and a level playing-field for dressmakers could help develop start-up companies that can become competitive.

⁷⁹ RoL (2011b/WP38: 9) reports that improved planting material is available from CARI for cocoa, oil palm, cassava, corn, lowland rice and legumes.

horticulture, vegetable and fruit production, reforestation, biomass utilization and irrigation.⁸⁰ In many of these areas, an agro-forestry production project in which trees are planted in combination with shrubs and staple crops while raising livestock at the same time, would improve livelihoods and land utilization.

By working as much as possible with local or regional experts, the development partners can play a role in rebuilding confidence;⁸¹ establishing competent extension services to advise and support farmers and small manufacturers on production and marketing; establishing basic infrastructure (driers, warehouses, cold storage; sewing and ironing plants); facilitating bank and other credit;⁸² and providing subsidies and other incentives (including price support programmes) for particular crops if necessary to compete with imports in the short run.⁸³

By also involving the private sector, on-the-job training for many types of manufacturing and services skills could be developed. For example, Buchanan Renewables, a Swiss/Canadian company that produces wood chips out of old rubber trees, pioneered this type of training. UNDP paid part of the salaries during the training period, and the company decided to keep the workers after they had been trained. In this case, trained workers would return to the LRZs with enhanced skills.

Rural development in the context of LRZs should be an integrated process involving wide-ranging activities from boosting yields for small farmers to facilitating initial access to capital, technology and infrastructure for the creation of start-ups and the reactivation of existing enterprises, to the many aspects of creating local capacity for the provision of health, education, safety and security for families and children. This integrated process should be based on local needs and priorities. This could be the first step in allowing Liberia to move from food aid to food security and inclusive growth, thereby minimizing aid dependency and making trade imbalances more sustainable as aid withers.⁸⁴

⁸⁰ Despite abundant water resources including rainfall estimated at 5,000mm per annum, many swamps suitable for rice and vegetable production lay unutilized because of the lack of appropriate irrigation infrastructure. See RoL (2011b/WP31: ix).

⁸¹ The presence of the international community in the LRZs has to be minimal and as unobtrusive as possible so as not to affect community life. Most training will have to take place outside, including in neighbouring countries, which may have facilities that can be used immediately.

⁸² One of the most serious constraints to developing MSEs in Liberia and in other countries in similar situations is the lack of access of these companies to financing.

⁸³ The international financial institutions are against subsidies to agriculture production despite the fact that both the United States and the European Union assist their farmers through subsidies and price support programmes, loans and other incentives. In Malawi subsidies have had spectacular results in the rural sector.

⁸⁴ The integrated approach of the RZs follows Tinbergen's principle according to which multiple objectives (raising agricultural yields, improving health and education, alleviating poverty, creating jobs particularly for the youth, controlling disease and malnutrition, establishing safe water sources, ensuring environmental sustainability and biodiversity preservation, and consolidating peace), require multiple tools (improved seeds and fertilizer, irrigation and piped water, community-based clinics and disease control, diversified local food production, commercial farming and entrepreneurship, inclusive growth and justice) and the creation of synergies between them (access to better health will create better educational outcomes and higher productivity in agricultural production, which in turn will

Improving human capital is a key challenge in economic reconstruction and a precondition to economic development. Health and education are not only important to social stability, cohesion and gender equity, but malnourished, chronically ill populations cannot become educated or productive. Health systems can be created at reasonable cost and improved through synergies from better agriculture, potable water, sanitation, transportation to hospitals and other such activities. Furthermore, the health of one generation will be critical in determining the hopes of future generations. People need to be healthy enough, have a roof over their heads and engage in education before they will be able to become productive. At the same time, people who become healthy and educated in this process but cannot find employment because of jobless growth will suffer both psychologically and physically. Gender equity in the provision of health and education is key to the success of the LRZs.⁸⁵

Reconstruction aid is initially targeted to developing basic human infrastructure, which makes sense given the low level of development of most war-torn countries. This type of aid, however, has been more effective in rebuilding clinics and schools, roads and other infrastructure than it has been in building the human capital necessary to have effective public education and health services. Thus, it is common to visit schools that have no qualified teachers or teaching materials and clinics that lack qualified doctors and basic medicines. Building capacity in these areas should be done on an emergency mode since it has led to great frustration among the Liberian population that may threaten the peace.⁸⁶ Other infrastructure should be developed hand in hand with business development.

