Project Agreement

Agency for International Development

Washington, D.C. 20523

Bureau for Africa

Liberia

Project No. 669-K-605

Authorization Package

Project Assistance Authorization Document

Authorization Date:

October 28, 1982

CLASSIFICATION:

AID 1120-1 (8-85)

PAAD

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO.
669-K-605

2. COUNTRY
Liberia

3. CATEGORY
Cash Transfer

4. DATE
October 28, 1982

5. TO:
Lois Richards, Director USAID/Liberia

6. OYB CHANGE NO.

FROM:

8. OYB INCREASE
None

~~XXXXXXXXXXXXX~~: Budget Plan Code
GESA-8-31669-KG31

9. APPROVAL REQUESTED FOR COMMITMENT OF:
$ 8,000,000

10. APPROPRIATION - ALLOTMENT
App. No. 72-1121037
Allot. No. 337-61-69-00-00-50-21

11. TYPE FUNDING
☐ LOAN ☒ GRANT

12. LOCAL CURRENCY ARRANGEMENT
☐ INFORMAL ☐ FORMAL ☒ NONE

13. ESTIMATED DELIVERY PERIOD
10/28/82 thru 9/30/83

14. TRANSACTION ELIGI[BILITY] DATE
October 28, 19[8]

15. COMMODITIES FINANCED

NA

16. PERMITTED SOURCE
U.S. only: Cash $8,000,000
Limited F.W.:
Free World:
Cash:

17. ESTIMATED SOURCE
U.S.:
Industrialized Countries:
Local:
Other:

18. SUMMARY DESCRIPTION

The purpose of this grant is to help the Government of Liberia (GOL) deal with its continuing fiscal and public sector balance of payments problems by making available resources needed for offshore dollar balances and budgetary support over the current U.S. FY 1983.

The proposed total grant to be made available in FY 1983, is $32,000,000 of which only $8,000,000 is authorized in this PAAD. The first tranche of $8,000,000 is needed for immediate disbursement in order to enable the GOL to reduce the "net credit to government" ceiling from the current $188 million to $180 million by October 29, 1982, and thereby meet IMF Standby Agreement performance criteria. Subsequent tranches of any additional funds added to this PAAD are tentatively scheduled for disbursement in March and July, 1983, respectively.

Provision of this program grant will further strengthen U.S./Liberian relations by once again illustrating the ability of the U.S. to respond effectively during Liberia's time of crisis, and reconfirm the wisdom of Liberia's policy of maintaining close ties with the free world's financial and economic system.

19. CLEARANCES | DATE
RLA/REDSO:ANewton ADN 10/28/82
Controller, USAID/L:RLeonard
Economist, USAID/L:CWolters CW
Program Officer, USAID/L:EMcLeod
DD, USAID/L:JPielemeier JP

20. ACTION
☒ APPROVED ☐ DISAPPROVED

Lois Richards
Lois Richards
AUTHORIZED SIGNATURE

October [DATE]

USAID/Liberia Director
TITLE

UNITED STATES AID MISSION TO LIBERIA

c/o American Embassy
Monrovia, Liberia

October 27, 1982

ACTION MEMORANDUM FOR THE DIRECTOR, USAID/LIBERIA

THRU: DD, John Pielemeier /

FROM: DP, Evelyn C. McLeod

SUBJECT: Liberia Program Grant (669-K-605)

Problem: Your approval is requested to authorize a program grant (cash) of $8 million from the ESF allotment under the current Continuing Resolution to the Government of the Republic of Liberia (GOL).

Discussion: Program grants totalling $72 million were provided in August and December 1980, May 1981 and November 1981, January, May and July 1982, to assist the GOL in its efforts of economic recovery and stabilization. Since the April 1980 coup, which brought the country's present government to power, low levels of business and investor confidence have resulted in capital flight and a decline in private domestic and foreign investment. Additionally, the combination of increased recurrent expenditures and inadequate revenues has resulted in sizeable, repeated budget deficits and lower levels of public investment. Since Liberia uses the U.S. dollar as its main medium of exchange, it has no choice but to finance the deficit by foreign loans and grants, by drawing down foreign exchange deposits, and by domestic borrowing. Domestic borrowing has led, in turn, to a liquidity squeeze in the banking system, and to tight credit, resulting in a further reduction in business activity. Drawing down foreign exchange balances has led to an inability of the National Bank of Liberia to transfer funds out of the country on behalf of commercial banks and the GOL; consequently, inadequate foreign exchange is available to pay for essential imports and to meet debt service obligations.

To overcome the country's critical fiscal problems, the GOL has attempted to introduce measures to reduce expenditures and increase revenues. These measures were designed to reestablish stability and increase business confidence in the GOL's abilities to deal with its fiscal problems.

3Y

Two AID-supported projects, an expanded Increased Revenue for Development Project (669-0132), and a recently approved Economic and Financial Management and Training project (669-0184), will assist the GOL to improve its fiscal and financial management functions.

The GOL's fiscal and economic stabilization program is embodied in and implemented through a continuing Standby Agreement between the International Monetary Fund (IMF) and the GOL, now in its third year. Thus far, the GOL has met the IMF's increasingly rigorous performance criteria--the only country in Africa to do so uninterruptedly for eight successive quarters.

The effects of these and other GOL programs and policies have resulted in a return to socio-political stability, but not yet in an improvement in Liberia's economic position.

The purpose of this program grant is to help the GOL improve its financial situation, more specifically to reduce the National Bank of Liberia's "net credit" to the GOL. The grant will enable the "net credit" amount to be reduced to a more appropriate level consistent with the IMF ceiling set in the current Standby Agreement. The entire $8 million will be released upon GOL compliance with two standard Conditions Precedent (CPs) and an additional one requiring the GOL to give evidence of the GOL's continued adherence to the FY 83 IMF Standby Agreement. Special Covenants will further commit the GOL to continue giving its best efforts to (1) comply with the IMF Standby Agreement; (2) improve the efficiency of operation of the public enterprises; and (3) mobilize the financial resources needed for economic recovery.

It is proposed that upon the satisfaction of these CPs, the entire $8 million be immediately disbursed into a special GOL account in a U.S. bank. It is anticipated that all disbursements from this account will be completed within 30 days after the signing of the Grant Agreement. The $8 million will reportedly contribute to meeting outstanding GOL obligations for foreign debt.

Depending on the availability of funds and the OYB process, it is anticipated that an amendment to the Grant adding an additional $24 million will be authorized by AID/W in FY 1983. It is proposed that the additional disbursements, if the Grant is so amended, be made in installments (tranches).

Experience gained during the implementation of a previous program grant to Liberia (Program Grant III, FY 81) indicates that use of an installment procedure saved considerably on paperwork, while the USG seemed able to exert better leverage with the GOL vis a vis anticipated subsequent installments. In addition, GOL was able to arrange more orderly bridge-financing prior to the subsequent ESF installment. The IMF has used such a procedure successfully in its standby loans over the past two years. It is a more orderly procedure, and the GOL knows ahead of time how much it can expect to receive on a specific date, if it has successfully complied with the CPs. There are seven CPs in this Grant which must be met before additional disbursements under the Grant, if amended, can be made. These seven CPs will commit the GOL to report on progress made on certain specific efforts to improve public sector financial management since the previous disbursement under the Grant.

The provision of this Grant and any amendments to it will further strengthen U.S.-Liberian relations by once again illustrating the U.S. willingness to effectively respond during Liberia's time of crisis, and will reconfirm the wisdom of Liberia's policy of maintaining close ties with the free world's financial and economic systems. Therefore, this Grant is in direct support of U.S. immediate and long-term interests.

The Congress was notified of our intent to provide a $32 million cash grant to the GOL in the FY 1983 Congressional Presentation. The USAID/Liberia Deputy Program Officer will be the project manager of the Grant, supported by the ESF Project Committee consisting of the Deputy Mission Director, Controller, Program Officer, and Program Economist. AFR/CCWA will be the responsible office in AID/W.

Recommendation: That you sign the attached PAAD and thereby authorize the proposed program grant (cash).

