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Report of the Secretary-General in pursuance of paragraph 13 (a) of resolution 1343 (2001) concerning Liberia

I. Introduction

1. In operative paragraph 13 (a) of its resolution 1343 (2001) of 7 March 2001, the Security Council requested the Secretary-General to provide, six months from the date of the adoption of the resolution, a preliminary assessment of the potential economic, humanitarian and social impact on the Liberian population of possible follow-up action by the Security Council in the areas of investigation indicated in paragraph 19 (c) of the resolution.

2. In operative paragraphs 5 to 7 of the same resolution, the Security Council imposed limited sanctions on Liberia, including (a) the prohibition of the sale or supply of arms and related material to Liberia; (b) a ban on the import of all rough diamonds from Liberia, whether or not such diamonds originated in Liberia; and (c) the prohibition of travel abroad by senior members of the Government of Liberia and its armed forces and their spouses and any other individuals, as designated by the Committee established by paragraph 14 of the resolution.

II. Procedure and methodology

3. This preliminary assessment is based on extensive discussions, field observations made during a mission to Liberia and secondary data collection with representatives of the Government of Liberia, Liberian citizens, United Nations agencies and non-governmental organizations.

4. The purpose of the present report is to provide the Council with additional information on the potential impact of actions that the Council may consider imposing on Liberia.

5. Referring to Security Council discussions prior to the adoption of its resolution 1343 (2001) and following discussions with the Panel of Experts established pursuant to paragraph 19 of the resolution and others, the assessment focuses on the following areas that the Council may consider for possible future sanctions:

(a) The timber extraction industry;

(b) Rubber production and export;

(c) The Liberian ship register.

6. The methodology for the present assessment comprises two broad approaches. The first uses available information from a wide variety of sources to identify and track changes in the economic, social and humanitarian situation to characterize the conditions of life in Liberia today. This provides background information on pre-existing trends and a baseline against which potential impacts of possible future measures can be assessed.

7. Information was drawn predominantly from original sources to facilitate the assessment of their veracity, the definitions of terms used and the accuracy and comprehensiveness of available information. If these were accounting documents from the Government of Liberia, those responsible for generating the documents were interviewed. If information was drawn from surveys, those leading the surveys were interviewed about their methodologies. If estimates or projections were used, the assumptions underlying those estimates were examined with the authors.

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8. The second approach draws together sector-specific information relating to the Liberian timber, rubber and maritime industries. Information was gathered from interviews with sector leaders, Government representatives and United Nations staff working with those industries, and from field observations at industry sites. An analysis was then made of each of these sectors regarding direct and indirect employment, the population supported by the industry and government revenues generated.

III. Present situation in Liberia

Economic and social conditions

9. In 1980, Liberia was one of the region's more economically advanced countries. Its gross domestic product (GDP) per capita was about US$ 485 and life expectancy at birth exceeded 54 years. These were then among the highest indicators in sub-Saharan Africa. Economic activity in Liberia's formal sector in the pre-civil war years was heavily concentrated on the production and export of iron ore, natural rubber, timber and crops, including coffee, cocoa and palm products. A large traditional sector was engaged primarily in subsistence agriculture, artisanal mining and small-scale commercial activities.

10. The civil war (1989-1996) took a heavy toll on the economy, with disastrous consequences on the social fabric of the country. Iron ore mining and rubber production were halted in the early stages of the conflict. Food production and other agricultural output plummeted as people abandoned villages in some of the most fertile areas of the country. There was widespread destruction of most of the country's physical infrastructure and buildings, including schools, hospitals, factories and houses. Destruction and looting of economic assets, such as machinery and equipment, were also widespread. Public utilities, such as electricity, water and sewage facilities, were destroyed and were not repaired or rebuilt.