Business development plans should be developed jointly by the LRZs and ERZs, since demand for many of the products could come from the ERZs and LRZs could provide them once they develop surpluses on agricultural and livestock products. LRZs will require support to produce effective business plans, to utilize economies of scale, to improve land management and water control, to negotiate fair business deals, to create value added to the goods the community already produces (for example, leather tanning, fruit processing) and to diversify production, to create effective farmers' associations and farmers' cooperatives, to create local and regional fairs to market products, to create quality control mechanisms, to create linkages between farmers, markets, credit and trade corridors, and to improve value chains. Support will also be necessary to create storage and transportation facilities (and hence promote a local business class) to improve access to markets and increase price, and to find adequate sources of credit.

RZs will need to create formal mechanisms, which are lacking at the present time (see RoL 2011b/WP31: xii) to bring together the producers, local authorities and other policymakers, researchers in local and foreign universities and technical schools,

contribute to inclusive growth and will help to keep the peace). This is the motto behind the integrated rural development model of the Earth Institute at Columbia University Millennium Development Villages. For details see Earth Institute (2010).

⁸⁵ For the benefits of integrating health into production activities, see Sonia Sachs' remarks in Panel 4 at the Columbia University Conference on Peace through Reconstruction in October 2009, available at www.capitalism.columbia.edu/special-conference-peace-through-reconstruction-co-sponsored-earth-institute-columbia-university-0.

⁸⁶ I personally verified this frustration from the many conversations I had with people in the streets, farms, markets, and beaches of Monrovia and the vicinity.

extension and other advisory experts, and other businesses to discuss technologies, innovations, and information.

Saving lives is important but making them worth living should be just as important. As was discussed earlier, close to 80 per cent of the Liberian population is involved in the rural sector or in petty trading, working at subsistence levels. Including more of these people into the formal sector is imperative. The government could facilitate that MSEs operate in the formal sector by creating a simple framework with a low tax rate (say 10 per cent), to be applied equally to MSEs across the country. Government revenue comes almost exclusively from the concessions and this could give MSEs some weight in government decisions. The government could also provide fiscal incentives, such as the removal of tariffs on agricultural inputs, to facilitate investment and the commercialization of agriculture across the country.⁸⁷

Communities may have to work collectively utilizing their communal or government lands until land rights are sorted out or the government can allocate land to the communities as it was allotted to the concessions.⁸⁸ At the same time, aid should create a level playing field for women in rural development since evidence shows that they are less productive than men because they lack resources such as tools, fertilizer, good quality seeds and credit.⁸⁹ By facilitating the transfer of technology and funds—to both men and women—which are needed to create viable, healthier, well-fed and better-educated communities, aid to the LRZs, which should be provided on a declining basis over a five-year period, could be expected to have a strong peacebuilding impact.⁹⁰

5 Concluding remarks

Development-as-usual policies and best practices in pursuit of purely economic growth could have tragic consequences for Liberia whose main objective should be to ensure that its fragile peace is not reversible. Although natural resource-rich countries such as Liberia always find investors greedy for their resources, such investments are not often accompanied by the creation of employment and other opportunities in sufficient quantities that would make the investment more desirable and less resisted by the local population, particularly the indigenous communities that are often displaced and their livelihoods threatened by them.

⁸⁷ RoL 2011b (WP13: viii) also proposes this.

⁸⁸ Work on improving land rights, including for women, could proceed simultaneously, but should not be an impediment to reactivating rural development in the short run. An interesting fact is that the founders of Liberia recognized land rights of the indigenous/native people since the government 'purchased' land from them, albeit at low prices. See Wily 2007, cited in RoL (2011b: WP10: 4).

