AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE
DE DÉVELOPPEMENT

COUNTRY FOCUS REPORT

LIBERIA

Driving Liberia's Transformation

The Reformof the Global Financial Architecture

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ABBREVIATIONS

AEO	African Economic Outlook
AfDB	African Development Bank
AfCFTA	African Continental Free Trade Area
AfT	Agenda for Transformation
CAR	Capital Adequacy Ratio
CBL	Central Bank of Liberia
CFR	Country Focus Report
DF1s	Development Finance Institutions
DRMS	Domestic Resource Mobilization Strategy
DSA	Debt Sustainability Analysis
ECCE	Country Economics Department
ECF	Extended Credit Facility
ECOWAS	Economic Community of West African States
GDP	Gross Domestic Product
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
IMF	International Monetary Fund
iPRS	Interim Poverty Reduction Strategy
LDCs	Least Developed Countries
LRD	Liberia Dollar
LTA	Liberia Telecommunication Authority
MDB	Multinational Development Bank
MDRI	Multinational Debt Reduction Initiative
MRU	Mano River Union
PAPD	Pro-Poor Agenda for Prosperity and Development.
RRR	Required Reserve Ratio
SDG	Sustainable Development Goal
SDR	Special Drawing Right
SME	Small and Medium Enterprises
USD	United States Dollar
WB	World Bank

EXECUTIVE SUMMARY

• After the strong post-COVID-19 recovery in 2021, Liberia's GDP growth declined to 4.8 percent in 2022 and 4.5 percent in 2023. The decline was mostly attributable to a slowdown in the forestry, agriculture and fisheries subsectors. Annual average inflation rose from 7.6 percent in 2022 to 10.5 percent in 2023, despite the contractionary monetary policy stance. The strict fiscal stance in 2023 paid off as fiscal deficit declined to 3 percent of GDP in 2023 from 6.5 percent in 2022, although total public debt increased by 9.5 percent in 2023 to USD 2,209.8 million (51 percent of GDP). The current account deficit narrowed to 22.4 percent of GDP in 2023 from 23.9 percent in 2022 due to the reduction in the trade deficit. Despite some of the successes on the economic front, the social indicators show the contrary. The country's Human Development Index (HDI) in 2022 was 0.487, down from 0.481 in 2021, and remained the same in 2023. The growth outlook is however good, projected to be 5.2 percent in 2024 and 6.2 percent in 2025. As a policy measure, the government needs to implement strict fiscal discipline measures, including developing better tax collection mechanisms, reducing unnecessary government expenditures, and increasing transparency in public spending.

• Over the last four decades, Liberia's economy has gone through turbulent cycles with volatility in growth linked to military coups, civil wars, and health pandemics such as Ebola and COVID-19. Over that period, Liberia experienced its worst average growth rate in the war period in the1980s (-0.2 percent), and its strongest average growth in the 2000-2009 decade (5.5 percent), higher than the African average for the democratic period (4.7 percent). Labor productivity was also low, particularly in agriculture, which employs most of the working class. The country recorded sluggish structural transformation over the last four decades. The country experienced movement of labor from agriculture (a low productivity sector) to services (another low labor productivity sector). To change this trajectory, Liberia needs significant investment in infrastructure, technology, human capital, and governance. This cannot be achieved without the support of development partners and the private sector, as it requires huge financial flows well above the country's current tax-GDP ratio of 13 percent. The Bank estimates that Liberia would need USD 2,830.15 million (or about 65.8 percent of Liberia's projected 2024 GDP) annually until 2030 to accelerate its structural transformation process.

• As stated above, improved access to financing is one of the main "pull" factors of Liberia's structural transformation. To maintain the pace of development and accelerate structural transformation, Liberia will therefore need to deploy significant resources. This requires strong support from international financial institutions (IFIs). However, the IFIs current structure and governance have not been very helpful in the financing the country's structural transformation initiatives owing to the extreme inequality inherent in the structure in the form of a quota system. Liberia therefore welcomes the international calls for reforms, which will present an opportunity for Liberia to ensure the reformed global financial system's responsiveness to its needs, particularly the financing of its structural transformation and the SDGs, as well as climate action and other global public goods. Furthermore, Liberia must also seize domestic opportunities to increase its revenue. Public expenditure management enhancement reforms would therefore be essential.

GENERAL INTRODUCTION

The Country Focus Report (CFR) for Liberia aims to replicate at the country level the analyses carried out at the continental level in the African Development Bank's main African Economic Outlook (AEO) report under the theme: Financing Structural Transformation: The Need for Reforms of the International Financial Architecture. The CFR therefore reviews the recent macroeconomic situation and forecasts. It assesses the country's structural transformation processes over the last four decades (1980-2020 taking into consideration its financing needs and gaps to support its structural transformation. It also addresses the roles development partners, and the private sector can play in financing Liberia structural transformation process, and how much they have done in that regard. The CFR further examines the effectiveness of the current structure and management of IFIs and suggests the reforms that would make these institutions help Liberia finance its development challenges that are hindering its structural transformation and growth. It is therefore recommended that these institutions should streamline their quota systems to better benefit countries like Liberia and should also put mechanisms in place to reduce the debt burden of the country.

Chapter 2 of this CFR discusses Liberia's recent macroeconomic performance and outlook. Chapter 3 focuses on Liberia's structural transformation processes over the last four decades and Chapter 4 analyzes the financing of structural transformation in Liberia and the need to reform the international financial architecture for the benefit of developing countries like Liberia.

1

LIBERIA MACROECONOMIC PERFORMANCE AND OUTLOOK

KEY MESSAGES

- After the strong post-COVID-19 recovery in 2021, Liberia's GDP growth declined in 2022 and 2023, primarily because of worsening terms of trade and the impact of multiple shocks. The growth of the country's real gross domestic product (RGDP) decreased to 4.5 percent in 2023 from 4.8 percent in 2022, mostly due to a slowdown in the subsectors of forestry, agriculture and fisheries.

- To promote growth and preserve price stability, the Central Bank of Liberia (CBL) increased its policy rate by 500 basis points, from 15 percent in October 2022 to 20 percent in October 2023. Despite this policy stance, the loss of the exchange rate, along with rising food and transportation costs, triggered a spike of the annual average inflation, from 7.6 percent in 2022 to 10.5 percent in 2023.

- The strict fiscal stance in 2023 was strict resulted in a decline in fiscal deficit to 3 percent of GDP in 2023 from 6.5 percent in 2022, but government debt rose by 9.5 percent in 2023 to USD 2,209.8 million (51 percent of GDP) owing to the real exchange rate depreciation and the economic development slowdown. Conversely, the current account deficit narrowed to 22.4 percent of GDP in 2023 from 23.9 percent in 2022 owing to the reduction in the trade deficit as growth in exports driven by minerals, outpaced the growth in imports.

- Liberia's recent economic progress has not resulted in inclusive growth. Liberia's position on the Human Development Index (HDI) has not improved. The country's HDI was 0.487 in 2022, down from 0.481 in 2021. Liberia's HDI falls to 0.310 when the country's disparity in human development is considered, suggesting that the country's degree of inequality is a hindrance to human progress.

- The growth outlook is however good, projected to be 5.2 percent in 2024 and 6.2 percent in 2025. Growth is expected to be propelled by both improved foreign demand and domestic absorption on the demand side, whilst increased growth in agriculture, particularly rubber and palm oil, forestry and fisheries, as well as in mining outputs (Gold and iron ore) will drive the growth of the supply side. Inflation is projected to reduce to 8.4 percent in 2024 and 5.7 percent in 2025 owing to anticipated stability in the exchange rate and the tightening of monetary policy. The fiscal deficit to GDP is forecast to edge from 3.4 percent to 4.2 percent in 2024 and to further deteriorate to 4.5 percent in 2025 on projected increases in government expenditure. The current account deficit is forecast to increase to 23.7 percent and 24.6 percent of GDP in 2024 and 2025, respectively, reflecting expectations that the oil prices will remain high and level at USD 77 per barrel, with adverse consequences on Liberia as a net oil importer. Downside risks include the multiple global shocks and the deterioration of terms of trade on gold and rubber. Tailwinds include increased demand for Liberia exports. Mitigation measures could include fiscal consolidation and good governance.

Introduction

This chapter presents an updated analysis of the country's 2023 economic performance, along with medium-term growth projections for the 2024-2025 period. It assesses trends in key macroeconomic indicators, fiscal and monetary policies, and changes in domestic and international financial flows, investment, and public debt, among others. The chapter also discusses main downside and upside risks to the outlook and provides policy options to foster high and resilient growth and to support macroeconomic stability and economic transformation. Finally, the chapter covers the shocks that have continued to buffet the country's economy.

1.1: Recent Macroeconomic Developments

Economic growth and drivers: After the strong post-COVID-19 recovery in 2021, Liberia's GDP growth declined in 2022 and 2023, primarily because of worsening terms of trade and the effect of multiple shocks on the economy. The growth of the country's real gross domestic product (RGDP) decreased to 4.5 percent in 2023 from 4.8 percent in 2022, mostly due to a slowdown in the forestry, agriculture and fisheries subsectors. Growth in the primary sector, which includes mining and panning, forestry, agriculture, and fisheries, was projected to drop to 2.8 percent in 2023 from 5.1 percent in 2022. This reduction was largely attributable to moderation in all subsectors. The mining and panning subsector declined to an estimated 7 percent, from the 14 percent growth reached in the previous year, while the agriculture and fisheries subsector moderated to an estimated 0.7 percent in 2023, from 1.2 percent reported in 2022. It is, however, noteworthy that gold, diamond, and iron ore production increased by 16.4 percent, 2.6 percent, and 1 percent respectively in 2023 owing to favorable mining conditions. Manufacturing, the secondary sector, climbed by 6.4 percent in 2022 compared to 2.2 percent in 2022, mostly because of higher cement and beverage production. The tertiary sector was projected to expand by 6.9 percent in 2023, from 4.8 percent in 2022. This growth was attributed to the country's increased use of water and energy, financial institution services, and other services. However, services connected to trade, hotels, and construction were moderated in 2023.

The services subsector accounted for the biggest part of GDP in 2023, accounting for 38.4 percent, followed by agriculture and fisheries at 28.6 percent, according to sectoral shares of real GDP on the supply side. With a contribution of 2.4 percentage points, the services subsector led all sectors in real GDP growth. Mining and panning came in second with a contribution of 1.3 percentage points. Private consumption (by households and businesses) accounted for 108 percent of the demand-side GDP growth, followed by fixed capital creation (19 percent) and government consumption (18 percent). Private consumption was the primary driver of economic success on the demand side. Liberia's growth on the demand side was negatively impacted (63.9 percent) by the ongoing trade imbalance.

1. 2: Other Recent Macroeconomic and Social Developments

Monetary policy and inflation: In 2023, the Central Bank of Liberia (CBL) adopted a monetary policy stance centered on targeting reserve money to promote growth and preserve price stability. This framework and approach informed the CBL's actions. Consequently, the required reserve ratio (RRR) and the CBL bills—two policy tools—were the main focuses of the CBL's monetary policy interventions. The goal was to keep inflation in single digits. As a result, the CBL raised its policy rate by 500 basis points, from 15 percent in October 2022 to 20 percent in October 2023, to guard against the possibility of inflationary pressure building up in the economy. As a liquidity management tactic to lessen pressure on the Liberian currency, the CBL also maintained the reserve requirement ratio at 25 percent for the US dollar and 10 percent for the Liberian dollar (LRD). The losses from the exchange rate, along with rising food and transportation costs, caused annual average inflation to rise from 7.6 percent in 2022 to 10.5 percent in 2023. Food inflation increased to 12.3 percent in 2023, from a negative 1.6 percent in 2022, while nonfood inflation averaged 10.3 percent, a tiny decrease from 10.6 percent at the same time in 2022 The devaluation of the Liberian dollar played a major role in driving up the cost of both imported and local food, which in turn caused food inflation. The dearth of functional Liberian dollar banknotes has also long hampered the monetary policy. However, this is also being remedied by the ongoing currency transition. This worsened dollarization, which decreased the amount of money the central bank could directly control and limited its capacity to control inflation by tightening domestic monetary policy. The Liberian currency's average value declined by 22 percent to LRD 174.96 per USD 1.00 in 2023, from LRD 152.93 per USD 1 in 2022, even with the CBL's relatively tight monetary policy. The strong demand for foreign currency to enable import payments was the cause of the domestic currency's devaluation against the US dollar.