Attachment:

Clearances:
RLA/REDSO/WCA:ANewton: ______
CON, USAID/L:RLeonard: ______
DP,USAID/L:EMcLeod: ______
DD,USAID/L:JPielemeier ______

Drafted:CWolters:bhw:10/27/82

AID 1120-2 (8-66)

PROGRAM ASSISTANCE AGREEMENT ABSTRACT

ROUTE TO: ☐ SER/FM LD (Loans) ☐ SER/FM RSD (Grants)

☐ Original Abstract

Revision No. ___

(1) ☐ Loan ☐ Grant. No. 669-K-605 (9)

(2) DATE AGREEMENT SIGNED (MO., DAY, ...): October 28, 1982

(3) 1 ☐ Original Agreement 2 ☐ Amendment No. ___ (2)

DATE THIS AMENDMENT SIGNED (MO., ...): ___

(4) APPROPRIATION SYMBOL CODE: 1. ___ (3) 2. ___ (3)

(4a) TRANSACTION ELIGIBILITY DATE (MO. ...): October 28, 1982

(5)	PREVIOUS VALUE	INCREASE	DECREASE	NEW TO...
1 ☐ Obligation				
2 ☐ Partial Obligation		$8,000,000	-	$8,[illegible]
3 ☐ Non-Obligating				
	(11)	(11)	(11)	

(6) NAME OF BORROWER/GRANTEE: Government of the Republic of Liberia

(7) ADDRESS OF BORROWER/GRANTEE: ___

THIS SECTION FOR LOANS ONLY

(8) Repayment Schedule — Principal: 1 ☐ Semi-Annual 2 ☐ Annual

(9) Repayment Schedule — Interest: 1 ☐ Semi-Annual 2 ☐ Annual

(10) Interest Computation Basis: 1 ☐ 360 Days 2 ☐ 365 Days

(11) Category of Repayments: 1 ☐ Equal 2 ☐ Level 3 ☐ Sum of Digits 4 [

(12) Rate of Exchange at Agreement: ___ (3) ___ (3)

(13) Type of Billing: 1 ☐ Reference Date 2 ☐ Due Date

(A1) AGREEMENT VALUE IF OTHER THAN IN BLOCK 5: ___ (11)

(A2) AGREEMENT TERMINAL DISBURSEMENT (MO., DAY, YEAR): September 30, 1983

(A3) ALLOTMENT SYMBOL: 337-61-69-00-50-21 (18)

(A4) OBLIGATION NO.: 72-1121037 (7)

(A5) TERMINAL DATE FOR ISSUANCE ... AUTHORIZATIONS (MO...): September 30, 1[illegible]

(A6) SCHEDULED TERMINAL DATE(S) FOR COMPLIANCE CONDITIONS PRECEDENT: First Disbursement-30 days from date of agreement, i.e. N[illegible] 1983 additional Disbursements-60 days from date agreement is amended.

AUTHORIZED BY:

Lois Richards — NAME — INITIALS: JL

Mission Director, USAID/Liberia — UNITS — DATE

CLEARED FOR VALIDITY UNDER SECTION 13[illegible]

Alexander D. Newton — NAME

Regional Legal Advisor — TITLE

OUTLINE

IX

Attachment: Tables

I. SUMMARY AND RECOMMENDATIONS

A. Recommendations and Implementation Plan

Authorization of a Program Grant (cash) to the Government of Liberia (GOL) in the amount of $8 million is recommended. The Grant Agreement will provide, upon satisfaction of the initial conditions precedent, for immediate disbursement of $8 million into a GOL account in a U.S. bank. The remaining $ 24 million budgeted for the FY 83 Program Grant will be authorized as soon as AID funds may become available. These funds will be obligated and disbursed in installments during the course of the fiscal year, at mutually agreed upon times, after additional conditions precedent have been satisfied. It is anticipated that the first disbursements of $8 million will be completed within one day after signing of the Grant Agreement. The GOL will be required to provide A.I.D. with quarterly financial reports of all expenditures made under this Grant.

A provision of the Grant Agreement, as may be amended from time to time, will require the GOL to deposit a 100 percent equivalent in Liberian-held dollars in a special account at the National Bank of Liberia as counterpart funds. Disbursements from the special counterpart account will be used to help finance development-oriented activities which are included in the GOL budget and are consistent with IMF guidelines. Such activities may include new, as well as ongoing, activities.

If this Program Grant is amended during FY 1983 to provide additional funds, they would be provided subject to the terms and conditions specified for disbursements subsequent to this initial tranche of $8 million.

B. Summary Justification

Program grants totaling $72 million have been provided to the GOL since the April 1980 coup, which brought the country's present Government to power. Funds were obligated in August and December 1980, May 1981 and November 1981, the latter including three subsequent amendments. Low levels of confidence in the economy's recovery and the PRC government have resulted in capital flight and a decline in private domestic and foreign investment. The combination of increased recurrent expenditures with inadequate revenues has resulted in annual budget deficits and low levels of public investment. Since Liberia uses the U.S. dollar as its main medium of exchange, it has no choice but to finance the deficit by drawing down foreign exchange deposits and by domestic borrowing. Domestic borrowing has led to a liquidity squeeze in the banking system, and to tight credit, resulting in a further reduction in business activity. Drawing down foreign exchange balances has made the National Bank of Liberia unable to transfer funds out of the country on behalf of commercial banks and government. This results in inadequate foreign exchange being available to pay for essential imports and to meet debt service obligations. The end

9x

result has constrained Liberia's international credit facilities.

To overcome the country's critical fiscal problems, the GOL has attempted to introduce IMF recommended measures to control expenditures, increase revenues, and decrease the deficit. These measures were designed to re-establish stability and increase business confidence in the GOL's abilities to deal with its fiscal problems.

Progress has been made in establishing greater expenditure control and increasing domestic revenues. There is growing realization that revenues can be increased considerably without raising the tax rate, while a number of weak points in the budgeting process were identified by an A.I.D. consultant in August 1982. His report is one source of the revised CP's being adopted with this grant. Two A.I.D.-supported projects, an expanded Increased Revenues for Development project (669-0132) and a recently approved Economic and Financial Management and Training Project (669-0184), will further assist the GOL in improving its fiscal and financial management functions. Two CPs will support their efforts.

The GOL's fiscal and economic stabilization program is embodied in and implemented through a continuing standby agreement between the International Monetary Fund (IMF) and the GOL, now in its third year. Thus far, the GOL has met the IMF's increasingly rigorous performance criteria, the only country in Africa to do so uninterruptedly for eight successive quarters. However, there are indications that the GOL finds it increasingly difficult to stay within expenditure ceilings in order to keep the deficit manageable. An IMF team is expected in Monrovia in November 1982, to review GOL performance under the second Standby Agreement negotiated in July. The mix of CPs and covenants being proposed in this PAAD together aim at supporting and reinforcing the IMF stabilization program.

The effects of these and other GOL programs and policies have resulted in a return to socio-political stability, but improvement in Liberia's economic position has been slow. Part of the country's economic problem is external: (1) The continuing recession in industrialized countries and slack demand for Liberia's exports, and (2) the OPEC-mandated oil price increases in 1979. Liberia, like most LDC nations in similar predicaments, has no control over such matters. Part of the internal "confidence" problem is that GOL policies and programs aimed at addressing the fiscal problem require considerable lead time for effects to be reflected in the country's economy. A still longer period is required for the private sector to recognize and respond to these changes with increased economic activity. However, the most recent quarterly report of the National Bank indicates that by the close of the second quarter of 1982, the decline in demand deposits had been stemmed and time deposits were recovering well. These may be harbingers of a return of greater confidence.

The FY 1983 program grant is to help the government of Liberia deal with its current fiscal and balance of payments difficulties, by providing additional resources required to meet its minimum requirements for offshore dollar balances during this fiscal year, and help provide budgetary support. A number of tough but implementable conditions precedent for disbursement and covenants are an integral part of this grant. These will be closely observed and monitored through a tranching mechanism. Under this mechanism, the GOL would have first to present acceptable evidence that it was implementing these various conditions before it could qualify for the tranches disbursed subsequent to the initial disbursement of AID funds. This implementation mechanism is similar to that successfully used by the IMF. In addition, the conditions precedent have been designed to strengthen considerably the efforts of advisors and consultants under the two AID-assisted projects which address revenues and fiscal management as well as providing general support for the IMF's stabilization program in Liberia.

The pre-conditions for the country's successful economic recovery are: 1) The avoidance of fiscal and financial breakdown and default on the national debt; 2) the continued availability of fossil fuels on the domestic market, and 3) the country's continued successful compliance with the IMF Standby Agreement. This grant provided Liberia with a substantial portion of the critical foreign exchange and budget support funds it needs to maintain itself for the current fiscal year. However, AID and IMF funds together may not cover all of Liberia's requirements. The Mission will monitor this situation closely.

Liberia's long-term economic prospects are good. It has a base of renewable resources (agriculture, forestry, hydro-electric energy potential, offshore fishing) as well as sizeable, yet undeveloped mineral deposits (iron ore, uranium, bauxite, and possibly offshore oil), needed to provide the people with a continuing satisfactory standard of living. The present productive base of the economy is narrow but has the potential to expand, given certain inputs. The proposed grant is designed to assist Liberia through a period of severe crisis; it is not an open-ended commitment to a country which lacks the means for long-term economic viability.

Liberia has long been acknowledged as the most faithful friend of the United States in Africa. In turn, the United States, with important historical and strategic interests, including U.S. Government communication facilities and almost $350 million in private sector investment, is recogized as Liberia's most influential international partner. Because of this traditional relationship the posture adopted by the United States Government towards political and economic changes now taking place in Liberia will have a critical impact upon these changes and the future of American interests in the country. If, with U.S. support and assistance, the Liberians can revive their economy, these changes will be gradual and U.S. interests in, and relations with, Liberia strengthened.

If Liberia is unable to revive its present economic system, and believes that a lack of support from its traditional allies is even a partial reason for this failure, the Liberian Government may attempt different, more radical, solutions to its present problems. Under these conditions, U.S. political and economic interests in Liberia could be expected to suffer.

The provision of the proposed program grant serves to illustrate, both within and outside of Liberia, the willingness and ability of the United States to help its traditional friends. For this reason, as well as for the protection of the considerable American interests within the country, the proposed grant is considered to be in the best interests of the United States, as well as those of the Republic of Liberia.

The Congress was notified of our intent to provide a $32 million cash grant to the GOL in the FY 1983 Congressional Presentation.