11. Following the civil war, modest economic activity and small-scale domestic investment resumed, mainly because of a recovery in agricultural production. However, iron ore production never resumed because of lack of investment funds to restore war-damaged equipment and facilities. Production of rubber was reinvigorated in 1997, but the current output is about half of pre-civil war levels. The timber industry is the only sector that has attracted significant new foreign investment funds.

12. Today, Liberia is classified by the United Nations as one of the least developed countries in the world due to its low average per capita GDP (US$ 177 in 2000, less than half the value in the 1980s), lack of economic diversification and poor prospects for sustained economic development.

Employment

13. As much as 30 per cent of the Liberian labour force was employed in the formal sector prior to 1986. Half of them lost their employment during the 1990s. Today, the formal sector employs an estimated 120,000 Liberians (20 per cent of the economically active population in Liberia), of whom 57,000 are public employees. The number of public employees has doubled in the last 10 years despite a decline in the gross national product (GNP). Nominal salaries for government employees average 1,500 Liberian dollars (L$) a month (about 27 United States dollars (US$)), but effective salaries are even lower due to payment arrears of seven months, discounts, and levies of formal and informal taxes.

14. Iron ore mining used to be the country's predominant economic activity, contributing up to 25 per cent of GDP and employing 20 to 25,000 people. It ended with the outbreak of the war in 1986 and has not resumed. In the past, alluvial diamond mining employed up to 60,000 Liberians. Today, only small-scale hand mining of diamond and gold is done. It reportedly occupies up to 6,000 Liberian miners and constitutes no more than 3 per cent of GDP. Prices paid to miners for rough diamonds by brokers in Monrovia are reported to be down by half since the imposition of the United Nations diamond ban in May 2001, thus reducing incentives to engage or invest in diamond mining.

15. In recent years, in the absence of mining, rubber production has constituted the largest sector of the Liberian economy. But rubber sales are still currently only a little more than half of the US$ 170 million they generated in the early 1980s; in 2000, they represented 14 per cent of GDP. The six major rubber producers employ about 20,000 Liberians and provide rubber tree seedlings, tools, purchasing brokerage and extension services to an additional 5,000 to 10,000 smallholders.

On average, a rubber worker earns about US$ 2.5 a day.

16. With the collapse of iron ore mining and following substantial foreign investment in timber, since the civil war timber has become the second largest sector of the Liberian economy. Twenty-six timber companies now employ an estimated 10,000 people and Liberia's timber exports earned about US$ 50 million during 2000 and are expected to value US$ 70 million in 2001. The largest, most modern and newest operator, the Oriental Timber Company (OTC), has invested US$ 100 million in its activities in Liberia since 1999 and shipped a little more than half of all timber exported in the year 2000. OTC currently employs 2,500 Liberians.

17. In the first venture to process timber rather than simply export it raw, OTC intends to employ another 1,500 Liberians in a plywood factory currently under construction in the port of Buchanan. The plant manager anticipates beginning production before the end of 2001. There are currently no more than a total of 500 employees in the largest 11 manufacturing firms of all types in the country. Thus, the OTC plywood factory represents by far the largest current investment in manufacture in the country.

Humanitarian conditions

18. Mortality rates and life expectancy are believed to have hardly changed in the last 20 years in Liberia. Estimates of infant mortality per 1,000 live births vary from 114 to 157. The percentage of children under age two vaccinated against polio and diphtheria, pertussis and tetanus (DPT) fell from 80 per cent in 1987 to about 20 per cent in 1997. About one third of the population had access to modern health services before 1987. This figure fell to 10 per cent during the war and has only recovered in part. Only 7 of Liberia's 30 hospitals and 15 of its 130 health centres were still functioning in 1997. About half subsequently reopened, at least partially, but many of these have since closed again due to lack of supplies, staff and funding. Liberia had 550 doctors in 1980 and has about 100 today, of whom only 25 work full time in the public health-care system. The main public hospital in Monrovia, the John F. Kennedy Hospital, closed in 2000. The Liberian capital, with a population of 700,000, is now served mainly by Redemption Hospital, where four doctors and 208 other staff care for about 600 inpatients and 10,000 outpatients each month. Most of the supplies, salaries, and two of the hospital's four doctors are provided by Médecin sans frontières Belgium.