Fiscal balances: In 2023, Liberia maintained a strict fiscal posture. Consequently, the fiscal deficit shrank to 3.4 percent of GDP in 2023, from 6.5 percent in 2022 because of drops in revenue and grants, as well as increases in consumption spending. 2023 total revenue was USD 710.3 million (16.4 percent of GDP), a decrease of 3.7 percent because of the underperformance of non-tax collections, even though both tax and other revenue (including grants) increased somewhat. With tax income of USD 490.6 million (11.3 percent of GDP) for 2023 there was a slight rise of 1.6 percent from 2022 Comparing USD 796.3 million (18.4 percent of GDP) to USD 808.1 million (18.7 percent of GDP) in 2022, total spending showed a minor decline of 1.5 percent. This decline in overall spending was mostly ascribed to lower recurrent costs, which were caused by lower employee pay resulting from IMF's agreement with Liberia, for the government to reduce the total wage bill. Much of the deficit was funded through budgetary grants and concessional loans.

Public debt: Over the past five years, Liberia's central government's debt has nearly doubled. The primary causes of the recent significant increase in state debt have been the decline in commodity prices early in the decade and low levels of domestic resource mobilization. The overall governmental debt burden grew by 9.5 percent in 2023 to USD 2,209.8 million (51 percent of GDP). The rise in both external (13.4 percent to USD 1,286.3 million) and domestic (4.4 percent to USD 932.5 million) debt was the main driver of this expansion. Subsequent investigation revealed that, in comparison to the previous year, the nation's bilateral debt rose slightly by 0.1 percent to USD 111.8 million (2.6 percent of GDP), while its multilateral debt stock climbed by 14.9 percent to USD 1,174.5 million (27.1 percent of GDP). The World Bank and the IMF are the country's two biggest foreign creditors, contributing 33.5 percent and 15.4 percent, respectively. The real exchange rate depreciation, the current account deficit, and the slowdown in economic development were the primary causes of the unanticipated rise in external debt. According to the IMF's most recent Debt Sustainability Analysis (DSA) from August 2022, which was also confirmed by the IMF's Extended Credit Facility (ECF) 4th review in September 2022, Liberia continues to be at a high risk of total public debt distress and a moderate risk of external debt distress, with little room for shocks.

External sector: External sector development gradually improved in 2023. The current account deficit narrowed to 22.4 percent of GDP in 2023, from 23.9 percent in 2022, thanks to the reduction in the trade deficit as growth in exports, driven by minerals, outpaced the growth in imports. The deficit was largely financed by foreign direct investments in Liberia's gold and iron ore mining sectors and by drawing down on foreign reserves. Foreign reserves stood at USD 478 million in October 2023 (3.8 months of import cover) against USD 691 million in 2022 (4.5 months of imports), mainly reflecting depreciation of the special drawing rights (SDRs) holdings and reserves and lending to the government.

Poverty and social indicators: High-income inequality and a sluggish structural transformation rate are the key reasons why Liberia's recent economic progress has not resulted in inclusive growth. The international poverty rate, estimated at USD 2.15 per day, declined from 36 percent in 2021 to 34.8 percent in 2023 but remained high, according to the 2023 World Bank Macro Poverty Outlook. The 4.1 percent unemployment rate in 2021 remains unchanged. Since 2020, Liberia's position on the HDI has not improved. In 2022, the country's HDI was 0.487, down from 0.481 in 2021. Liberia's HDI drops to 0.310 when the country's disparity in human development is taken into account, suggesting that the country's degree of inequality is a hindrance to human progress. Currently ranked 177th out of 191 countries and territories, Liberia is still classified as having low human development. This ranking is a one-point drop from 2021. Based on a score of 49.9 out of 100, Liberia is rated 157/166 globally in the 2023 Africa Sustainable Development Goal (SDG) Index. Just 20.3 percent of the indicators (Responsible Consumption and Production and Climate Action) are either on track or have been met. Forty-eight percent of the indicators show limited development, while 31 percent show deterioration. Only 12 percent of students in the country enroll in post-secondary education, 39.7 percent in secondary school, and 78.6 percent of students enroll in elementary education. Liberia's maternal mortality rate is among the world's highest, at 1,072 per 100,000 live births. To address these issues, the government has made poverty reduction through investments in infrastructure and skill development—the enablers of economic transformation—its top priority.

After the strong post COVID-19 recovery in 2021, Liberia's GDP growth declined in 2022 and 2023, primarily because of worsening terms of trade and the effect of multiple shocks on the economy.

1.3: Macroeconomic Outlook and Risks:

Outlook: GDP growth: Based on the premise that commodity prices and global inflation would decline over the medium-term, growth is projected to be 5.2 percent in 2024 and 6.2 percent in 2025. Growth on the demand side is expected to be propelled by both improved foreign demand and domestic absorption, or household consumption and government investment. On the supply side, increased growth in mining outputs (particularly

Table 1- Macroeconomic and Social Indicator

	2019	2020	2021	2022	2023(e)	2024(p)
Real GDP Growth	-2.3	-2.9	5.0	4.8	4.5	5.2
Real GDP Growth per Capita	-4.2	-4.9	2.9	2.7	2.4	3.0
Inflation	27.0	17.0	7.8	7.6	10.5	8.4
Overall Fiscal Balance, Including Grants (% GDP)	-5.9	-4.9	-3.1	-6.5	-3.4	-2.6
Primary Balance (% GDP)	-5.1	-2.8	-1.1	-4.7	-2.9	-2.1
Current Account (% GDP)	-23.4	-20.1	-21.9	-23.9	-22.4	-23.7
Total Population (Millions)	5.0	5.1	5.2	5.3	5.4	
Life Expectancy at Birth (Years)	61.1	60.9	60.7	61.1	62.0	

Source: Data from Domestic authorities,estimates (e) and prediction (p) based on authors' calculation ADB Statistics Department,
*Note*Data in fiscal year 1 july (n-1)/ 30 june (n)*

gold and iron ore) and agriculture (rubber and palm oil) will drive growth. With more focus on agribusiness, the government has a great opportunity to change the agriculture industry, boost productivity, and create jobs in the medium run.

Monetary policy: As inflation moderates, the CBL will start reducing interest rates in 2024 and 2025 (by a total of 200 basis points, to 18 percent). It is anticipated that inflation will drop to 8.4 percent in 2024 and then to 5.7 percent in 2025 as the disruptions in the global

Box 1.1: Impacts of Tighter International Financial Conditions on Liberia (Transmission Channels)

In countries like Liberia, the economic environment can be greatly impacted by tighter worldwide financial conditions, which are often characterized by higher interest rates, decreased capital flows, and increased risk aversion among investors. As a developing country that is heavily dependent on outside investment and funding, Liberia is especially vulnerable to the effects of changes in international financial conditions. The possible repercussions of tighter global financial conditions for Liberia are listed below, along with the likely pathways through which they would materialize.

Effect on economic growth:

Through various mechanisms, tighter global financial conditions may impede Liberia's potential for economic growth. Infrastructure development and investment opportunities may be limited as a result of decreased access to external finance as global investors seek better returns and grow more risk-averse. Increased borrowing costs could also put a strain on the public and private sectors, making it harder for them to finance programs and projects that promote growth.

Volatility of exchange rates:

Like many other emerging economies, Liberia is susceptible to changes in currency rates brought on by tighter global financial conditions. A greater risk aversion among investors could result in capital flight, which would put downward pressure on the Liberian currency and heighten inflationary pressures. A declining currency can increase import costs, which increases inflationary pressures and reduces consumer purchasing power.

Dynamics of trade:

Tighter global financial circumstances have the potential to alter both the price of imported goods and global demand for Liberia's exports, thereby upsetting the country's trade dynamics. The demand for Liberian exports, especially for commodities like rubber and iron ore, may decline as a result of tighter financial conditions and slower global growth. Higher import financing costs may also result in a wider trade deficit for the nation and a greater demand on its foreign exchange reserves.

Risks to financial stability:

Tighter global financial conditions could increase risks to Liberia's financial stability. Increased volatility in international financial markets has the potential to affect domestic markets, hence causing instability in the banking industry and aggravating liquidity issues. The resilience of Liberia's financial institutions may be strained by decreased investor confidence and capital flight, requiring proactive steps from authorities to maintain stability.

Policy points to remember:

To lessen negative repercussions, Liberian officials may need to enact cautious macroeconomic measures in response to tighter global financial conditions. This could entail strengthening regulatory frameworks to maintain financial stability, enacting monetary policies to control exchange rate volatility, and upholding fiscal restraint to ensure debt sustainability. Moreover, Liberia may be more resilient to international financial shocks if its economy is more diversified and depends less on outside funding.

supply chain begin to lessen. Food inflation and a slight increase in the price of raw materials and oil globally will continue to be the main drivers of headline inflation. In the medium run, the central bank will gradually push for the de-dollarization of the economy, which will strengthen its ability to independently set monetary policy and combat inflation. It is anticipated that the expanding current account deficit will contribute to the exchange rate depreciation throughout 2024. It will begin to appreciate in 2025 as the foreign reserve begins to accumulate.

Fiscal policy: It is anticipated that a combination of revenue-raising and expenditure-containing measures, such as spending cuts, especially for parastatal departments, will cause the fiscal deficit to shrink from 3.4 percent to 2.6 percent in 2024 and then gradually increase to 3.3 percent in 2025. Government spending will be concentrated on social programs to lower the high rate of poverty and infrastructure for long-term growth. Throughout 2024–2025, the government will implement its fiscal consolidation initiatives, supported by a new IMF ECF program that will increase domestic revenue. It is anticipated that public debt to GDP will rise to 56.9 percent in 2024 and to 55.3 percent in 2025 due to additional borrowing to keep closing the infrastructure gap.

Current account balance: Because of the anticipated rise in imports, the current account deficit is expected to remain significant in 2024 and 2025, expanding to 23.7 percent and 24.6 percent of GDP, respectively. Large import bills for equipment associated with infrastructure investments and mining activity expansion will be the cause of the increase.

Risks to outlook: Uncertainty over the direction of the energy market and a disregard for responsible spending management are the main impediments to Liberia's recovery. The multiple global shocks, which appear not to be ending, may lead to further spikes in international food, oil, and fertilizer costs. GDP could expand more slowly than anticipated if the crisis worsens. Inflation could rise as a result of rising food and energy prices. Also, the fiscal deficit could grow as a result of reduced grants and increased subsidies. Moreover, the current account deficit could grow because of rising import costs since fuel and food constituting roughly 50 percent of all imports. The impact of the multiple global shocks could force many Liberians below the poverty line. The tailwinds include Liberia's natural resource endowment, which if properly harnessed, will help boost the economy. Also, the growing democracy, if sustained, could increase investment confidence and growth. The tourism and hospitality sector is another potential growth area for Liberia if the authorities make the right policies and investments. Risk-reduction strategies include moving quickly to create a replacement ECF program with the IMF, crafting policy measures to lower inflationary pressures, ensuring better targeting of fiscal policy support, advancing agriculture to lessen dependency on food imports, and reviving sustainable growth by promoting growth-enhancing initiatives like infrastructure investment.

1.4: Policy Options to Foster High and Resilient Growth – Supporting Macroeconomic stability and Economic Transformation.

In the short run:

• The government should keep implementing its fiscal reduction policies, which are based on a new IMF ECF program that will improve revenue and should manage spending with caution. This should include streamlining the tax incentives and exemptions, which is crucial for simplifying the tax system and reducing evasion. The World Bank tax expenditure report released in April 2024 estimates the value of forgone revenue from Liberia's tax expenditures at USD 145.79 million for 2021, equivalent to about 4.15 percent of 2021 GDP or 30.07 percent of total tax revenue. The government can also benefit from an enhancement of its tax administration. On the expenditure side, prudent expenditure management should include reducing spending on ailing parastatals in the country. To better control inflation expectations, the central bank should maintain the current tight monetary policy stance.