II. ECONOMIC DEVELOPMENT IN LIBERIA

A. General

Development, over the last seven years or so has slowed to a virtual halt for a combination of domestic and international reasons. There has been little meaningful private investment since the late 1970's because of a perceived deterioration in the investment climate. Public investment in development oriented activities, which rose from $19.3 million in 1973 to $210.8 million in 1978/79, dropped to $120 million in 1980/81 and to $97 million in 1981/82. During 1975-1981, real Gross Domestic Product in the monetary economy (as distinct from the non-monetary, or traditional, rural subsistence economy) grew on the average at less than one percent annually, a rate well below the population growth rate of 3.4 percent per annum. In terms of real income, the average Liberian is a little worse off each year. During 1980 and 1981, the monetary economy registered a negative growth rate of minus five percent compared to one percent annually over the previous five years. There are no reliable similar data on the non-monetary economy, but knowledgeable observers agree that subsistence agricultural production -- the main element of the non-monetary economy -- has, at best, stagnated in recent years.

In part, this situation is the result of reduced demand and related decreases in the price in international markets for Liberia's major exports (iron ore, rubber, timber, coffee) over which the country has no control. Another factor is the widespread economic and financial dislocation and a loss of business confidence which occurred in the wake of the April 1980 coup, during which a small group of young, inexperienced enlisted men of tribal origin overthrew the previous Americo-Liberian (settler-descended) ruling elite Furthermore, as a result of public sector wage increases mandated by the new government, the resulting upward pressures on private sector wages, and the rising cost of imported fossil fuel since 1979, production costs have risen sharply, causing further problems in the mining, rubber and timber industries already troubled by the economic recession in the West. Heavy commercial borrowing during the period 1976-1979, for implementation of Liberia's first development plan, and large unproductive infrastructural investment in connection with the 1979 OAU summit conference held in Monrovia, saddled the new government with an unmanageable debt service which, (including rescheduled debt) takes almost 27 percent of domestic revenues. Finally, because of the use of the U.S. dollar and therefore the sharply curtailed ability of the GOL to print money (only coins of L$5 denominations and less), sizeable government deficits can only be financed by foreign loans and grants and by domestic borrowing. In the face of massive capital flight after the coup (estimated at 30 percent of the money supply) domestic borrowing and an increase from eight to fifteen percent in bank reserve requirements, have led to a severe liquidity crunch.

B. Sectoral Performance of the Economy: An Overview

Summary

Liberia finds itself faced with a severe liquidity squeeze, while Liberia's terms of trade are deteriorating and earnings from major exports have been reduced in recent years. Although a certain degree of stabilization has been attained since 1980, the investment climate remains uncongenial because of the uncertain economic and political future, and because of poorly-advised government actions. Little meaningful foreign or private investment has taken place since the mid-1970s which could have created income and jobs today.

Liberia's GDP grew at barely one percent annually during the period 1975-1981, in real terms and showed five percent negative growth in 1980 and 1981.

Government is the largest employer (48,000) and the annual payroll of $157 million has become a considerable burden. Overstaffing is common. Government recurrent expenditures outstrip domestic revenues, leaving no domestic savings to be applied to public development investment.

Public confidence in the government's ability to guide the economy toward recovery remains low, although there are signs that it may be bottoming-out.

Liberia has considerable untapped natural resources and a favorable population/land ratio. Therefore, the longer-term economic outlook is positive if the economy is not allowed to deteriorate further and government gets a firm handle on its fiscal problems.

Performance

1. GDP

During the period 1975-1981, real GDP in the monetary economy (as distinct from the non-monetary, or traditional/subsistence economy) grew at an average less than one percent per annum. Both 1980 and 1981, saw negative real growth rates of 5 percent annually. There are no reliable data on the non-monetary economy, but informed sources report stagnation.

2. The Export-oriented Economy

a. Mining

Iron ore mining is a major contributor to GDP (28 percent). Liberia currently produces 20 million long tons of iron ore annually, versus a full capacity of 27 million tons. Iron ore exports are valued at $235 million and constitute 61.5 percent of total exports.

While real price prospects for iron ore appear good for the remainder of the decade, demand is likely to be slack as the world steel industry is going through a restructuring process which is not likely to be finalized until the late 1980's.

Accurate estimates of gold and diamond production are difficult because of illegal cross-border imports from neighboring countries with inconvertible currencies. This cross-border traffic also constitutes a considerable drain on the U.S. dollar notes in circulation, as these are taken out of the country (there is no currency control).

b. Agriculture and Forestry

- Rubber production leads the monetary agriculture sub-sector. Annual export volume in 1981, was 169.2 million pounds (up from 153.6 million pounds in 1977) for a total export value of only $86.2 million (down from $102.2 million in 1980). The drop in export earnings is due to falling market prices. Seven foreign-owned concessions, cultivating half the acreage under rubber, produce 75 percent of Liberia's rubber. The rest is produced by inefficient and low-yield Liberian rubber farmers who sell to Firestone when prices are sufficiently attractive.

- Lumber constitutes sixteen percent of total export value and contributes six percent to the monetary economy's GDP. Earnings from log exports (mainly to Europe) declined 36 percent in 1981, and by a further 26 percent in 1982. Forestry, which contributed 6.2 percent of monetary GDP in 1980, only contributed 3.5 percent in 1981. When market demand improves, export earnings from timber should improve. Forestry is currently mismanaged due to indiscriminate cutting and little reforestation The World Bank estimates that if current practices continue, Liberia's forest resources could be depleted in 13 years.

- Coffee. Both export volume and value of coffee have declined in recent years. In 1977, coffee exports earned $43 million and constituted 9.6 percent of total exports; in 1981, this had been reduced to 3.7 percent. There is currently a world glut of coffee and resultant low prices.

- Cocoa. Liberian cocoa production has shown steady increases over the past three years. Exports of 14.8 million pounds in 1981, resulted in $13.8 million in export earnings. At a farm gate price of only $0.40 per pound for the 1981/82 buying season, production is unlikely to increase beyond 5,650 long tons produced in 1981.

3. The Domestic-oriented Economy

a. Manufacturing and Construction

Manufacturing activities represent only about 7 percent of monetary

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GDP and employ only 6,000 persons. Most activities are based in the Monrovia area and are foreign-owned companies limited to assemblage, agricultural processing, beverages and chemical products. Liberia's domestic market for manufactured goods is so small so that economies of scale cannot be realized; the wider ECOWAS market has future potential.

Between 1976 and 1979, construction activity centered around preparations for the OAU Summit Conference held in Monrovia. Subsequently, this activity has declined. A recent upswing in 1981-82, is largely due to a military barracks/housing construction program, construction of a large national stadium complex, and a mini-boom in housing construction.

b. Transportation, Storage and Communications

This subsector contributes 10 percent to monetary GDP. Liberia's transportation needs are catered to by a combination of road, rail, air and shipping services, largely operated by the private sector. Roads are inadequate (average road density of 0.125 is one of the lowest in West Africa) and poorly maintained. This makes transport costs in the interior high.

Liberia has the world's largest registered ocean shipping fleet as a result of its "open registry" facilities, which represent a flag-of-convenience for ships of various nationalities. Total registry involves 2,340 vessels and represents 73.9 million gross tonnage. Maritime revenues have steadily increased to $24 million and now contribute 10 percent of total revenues.

c. Trade and Commerce

As in manufacturing, this sector is largely in foreign hands (Lebanese, Indians). In 1978, the sector contributed 8.8 percent to GDP; currently it contributes only 5 percent. The volume of goods traded has not been reduced, but their value has fallen. This is due to recent surcharges imposed on imported items in order to raise GOL revenue combined with a reduction in disposable income as a result of increased taxation on individual incomes.

d. Energy

Liberia imports all of its fossil fuel which is refined at a government-owned refinery. Imports of crude oil (and occasional product) are a major foreign exchange cost totaling about $156 million annually. The refinery is experiencing major cash flow problems. Out of an annual production cost of $143 million, it currently has $32 million outstanding in receivables; about half from the Liberia Electricity Corporation (LEC). Currently, the LEC owes the refinery $14 million because many of its customers (including government and public corporations) do not pay for the electricity they consume. Liberia has considerable hydroelectric generating potential but the public investment costs of large-scale projects are unaffordably high, at least at present.

e. Government

Government is the largest employer in the monetary economy (48,000). Employment in state corporations is estimated at 10,000; reportedly they are grossly overstaffed. For many years the public sector has absorbed tens of thousands of persons as the "employer of last resort." As a result, the monthly payroll can only be met with great difficulty, and government employees often have to go two or more months without getting paid.

Government recurrent expenditures in FY 1981/82, totaled $242 million (versus $237 million in domestic revenues). Total expenditures for all purposes amounted to $398 million while income from all sources was only $320 million. The resulting deficit was financed by a net increase in credit to government, an overdraft with the National Bank and $58 million in unpaid checks.