19. Today, only 37 per cent of adults in Liberia have completed primary school and are thus considered literate. About 80 per cent of the population lives in poverty (on less than US$ 1 a day), and about half of those in poverty live in absolute poverty (on less than US$ 0.50 a day). Most people are engaged primarily in subsistence agriculture. Nonetheless, they also depend on the cash economy for tools, seed, fertilizer, transport and medicines. These are purchased with the little supplemental income generated from the sale of food crops, charcoal, palm oil or paid labour. Two thirds of the average Liberian household budget is used to purchase food. According to the Food and Agriculture Organization of the United Nations (FAO), Liberia is among the 18 countries of the world with the least overall food security.

20. A Demographic Household Survey (DHS) carried out in 1999 showed that 19 per cent of Liberian households are headed by females. Thirty per cent of children live with only one parent and 20 per cent live with neither parent. The survey demonstrates further that more than half of all Liberians were displaced within the country at least once during the 1990s. Some 220,000 Liberians live as refugees in neighbouring countries and about 40,000 more have been internally displaced since spring 2000 due to the fighting in Lofa County, in the north-west of Liberia.

21. The human development index (HDI) is the most widely used summary measure of people's overall living conditions.[1] In 1992, Liberia had an HDI score of 0.325, ranking the country at 159 out of 173 countries. This rate was similar to the average for all sub-Saharan countries in 1970 and the 29 least developed countries of the world in 1975. By 1999, the HDI of Liberia had declined to 0.276, ranking the country at 174 out of 175 countries. Underdevelopment, war and the inability to re-establish political and economic stability in the post-war period have left Liberia and Sierra Leone at the bottom of the HDI ranking (see table).

22. Liberians exhibit several coping mechanisms in facing these difficult conditions. First, as most people are identified with one of the 15 tribes in the country, bonds of family support extend throughout the country and across national borders. On average, a Liberian breadwinner supports nine others, but it is not unusual to encounter an employee supporting as many as 20

Comparative social indicators, 1999

	Liberia	*Sierra Leone*	*Guinea*	*Ivory Coast*	*Sub-Saharan Africa*	*Least developed countries*
Life expectancy at birth	42.3	37.9	46.9	46.9	48.9	51.9
Infant deaths per 1,000 live births	134	182	115	102	105	104
Percentage of literate adults	37	31	36	45	42	51
GDP (in million US$)	480	458	1 782	1 598	1 607	1 064
Human development index	0.276	0.252	0.394	0.420	0.464	0.435
(Rank among the 175 countries assessed)	(174)	(175)	(162)	(154)	(135)	(141)[a]

Sources: UNDP, *Human Development Report, 2000*, and UNICEF, *Situation Analysis, 2001*.

[a] Average rank for the region is closest to the country ranked 141 of 175 countries.

dependants. Second, most Liberians depend predominantly on non-market subsistence agriculture. According to the above-mentioned DHS, 72 per cent of the population is engaged in growing food and raising animals. Third, Liberians living overseas have a long tradition of providing funds for family in Liberia through remittances. According to the Liberian Central Bank, remittances recorded by the banking system totalled US$ 23.4 million in 2000.

23. Despite these coping mechanisms, the resilience of the Liberian population and their capacity to adapt to further economic shocks is now very limited. Thus, the humanitarian consequences of any additional aggravating factors are likely to be more rapid and far-reaching than in a situation where communities' coping mechanisms are less depleted. The most vulnerable include those who are displaced, female headed families, those without a relative with regular employment, children not living with at least one parent and those living in areas of ongoing fighting. These groups constitute a large proportion of Liberia's population.