In the medium to long run:

• The central bank should gradually push for the de-dollarization of the economy, which will strengthen its ability to independently set monetary policy and combat inflation. The government ought to bolster the agricultural industry, especially the augmentation of value to agricultural products, to reduce the country's dependence on imports, promote economic diversification, and increase employment opportunities.

• With Liberia's huge tourism potentials, investment in tourism infrastructure such airport, road networks, as well as hotel accommodation, would enhance future growth, create employment, and help reduce poverty.

2

TAKING STOCK OF LIBERIA'S STRUCTURAL TRANSFORMATION PROGRESS

KEY MESSAGES

• Liberia's growth in the last four decades has been resilient despite the multiple global shocks. During the 1980s, Liberia's average growth rate was -0.2, lower than the African average of 2.7 percent, as well as that of its peers in the region. Over the 1990-1999 period, Liberia's average growth rate was 1.1 percent, again below the African average and that of all its peers except Sierra Leone, which was in recession. Liberia recorded its strongest growth rate in the 2000-2009 decade—it registered a 5.5 percent growth rate, higher than the African average (4.7 percent) and that of all its peers except Sierra Leone (9.7 percent). This made Liberia to experience a sluggish structural transformation over the period.

• Liberia experiences low labor productivity in agriculture. There is evidence to suggest that there may be some scope for gains in aggregate productivity from the reallocation of labor across sectors, particularly from agriculture and services to industry. Admittedly, not all the highest-productivity sectors have much the potential to absorb additional labor. That is the case for Liberia's industry sector, which is a high-tech sector within a country beset by grave essential skills shortage. Liberia's industrial policy could therefore also focus on the services sector, given its capacity to absorb a large pool of labor and drive future jobs growth. Nevertheless, even modest movements out of the lowest-productivity sectors seem likely to generate some growth.

• Institutions are crucial to structural transformation. Countries with better institutions and governance structures have been able to transform their economies. Liberia's development attempts are hampered by weak institutional efficiency and governance. A weak rule of law, bureaucratic red tape, and inadequate regulatory frameworks discourage investors and limit the expansion of businesses.

• The Bank estimates that Liberia would need USD 2,830.15 million (or about 65.8 percent of Liberia's projected 2024 GDP) annually until 2030 to accelerate its structural transformation process and catch up with high-performing developing countries with current comparable levels of development. When the deadline for the Agenda 2063 is used as reference, the annual financing needs reduce to USD 495.3 million (or about 11.5 percent of 2024 GDP).

• Although Liberia bears the primary responsibility to finance the structural transformation of its economy, its current tax-to-GDP ratio of 13 percent is far less than what is required for the country's sustainable development. Liberia will need to increase its current tax-to-GDP ratio by about 30 percent of GDP to be able to close their structural transformation financing gap by 2030, assuming that all the mobilized additional tax revenues are efficiently deployed and allocated to that objective

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Introduction

This chapter presents an overview of recent progress in Liberia's economic transformation in the context of a changing world. It identifies economic transformation's key trends and characteristics as well as estimate the financing needs to fast-track structural transformation. It takes both a historical perspective and a forward-looking approach to structural transformation, comparing Liberia's performance with that of Africa and other peer countries and drawing lessons for the future. The chapter estimates the impact of a wide array of socio-economic, governance, and external factors on Liberia's structural transformation (or lack thereof), as well as the financing needs and financing gaps, with the objective of highlighting the main pull and push factors and guiding both evidence-informed policy making and investment opportunities.

2.1. Taking Stock of Liberia's Economic Performance and Transformation

According to its growth history, Liberia had one of the poorest growth rates throughout the 1980s and 1990s. During these years, the military dictatorship of Samuel Doe (1980–1990) turned corrupt and oppressive. Internal discontent, opposition to the military administration, and repression by the government all increased as a result. This situation persisted until 1989 when a full-fledged civil war broke out in Liberia. Between 1981 and 1985, Doe had to crush around seven coup attempts. Liberia's average growth rate in the 1980s was -0.2 percent, which was lower than both the continent's average of 2.7 percent and all of its regional neighbors (Figure 2.1). This period coincides with the time when future President Charles Taylor launched an insurrection, joined by other warring factions as they started to organize along ethnic lines. By mid-1990, Taylor had taken control of most of the country and was laying siege on the capital, Monrovia. On September 9, 1990, rebels assassinated Doe, overthrowing his regime. Liberia's average growth rate from 1990 to 1999 was 1.1 percent, which was again lower than the average for all of Africa and its peers, except for Sierra Leone, which was in recession. Sierra Leone recorded a growth rate of 9.7 percent over that decade, all other West African countries, as well as the African continent (4.7 percent), all saw

Figure 2.1: Liberia's real GDP Growth vs Africa and Some Peer Countries, by Decade

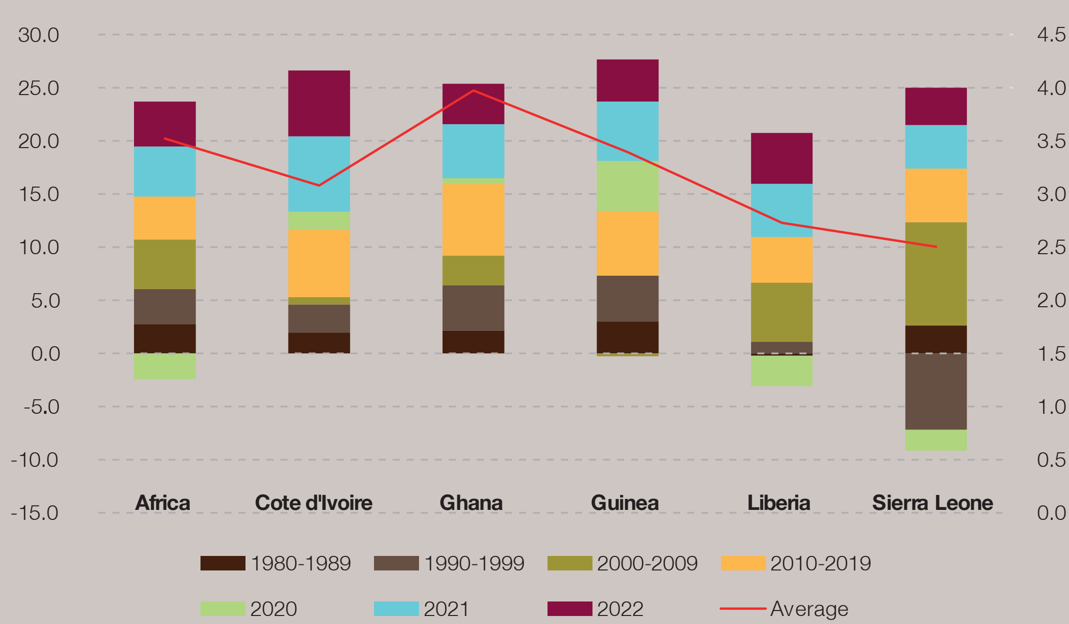
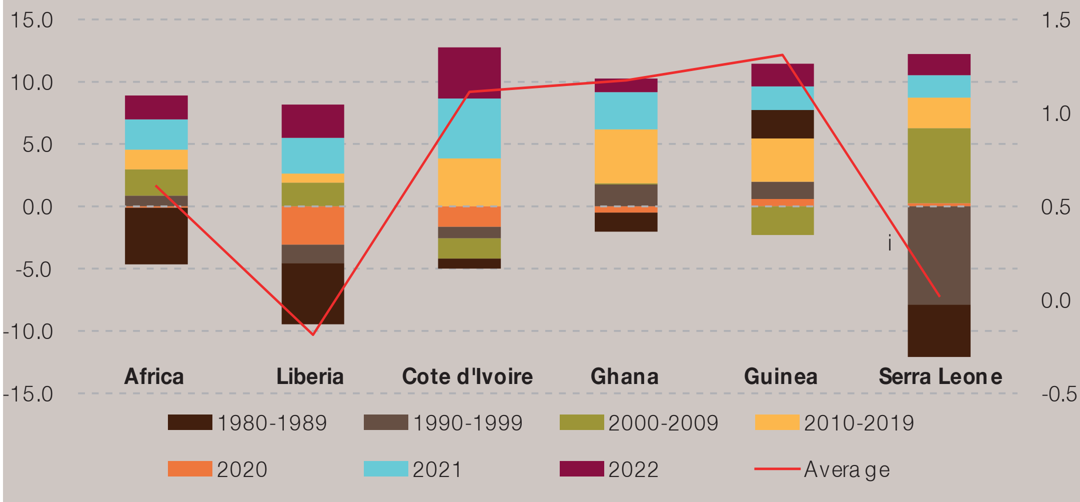


Figure 2.2: : Liberia's Real GDP Per Capita growth vs Africa and Some Peer Countries, by Decade



less growth than the country's 5.5 percent growth rate over the 2000–2009 decade.

The restoration of peace in Liberia led to an era marked by relative calm and democratic governance.

On per capita GDP basis, the trend is like the variability in GDP growth during the periods under review. The country experienced negative GDP per capita growth of 3.1, 1.5 and 4.9 percent over the 1980-89 (Doe's repressive military rule) period, 1990-99 (civil war) period and 2020 (COVID-19 pandemic), respectively. In all these periods, Liberia's performances were below its peers' and Africa's averages. The lowest positive GDP per capita growth of 0.7 percent was experienced in the period 2011-2019 (Ebola pandemic). However, GDP per capita grew by 1.9 percent between 2000-2009 (first democratic dispensation period), 2.9 percent in 2021 and 2.7 percent in 2022.

2.2. Liberia's Structural Transformation: Drivers, Bottlenecks, Opportunities

Liberia's structural transformation

Agriculture and services make up about 90 percent of the labor force, yet they are also the least productive industries in Liberia and indeed Africa. Liberia's most productive industry employs only around 10 percent of the country's labor force. This shows that labor reallocation between sectors may have some potential to increase aggregate productivity, especially if labor shifts from agriculture and services to industry. Not all industries with the highest productivity can indeed employ more people. This is especially true for Liberia's high-tech economy, which operates in a country with a severe skills deficit. Therefore, Liberia's industrial policy could also focus on the services sector, given the sector's capacity to absorb a large pool of labor and drive future jobs growth. However, even slight shifts away from the sectors with the lowest productivity are likely to result in some growth.

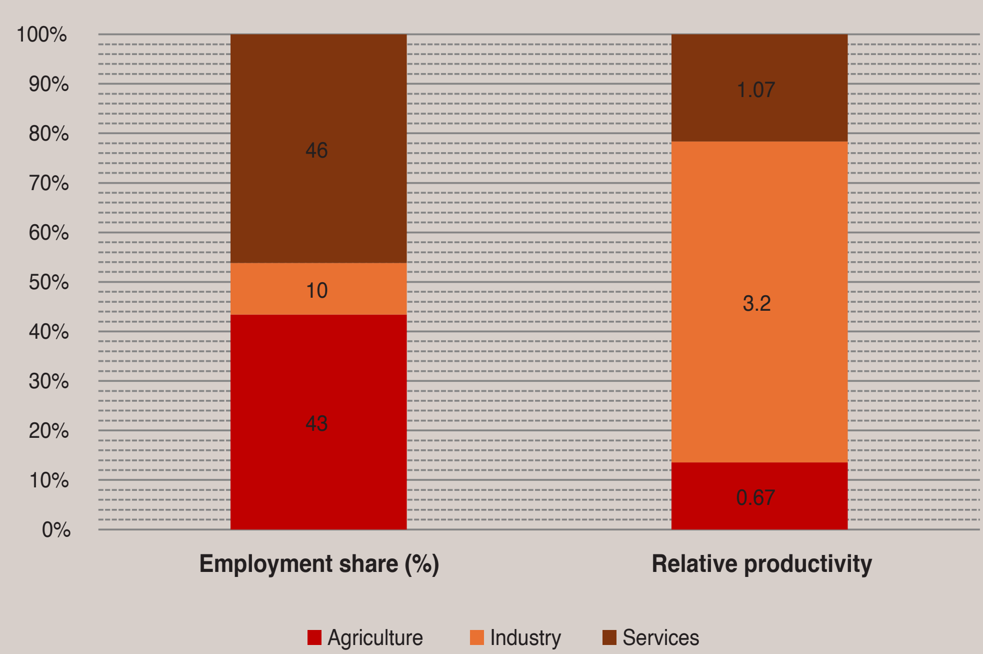
The economy's structure shows that by 2022, 43 percent of all jobs were in agriculture, down from 51 percent in 2000 (Fig. 2.4). In a similar vein, the proportion of industry employment fell from 11 percent to 9 percent, while that of services climbed from 37 percent to 48 percent of total employment. This indicates that labor is shifting from industry and agriculture to the services sector. This suggests that labor mobility is not determined by differences in labor productivity, even in the face of greater labor productivity in industry. By increasing agriculture productivity and making investments in industries with greater labor absorption capacity, it may be possible to shift more labor from traditional agriculture into the industry (such as the agro-industry), where a much larger percentage of the labor force is still stuck in low-productivity agriculture.