4. The Non-monetary Sector

It is estimated that 70 percent of Liberia's population lives in rural areas and a high proportion of their labor is devoted to subsistence agriculture and processing of produce for storage and consumption. Other productive activities include housing construction, hunting and fishing, and village crafts (weaving, pottery, carpentry, blacksmithing, etc.). It also includes marketing and hawking functions. Its contribution to total GDP is estimated at 20 percent. Between 1974 and 1978, this sector grew by 2.1 percent per annum on the average. There are reports that the traditional sector has stagnated since then, largely as a result of increased rural-to-urban immigration by working age adults. Other factors mentioned in connection with the stagnation in food crop production are: (a) limited access to improved technology; (b) poor transportation; (c) relatively low farm gate prices. Considerable progress in income and employment could be made if persons working in the non-monetary sector could be brought into the monetary sector. This would involve increased productivity in cash crops, marketable surpluses in food crops, and improved off-farm employment opportunities in the interior. About 600,000 persons, or roughly 63 percent of the labor force are employed in this sector.

5. Balance of Payments

The importance of foreign trade to the Liberian economy is reflected in the relationship between exports and imports of goods and services relative to GDP (exports equal 64 percent of GDP; imports 60 percent). These relative magnitudes and the openness of the economy indicate that Liberia is extremely sensitive to changes in the foreign trade sector.

The country's balance of trade has always been positive. A sudden drop of the trade surplus from $66.5 million in 1980 to $51.8 million in 1981, spelled trouble. During fiscal 1981/82, total exports declined by a further 4 percent.

The "net services" item has been high as a result of increased payments on debt, resulting in a deficit in current account of $65 million in 1981/82, or 6 percent of total GDP.

The 1980/81 deficit on the total balance of payments was financed by reducing the NBL's foreign assets, building up large external payment arrears, and by SDR drawings under the GOL-IMF Standby. In 1981/82, the decline in foreign exchange holdings stopped, external arrears were cleared up, while IMF SDR drawings increased substantially (from SDR 33 million to SDR 55 million). International reserves by June 1982, were estimated to be equal to only one week of imports. The balance of payments outlook for 1982/83, is not encouraging; USAID projections show an increasing deficit. Tables 1 and 2 illustrate Liberia's most recent balance of payments experience and projections through 1985 respectively.

6. Finance

Liberia has a dual currency system under which it uses coins of denominations of L$5 or less (currently $13 million in circulation) and US banknotes (magnitude unknown as a result of the openness of the economy and freedom from currency restrictions).

Liberia's use of the dollar has both advantages and disadvantages -- the former outweighing the latter. The structure of the financial system is composed of the National Bank, eight commercial and specialized banks (five of which are foreign-owned) and nonbank financial institutions and intermediaries.

After the coup, Liberia lost about 30 percent of its recorded money supply (demand, time and savings deposits) and an estimated equal amount in physical cash. This situation bottomed-out in December 1981, and has shown signs of improvment during the first two quarters of 1982.

The public finance situation continues to be difficult. There are indications that problems with the 1982/83 budget and excessive expenditures during the first two months of FY 1982/83 (largely to clear up $58 million in domestic arrears), may endanger the IMF Stand-by arrangement. Revenues are lower than they should be (despite one of the highest tax burdens in Africa) while expenditures are still too high, despite recent efforts to curb them. The GOL's deficit and its financing are causing major negative repercussions in the financial system, as government continues to draw down its foreign exchange (hard dollars), and engages in domestic borrowing (a liquidity squeeze). The fact that Liberia cannot print its own currency to help finance the deficit, limits government's monetary flexibility, tends to exaggerate problems in short-term adjustments to liquidity constraints and makes financial control more difficult.

The projected growing public sector foreign exchange gap, despite IMF and USG infusions, is worrisome, especially now that Liberia is in default on its obligations to the oil financing facility and lines of credit have been reduced.

The problem with forecasting offshore foreign exchange cash flows is four-fold: (1) Neither the NBL nor the MOF have sufficient in-house capability to do this with any degree of credibility; (2) the NBL has thus far not constructed a time series of past off-shore flows to be used as part of a basis of predicting future flows; (3) unforeseen events (oil facility default, IMF Stand-by agreement problems, unbudgeted purchases, etc.) tend to be such that a forecast with real validity has a short time frame, and (4) there is incomplete knowledge of cash flow details.

a. Public Finance

Fiscal year 1981/82, was a difficult year for government, as it struggled to meet rising expenditures and less than expected revenue collections. Budget revenue in 1981/82 totaled $238 million, versus $268 million forecast. Recurrent expenditures, including debt service, on the other hand totaled $293.7 million, for a recurrent deficit of $53.7 million (up from $18 million in 1980/81). The total 1981/82 unfinanced deficit, was $77 million. Despite pressing developmental needs, the GOL's development expenditures were scaled down from $127 million budgeted to $97 million actual, in order to keep the overall budget deficit as low as possible and because of reduced absorptive capacity for externally-financed development funds. External resources expenditure dropped from $138 million in 1980 to $97 million in 1981 and $34 million in 1982, a decline of 300 percent. This decline was mainly due to the absence of matching funds for development projects from the government's budget so that a number of these projects had to be postponed, scaled down or slowed-down.

(1) Recent Revenue Patterns

A summary of government revenue for the period 1976-1982 is presented in Table 3. It is clear that domestic revenue, as a percentage of GDP has sharply deteriorated. Iron-ore profit sharing, which amounted to $28.3 million in 1976, was only $3.3 million in FY 1982, while collections on individual income taxes--which shot

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up by 70 percent between 1979 and 1981--declined by 9.5 percent in 1982. A newly-imposed national reconstruction tax totaled $12 million. Total revenues may have been stagnant between 1981 and 1982 if one assumes that an inflation rate of 9 percent is fully reflected in revenue collections.

(2) Recent Expenditure Patterns

Recurrent expenditures (not including debt service) in 1981/82, of $248.8 million were close to the $247.8 million projected. However, this was accomplished through deferring payment of $59 million in checks which had accumulated at the close of the 1982 fiscal year. Unbudgeted expenditures totaled $5.0 million, reflecting the purchase of a Boeing 727. Total expenditures of $397.5 million were well below the $436 million extimated for the fiscal year. Reductions in development expenditures and savings on the debt service as a partial result of Paris Club debt rescheduling, accounted for the bulk of the reduced expenditures for FY 1982.

Table 4 shows the budgetary expenditure pattern from 1976 to 1982, during which recurrent expenditures increased by 235 percent. Wages increased by 233 percent, and interest payments 752 percent. Total budgetary expenditure increased at an average annual rate of 39 percent. Meanwhile revenues increased at an average rate of only 15 percent. Since Liberia already has one of the highest tax rates in Africa, reduced recurrent expenditures and improved revenue collection appear to be part of the solution to get the deficit under control.

(3) Budget Year 1982/83

(a) Revenues

Domestic revenues, in order to total $258 million over the current fiscal year, must average $21.5 million a month. Thus far, the trend is encouraging: July $29.8 million; August $20.6 million. For 1981/82, revenue receipts were only $237 million. If the revenue forecast is high and the loan-plus-grants projections also turn out to be too optimistic (as they turned out to be for 1981/82),it is unlikely that the budget targets can be met.

(b) Recurrent Expenditures

1) Salaries

The 1982/83 salaries are budgeted at $17.1 million less than last year. There is a conscious effort to enforce a freeze on hiring, to eliminate job redundancy and to eliminate "ghosts" on the payroll. Politically, the salary component may be almost untouchable since it represents a large measure of social welfare (for each

GOL salary check, 10 persons eat).

It can be argued that the budgeted total of $141 million for salaries is still inflated, but there are many pressures to protect this figure while actual expenditures are likely to exceed this amount. These overruns would probably be covered by budgetary transfers from other recurrent budget object codes such as "other services" and perhaps even from the development budget.

2) Other Services

This category includes communications, postage, books, printing, utilities, rent, maintenance, repairs, local travel, conferences, etc. Last year $49.0 million was allocated (but only $38 million spent); this year the figure has risen to $54.4 million. Dilapidated property, broken-down equipment, unpaid utility bills, etc., indicate that this object code is often tapped as a convenient source for budgetary transfers to more popular codes, such as salaries and vehicles.

3) Materials and Supplies

Last year $20.4 million was allocated and $18.8 million was spent. In 1982/83, $11.7 million is allocated. This object code includes gasoline and oil for government vehicles, as well as office supplies. There is not enough of the latter and too much is spent on the former. The cut to $11.7 million will mean in effect that limited purchases of office supplies, drugs and medical supplies, textbooks and education materials, inputs for road maintenance, etc. will occur, thereby impeding delivery of services.

4) Equipment

Last year's allocation was $4.5 million, later revised downward to $3.1 million. Actual expenditures were $7.5 million, of which $2 million occurred in June alone. This year's allocation is only $2.4 million. It is doubtful that this line can be held, given the past record and continuing pressures for vehicles.

5) Property

This is a very minor item on the recurrent budget; its major component lies in the development budget ($20.5 million in 1981/82; $31.5 million in 1982/83).

6) Subsidies and Contributions

Last year $23.4 million was budgeted, but only $19.7 million was spent. This year's allocation is $25.1 million. Rarely is it clear from the budget document what these subsidies and contributions are supposed to accomplish. For example, the University of Liberia has allocated $6.1 million for "subsidies, contributions" in the 1982/83 budget.

It appears that even though in some cases these contributions are quite legitimate, there are cases where this category is subject, to budgetary transfers to more popular budget codes.

7) Debt Service

Last year, $61.5 million was allocated but only $45.9 million was actually spent. The FY 1982/83 allocation is $71.4 million ($48.7 million in interest payments and $22.7 million in principal repayment).