IV. The measures imposed by the Security Council in its resolution 1343 (2001) on Liberia

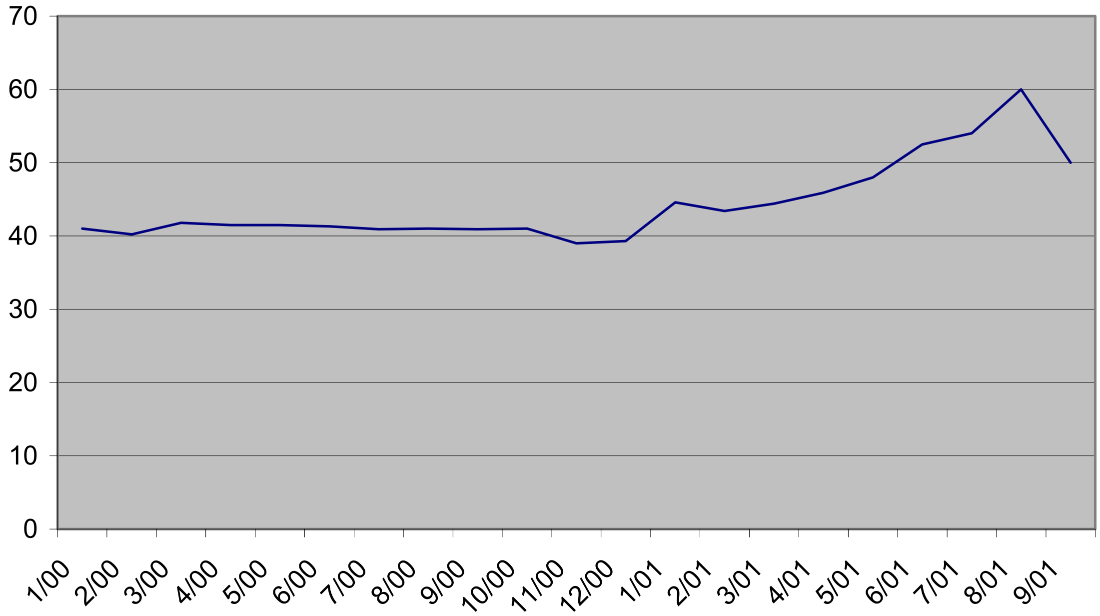
24. The sanctions imposed by the Security Council in its resolution 1343 (2001) are limited in scope and targeted at specific individuals and activities. The following paragraphs describe the context of the current sanctions regime and the response of the Government of Liberia regarding these measures.

Currency depreciation and domestic inflation

25. The exchange rate of the Liberian dollar is free to float and no black market for foreign currency exists. Between 1997 and 2000, the exchange rate remained within a range of 37 to 42 Liberian dollars to 1 United States dollar and was considered the most stable currency among countries in the region. Each year in December and July, the Liberian dollar strengthened relative to the United States dollar because of the increase in holiday-related remittances.

26. However, between December 2000 and August 2001, the Liberian dollar weakened continuously in the face of fear and speculation in the market regarding the possible imposition of United Nations sanctions on the country. In the first 10 days of January 2001, the Liberian dollar lost value at unprecedented speed, depreciating from L$ 42 to US$ 1 to L$ 52 to US$ 1. Through August 2001, the rate fell further to L$ 60 to US$ 1. But following an injection of United States dollars by the Liberian Central Bank, the payment of salary arrears to public employees and a growing belief that further United Nations sanctions are unlikely, the Liberian dollar strengthened in September 2001 to reach L$ 50 to US$ 1 (see figure I).

Figure I
Value of Liberian dollars relative to a current United States dollar, January 2000-September 2001



Source: Central Bank of Liberia.