Unpacking Liberia's structural transformation through labor productivity decomposition.

Liberia's labor productivity is among the lowest in the West African region when compared to reference countries chosen for benchmarking (AfDB, 2023). This is true for both the agricultural sector, which employs the lowest percentage of the population (42 percent), and the services sector, which is better than Togo and marginally better than that of Sierra Leone (Figure 2.5). Senegal, the top performer among the chosen peer countries, has productivity levels in these two sectors that are less than half that of Liberia. Though it is still far below Senegal's level, Liberia's labor productivity in the industrial sector is comparatively higher across the three sectors, ranking third among its peers (Annex 1). This demonstrates the possibility of rapid expansion provided that the binding constraints in every sector—especially the services and agricultural sectors—are resolved. (Fig. 2.5).

Annex 1 demonstrates that throughout the previous 20 years, productivity growth has been incredibly low and erratic across significant sectors as well as at the macro (national) level. Between 2001 and 2019, labor productivity at the national level was negative. With an average growth of 3.43 percent over the period, the industrial sector had the highest productivity. Over the two decades under study, the manufacturing sector's productivity increase (3.8 percent) was the main driver of this

Figure 2.3: Relative Sectoral Productivity and Employment Shares in Liberia (2018)

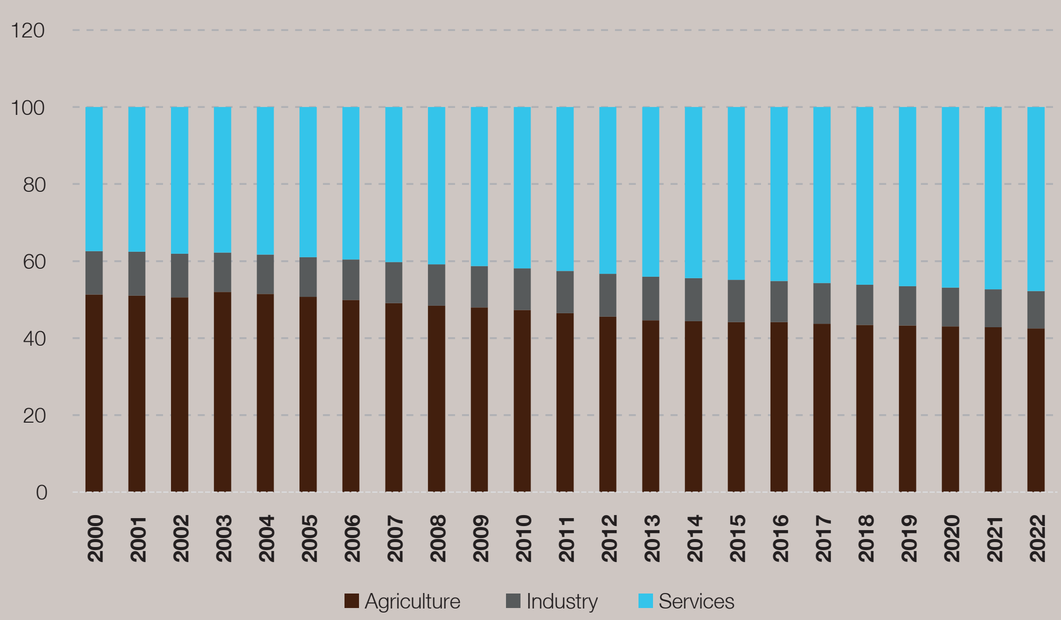


Source: Liberia Growth Diagnostics Study 2023.

productivity. The agriculture sector comes next, at 0.70 percent. Out of all the sectors, the service industry had the lowest growth rate (-1.11 percent) (Annex 1). The lowest "within" production growth is seen throughout the conflict period, before the 2005 peace deal and election, as can be seen from Annex 1. Between 2001 and 2005, the country's productivity fell by a startling 7.5 percent, with negative growth observed in every sector but the industrial sector (particularly the manufacturing and construction subsectors, which had a sharp 12 percent gain). In the industrial sector, which includes manufacturing, mining, construction, and utilities, the "within" productivity growth was negative. The whole time, the "trade in services" subsector also posted negative growth (Annex 1). Despite the favorable outlook for agriculture and the growth in national productivity, the "within" productivity growth of agriculture has decreased from roughly 5 percent in 2000-2004, by more than 50 percent to 2 percent in 2015-2018. This indicates a negative growth in per capita agricultural output, given the average population growth of roughly 2.6 percent over the same period. This is the situation in the agricultural sector at the national level (Annex 1). The "within" productivity has usually decreased across time and sectors after the recovery of productivity growth that occurred between 2006 and 2010 (the peace and democracy period). It seems that the increase in productivity in the agricultural and services sectors have been driving the development of national productivity over this time (Annex 1).

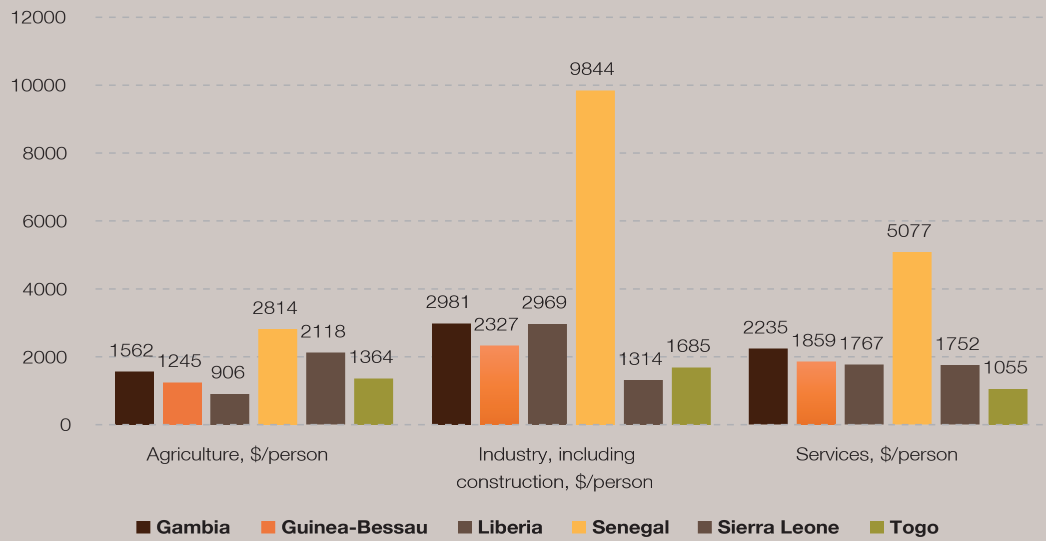
Throughout the period, the static re-allocation impact, often known as the "between" effect, had a positive average growth contribution solely in the services sector and subsectors; it had a negative contribution in both the agricultural and industrial sectors (Annex 1). This allocation effect was favorable in the latter two industries only between 2001 and 2005. The industrial sector is experiencing a negative effect of -0.24 percent, while the services and agriculture sectors are seeing the biggest negative effect (-0.65 percent) (Annex 1). All sectors see a negative dynamic reallocation effect on productivity development, except for the services sector (excluding the

Figure 2.4: Sectoral Employment Share in Liberia (2000-2022



Source: Staff calculation using AfDB Statistics

Figure 2.5: Sectoral Labor Productivity in Liberia and its Peers (2019, in USD at 2015 constant price)



Source: AfDB Statistics Department, Source: Liberia Growth Diagnostic Study Report (2023) using WDI, World Bank data (2022). 2024

transport service subsector) (Annex 1). The latter shows that there has not been any labor movement in the agricultural and industrial sectors—either toward or away from areas with poor productivity development.

Firstly, Agriculture, personal services, wholesale, and retail combined employ most of the labor force in Liberia, but they are also the least productive industries (negative productivity in some periods – Annex 1), as in several other African countries. In industries with good productivity, only one-third of the workforce is working (manufacturing and industry sector – Annex 1). This shows that the reallocation of workers between sectors may have some potential to increase overall productivity. While it is true that not every industry with the highest productivity can take on more workers, even small shifts away from the industries with the lowest productivity could spur growth.

Second, labor is moving to the services sector and its subsectors, which are typically characterized by negative "within" sector productivity (the worst of this for the sector being -1.11 percent growth, followed by "trade services" (-01.04 percent), even though static re-allocation of labor to the services sector was one of the significant factors to productivity growth and economic growth in Liberia in the past, as can be learned from the "between effect". This finding suggests that, to have a significant impact on growth, it is essential to increase sectoral productivity in the service industry (and its subsectors) by resolving their binding restriction. Third, the data also reveal that, since 2005, labor has not been shifting from low- or negative-growth sectors with rising productivity to those with rising productivity (indicating a lack of dynamic productivity), particularly in the manufacturing, transportation, and agricultural sectors. This is not the case in the other sectors listed in Annex 1. Changing this observed pattern through structural transformation is also essential to increasing Liberia's national economic growth and productivity.

New evidence on the rapid growth in incomes and jobs embodied in services exports

Contrary to the mainstream view of development, which often emphasizes supply constraints, Goldberg and Reed (2023) highlight the significance of demand as a constraint to structural change in developing countries, particularly in Africa. They underscore the role of foreign demand and integrated markets in driving structural change in African countries, most of which are constrained by small market size. Goldberg and Reed (2023) do not, however, consider the possible effects of expanded market size through the AfCFTA, which could provide Africa the comparative advantages to fast-track structural transformation.

After about two decades of inward-looking development strategies, most African countries opened to regional and global markets in the 1990s. The question arises: has this newfound market access impacted sectoral exports, productivity, and job creation in Africa? Mensah and de Vries (2024) address this question using the newly released Africa Supply and Use Tables (ASUT) Database. They calculate the domestic value added and jobs embodied in exports using the hypothetical extraction method introduced by Los et al. (2016). This method considers the ratio of value added to gross output, and the ratio of employment to gross output, to compute the value added and the number of jobs embodied in exports, respectively.

Figure 2.6 shows that a significant reallocation of workers from agriculture to other sectors, mainly services, similar to the Liberia case. This shift has led to growth-enhancing structural changes in Africa, as average productivity in services tends to be higher than that in agriculture—yet, productivity growth within services remains weak The implication is that if productivity growth within services is not stimulated, structural change and overall labour productivity growth will stall in Africa. This holds true for Liberia.

Major bottlenecks to accelerated structural transformation in Liberia

Structural transformation in Liberia, like in many developing countries, involves shifts in the economy's composition, from predominantly agrarian to more diversified sectors such as manufacturing, services, and technology. However, this shift has been impeded by many factors that would need to be addressed to fast-track the process.