⁸⁹ In a presentation in New York on 'Women and Agriculture: A Conversation on Improving Global Food Security', Secretary Hillary Clinton mentioned that a 70 per cent increase in food production would be necessary by 2050 to feed the world's population. By closing the gap in women's productivity, which is 30 per cent lower than men because of differential access to resources, would be sufficient to feed 150 million more people. The meeting took place on the occasion of the 66th UN General Assembly on 9 September 2011 at the Intercontinental Barclay in New York City.

⁹⁰ Although costing will have to take place, a rough indication of what would be needed is the Millennium Villages Project in Africa where aid has amounted to US\$100-130 per capita, declining over time.

Ending the dual nature of the Liberia economy in which the natural resource-based concessions generate a large part of the output, most foreign exchange, and fiscal revenue, but fail to create productive and other links to the rest of the economy except for unskilled and low-pay jobs, is indeed critical. Our proposal for the creation of reconstruction zones (RZs) is a way of addressing this problem with the urgency it deserves. RZs are also a way of improving rural development and food security, decreasing the enormous dependence that Liberia has on food imports, and of providing a level playing-field for micro and small enterprises and farmers in terms of infrastructure, credit, human development and other needs.

By providing better health, nutrition, education and access to basic tools, infrastructure, and finance, men and women in the RZs are expected to be more productive which will increase their incomes; more inclusion, better justice and improved security will greatly improve their standard of living and accelerate development.

Moreover, by following an integrated strategy in the RZs, Liberia would avoid the common development failure of educating or training people for whom there are no jobs, or building roads for which there is not enough production to take to the market or schools for which there are no teachers; or providing seeds to farmers who do not have the health or technical skills to use them productively.

Unless a virtuous circle of growth, poverty alleviation, better access to resources and opportunities and improved living conditions for the large majority of the population is created, the country may well relapse into conflict. This may become particularly true after UNMIL starts winding down and the government needs to assume responsibility for public security.

Acronyms

CBL	Central Bank of Liberia
ERZs	export-oriented reconstruction zones
FDI	foreign direct investment
GNI	gross national income
HIPCs	heavily indebted poor countries
ICAF	Liberia Interagency Conflict Assessment Framework Report
LRZs	local-production reconstruction zones
MSEs	micro and small enterprises
NIA	national income accounting
NIC	National Investment Commission
ODA	official development assistance
PPP	purchasing power parity
PRS	poverty reduction strategy
RZs	reconstruction zones
SEZs	special economic zones
UNDP	United Nations Development Programme
UNMIL	United Nations Mission in Liberia
USAID	United States Agency for International Development

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Annex Table 1
Overall objectives and expected results from reconstruction zones (RZs)

Promote the government's agenda by:

- Creating rapid, inclusive and sustainable growth that would help consolidate peace and security;
 - Transforming the structure of the economy through diversification away from mineral concessions;
 - Restoring agricultural growth, facilitating rural development and ensuring food and nutrition security;
 - Rebuilding the education and training programmes to provide today's workers and future graduates with the skills they need to become productive members of the workforce;
 - Enforcing its zero tolerance policy for corruption and nepotism;
 - Changing the perception of the people that the government is unresponsive to their needs and that assistance is provided by donors and NGOs.
-

Promote national reconciliation and peace consolidation by:

- Breaking the dual economy structure and creating opportunities for the large majority of Liberians;
 - Improving the lives and livelihoods of affected indigenous populations (AIPs) displaced or threatened by the concessions;
 - Creating a peace dividend for the large majority of the population by providing inclusive employment, better living conditions and a level playing field for micro and small enterprises and small farmers (MSE)
 - Building realistic expectations among the population at large about what future improvements in living/working conditions can bring (as opposed to the unrealistic ones created by Liberia 2030).
-

Address head on main impediments to inclusive growth by:

- Promoting integrated rural development (jointly with the development of human capital, infrastructure, business development and credit);
 - Increasing import-substitution of food and nutrients and basic manufacturing goods to improve unsustainable trade imbalances, decrease reliance on food imports and improve the health and nutrition of the AIPs;
 - Providing land tenure security for the AIPs in the RZs, similar to that provided to the concessions;
 - Creating a level-playing field in infrastructure and financing for on an equal gender basis;
 - Using technical expertise from universities and other specialized schools, both in Liberia and abroad, technology and expertise could be adapted to the needs of the RZs;
 - Improving aid effectiveness and accountability by having the government and donors work together in a specific, comprehensive, well-designed and contained project focusing on AIPs.
-