27. The discussions about sanctions on Liberia and their subsequent imposition have affected public confidence in the Liberian economy. Hoarding, capital flight and reduced inflow of foreign currencies into the Liberian banking system were consequences and have contributed to the weakness of the Liberian dollar in 2001. The depreciation of the Liberian dollar has driven up prices of imported goods, including rice, medicines, petroleum products and other essential commodities.

International assistance

28. Liberia was long a favoured recipient of international assistance. The predominant portion of this was food aid during the 1980s. International assistance during most years from 1980 to 1997 exceeded US$ 100 million per year. However, since 1998 there has been a steady decline in donor support for Liberia. International assistance has decreased by US$ 50 to 100 million per year to less than US$ 30 million in 2001 (see figure II).

29. The result of this decline has been a rapid fall in the capacity of aid agencies to provide the needed assistance. For example:

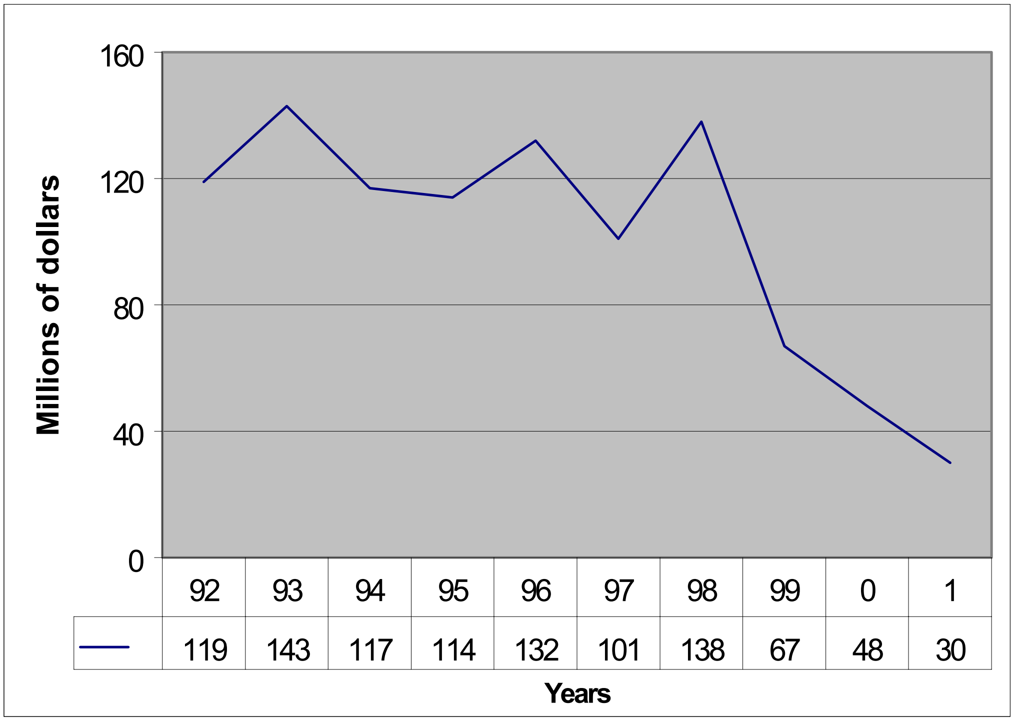
(a) Action Aid, whose funding for rural agriculture development was delayed so long that the programme was not able to start during the planting season of 2001;

(b) Save the Children UK, which is now scaling back its support from 19 to 10 health clinics;

(c) Médecin sans frontières Belgium, which has lost much of its bilateral funding and anticipates reducing support and staffing to the Redemption Hospital in Monrovia within months.

30. For some of these and other organizations, the funding shortfalls are so great that they are considering the termination of their assistance programmes in Liberia. Given the absence of alternative social safety nets for a lot of Liberians, this would mean the loss of remaining support, which would greatly affect their welfare. Hospitals and health centres would have to further limit their services and several medical

Figure II
International assistance for Liberia



Sources: UNICEF donors report and United Nations common country assessment.

facilities would even have to close completely. Schools would have to increase tuition fees, thereby reducing further the portion of the school-aged population in attendance. Assistance to displaced persons would decline, resulting in more hardship and higher mortality rates among them. Support for improvements in subsistence agriculture would decline, resulting in lower productivity, increased hunger and food insecurity.