Historically, Liberia's economy has been heavily dependent on agriculture, particularly rubber and timber. More importantly, very little value addition

Figure 2.6: Sectoral domestic value added embodied in exports (percent of GDP), 1990, 2007, and 2019

Source: Reproduced from Mensah and de Vries (2024).

takes place on these products in-country. For structural transformation to be fast-tracked, the country needs to tackle industrialization by developing the manufacturing industries beyond the raw materials extraction and processing. This would help improve value addition in areas such as textile, food processing and light manufacturing. This will also help the country to diversify its export base away from raw materials, which is often exposed to changes in global commodity prices.
Technology and innovation should be at the heart of structural transformation. This involves the adoption of new technologies and innovation to drive productivity growth across various sectors. This may include investments in infrastructure, education, and research and development.

Together, agriculture and services employ about 90 percent of the labor force, yet they are also the least productive industries in Liberia.

Liberia's human capital development is at its lowest. Huge skills gaps existing in Liberia will not support technological innovations and hence structural transformation. Support for structural transformation, investments in education and skills development is crucial—to equip the workforce with the necessary skills to participate in more diverse and higher value-added economic activities.

Liberia's current infrastructure gaps are enormous despite the progress made. In its current state, it will not adequately support fast-paced structural transformation. The government, with support from development partners, will need to develop adequate infrastructure, including transportation networks, energy supply, and telecommunications, to facilitate the efficient functioning of the economy and enable the growth of new industries.

A policy framework and good governance structure are needed to expedite structural transformation in Liberia. Effective policy frameworks, including macroeconomic stability, investment incentives, and regulatory reforms are essential for facilitating structural transformation and attracting domestic and foreign investment. Examples include reforming the education system to focus on technical and vocational training, STEM education, and digital literacy; implementing policies for sustainable forestry, mining, and fisheries management; strengthen anti-corruption institutions, implementing transparency initiatives and enforcing strict penalties for corruption; investing in modern agricultural techniques, providing subsidies for high-yield crops; and developing agro-processing zones.

Drivers of accelerated structural transformation in Liberia

To expedite Liberia's structural transformation, it is necessary to address the obstacles with focused interventions and coordinated efforts. To unlock Liberia's economic potential, promote sustainable development, and enhance the well-being of its people, it is imperative to prioritize infrastructure development, strengthen institutional capacity and governance, increase financial accessibility, invest in education and skill development, diversify the economy and improve social infrastructure

Inadequate road networks, restricted access to energy, and inadequate telecommunications infrastructure are just a few of the major obstacles Liberia faces in developing its infrastructure. Unreliable infrastructure hampers trade discourages investment and limits economic activity. Only 27 percent of people in Liberia have access to electricity and 44 percent of Liberian businesses experience power disruptions. Furthermore, the country has some of the lowest telecom penetration rates (adults with mobile access subscriptions at just 33 percent), compared to an access rate of over 80 percent in the region (Annex 4). To address this challenge, Liberia needs significant investments in infrastructure projects—including ports, roads, energy, and telecommunications. These projects will improve productivity, facilitate connectivity, and attract new capital.

Liberia's development attempts are hampered by weak institutional efficiency, and governance. A weak rule of law, bureaucratic red tape, and inadequate regulatory frameworks discourage

Box 2.1: Structural Transformation in Tanzania: A Tale of Services-led Growth.

Tanzania's recent experience with structural transformation was broadly similar to that of other lower-middle-income countries, with the increase in the employment share of services roughly matching declines in agriculture's share. From 2006 to 2014 (the first period), business and trade services absorbed most of the labor shed by agriculture (6 percentage points of employment share out of 7). From 2014 to 2021 (the second period), labor flowed from services back to agriculture (2 percentage points), reflecting a contraction, especially in demand for services provided by hotels and restaurants during the COVID-19 pandemic. The employment share of manufacturing barely changed.

While productivity growth in services was negative over the first period, it turned positive in the second, dwarfing growth in manufacturing. Infrastructure investments, which increased rural electrification eightfold and overall internet access sevenfold in less than a decade, were reportedly instrumental for this productivity growth. Tanzania's public gross fixed capital formation increased from 33 percent of GDP to 43 percent in the second period, and the subsequent improvements in transport and ICT helped boost market access and reduce operating costs.

However, a second reason for the strong performance in the services sector may be directly related to COVID-19. Also, during the second period, the share of employment in agriculture increased by 2 percentage points, while the share of employment in nontradable services fell. Anecdotal evidence suggests that in Tanzania (as in many richer countries), migration out of cities and back to rural areas was one way of coping with COVID-19. The workers most likely to leave the city were probably informal workers in the services sector. While this was happening, and somewhat unrelated to COVID-19, the second period also saw a proliferation of small informal firms employing less than 10 workers, mostly in trade services. In 2013, about 145,000 firms were formally registered. By 2021, this number had increased to almost 400,000. Concurrently, the share of business and trade services in formal employment climbed from 10.5 percent to 26.1 percent and that of transport and communications from 18.5 percent to 27.6 percent. In short, services played a key role in Tanzania's recent economic growth. .

investors and limit the expansion of businesses. Fostering accountability, increasing transparency, and fortifying governance frameworks are essential to establishing a conducive atmosphere for sustainable growth. When the indicators' trends are tracked over time, some of them—political stability and the absence of violence, for example—show notable volatility, while the remaining indicators show steady trends with a minor decline. This decline is the sharpest for the challenge of control of corruption—showing the worsening corruption situation in the country lately. Liberia does poorly across the board on the other governance metrics, except for "voice and accountability," where its ranking is reasonably higher. Except for "voice and accountability", Liberia's performance on the rest of the governance indicators is generally poor. The trend of two of the most important political and governance indicators for building an inclusive society that will avoid potential conflict and ensure durable peace in Liberia.

Liberia's human capital development is hampered by a lack of skills and a poor infrastructure for education. The labor market's skills requirements and the educational system's supply of them are out of sync, and the quality of education remains low. To ensure that the workforce has the skills required for the modern economy, investments in education, vocational training, and skills development initiatives are crucial. By the age of 18, Liberian children complete only

Box 2.2: Potential and Existing Opportunities for Liberia's Structural Transformation.

Like many developing countries, Liberia has opportunities for structural transformation across various sectors. Below is an overview:

1. Liberia possesses huge potential in Agriculture and agrobusiness thanks to its fertile land, but the sector remains largely underdeveloped. Opportunities present themselves in modernizing farming techniques, introducing technology for better yield, and value addition through processing. This would of course require serious investment in infrastructure such as roads, energy, information and communication technology, irrigation systems and storage facilities can boost productivity across all sectors and reduce post-harvest losses.

2. Forestry and sustainable resource management is another potential area for structural transformation, job creation and growth. With abundant natural resources, particularly timber, Liberia has potential for sustainable forestry management. Initiatives focusing on sustainable logging practices, reforestation, and value addition through timber processing can create jobs and foster economic growth. Emphasizing conservation efforts can also attract eco-tourism, further diversifying the economy.

3. Mining and natural resources such as iron, gold, and diamond, which are abundant in Liberia, can serve as another potential source for structural transformation. While the sector is important, it current employs the least and its contribution to growth is the least. This sector can however unleash its potential if supported with strategic investments in responsible mining practices, infrastructure, and value addition, which can help stimulate growth in the mining sector. In addition, ensuring transparency, good governance, and community engagement are essential for sustainable resource extraction.

4. The tourism and hospitality sector is another potential area for Liberia if the authorities embark on the right policies and investments. Liberia's pristine beaches, wildlife reserves, and cultural heritage offer untapped potential for tourism. Developing tourist infrastructure, promoting ecotourism, and preserving cultural sites can attract foreign visitors and generate revenue. Also, investments in hospitality services, including hotels, resorts, and tour operators, can create employment opportunities and stimulate local economies.

approximately 4.2 years of schooling, which is the second lowest in the world. While the elementary school completion rate is higher, the secondary education completion rate is below 20 percent. Increasing productivity, encouraging innovation, and accelerating structural change all depend on closing the skills gap and raising educational standards.

Liberia's large youthful population may contribute to the country's development in its push for structural transformation. The formal and informal sectors' potential is however limited by low labor productivity and a severe shortage of skilled workers with, even though a sizable share of the labor force is in the working age group. To take advantage of this demographic dividend, two essential tasks must be completed. First, it necessitates investing in human capital, which includes health, education, and skills. Second, the economy must be able to provide a demand for labor that is equal to supply.

Liberia's economy is heavily dependent on natural resource exports, particularly iron ore, rubber, and timber. This dependency exposes the economy to external shocks and price volatility in global commodity markets. Diversifying the economy away from reliance on natural resources requires promoting value addition, developing other sectors such as agriculture and manufacturing, and fostering a conducive environment for private sector development. Economic diversification is essential for building resilience, reducing vulnerability to external shocks, and achieving sustainable growth.

2.3.Finance to Fast-track Liberia's Structural Transformation

Structural Change Strategy in the National Development Plan

The Pro-Poor Agenda for Prosperity and Development (PAPD) 2018 - 2023 is the second in the series of 5-year National Development Plans (NDP) anticipated under the Liberia Vision 2030 framework. It follows the Agenda for Transformation 2012-2017 (AfT). It is informed as well by lessons learned from the implementation of the Interim Poverty Reduction Strategy 2007 (iPRS) and the Poverty Reduction Strategy (2008-2011).

Pro-poor Agenda for Prosperity and Development (PAPD): This is Liberia's national development plan aimed at reducing poverty and promoting inclusive growth. It focuses on key sectors such as agriculture, infrastructure development, education, healthcare, and job creation, all of which have been identified as a serious constraint to growth and structural transformation.

In addition to the PAPD, the current President Joseph Boakai's administration has elaborated the vision for Liberia's development, through the Agriculture, Roads, Rule of Law, Education, Sanitation, and Tourism (ARREST) agenda. The agenda plans to leverage these key sectors to arrest and reverse years of economic downturn, emphasizing the need for comprehensive and interconnected development strategies. The agenda highlights the role played by agriculture, particularly though value addition, investment in infrastructure, and good governance as key drivers of the Liberia economic transformation.

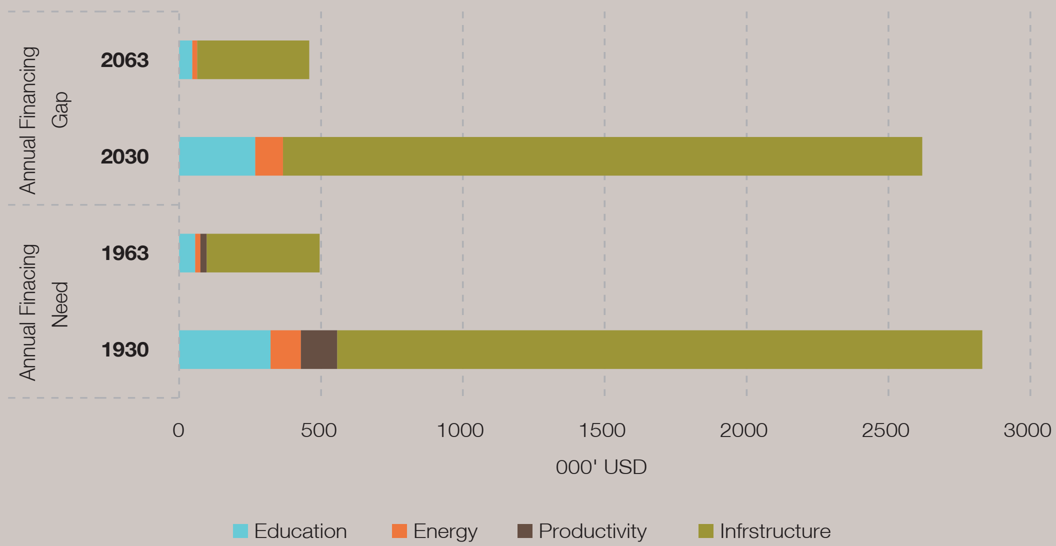
Financing needs and gap for structural transformation

The Bank's estimates show a financing gap of USD 2,830.15 million annually by 2030 to fast-track Liberia's structural transformation.