Strengthen local governments and communities by:

- Promoting decentralization in a country where 40 per cent is urban and the urban population has been projected to grow by 40 per cent by 2028;
 - Involving local governments, RZs will play a key role in strengthening local governments and institutions;
 - Deciding themselves what they want to produce, what type of infrastructure they need, what kind of skills will be necessary and what other needs they have, the communities will have strong policy ownership which will make the RZs sustainable;
 - Having the development partners provide the intervention in the areas needed using Liberians, including those from the diaspora, foreign/expatriates' presence in the RZs could be minimized and Liberians empowered;
 - Providing experts on secondment from foreign governments or from specialized organizations for very short periods of time to train Liberians for activities in RZs, the international community could support training and capacity-building at the local level;
-

Promote gender equality by:

- Having gender equity be the guiding principle of integrated rural development in the RZs;
 - Providing productive inputs (seeds and fertilizer), credit, training, and access to land to women on an equal basis, since lack of access to them has resulted in women's much lower productivity in the agricultural sector of developing countries;
 - Putting families to work together on an equal footing and by ensuring that women health issues are addressed appropriately through human development and capacity-building;
-

Promote environmental sustainability and protect biodiversity by:

- Focusing on environmental sustainability as one core component of the rural development strategy;
 - Promoting intensive land use to replace the continuous, customary 'slash-and-burn' method of cultivation;
 - Promoting woodlot production and the development of orchards to compensate from destruction from the concessions
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Annex Table 2
Structure of reconstruction zones (RZs)

RZs will consist of:

An export-oriented RZ (ERZ) that will benefit the country by:

- Involving the existing mining, logging, rubber and oil palm concessions (without renegotiating contracts);
 - Representing the major source of tax revenue for the government;
 - Representing the major source of foreign exchange (export revenue is partly repatriated to pay for salaries and taxes and to make new investments);
 - Representing the most important source of unskilled jobs and potentially some skilled ones in the formal market;
 - Providing a market for the agricultural and food products, services, light manufacturing produced in the LRZs (see below).
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A domestic-production RZ (LRZ) that will complement the ERZ by:

- Establishing them next or surrounding existing ERZs, starting with one or two, and increasing over time as the experience shows positive results;
 - Establishing local councils in them to make decisions about rural development and business development in the LRZs in an inclusive and participatory way (bottom-up rather than top-down approach);
 - Empowering local governments and institutions to support the LRZs;
 - Focusing on import-substitution of agricultural and livestock products, so as to minimize dependence on food imports;
 - Promoting livestock production (chicken, goats, cattle, pigs, fish) and their products (eggs, milk, leather) through better nutrition and veterinary care;
 - Producing light manufacturing for domestic consumption in the RZs and elsewhere in Liberia.
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The development of LRZs will require:

- Utilizing infrastructure projects already built for/by the ERZs (roads, airports, railroad) (thus RZs will not require any major infrastructure);
 - Building adequate small-scale infrastructure to jumpstart local food production (storage, irrigation and drainage, power, machinery) as needed;
 - Building social infrastructure and telecommunications for the community, including to make it attractive to young people to move to rural areas (schools, clinics, training centres, community buildings, internet, other) as needed;
 - Facilitating the registry of MSEs and lowering its cost (since government functions are centralized in Monrovia);
 - Creating a simple and low cost framework for MSEs to operate in the formal sector;
 - Building infrastructure necessary to provide a level-playing field to agricultural and other MSEs as needed;
 - Providing inputs in the early phase (improved seeds, fertilizers, cuttings, saplings); and ensuring that in later years the area under cultivation is expanded by using LRZs own nurseries and that farmers have access to inputs at subsidized prices as needed;
 - Involving technical assistance and aid from the United States African Development Fund (USADF), USAID (programmes on youth and gender), the World Food Programme(WFP), the UN Development Programme(UNDP), the Food and Agricultural Organization (FAO), the UN Children's Fund (UNICEF), among others.
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