Response of the Government of Liberia to the current sanctions regime

31. The Government of Liberia has mounted a public information campaign, blaming the United Nations sanctions regime for the decline in international assistance, the lack of economic growth, the continued fighting in Lofa County, the inflation of the Liberian dollar and the rise in prices for basic commodities. This initiative encourages the perception that United Nations sanctions do — and are intended to — harm the civilian population. Even critics of the Liberian Government believe that the governmental campaign is effective. The Government disseminates its positions via radio, newspapers and billboards throughout the country.

32. This anti-sanctions campaign of the Government of Liberia also affects the operating environment of the United Nations and other international agencies, and raises concerns about the security conditions for humanitarian workers and United Nations personnel.

V. Potential impact of possible future United Nations sanctions on Liberia

33. As mentioned in paragraph 5 above, the present report assesses the potential impact of possible future sanctions on the following areas:

(a) The timber extraction industry;

(b) Rubber production and export;

(c) The Liberian ship register.

A. The impact of possible future sanctions on the Liberian timber industry[2]

34. A ban on Liberian timber exports would probably cause the loss of up to 10,000 relatively well-paid jobs. With an average of nine dependants for each employed person and a probably higher than average number of dependants per employed person in this more affluent economic sector, a figure of 90,000 to 95,000 people losing their primary means of support could be expected.

35. The shortfall of an estimated US$ 10 million annually in salaries to timber workers would surely have carry-over effects to others in the formal and informal sectors, including suppliers of clothing, food and building materials in the communities of timber workers. Given the very vulnerable economic situation in Liberia, only a few of those who would lose employment in the timber industry would be likely to find alternative employment. Many would probably seek to join family or neighbours in subsistence agriculture, while some would try to emigrate to neighbouring countries in search of work.

36. According to the *2000 Economic Review* of the United Nations Development Programme, the Liberian timber industry overall provided US$ 7.7 million in fees, taxes and royalties to the Government of Liberia during 2000, representing about 9 per cent of the total national budget. If this revenue is lost, all sectors of the Liberian budget would probably come under further pressure. In addition, income taxes might be increased, salary payment arrears would grow, the prices of imported goods would rise and new taxes on petty traders and foreigners would likely be introduced.

37. The Liberian Government announced in August 2001 that US$ 7.5 million of governmental timber revenues would be designated for rural development in local counties. Accordingly, the Governor of Maryland County announced that part of these funds would be used for the renovation of the local college. While there is no certainty that this project would actually have been implemented, any international restrictions on Liberian timber would probably be blamed on its failing to come to fruition.

38. Secondary industries directly related to timber in Liberia are shipping and the plywood factory currently under construction in the port of Buchanan. Timber exports constitute the predominant commercial activity at three of the country's four ports. A halt in timber shipping would eliminate most of these jobs and cause the ports to greatly reduce their operations. This would also reduce funds for port maintenance and reduce secondary economic activities in port communities.

39. Timber companies provide health and education services to their employees, their families and the local communities in which they operate. A ban on timber exports would reduce or eliminate these services. OTC, for example, renovated and reopened the Buchanan port hospital and provides US$ 30,000 a month for its operation. Given that the public hospital in Buchanan has mainly been closed since the war, the OTC hospital is the major regional medical institution. Unless an alternative source for the operating costs of this hospital is found, this facility would probably close with the stoppage of OTC logging activities.

40. Timber firms also construct and maintain most of the roads in remote areas of Liberia. Accordingly, a ban on logging activities would affect the maintenance and probable further construction of such roads and thus affect road access for communities in isolated rural areas.