(c) Conclusion

It appears that the GOL's FY 1982/83 budget will be extremely hard to implement. Reportedly, ministries and agencies of government may lack the materials, supplies and other services to provide sufficient logistics support to their operating staffs with the consequent strong pressures for early budgetary transfers. The growing concern is that actual expenditures will exceed budgeted amounts as the fiscal year progresses. Available funds tend to be poorly allocated within aggregate budgets of individual ministries and agencies and transfers between budget codes are inadequately controlled. An improvement in budgeting procedures and a move toward eliminating budgetary transfers would help resolve these problems.

(4) The GOL Deficit and Its Financing

Liberia's economic difficulties were aggravated by the April 1980 military takeover, as well as by external economic factors over which Liberia has no control. The crisis has essentially five elements: (a) a domestic economy which began to stagnate in 1977, and has registered a negative growth rate of between minus four and five percent annually over the past two years; (b) a public sector foreign exchange crisis due to increased and accelerating external financial obligations, posed against reduced foreign exchange and revenue earnings to service these obligations; (c) large and persistent budget deficits which can only be financed by a combination of austerity measures, and bringing reduced expenditures into line with increased domestic revenues; (d) no liquidity at the National Bank because of government overdrafts, and (e) a lack of confidence by the business sector in government's ability to put its fiscal/financial house in order, which, in turn, is reflected in reduced levels of investment and business activity, and, therefore, revenues.

The budget deficit has grown sharply since 1979. By IMF definitions, it grew from $88 million in 1979/80 to $100 million in 1980/81. In 1981/82, it was reduced to $77 million ; this amounts to roughly 7 percent of GDP and constitutes more than 30 percent of domestic revenues. The deficit has its origins in inadequate revenues, reflecting slow-downs in major export industries as well as in the domestic economy, poor collection and enforcement efforts, and in vastly increased expenditures.

Government salaries and debt servicing as well as growing outlays for the uniformed services are the main causes of increased expenditures. The average monthly government wage bill (recurrent only) amounts to $13 million, and wages constitute 64.5 percent of total recurrent expenditures. Debt service, although currently eased through rescheduling, will become an unaffordably large burden during the middle of the decade. Even with rescheduling, debt servicing claims 26 percent of revenues in the FY 1982/83 GOL budget. Outlays for the uniformed services rose from $14.6 million in 1978/79, to a budgeted total of $50.9 million in 1982/83--a 350 percent increase in four years.

The problems on the revenues collection side boil down to the following: (1) having far too narrow a tax base; (2) poor audits; (3) lack of registration and assessment of potential tax resources; (4) poor enforcement; (5) lack of political will to prosecute and punish tax evaders; (6) stagnating investment and resulting lack of increased revenues; (7) slack demand for Liberia's exports and resulting drop in Liberia's export-derived revenues.

The combination of inadequate revenues and excessive recurrent expenditures leads to the GOL's heavy borrowing from the banking system, and on the external side results in a steady draw-down of foreign exchange holdings to cover budget deficits. The latter contributes to a continuing and growing deficit in public sector foreign exchange which can only partially be covered by foreign grants (ESF) and loans (IMF). The domestic borrowing also exacerbates the liquidity problem.

Since government recurrent expenditures can only be reduced so far, attention must by necessity focus on increasing revenues without raising the tax rate. A revitalized and expanded tax collection effort supported by an AID-financed team of Internal Revenue specialists needs time to be properly set up.

7. Government of Liberia's Debt

The use of external borrowing to finance the expansionary fiscal policy since 1975, led to a rapid build-up of external indebtedness. The stock of debt disbursed and outstanding, contracted directly, or guaranteed by government stood at $155 million in 1968. By 1976, it had risen to only $176 million. However, by 1981, it had risen to $673.3 million (including $86.9 million in IMF general resources). Total debt including undisbursed indebtedness amounted to $876.9 million.

While the level of indebtedness was rising, its composition was deteriorating. In 1975, private commercial credits constituted only 5 percent of total; by 1981, this had risen to 23 percent.

The rapid build-up of external indebtedness, much of it on commercial terms to finance projects without the capacity to service the debts (OAU Conference, First Plan projects with long gestation periods), led to the emergence of a major debt servicing problem in the early 1980's. This problem was exacerbated by the sharp rise in world interest rates.

In December 1980, faced with increasing difficulties with respect to foreign debt servicing, the GOL approached its bilateral creditor countries through the Paris Club and successfully negotiated the rescheduling of approximately $29.5 million of debt service obligations to Paris Club member countries falling due between July 1, 1980 and December 31, 1981. In late 1982 Liberia hopes to reschedule an additional $127.5 million (or 95 percent of principal) due to commercial banks under the London Club.

In 1980/81, and 1981/82, even after taking account of further Paris Club debt rescheduling of $10 million in bilateral debt, debt service payments amounted to 19 percent of domestic revenues. Debt service payments budgeted ($71.4 million) for 1982/83 would amount to 27 percent of domestic revenues.

Table 5 gives a time perspective of the growth of Liberian government indebtedness and the changing structure of its debt.

8. Investment

a. Savings

In December 1979, three months before the coup, quasi-money (time deposits and savings) reached an all time high of $82.8 million. Savings deposits totaled $44.8 million and time deposits $37.4 million. By December 1980, quasi-money had been reduced to $48.9 million (80.5 percent), of which savings constituted $32 million and time deposits $16.9 million--a level of less than half the previous amount. Similarly, demand deposits dropped from $69.2 million to $55.6 million, but even though quasi-money deposits made a slow but steady recovery as early as June 1981, demand deposits were to drop to $39.9 million by December 1981 before showing signs of recovery. By the end of the second quarter of 1982 (June), demand deposit levels had recovered to $46 million, (or 67 percent of pre-coup levels).

Savings were back up to $33 million (or 84 percent of pre-coup levels) by June 1982, while time deposits had recovered to 59 percent of pre-coup levels. From a banking point of view, it appears that the deposit situation had bottomed out at the close of 1981.

With the increase in reserve requirements, a forced savings bonds purchasing scheme, and large, positive clearing balances of com-, mercial banks being held at the National Bank, the deposit base--and therefore potentially loanable funds--remains considerably reduced. In addition, an already reduced amount of potentially productive money now goes to fund inherently unproductive government operations by being transferred from the private to the public sector.

This is further aggravated by shifts in the loan portfolio structure of commercial banks. Pre-coup total credit (loans and overdrafts) was $184.9 million, with 20.5 percent of credit extended to public corporations and 79.5 percent to companies and individuals. In June 1982, the loan portfolio--after having gone down to as low as $112 million (June 1981)--had recovered to $149 million, but now with 34 percent allocated to public corporations loans and only 66 percent to companies and individuals. New credit to corporations increased from $37 million during the first quarter to $44.1 million during the second. A classification of the loan portfolio outstanding during the second quarter of 1982, is contained in Table 6 which illustrates the claim these largely unproductive state corporations have on the already reduced loan capital available.

Table 7 contains a break-out of the various types of deposits over time, by groups of depositors. Personal deposits are considerably reduced in all deposit categories since pre-coup days. There was however, a noticeable recovery trend in both demand deposits and savings on the part of the banking public during the second quarter of 1982. Deposits of all types by state corporations show little change over the past six years, indicating that they have been well shielded from the vagaries of the marketplace and post-coup dislocations. Demand deposits by private companies are still low; about $10 million below pre-coup days. Large concessions keep funds not required for short-term requirements in overseas banks. Interestingly enough, time deposits, after having dropped sharply in December 1980, moved right back up to pre-coup levels. Savings deposits took longer to recuperate but have now again reached pre-coup levels. Corporate savings deposits are only about $3 million in total, as compared with $34.5 million in deposits held by private savers.

Government savings (revenues less recurrent expenditures) have not existed since FY 1979/80.

b. Public Investment

(1) The First Development Plan 1976-1980

Liberia's first development plan ever to be implemented (there had been others in the past which were not implemented) was drafted in 1975. At that time iron-ore income constituted 30 percent of GDP, and no one foresaw the effects of the continuing series of OPEC oil price increases which began in 1973. The plan dealt with public sector investment only. It lacked a clear and consistent presentation of either inter- or intra-sectoral priorities and failed to provide the important linkage between proposed investment and the attainment of its stated objectives. These were:

- diversification of production;
- dispersion of sustainable socio-economic activities throughout the country;
- greater involvement of the entire population in the development effort; and
- equitable distribution of the benefits of growth, development and diversification, so as to ensure a higher standard of living for all Liberians.

Despite these shortcomings, the Plan initiated a systematic effort in the planning and implementation of Liberia's development.

The original Plan envisaged an outlay of $415 million ($164 million from internal savings and $251 million from external sources). The Plan was revised in 1978, and target spending increased to $585 million. By the end of FY 1979/80, $410 million had been spent, and it was estimated a further $120 million would be spent during FY 1980. Total planned expenditure would, thus, approximate 91 percent of the revised target with a considerable amount consumed by cost overruns. By the end of the Plan period, less than 70 percent of expected outputs had been achieved.