Improved access to financing is one of the main "pull" factors of structural reforms in Africa, including Liberia. This suggests that Liberia will need to deploy significant resources to maintain the pace of development and fast-track structural transformation. This report calculates the expected financial needs and consequent gap for Liberia's structural transformation using a benchmark approach connected to the SDGs. Because of their interdependence and mutual benefit, many SDGs influence Liberia's structural transformation, either directly or indirectly. However, four Goals are more closely related to the accomplishment of structural reform and call for larger financial outlays than others. Goal 4 (Quality education), Goal 7 (Energy), Goal 8 (Productivity), and Goal 9 (Infrastructure) are more closely related to the accomplishment of structural transformation (Annex 2).

The methodology quantifies the annual cost and gap of achieving high performance across the four Goals considered to be directly linked to structural transformation: Quality of education (Goal 4), Energy (Goal 7),Productivity (Goal 8),), and Infrastructure (Goal 9). For each sector, it is assumed that SDG performance is a function of a set of specific input variables such as education spending per student, electric power consumption per capita, gross domestic expenditure on Research & Development (GERD) per capita, road density, etc. Finally, Liberia's annual financing needs and associated gap are calculated for both

Figure 2.7: Annual Financing Needs and Gaps for Liberia's Structural Transformation



Source: African Economic Outlook main report 2024

the 2030 Global Agenda and Agenda 2063 of the African Union targeted deadlines by assigning these median input levels and controlling for other factors such as projected demographics (population size and composition) and the level of GDP per capita. It is important to note that the approach adopted in this report is not intended to estimate the level of financing needs and gap to meet the SDG targets by 2030 or 2063 but rather to estimate how much Liberia needs to spend (and the gap to be filled) if it aspires to developing countries' level of performance in critical sectors for structural transformation.

Using this benchmarking methodology, the Bank estimates that Liberia would need USD 2,830.15 million (or about 65.8 percent of Liberia's projected 2024 GDP) annually until 2030 to accelerate its structural transformation process and put it at par with high-performing developing countries.[1] When the deadline for the agenda 2063 is used as a reference, the annual financing needs reduce to USD 495.3 million (or about 11.5 percent of the 2024 GDP). As shown in Figure 2.7, the bulk of the required resources are in road infrastructure (80.3 percent of the total), highlighting the dearth of current investment in the sector, followed by education (11.4 percent of the total), productivity-enhancing research and development (4.5 percent) and energy (3.8 percent).

Given the country's current performance levels on these critical sectors (see Annex 3) and their projected values, the annual financing gap to fast-track structural transformation is estimated at USD 2,619.1 million (or about 60.95 percent of Liberia's 2024 GDP) under the SDG framework, and USD 394.2 million (9.2 percent of GDP) when we consider the agenda 2063 deadline, with a longer time horizon and spread of investment across each SDG target. The main contributor to Liberia's financing gap is road infrastructure (86.2 percent), followed by education (10.2 percent), and energy (3.8 percent) (Figure 2.7).

The magnitude of the estimated financing needs and the associated gap in these critical sectors mostly reflect Liberia's underperformance in key

1 The report refers to the World Bank's current country classification by income level. Developing countries are defined as countries with a GNI per capita below USD 13,846. High-income countries are those with a GNI per capita of USD 13,846 or above.

Box 2.3: African Development Bank's Support to Structural Transformation in Liberia.

The African Development Bank (AfDB) has played a pivotal role in supporting Liberia's journey towards structural and economic transformation, fostering sustainable development, and bolstering economic resilience. Through a multifaceted approach encompassing financial assistance, technical expertise, and policy guidance, the AfDB has been instrumental in addressing key challenges and unlocking opportunities for Liberia's economic growth.

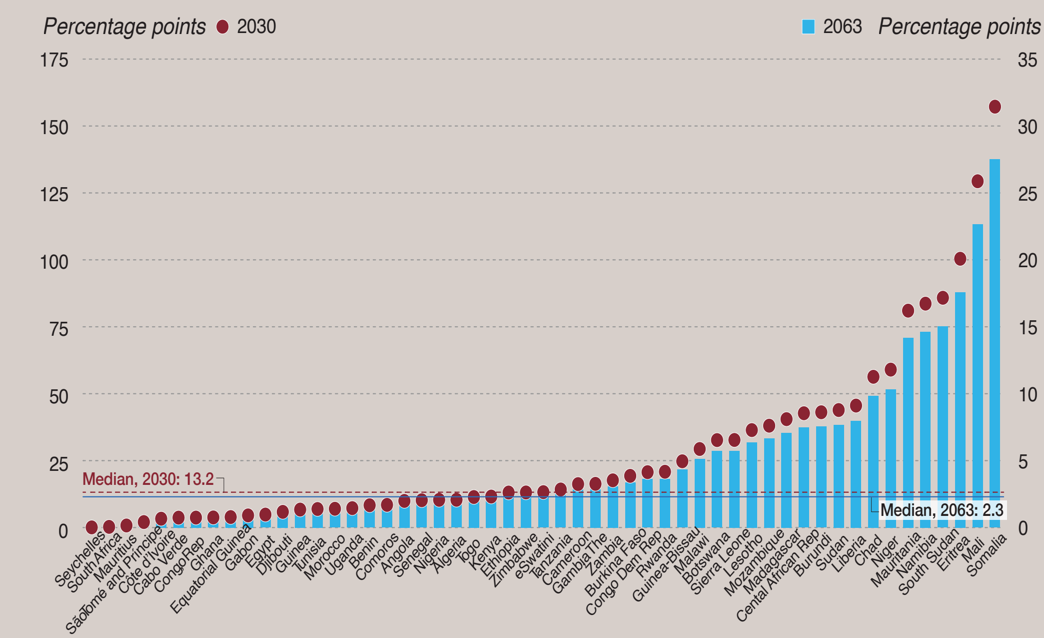
One of the primary areas of focus has been infrastructure development. Recognizing the critical role of infrastructure in driving economic diversification and fostering inclusive growth, the AfDB has invested substantially in projects aimed at improving transportation networks, energy systems, and telecommunications infrastructure across Liberia. These investments constitute about 78 percent of the Bank's current total portfolio in Liberia. These investments have, not only enhanced connectivity within the country, but have also facilitated regional integration, thereby expanding market access and trade opportunities.

Moreover, the AfDB has been actively engaged in promoting agricultural transformation and rural development in Liberia. By supporting initiatives aimed at enhancing agricultural productivity, promoting value addition, and improving market linkages, the AfDB has contributed to the creation of employment opportunities, poverty reduction, and food security. For example, the AfDB is currently investing in establishing a Special Agro-Industrial Processing Zones (SAIPZ). The SAIPZ project will address institutional and regulatory gaps to enable the establishment of the Special Economic Zone Authority (SEZA) and provide the basic infrastructure required to operationalize the Special Economic Zone (SEZ). Furthermore, through investments in sustainable land management practices and climate-resilient agriculture, the AfDB has helped build the resilience of rural communities to climate change impacts, ensuring their long-term sustainability.

In addition to infrastructure and agriculture, the AfDB has also prioritized human capital development and institutional capacity building in Liberia. By investing in education, healthcare and skills development programs, the AfDB has equipped Liberians with the necessary tools and capabilities to actively participate in and benefit from the country's economic transformation. Furthermore, through support for governance reforms and institutional strengthening initiatives, the AfDB has helped build robust governance structures, promote transparency and enhance accountability, laying the foundation for sustainable development outcomes.

Overall, the AfDB's support to structural transformation in Liberia underscores its commitment to fostering inclusive and sustainable development across Africa. By addressing key development challenges and leveraging Liberia's vast potentials, the AfDB continues to play a catalytic role in advancing the country's economic agenda and improving the livelihoods of its people.

Figure 2.8: Required Increase in Tax-to-GDP Ratio to Close the Estimated Annual Financing Gap in Africa



Source: African Economic Outlook Report 2024

SDGs directly linked to structural transformation, which Liberia is likely unable to close within the next 6 years to the SDG targets.

Closing the financing gap through domestic resource mobilization

Liberia bears the primary responsibility for the financing of the structural transformation of its economy. Closing the estimated financing gap will thus require, among others, a boost in government tax revenues and enhancement of public spending efficiency, both of which a strong political will. However, government tax revenues, which stood at 13 percent in 2023, is far less than the 15 percent of GDP that developing countries need to adequately finance progress toward the SDGs. Figure 2.21 outlines the required percentage point increase in countries' current tax-to-GDP ratios to close their respective financing gap by 2030 or 2063. Liberia will need to increase its current tax-to-GDP ratio by about 30 percent of GDP to close the country's structural transformation financing gap by 2030, assuming that all the mobilized additional tax revenues are efficiently deployed and allocated to that objective.

2.4. CONCLUDING REMARKS AND POLICY RECOMMENDATIONS

Liberia's structural transformation relies on a multi-faceted approach involving various stakeholders, including government, the private sector, regional institutions, and development financial institutions (DFIs).

a) On its part, the government should create a conducive environment for accelerating structural transformation in Liberia, drive inclusive growth, and improve its citizens' wellbeing by taking the following actions. First and foremost, the government needs to develop a comprehensive policy framework (monetary, fiscal and structural policies) that prioritizes economic diversification and investment in key sectors such as agriculture.

This must go hand in hand with the appropriate legal and regulatory reforms to streamline bureaucracy, reduce corruption and enhance ease of doing business. Infrastructure development, including roads, ports, energy, and telecommunications, should be part of the government's efforts with support from donors, investing in education and healthcare is vital for building a skilled workforce and improving productivity. The government should prioritize access to quality education and healthcare services, particularly in rural areas, to ensure inclusivity and reduce inequality. Furthermore, the government should scale up domestic resource mobilization by reducing random tax exemption and curtailing non-essential spending such as excessive official travels. These are some of the roles of government.

b) Private Sector: The private sector plays a pivotal role in driving economic growth and transformation in Liberia. It contributes to job creation, innovation, and productivity enhancement across various sectors of the economy. By investing in infrastructure, manufacturing, agriculture, and services, the private sector would help diversify the economy, moving it away from reliance on traditional sectors like mining and agriculture. Additionally, investing in infrastructure fosters competition, which can lead to increased efficiency and improved quality of goods and services.

c) Regional Institutions: Regional institutions such as the Economic Community of West African States (ECOWAS), the Mano River Union (MRU) and the West African Economic and Monetary Union (UEMOA) provide platforms for regional cooperation and integration. These institutions should help Liberia to facilitate trade, investment, and policy harmonization. By promoting regional trade agreements, reducing trade barriers and enhancing cross-border infrastructure, these institutions will contribute to market access expansion and the promotion of economic diversification in Liberia.

d) Development Financial Institutions (DFIs): DFIs, including multilateral development banks (MDBs) such as the World Bank and the African Development Bank (AfDB), as well as national development banks and specialized fund, can play a crucial role in providing financial resources and technical assistance for Liberia's development projects. These institutions should support infrastructure development, small and medium-sized enterprises (SMEs), agriculture, healthcare, education and other priority sectors. The DFIs should also help mobilize private sector investment by providing guarantees, loans, and equity financing, particularly in areas where commercial banks may be hesitant to invest owing to perceived risks. They can also increase grant-based financing to Liberia.

3

FINANCING STRUCTURAL TRANSFORMATION IN LIBERIA: THE NEED FOR REFORMS OF THE INTERNATIONAL FINANCIAL ARTICHECTURE.

KEY MESSAGES

• Improved access to financing is one of the main “pull” causes of Liberia’s structural reforms. This suggests that Liberia will need to deploy significant resources to maintain the pace of development and fast-track structural transformation. The government must first and foremost develop a comprehensive policy framework (monetary, fiscal, and structural policies) that prioritizes economic diversification and investment in important sectors like agriculture.

• However, the current structure and governance of international financial institutions (IFIs) were established at a time when social injustices, including gender inequality, and climate risks, were not regarded as the most pressing development challenges. Consequently, Liberia could not keep up with changes in the global economy, and the current structure of the international financial architecture has not been much helpful in financing its structural transformation initiatives because of the extreme inequality inherent in the structure in the form of a quota system.