41. A ban on select Liberian timber companies, which is also considered as a possible follow-up action by the Council, would probably have less severe impacts than those specified above. However, unlike a total ban on the timber sector it would probably stimulate an intermediate business of reregistering and re-labelling of logs from banned companies to non-banned companies. Doing so would nonetheless taint the entire industry, reducing access to markets for timber from Liberia and depressing prices paid to other Liberian timber producers, thereby also depressing the production of non-sanctioned timber companies.

B. The impact of possible future sanctions on the Liberian rubber industry

42. International sanctions on Liberian rubber would directly affect more Liberians than sanctions on timber. Many of the 20,000 people employed by the main rubber producers in Liberia (Firestone in Margibi, Liberia Agriculture Company in Sinoe, Guthrie in

Bomi) would lose employment, as well as the 5,000 to 10,000 independent owners of small-scale rubber holdings, who also depend on these firms. Since many of these people live in permanent settlements on rubber plantations, alternative sources of employment or subsistence would probably be more difficult for rubber workers than for timber workers. If 25,000 rubber workers support an average of nine dependants each, a total of 225,000 persons would be directly affected by restrictions on Liberian rubber.

43. The total value of salaries and government revenues generated by the timber and rubber industries is similar. If sanctions were imposed on rubber, the potential effects and wider implications of reduced revenues to the government from this sector would thus be similar to those detailed above in paragraph 36 above.

C. The impact of possible future sanctions on the Liberian ship register

44. The Liberian Bureau of Maritime Affairs is a register for commercial ships. With 1,600 ships flying the Liberian flag, this is the second most subscribed ship registry in the world. The Liberian Bureau of Maritime Affairs generated US$ 18 million in the year 2000 for the Government of Liberia, representing 20 per cent of the national budget.

45. The Bureau of Maritime Affairs employs less than 100 Liberian staff and most of the registry's work is carried out in offices abroad. Therefore, little direct impact on the Liberian population is anticipated from possible restrictions on the Liberian ship register. Most of the staff of the Bureau are educated employees with specific technical qualifications and expertise. The majority of them would probably find other jobs or could emigrate to take up maritime-related work abroad.

46. Also, no direct effect on shipping to or from Liberia would be anticipated. However, for the international shipping industry, possible restrictions on the Liberian register would have quite important and far-reaching consequences given the large numbers of listed ships. Also, the above-mentioned government revenues would be affected by sanctions on the register. As the revenues from the Bureau represent the largest and most stable source of funding for the Liberian Government, the effects of a shortfall in this governmental income would be even more severe than those anticipated in case of restrictions on the timber or rubber industries.

VI. Observations

47. The Liberian economy is highly dependent on the export of traditional primary products and continues to be highly vulnerable to ongoing political and economic instability. Any restrictions imposed on this already weakened economy would probably have negative impacts on employment, social services and government revenues. A tightening of the existing sanctions regime is also expected to have further negative effects on the financial environment, with worsening exchange rates, increasing prices for essential commodities, decreased savings and more capital flight. These additional aggravating factors and their implications would particularly affect the most vulnerable of Liberia's population given that their resilience and coping capacities are next to exhausted.

48. Should the Council decide to establish additional sanctions, it may also wish to consider establishing a mechanism to regularly review their impact on the humanitarian and economic situation of Liberia. This would enable the Council to avoid unintended negative effects on Liberia's population and help to counter public misrepresentations of the sanctions regime and its objectives.

Notes

[1] HDI is a composite score of four variables: longevity, as measured by life expectancy at birth; educational attainment and provision of services, as measured by adult literacy and the proportion of school-aged youth attending school; and standard of living, as estimated in real GDP per capita in purchasing power parity dollars.

[2] There are important potential impacts of logging and reforestation on the sustainability of the sector and the ecology of the Liberian environment, but the present assessment had neither the mandate nor the expertise to explore and elaborate on these long-term issues.