Analysis of the development expenditures under the Plan showed that 25 percent had been incurred for general and miscellaneous projects whose links to specific economic and financial benefits were not obvious. Another 39 percent went for infrastructure, including public utilities skewed toward urban centers; social services received 15 percent of Plan funds. Only 20 percent was spent on directly productive sectors, 15 percent of which was for agriculture. The World Bank found that of the total expenditure, 63 percent was spent to benefit urban areas while 31 percent was spent to benefit rural areas (6 percent being unallocable). The Plan's claim that the cornerstone of economic diversification was to be rural development "to raise agricultural productivity and the quality of life in the villages where most Liberians live," was, therefore, not sufficiently pursued in implementation.

Even though rural people were sensitized to rural development and expected Plan implementation to raise their standards of living, most rural Liberians remained largely unaffected.

(2) The Second Development Plan 1981-1985

Liberia's Second Development Plan covering the period from 1981 to 1985, is in the publication stage; its Public Investment Program section is available in draft. The Plan aims at broadening and improving the quality of Liberia's productive base, primarily in agriculture, but also with some additional manufacturing, physical infrastructure and improved institutional support mechanisms. The Plan recognizes that the productive base must be expanded in order to generate income to finance much needed social services The proposed sectoral allocation of the planned development expenditures under the second Plan is compared with those allocated under the first Plan in Table 8.

The sectoral allocation reflects the high priority given in the second Plan to agriculture, which is to absorb one-third of total planned investment. This priority appears justified on various grounds, including the potential high productivity of the agricultural sector, and the fact that investment in this sector has shorter gestation periods. Agriculture investment should, therefore, impact more rapidly on the economy, make a pervasive and positive impact on the rural population, and contribute to lowering the cost of living through increases in the production of foodstuffs.

The Public Investment Program appears to suffer from a number of problems:

- It is much too ambitious since the level of funding required is simply nct available under current economic circumstances.
- Many of the projects requiring funding are not particularly well justified, nor are they linked to overall objectives.
- About $378 million, 50 percent of planning investment, is for projects initiated under the first Plan. Many of these ongoing projects seem to have been included only because they were in the previous Plan, despite the fact they were bad investments or have gotten seriously off track. No appropriate criteria seem to have been used to determine whether these should have continued to be included or should have been excluded from the second Plan.
- Of the $32 million in "new starts", some seem of questionable priority and are inadeguately linked with economic recovery needs. Others are too expensive and cannot be afforded under present fiscal constraints.

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- Inadequate provision is made for maintenance and repair of existing public capital investment, which is already badly deteriorated and may be lost as a result.

The document further suffers from having an abundance of "good ideas" which are subsequently not fleshed out in operational terms. This has resulted in considerable lack of precision in the Plan and gives the impression of wishful thinking and even empty rhetoric.

Available domestic resources, as projected, for the Plan implementation period will be barely sufficient for recurrent expenditures and debt amortization. The proposed public investment program amounts to $616 million in constant 1980 dollars, or about $749 million in current prices. About $378 million of this is funding for continuing activities to which donors and the GOL are already committed, leaving a $371 million gap for which new donor financing must be sought. No effort has yet been made to adjust this figure in light of the one-year-plus delay in initiating Plan activities. In effect, then, development financing under the new Plan will rely heavily on donor willingness to contribute even though GOL contributions may not be forthcoming, on the GOL's ability to prioritize new activities, on availabilities for allocating to development budgets of counterpart funds generated by ESF and PL 480 assistance, and on IMF prescribed budget ceilings.

c. Private Investment

Little meaningful private investment has taken place in Liberia since the mid-1970's. The late President Tolbert appointed a commission in 1979, to look into the causes of stagnating investment and make recommendations. The commission's report was highly critical of government's role, of political interference with investment decisions, and of petty harassment of the business sector in general by corrupt minor officials.

The 1979 rice riots and the 1980 coup, only served to worsen Liberia's image as a good place to invest. Continuing lack of confidence in government's ability to guide the economy toward recovery, and Liberia's rapidly deteriorating credit rating, make immediate prospects for meaningful foreign investment dim.

Yet, in order to be able to recover, the Liberian economy needs major infusions of productive investment with short gestation periods.

C. Stabilization Programs

1. General

In 1980, when the magnitude of the fiscal problem dawned on the GOL, it requested assistance from the US Government and from the IMF. US grants (ESF) since 1980 through FY 1982 have totaled $72 million, while $35 million under PL 480 Title I loans were made available during this period.

In September 1980 Liberia was granted a two-year standby arrangement in the amount of SDR 65 million. During its fiscal year 1980/81 Liberia stayed within the limits, as modified in December 1980. Liberia received SDR 32.5 million during its first year ($36 million). For the second year of its standby arrangement, the IMF increased its financial support from SDR 32.5 to SDR 55 ($60 million). As a condition the GOL adopted a comprehensive program designed to address the country's continuing difficulties, and particularly to reestablish domestic and international confidence in the economic management of Liberia. The need was recognized to ensure balance in the finances of the public sector. Liberia successfully met--although with great effort and IMF flexibility--the performance criteria under the FY 1981/82 standby agreement, making it the only country in Africa which has complied with IMF conditions in recent years.

This does not mean that the program has been an unqualified success. Indeed, it appears that some measures being taken in support of the IMF program were poorly designed and even those which appeared to be effective were in part contributing to the continued economic malaise, such as increased taxes on transshipment of goods, higher increases in excise taxes than were possible to bear, and surcharges on dutiable imports. The GOL has successfully negotiated a further SDR 55 standby agreement for 1982/83 which is now being implemented.

The US Government stabilization program thus far has required only that the GOL continue to successfully implement the IMF stabilization program. The USG, however, insisted that equivalent amounts of counterpart funds[1/] be generated and be placed in a special account at the NBL. These counterpart funds have been used to support mutually agreed upon, development-oriented efforts undertaken by GOL and its various bilateral and multilateral donors.

[1/] Liberian-held dollars which could not be transferred-out to meet public sector balance of payments needs which ESF grants covered.

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PL 480 Title I rice sales proceeds have similarly been applied to selected self-help efforts in the agricultural sector. It is clear that Liberia will continue to need both stabilization programs at levels comparable to at least current aggregates, for some time to come.

2. GOL Performance Under The Stabilization Program

Since the commencement of the stabilization programs in mid-1980 the GOL has made considerable progress in curtailing expenditures and increasing revenues. These efforts have also led to a greater degree of coordination between the principal ministries and agencies concerned with fiscal management.

(a) Revenue Measures

- In late 1980, GOL initiated a compulsory national savings bond purchasing scheme for all salaried employees. This netted $20 million in additional public sector funds.
- During 1980-1982, GOL increased tax rates, imposed surcharges on import duties, instituted a heavy National Reconstruction Tax on individuals, a gasoline tax, and taxed international air travel.
- In FY 1982, the National Bank began to offer certificates of deposit in multiples of $500 at interest rates of two basis points above European rates on similar savings instruments.

(b) Expenditure Control Measures

- In November 1981, GOL removed the consumer subsidy on rice.
- It adjusted ex-pump fuel prices, in that any price increases would be passed on to consumers.
- By progressively delaying the salary payments of government workers by one month in FY 1982, GOL effectively reduced salaries by only paying 11 months salaries for 12 months work, thereby, reducing outlays by $12 million.
- Recurrent expenditures in FY 1982 were held at budgeted estimates of $248 million.
- During FY 1982, GOL froze equipment purchases; however, this was only partially effective.
- Extrabudgetary expenditures amounted to only $5 million in FY 1982, versus almost $10 million in preceding years.
- GOL has made attempts during the past six months to address payroll padding. During an exercise carried out by a Budget Bureau "pay team" issuing checks to teachers in the interior, an amount of $600,000 in unclaimed checks was saved.

- As part of the FY 1983 IMF S.andby Agreement, GOL agreed to across-the-board cuts of 15 percent in the recurrent budget.
- GOL is also implementing efforts, as part of this overall reduction, to reduce the salaries component by reducing the number of government employees. For example, the Ministry of Finance alone sent 100 civil servants on early retirement.
- An Economic and Financial Management Committee headed by the Finance Minister, and including the Planning Minister, the Governor of the National Bank and the Budget Bureau Director, was established in mid-1982. Its objectives are to strictly control expenditures and foster increased operational coordination between those key ministries and agencies most closely involved with fiscal management.

III. TWO PROBLEMS PECULIAR TO LIBERIA

A. The Budgetary/Foreign Exchange Trap

Liberia uses the United States dollar as its currency.[2/] As there are no exchange controls, it is impossible to estimate how many U.S. dollars are in circulation in Liberia. U.S. dollars flow in and out of Liberia through the central clearing house mechanisms operated by the National Bank. Even though the dollar remains the same currency the clearing house mechanism, under some circumstances, converts incoming "hard" U.S. dollars into "soft" Liberian-owned dollars. In other words, once a dollar enters the Liberian banking system, it becomes essentially inconvertible. It cannot be transferred back abroad to pay debts and public sector commodity imports without the agreement of the National Bank of Liberia, except in the form of cash.

To finance the GOL deficit and overdraft, while maintaining reserve requirement deposits for the commercial banks, the National Bank continuously draws down foreign exchange deposits abroad, obtains foreign loans and grants, uses up net clearing balances, and increases government debt to the banking system. The same approach is used to pay for deliveries of imported oil and debt service payments thus necessitating continued budget and balance of payments support from external resources.