• Liberia therefore welcomes the international calls for reforms, which will present an opportunity for Liberia to ensure that the reformed global financial system is responsive to its needs, particularly the financing of its structural transformation and the SDGs, as well as climate action and other global public goods.

• Liberia must also exploit domestic opportunities to alleviate its financial problems. Public expenditure management enhancement reforms would therefore be essential because Liberia’s recurring expenditure is rising, as seen by the country’s high public salary bills.

• This will require the implementation of high-quality domestic reforms in areas such governance and transparency.

3.1. Introduction

Liberia needs significant investments to meet the challenge of achieving structural transformation while dealing with the threat of climate change and global shocks that have negative spillover effects on the country. The AfDB estimates that Liberia will require USD 2,830.15 million (or around 65.8 percent of its estimated 2024 GDP) per year until 2030 to advance the country's structural transformation process. The total estimated financial requirements for Liberia to effectively address climate change range from roughly USD 1.39 billion to USD 1.62 billion, with an average of USD 1.51 billion, between 2020 and 2030. With lower and maximum bounds of USD 0.13 billion and USD 0.15 billion, respectively, this adds up to roughly USD 0.14 billion annually. It is conceivable that these expenses are underestimated. Although Liberia will have to foot the bill for a sizable portion of the project, more outside funding from both public and private sources is desperately needed. However, current outside funding level is insufficient to meet Liberia's needs. For example, in 2022, Liberia received USD 420 million in external financial flows (FDI, ODA, remittances, and net portfolio investments), a 44 percent decrease from USD 732 million in 2021. Furthermore, despite being among the countries most susceptible to climate change impacts, Liberia's share of climate funding in Africa is tiny. Only USD 112 million, or 0.38 percent, of the current USD 29.5 billion yearly climate funding went to Liberia.

3.2. Liberia's Stand on the Need to Reform the International Financial Architecture.

The scale of resources to support Liberia's structural transformation implies a radically reformed and strengthened global financial architecture fit for purpose to mobilize resources at scale and affordable terms. Liberia therefore supports the international calls for reforms, which will present an opportunity for Liberia to ensure that the reformed global financial system is responsive to its needs, particularly for the financing of its structural transformation and the SDGs, as well as climate action and other global public goods.

Because of the current structure and governance of IFIs, which were established at a time when social injustices, including gender inequality, and climate risks, were not regarded as the most pressing development challenges, Liberia has been unable to keep up with changes in the global economy. The international financial architecture is completely unfit for purpose in a world marked by unrelenting climate change, rising systemic risks, extreme inequality, ingrained gender bias, highly integrated financial markets susceptible to cross-border contagion, and dramatic changes in demographics, technology, economics, and geopolitics. These have become more and more at odds with the modern world's reality and needs. Deeply ingrained systemic disparities, gaps and inefficiencies abound. These include greater borrowing costs for developing countries in financial markets, wide variations in countries' access to liquidity in times of crisis because of the IMF quota system for SDR allocation, and extremely low investment in global public goods, such as climate action and pandemic preparedness.

Consequently, there is a growing realization that the prevailing International Financial Architecture (IFA) is ill-suited to dealing with systemic shocks and, more fundamentally, to mobilizing resources for Least Developed Countries (LDCs) like Liberia, at the required scale. The period of successive crises since the outbreak of the COVID-19 pandemic has highlighted the current IFA's shortcomings and prompted several initiatives and proposals to improve it. These range from short-term stopgap measures, such as the Debt Services Suspension Initiative (DSSI), to discussions on longer-term solutions (United Nations, 2023). The latter includes debt restructuring rules and mechanisms, as well as the functioning, governance and resources of MDBs (United Nations, 2023).

The AfDB has been at the forefront with proposed framework on how to better optimize the use of the

SDRs. The framework that the Bank developed together with the Inter-American Development Bank (IADB) on the rechanneling of SDRs from SDR-rich countries to the MDBs is significant. SDR-rechanneling to the Bank will be leveraged by three to four times. Thus, a USD 5 billion allocation to the AfDB could deliver up to USD 20 billion of new financing for African countries. The IMF requires most MDB shareholders with strong SDRs positions willing to channel their SDRs to MDBs to maintain the Reserve Asset Status of pledged SDRs, while minimizing their budget cost.

3.3. Mobilizing Additional Resources for Africa's Structural Transformation

As highlighted in Chapter 2, better access to finance is one of the key "pull" factors of structural transformations in Liberia. This suggests that Liberia will need to deploy significant resources to maintain the pace of development and accelerate structural transformation. The government must first and foremost develop a comprehensive policy framework (monetary, fiscal, and structural policies) that prioritizes economic diversification and investment in important sectors like agriculture. This must go hand in hand with the appropriate legal and regulatory reforms to streamline bureaucracy, reduce corruption and enhance ease of doing business. The development of infrastructure, including roads, ports, energy, and telecommunications, should be part of the government's efforts with support from donors. In addition, investment in education and healthcare will facilitate the government's goal of accelerating structural transformation in Liberia. To promote inclusivity, lessen inequality, and increase labor productivity, the government should prioritize universal access to high-quality healthcare and education, especially in rural areas.

According to the Ministry of Finance and Economic Planning's report on annual development assistance flows to Liberia, total disbursements in the 2023 fiscal year amounted to USD 479.2 million (16.9 percent of annual financing needs for Liberia's structural transformation). This assistance was USD 95.1 million less than what the country received in 2021. A total of USD 292.7 million or 61.1 percent of disbursement came in the form of grants, while USD 186.6 million or 38.9 percent of the disbursement accounted for loans. Disbursement by multilateral partners amounts to USD 273.4 million or 57.1 percent of the total disbursement. While bilateral partners disbursed USD 205.8 million or 42.9 percent of the total disbursement, this amount constitutes both loan and grant. However, foreign direct investment, and remittances to Liberia in 2023 amounted to USD 578 million (20.4 percent of financing needs for Liberia's structural transformation), an increase of USD 89 million on top of what was received in 2021. It is important to note that only a small fraction of these flows would have gone to sectors that would enhance structural transformation in Liberia.

Although it had the greatest need for emergency funding, Liberia did not gain as much access to it as its African counterparts. Based on its quota, Liberia received just USD 345.3 million, or 1.05 percent, of the USD 33 billion in SDRs that the IMF allocated to Africa in 2021. This amount is grossly insufficient for Liberia's development priorities and underlying financial needs.

There is also the need for Liberia to tap into domestic opportunities to improve its debt situation. As such, public expenditure management enhancement reforms will be crucial as Liberia is experiencing a rise in recurrent expenditure, reflected in large public wage bills.

Furthermore, the current momentum by Liberia to improve business climate should be increased and sustained as improved business climate could boost private sector development and attract investments. Reforms to enhance governance and transparency in Liberia should be adopted as early as possible.

Liberia supports the international calls for reforms which will present an opportunity for Liberia to ensure that the reformed global financial system is responsive to its needs, particularly to finance its structural transformation and the SDGs as well as climate action and other global public goods.

Some of the challenges Liberia faces in attracting international flows include the quota system, lack of encouraging development outcomes after the war, and high cost of capital in the international private market.

3.4. Dealing with Liberia's Debt

International action was necessary when Liberia's debt reached unmanageable levels in the early 2000s. Liberia obtained significant debt reduction under the Multilateral Debt Reduction Initiative (MDRI) and the Heavily Indebted Poor Countries (HIPC) Initiative. Through these initiatives, Liberia's external debt decreased from about USD 4.9 billion to about USD 222 million by 2010, giving the country much-needed budgetary breathing room.

Since then, because of persistent economic difficulties and the requirement for continual investments in infrastructure, healthcare, and education, Liberia's national debt has progressively grown. Liberia's state debt as of 2022 was estimated to be USD 2.21 billion, the majority of which was externally borrowed. A portion of the debt increase can be attributed to borrowing for important development initiatives and emergency preparedness for events like the COVID-19 pandemic and the Ebola epidemic. The terms of a few of these loans have worsened the country's debt sustainability situation.

Enhancing Liberia's ability to manage its debt and attain sustainable economic growth will require strengthening economic stability, enhancing governance, and growing domestic financial markets. Several crucial policies and changes must be made to the global financial architecture to provide countries like Liberia with greater access to outside resources at reasonable prices. These changes can lessen debt loads, increase the flow of concessional funding, and strengthen Liberia's overall financial stability. The following specific reforms might be helpful.

Expansion of Access to Concessional Loans: IFIs, such as the World Bank and the IMF, should provide Liberia with more access to concessional loans. This entails providing loans with extended grace periods, longer repayment terms and lower interest rates.

Grant-Based Assistance: To prevent burdensome debt, a larger percentage of financial aid to Liberia should be grants as opposed to loans. This can assist Liberia in funding development initiatives without increasing its debt.

Comprehensive Debt Relief Programs: To guarantee that countries emerging from financial crisis obtain affordable financing, strengthen programs such as the Multilateral Debt Relief Initiative (MDRI) and the Highly Indebted Poor Countries (HIPC) initiative.

Debt Restructuring methods: To give countries struggling with timely repayment relief and sustainable debt management, as well as develop and implement more equitable and effective debt restructuring methods.

Increased SDR Allocations: Push for bigger and more regular allotment of Special Drawing Rights (SDRs) by the IMF. SDRs can help Liberia with its liquidity needs without making it more indebted.

SDR Reallocation: To help Liberia better meet its needs for balance of payments and finance vital development projects, wealthy countries should be encouraged to reallocate part of their SDRs to Liberia.

Enhance the role of regional development banks, such as the AfDB, in extending concessional loans that are customized to meet the unique requirements of African countries.

Encourage the use of blended finance, which lowers the total cost of financing for development projects by combining private sector resources with concessional public subsidies.

Green and Social Bonds: Promote the issuance of green and social bonds by regional and international financial institutions, with the proceeds going to low-income countries sustainable development initiatives.

Enhance technical support and capacity training for developing nations to help them become more adept at managing their finances and carrying out projects.

Transparency and Accountability: Introduce policies to improve accountability and transparency in the use of foreign financial resources, making sure that money is spent wisely and for the intended purposes.

Global Financial Regulation: To lower capital flow volatility and give developing nations more reliable and steady access to international financing, global financial regulation should be strengthened.

3.5. Financing Climate Action

Liberia's socioeconomic environment has been seriously affected by climate change, which has exacerbated preexisting vulnerabilities and affected several sectors.

Agriculture, a cornerstone of Liberia's economy and the main livelihood for a large portion of its population, is highly susceptible to climate variations. Unpredictable rainfall patterns and rising temperatures have led to reduced agricultural productivity, threatening food security and farmers' incomes. These changes not only compromise food availability, but also exacerbate poverty and inequality, particularly among smallholder farmers (World Bank, 2023). In the same vein, Liberia's water resources are facing substantial challenges due to climate change. Altered rainfall patterns and increased evaporation rates have disrupted water availability, complicating water resource management. Coastal areas are particularly vulnerable to salinization caused by sea-level rise, which contaminates freshwater supplies crucial for drinking and agriculture.). This impacts both urban and rural communities, necessitating advanced water conservation and management strategies to ensure long-term water security. Increased incidence of water-borne diseases and heat-related illnesses poses significant public health risks. Additionally, extreme weather events such as floods and storms damage critical infrastructure, including roads and health facilities, further hampering access to essential services and economic activities (World Bank, 2024).[2] All these will culminate in a far-reaching economic impact of climate change on Liberia. The agriculture, forestry, and fisheries sectors, which are crucial to the national economy, face declining productivity and increased operational costs owing to climate variability. This has a ripple effect, leading to higher unemployment rates and hampering efforts towards economic growth and poverty reduction.

In response to these challenges, Liberia is prioritizing climate adaptation and mitigation strategies. Investments in renewable energy, such as the Mount Coffee Hydropower Project, and efforts to improve water management and agricultural practices are critical steps has taken. Moreover, integrating climate resilience into national development policies is essential for sustaining progress and protecting vulnerable communities.