B. The Foreign Exchange Gap

An analysis of Liberia's estimated offshore income and expenditures through September 1983, already including expected ESF and IMF flows shows public sector offshore receipts of $242.4 million and payments of $324.2 million for a total deficit of $81.8 million. (See Table 9 below). Public sector foreign exchange deficits of this magnitude are hard to imagine. It is unlikely that this situation would occur as something would "give" (salaries, oil bill, debt service) along the way. Yet, it is illustrative of the widening gap.

The Ministry of Finance has prepared a cash flow statement for the current fiscal year 1982/83 (Table 10). It shows a government (as opposed to the entire public sector) deficit of $30 million, when adjusted for a $10 million misperception (GOL had assumed that the $32 million proposed ESF grant would be paid in the GOL fiscal year (July-June) rather than in the USG fiscal year). This deficit is to be covered by domestic borrowing. However, each time GOL borrows the "net credit to government" figure at the National Bank goes up, threatening to break the IMF Standby ceiling.

2/ In addition, $15 million in Liberian coins circulate inside the country.

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Public sector foreign exchange sources are constituted by the following categories and occur in irregular, often unpredictable flows:

Taxes GOL has requested that those corporations and individuals with access to foreign exchange, make their tax payments offshore so that these funds can be used to help meet international obligations.

Sales of Liberian Products The main entities involved here ar the Liberia Produce Marketing Corporation (LPMC) and the National Iron Ore Company.

Offshore Oil Payments The National Housing and Savings Bank has arranged with a number of important customers of the refinery (mostly iron ore and rubber concessions) to pay for domestically purchased oil into its correspondent account of the First National Bank of Chicago--the lead bank in the oil financing facility syndicate of 24 banks. About $4 million a month is usually realized unde normal circumstances.

Miscellaneous Payments This "catchall" category includes unforeseen payments received, and clearing balances from the West African Clearing House (a clearing mechanism between the central banks of Liberia, Sierra Leone and Guinea). This category generates $0.5 million a month in foreign exchange.

IMF Funds These funds flow at more predictable times and magnitudes The first subcategory are quarterly tranches under the current IMF-G Standby Agreement for economic stabilization. The following schedul of payments for the current agreement period has been agreed:

September	1982	SDR 5 million
November	1982	SDR 20 million
February	1983	SDR 10 million
May	1983	SDR 10 million
July	1983	SDR 10 million

for a total of SDR 55 million, or $60.5 million for the 1982/83 period. Except for the first tranche which is payable immediately upon IMF approval of the Agreement, subsequent quarterly tranches are conditioned on GOL/NBL successfully meeting predetermined performance criteria. For the current Agreement these criteria aim at keeping the government deficit at a predetermined level, and at keeping the GOL at or below ceilings for net credit to the public sector from public banks and net credit to government from public banks.

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The second subcategory of IMF resources available to Liberia in FY 1982/83 are "compensatory financing facility" (CFF) funds of SDR 27.7 million ($30.5 million), which are made available under this mechanism to compensate for the shortfalls in earnings from merchandise exports (iron ore, rubber, logs, coffee) for the year ended June 1982. This purchase of SDRs raises Liberia's purchases outstanding under the CFF from 49.5 percent to 99.4 percent of its quota, having made a previous purchase of SDR 7 million in June 1982 to cover the shortfall in export earnings for the calendar year 1981.

Economic Support Funds In US fiscal year 1982, Liberia received $35 million total in US grants. For FY 1983, $32 million has been budgeted. This grant will betranched in order to have a more orderly and manageable method of disbursement than in the past and in order to lessen foreign exchange gaps as they are forecast to occur.

Uses of public sector foreign exchange are categorized as follows:

Payroll Cash As revenues are collected domestically, revenue flows are sometimes unpredictable and uneven, resulting in temporary shortages of cash to meet payrolls and pay other expenses to keep the machinery of government operating. When such a shortfall occurs GOL/NBL has to either import physical cash or use commercial bank clearing balances (and give corresponding offshore credits) to help meet the payrolls. On the average $6 million worth of payroll cash is imported each month for an annual total of $72 million.

Oil Payments Liberia's current crude oil imports average $12 millio a month or $144 million per annum; additional product imports average an additional $14 million annually. Liberia will most likel obtain much of its crude oil in the spot market in 1983, which currently offers more advantageous prices, but requires full payment in cash prior to delivery.

Debt Service The Ministry of Finance's Debt Servicing Department has published a schedule of debt service obligations for Liberia in 1982/83 amounting to $71.4 million. Of this amount, $67 million is for foreign debt servicing and repayment while $4.1 million is for domestic debt. During FY 1981/82, $48 million was spent on servicing debt

NHSB Advances These are letters of credit owed to the Bank of America to finance the shipment of PL 480 Title I rice to Liberia. Currently outstanding LCs total $3.6 million.

NBL Advances These are loans from foreign banks, totaling $4 millio Part of these advances can be rolled over.

Embassies and Foreign Scholarships This item runs at about $1.5 million a month, or $18 million per annum.

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<u>Miscellaneous</u> This is another "catchall" category, comprising unforeseen payments, averaging $0.5 million a month.

The problem with forecasting offshore foreign exchange cash flows is threefold" (1) the NBL and the MOF have only limited in-house capacity to do this; (2) unforeseen events (default on the oil financing facility, a drop in exports, purchases and sales of government-owned aircraft, etc.) can make sudden major differences; (3) the NBL thus far has not constructed time series of offshore sources and uses based on past years, which could be helpful in refining forecasts.

The public sector foreign exchange gap currently forecast by both GOL and USAID amounts to about $57 million by the end of GOL FY 83 (June) and USAID has forecast a gap growing to $81.5 million by the end of USG FY 83 (September). Of course, it is unlikely that such gaps will really occur as something (oil, salaries, debt service) is likely to "give" as time progresses. Yet, the magnitudes show the generally deteriorating situation (Table 8).

C. Possible Solutions

The current situation is extremely difficult, but not hopeless in the longer run. There are a number of measures which can be taken in the short and medium term which can help reduce the GOL deficit and narrow the foreign exchange gap. Much depends on greater fiscal and budgetary discipline.

(1) Reducing the Recurrent Budget and Recurrent Expenditures

- The PRC Government could issue a call for austerity.
- The Bureau of the Budget (BOB) and the Ministry of Planning and Economic Affairs (MPEA) could be required to set initial, restrained ceilings prior to budget preparation time each year, within which agencies should be asked to prepare estimates. This should lead to a more systematic analysis and to a reduction of the large "base" which currently gets automatically budgeted-in, without careful review.
- The system of "budgetary transfers" and "overdrafts" could be eliminated. This would force agency and ministry heads to live within these budgets, and would make them bear the consequences (including penalty of law) for overspending any particular object code or the agency's budget itself.
- Total annual extrabudgetary expenditures in the aggregate, for GOL as a whole, could be decreed not to exceed one percent of the approved recurrent budget.
- Independent audits could be conducted of selected ministries/agencies of government (preferably those with the largest payrolls), to eliminate names and accounts of non-existing government workers. "Ghosts" could be eliminated and it could be made clear that any future resort to payroll padding would involve criminal prosecution and punishment of those responsible.

- The issue of unproductive, money-losing state corporations which are a $40 million annual drain on scarce financial resources, should be faced squarely by GOL and should be resolved at an early date by alternative decisions to either close down, sell or consolidate functions of some state corporations which are either unprofitable or can be most effectively managed by the private sector. Furthermore, accounts receivable among state corporations and between state corporations and government could be curbed.
- Smaller individual budget/expenditure items (foreign embassies, conservation, etc.) could be minimized which in the aggregate could generate $10 million savings per annum.

(2) Increasing Revenue Collections

Only a fraction of potentially collectable revenues are actually realized. Measures to be taken to increase revenue receipts could include the following:

- Expanding tax rolls to include all eligible taxpayers (individual income tax as well as corporate income tax and business trade levy). In addition, improved assessment, audits, collections and enforement could be instituted. Persons not filing tax returns could be criminally prosecuted, as could businesses found guilty of tax evasion/fraud.
- Expanding the property tax rolls, to include the entire country. Currently 93 percent of the real estate tax roll is in Monrovia. Collections could be improved, as could enforement. Of the already extremely narrow base, only 25 percent of property taxes due are actually collected.
- Stumpage fees collections (currently 50 percent of estimate and a fraction of potential) could be improved. Assessment and collection teams should be given the needed logistical support to do their job adequately.
- Private land property could be valued and taxed at "potential value or income" level. Currently such property is assessed on actual value or income. This encourages under-utilization and keeping of undeveloped property for speculative purposes. Under "potential income" valuations, under-utilization is discouraged (a tax on idle land) and potential revenues are increased.
- Business-related taxes and levies could be based on "presumptive assessments" rather than on direct assessments. Business accounting is not practiced at a level sufficient to measure income and profits and in addition; tax evasion and fraud are widespread. A presumptive taxation could be based, for example, on scrutiny of import invoices, since most enterprises are in the commercial sector and most items are imported.
- Customs collection could be improved. (This issue will be addressed in the expansion phase of the AID Improved Revenues for Development Project, (669-0132).

(3) Measures to Reduce Foreign Exchange Outflow

- Unnecessary foreign embassies, missions and consulates could be closed. Regional Ambassadors could service a number of countries in a geographic area. (Savings $3 million annually).