The above planned such as the mitigation and integration of climate resilience response will require a huge amount of resource flows for climate finance. According to the 2023 Liberia Country Focus report, Liberia currently receives less than 0.0038 percent of total climate finance flows to Africa, which amounts to USD 112 million annually, much below the relative size of the continent's economy (0.13 percent of total GDP).[3]

2 https://www.worldbank.org/en/topic/health/brief/health-and-climate-change.
3 Using data from IMF, World Economic Outlook, April 2023 edition.

This means that the climate finance gap in Liberia is USD 51.3 million.[4] Of the total amount needed, USD 400.6 million will be required to achieve Liberia's mitigation targets, while USD 89.9 million will be required to achieve its adaptation targets. To achieve the conditional portion of its NDC target, Liberia intends to mobilize approximately USD 460.0 million from the private sector, bilateral and multilateral sources and all other sources, mechanisms, and instruments. The investment in the achievement Liberia's NDC will yield direct and indirect economic benefits of approximately USD 3.2 billion, thus, generating significant returns for the global climate, Liberia's economy, and the well-being of its citizens (2021 NDC report).

3.6.Policy recommendation

The following reforms will be necessary to mobilize resources at scale and on reasonable conditions for the funding of restructuring transformation:

Improving Concessional Financing: IFIs, such as the World Bank and the IMF, should provide Liberia with more access to concessional loans. This entails providing loans with extended grace periods, longer repayment terms and lower interest rates.

Grant-Based Assistance: To prevent burdensome debt, a larger percentage of financial aid to Liberia should be grants as opposed to loans. This can assist Liberia in funding development initiatives without increasing its debt.

Comprehensive Debt Relief Programs: Strengthen initiatives such as the HIPC and the Multilateral Debt Relief Initiative (MDRI) to ensure that countries facing debt distress can easily and expeditiously access affordable financing.

Government Revenue: More domestic revenue production will require internal reforms such as widening of the tax net to capture the informal economy, enhanced digitalization of the tax administration system, introducing the use of biometric-based data capture of businesses through national ID systems for businesses among others. Initiatives for structural transformation may receive funding from taxes, levies, and other sources of government revenue. This covers income, property, and goods and services taxes in addition to taxes derived from the harvesting and mining of natural resources. Government must also streamline its tax administration and the granting of tax exemptions, which is currently leading to huge revenue losses.

Corruption and Governance Issues: Corruption and governance issues can hamper effective allocation of internal funding for structural transformation initiatives, thereby lessening the effectiveness of available resources. With the assistance of development partners, the government should institute policies to reduce the level corruption.

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ANNEXES

Annex 1- Decomposition of labor Productivity Growth in Liberia (2001-2019)

All in percent) Within	Agricul-ture	Industry (M+M+C+U)	Manufac-turing	Construc-tion	Service	Trade Ser-vices.	Other ser-vices	National Labour Productivity Growth	
2001-05	-2.92	12.08	13.65	2.85	-3.78	-3.92	-0.72	-7.45	
2006-10	4.91	0.51	0.44	-0.01	0.26	1.01	-0.10	5.35	
2011-15	0.96	0.28	0.30	0.06	0.45	-0.37	0.12	0.47	
2016-19	-0.37	0.19	0.10	0.07	-1.42	-0.85	-0.71	-1.42	
2001-19	0.70	3.43	3.81	0.78	-1.11	-1.04	-0.33	-1.04	
Between	**Agricul-ture**	**Industry (M+M+C+U)**	**Manufac-turing**	**Construc-tion**	**Service**	**Trade ser-vices**	**Transport services**	**Public services**	**Other services**
2001-05	0.40	0.04	-0.01	0.06	-0.09	-0.01	0.02	-0.10	-0.21
2006-10	-1.09	-0.090	-0.13	0.03	0.23	0.05	0.05	0.15	0.27
2011-15	-1.59	-0.56	-0.35	-0.08	0.35	0.05	0.06	0.29	0.50
2016-19	0.22	0.38	-0.20	-0.06	0.10	0.01	0.02	0.08	0.14
2001-19	-0.65	-0.24	-0.17	-0.01	0.15	0.03	0.04	0.10	0.18
Dynamic	**Agricul-ture**	**Industry (M+M+C+U)**	**Manufac-turing**	**Construc-tion**	**Service**	**Trade ser-vices**	**Transport services**	**Public services**	**Other services**
2001-05	-0.54	0.78	-0.02	1.53	0.19	0.28	-0.53	13.97	0.29
2006-10	-0.51	-0.08	-0.25	-0.01	0.01	0.02	-0.03	-5.80	-0.04
2011-15	-0.29	-0.42	-0.99	-0.28	0.04	0.00	-0.04	-3.79	0.11
2016-19	-0.07	-0.33	-0.58	-0.47	-0.02	0.00	-0.05	-1.40	-0.08
2001-19	-0.370	0.003	-0.455	0.227	0.060	0.077	-0.171	0.860	0.077

Source: Author's computation from AfDB data (2022) value-added and ILO (2021) for employment data.
Note: M+M refers to mining and manufacturing; C+U to construction and Utilities (power and water)

ANNEX 2: METHODOLOGY TO ESTIMATE FINANCING NEEDS AND FINANCING GAP TO FAST-TRACK STRUCTURAL TRANSFORMATION IN AFRICA.

The computed estimates of the financing needs and financing gap bridging to fast-track structural transformation in Africa builds on the benchmarking methodology linked to the Sustainable Development Goals (SDGs) developed by Gaspar et al. (2019) and applied, among others, by Prady and Sy (2023). For this chapter, the methodology quantifies the annual cost of achieving high SDG performance in four areas most directly relevant to structural transformation (below).

For each African country, the estimated financing gap corresponds to the additional total expenditure required, compared with what the country spent in 2023 (or the latest available year), to reach the spending level currently attained by high-performing countries, defined here as developing countries in other regions of the world with an SDG index score above 80 (out of 100). These non-African developing countries had a gross national income (GNI) per capita below USD 13,846 in 2022. Since these high-performing countries are used as benchmarks for each African country, costing estimates assume high spending efficiency. Two deadlines are used as target years: 2030 for the SDGs and 2063 for the African Union's Agenda 2063.

SDG 4: Quality education

Education, considered as "soft" infrastructure, is a key component to equip the current and future workforce with the required skills set for structural transformation. This chapter uses government expenditures per student by main education level (primary, secondary, and tertiary) as a proxy for government efforts to improve the quality of education. For each education level, the methodology sets values of education spending at the median levels observed today in other developing countries with high education outcomes (SDG 4 index score above 80). Next, for each African country, the education financing needs are estimated using the corresponding benchmarked key input variable costs and the country's school-age population for each education level with the targets of 100 percent enrollment rates in primary and secondary education and 50 percent in tertiary education, in line with the SDG 4 target. The education financing gap is then defined as the difference between the financing needs per student and the current government education spending per student, multiplied by the school-age population of each education level to obtain the total financing gap by education level for the country.

SDG 7: Energy

Lack of access to affordable, reliable, sustainable, and modern energy for all is also holding the continent back from leveraging its full development potential and accelerating its structural transformation. For each country, therefore, this chapter estimates the additional cost needed to provide universal access to electricity for the projected population by each deadline, while assuming that per capita electric consumption will increase in line with the rise in real GDP per capita. The projected median per capita electricity consumption (in kWh) in other developing countries with an SDG 7 index score above 80 percent is then applied as the benchmarked input variable that African countries should aim for. The cost associated with the financing needs and financing gap in the energy sector is then obtained by multiplying the corresponding total kWh with the global weighted average of the levelized cost of electricity (LCOE) per kWh observed in 2010–21 for renewables, which was USD 0.126. The LCOE refers to the cost of producing one kWh of electricity from a particular technology (in this case, bioenergy, geothermal, hydropower, solar photovoltaic, onshore and offshore wind, and concentrated solar power), including capital costs, fixed and variable operation and maintenance (O&M) costs, and fuel costs. Although the LCOE does not necessarily reflect the true cost of construction of energy infrastructure and electricity distribution, it provides investors and governments with an idea of what it will cost to recoup their investments, once established.

SDG 8: Productivity

Closing Africa's productivity gap—a proxy to measure progress on structural transformation—requires technological upgrading and innovation, as highlighted in the SDG 8.2 target. To measure countries' technological upgrading efforts and innovation capacity necessary to improve productivity, this chapter uses gross domestic expenditure on research and development (GERD) per capita. The benchmarking exercise is similar to the one applied for education: median values of GERD per capita observed today in non-African developing countries are computed. Next, for each African country, financing needs to accelerate technological upgrading and innovation are obtained as the level of GERD per capita using the corresponding benchmarked median cost and the country's population. The financing gap is then measured as the difference between the financing needs and the current level of GERD. It is assumed that GERD per capita of each country will grow according to the rate of per capita GDP growth provided in the World Economic Outlook of the International Monetary Fund (IMF). Given that current IMF projections for GDP per capita (and therefore the growth rate) are up to 2028, GDP per capita was assumed to grow at the average rate of the last three years in each country for the years beyond 2028. This assumption allows for the tractability of the approach and can be relaxed as new growth projections become available. Annex Figure 2.2.1 illustrates the benchmarking exercise for SDG 8.

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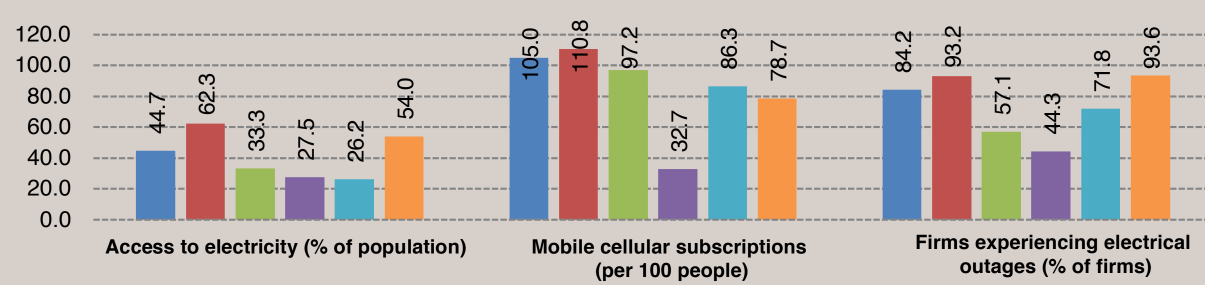
ANNEXE 3: POLITICAL AND GOVERNANCE INDICATORS FOR LIBERIA, 2017-2020

Liberia	2017 Estimate	2017 Rank	2018 Estimate	2018 Rank	2019 Estimate	2019 Rank	2020 Estimate	2020 Rank
Voice & Accountability	0.05	47.78	-0.03	44.4	-0.07	43	-0.08	43
Political stability and Absence of Violence/Terr	-0.33	32.86	-0.21	8.7	-0.32	33.96	-0.37	33.96
Government Effectiveness	-1.33	8.65	-1.34	9.13	-1.37	10	-1.41	8.65
Regulatory Quality	-0.94	15.38	-0.96	14.42	-0.96	13.46	-1.0	13.46
Rule of Law	-0.95	15.87	-0.99	16.83	-1.0	16.35	-1.03	14.9
Control of corruption	-0.67	26.9	-0.85	20.67	-0.89	19.23	-0.87	19.23

Source: Liberia Growth Diagnostic Study 2023: Based on World Governance Indicators, 2020 updates at www.govindicators.org
Note: The estimated score ranges from -2.5 (weak) to 2.5 (strong) for all indicators. Rank shows the percentile rank among all countries, ranging from 0 (lowest) to 100 (highest).

ANNEXE 3: SELECTED INFRASTRUCTURE INDICATORS FOR LIBERIA AND ITS COMPARATORS (2020, PERCENTAGE)



Source: Liberia Growth Diagnostic Study 2023; Author's computation based on WDI, WB data, 2020

Guinea Gambia Guinea-Bissau Liberia Sierra Leone Togo

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