- Reduce importation of payroll cash to $4 million per month (savings, $24 million) by reducing the overall payroll requirements and by a tighter control system over the expenditure allocation of domestic revenues collected.
- Increase maritime revenues by slightly increasing the assessed rate per ton. (Increased income, $2 million per annum).

None of the revenue measures proposed as possible solutions will be easy, nor are they quickly implementable. However, these steps would substantially reduce the current government deficit. More difficult is the public sector foreign exchange gap. However, reductions in outflows and small increases in inflows can be made. The foreign exchange situation will not measurably improve until Liberia's export markets improve.

Some of the budget and expenditure measures that are necessary will be difficult. The IMF measures progress from an "aggregates" point of view, i.e., keeping the deficit down (15 percent across-the-board cuts in recurrent budget) and keeping government borrowing under control (the "net credit to government" ceilings). The USG, through a combination of tranching and selected conditions-precedent and covenants, can help encourage the GOL to take specific actions where progress is possible and to reinforce the IMF measures.

IV. AID RESPONSE AND EXPERIENCE TO-DATE

Over the past two years after the April 1980 coup, there have been four Economic Support Funds Grants to Liberia:

ESF I	$ 5	million, disbursed August 1980
ESF II	7	million, disbursed December 1980
ESF III	25	million, disbursed in two tranches, May and July 1981
ESF IV	35	million, disbursed in four installments, November 1981, January 1982, May 1982 and July 1982

These grants were used, in the first instance, for either balance of payments purposes (oil purchases) or budget support (debt service) "Counterpart funds" were to be subsequently set aside by the GOL (in amounts equivalent to the grants) to be used for agreed-upon development activities. In the case of the first two grants, counterpart funds were to be placed in the general government pool of accounts; for the latter two, a special account was established at the National Bank, into which counterpart funds were to be placed.

The "counterpart" concept, as applied to ESF grants, is applicable when funds are generated from the local sale of public sector products whose importation it facilitated (e.g., oil). It is more problematical when ESF money is used for purposes other than commodity imports for resale where no proceeds are generated to be translated into "counterpart funds." The USG should henceforth require counterpart funds to be made available when ESF is used for public sector trade balance purposes.

When ESF is used for budget support, the fungibility-of-money concept has at times been used to justify the requirement for counterpart funds. This argument appears to be faulty on the grounds of simple logic. If the money to pay salaries or service the debt is not there, then obviously counterpart funds do not exist either. They have to be taken out of general revenues over time; general revenues are already insufficient to meet basic operating expenses of government. With Liberia's liquidity crisis, the requirement that counterpart funds be generated in every case, may only make this problem worse. Availability of counterpart funds then becomes directly dependent on the solvency of government.

Stabilization is currently the first priority of US assistance to Liberia and development is temporarily of secondary importance. (This raises the immediate question of how one moves from a focus on stabilization to a more development-oriented focus.) However, stabilization and development are inseparable objectives over the long-term. As Berg[3/] states:

> (1) without spending for development, Liberia may be mired in the same crisis five years from now; (2) the provision of general budget support can be self-defeating; it tends to loosen local discipline regarding expenditure control. Why should local authorities belt-tighten when the U.S. seems to be always waiting in the wings, ready to bail out the government?

Stabilization is essentially short-term and therefore perhaps one-dimensional, as it addresses public sector cash flow shortfalls by making cash grants available to ease immediate problems, but does little to address the more fundamental causes which give rise to these problems. Emphasis on stabilization and economic recovery needs to be balanced and operationally linked. Development investment provides that linkage. The counterpart concept was in part conceived out of this realization, in that it directed GOL funds toward development activities which might otherwise have gone for recurrent purposes. Counterpart funds ($72 million ESF, $35 millior PL 480 since the coup) have contributed to keeping USG as well as other donor-supported development-oriented activities going, by ensuring that GOL contributions continue to be available. There is, therefore, a well-defined need for continuing the allocation of some counterpart funds, when they are generated.

[3/] Elliott Berg: The Liberian Crisis And An Appropriate US Response, 1981, p. 19.

The second lesson of USAID's experience with ESF funds disbursement has centered around the issue of tranching. Thus far only ESF III was consciously tranched.

Under ESF III tranching was administratively simple, while allowing the USG leverage with the GOL vis-a-vis the unpaid tranche. In addition, the GOL was able to arrange more orderly bridge-financing ahead of time to the planned July 1981 tranche. The IMF has successfully tranched its standby loans over the past two years. Tranching is a more orderly procedure which clearly indicates to the GOL how much it can expect to receive on a specific date if it has successfully met certain mutually agree-upon performance criteria (conditions.)

V. IMPLEMENTATION PROCEDURES

Past ESF grant agreements have had as their main condition precedent to disbursement that the GOL provide evidence of compliance with the IMF Standby Agreement. As separate agreements covered each release of funds, the GOL satisfied this condition periodically throughout any one fiscal year with a report to USAID before each release. No other effort was made to direct the GOL toward related or supporting policy reforms or administrative improvements.

A. Tranching

In FY 1983, AID plans to amend the PAAD and authorize the full amount of $32 million ESF as early in the fiscal year as possible. This will assure the GOL of the availability of that amount early on while eliminating the appearance of last minute, "crisis" reactions to GOL needs and also, reducing related paperwork.

While the ESF grant would thus be authorized early in the fiscal year, the funds would be disbursed in four tranches, tentatively proposed for October, 1982 ($8 million) and March, May and July 1983.

B. Conditionality

The release of the March and July tranches will be tied to progress towards meeting conditions precedent to disbursement and covenants detailed in the initial FY 83 Program Agreement. These conditions will be directed toward the single policy objective of improved GOL financial management of the sources and uses of public funds. This objective is consistent in the main with the IMF Standby Agreement. Such an objective would also directly support and reinforce efforts under the: (1) Increased Revenue for Development, and (2) Economic and Financial Management and Training projects, and would facilitate follow-up on the budget reform recommendations embodied in the McOmber report.

The IMF-GOL stabilization program for the budget year 1982/83, aims at reducing the government deficit, improving fiscal management through better expenditure control, improving debt management, limiting credit expansion in the public sector, preventing the creation of a dual currency system, and preventing the imposition of trade restrictions for balance of payments purposes. The large government deficit and its financing directly impacts on public sector credit and indirectly on the balance of payments. These in turn represent a major constraint on economic recovery. The IMF program therefore addresses the key issues which have necessitated ESF grants to Liberia to date.

In order to lessen continued GOL dependence on such grants, it is vitally important that these grants be conditionally linked to Liberia's continued adherence to the Standby Agreement and its compliance with the quarterly performance criteria imposed by the IMF. Certain Conditions Precedent to subsequent disbursements and Covenants have therefore been designed to provide further backing to the IMF's objectives in creating fiscal stabilization.

Seven conditions precedent (CPs) to each subsequent disbursement and four proposed covenants, which would apply throughout the duration of the ESF Agreement, are listed below. Prior to each disbursement the GOL would be required to submit to USAID written report(s) on steps taken and progress achieved in compliance with the CPs. Two IMF documents on Liberia's Standby Arrangement EBS/82/169, Supplement 1 of October 1, 1982, and EBS/82/169 of September 3, 1982 with Correction 1 of September 28 set forth the terms of the Standby Arrangement. The CPs on revenues (no. 2) and budget expenditures (nos. 3 - 4) support directly the IMF budget and expenditure monitoring provisions. The CP (no. 5) and covenant (no. C.) on public corporations support IMF provisions on these entities as well as IBRD efforts. The first CP covers both revenue and expenditure projections needed for the GOL to plan for and prioritize payments for oil, foreign debt and salaries. The proposed Conditions Precedent are as follows:

1. <u>First Disbursement</u>

   Prior to the first disbursement of funds under the Grant, the GOL will, except as the parties may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID:

(a) An opinion from the GOL's attorney general, or from other counsel satisfactory to AID, that the Program Grant Agreement has been duly authorized, or ratified by, and executed on behalf of the GOL and constitutes a valid and legally binding obligation of the GOL in accordance with its terms; and

(b) The name or names of the person or persons holding or acting in the office of the GOL specified in the Agreement, and a specimen signature of each person specified in such statement.

(c) Evidence of continued compliance with the IMF stabilization program.

2. Additional Disbursements

Prior to each additional disbursement of funds under the Grant if it is amended to include additional funds, the GOL will, except as the parties may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID, a written report or reports giving evidence:

(a) That the GOL has installed or is maintaining an operative system, updated monthly, to project for the next twelve (12) months estimates of the availabilities and requirements of offshore public sector funds.

(b) That the GOL has reviewed or is reviewing its system of expenditure approvals and controls, with particular emphasis on extrabudgetary expenditures and budgetary transfers, identified and implemented necessary measures for improvement, and formulated specific criteria for prioritizing expenditures in the event of shortfalls in revenue availabilities.

(c) That the GOL is continuing its efforts to increase revenue generation through improved and increased collection of taxes, fees and other income sources, and continuing to install new security controls to safeguard revenues collected.

(d) That the GOL has caused or is causing to be carried out by an independent auditor, an audit(s) of the personnel expenditures of selected GOL Ministries and Agencies.

(e) That the GOL has initiated or continued efforts to reduce or settle bills due to public corporations.

(f) That the GOL has undertaken or is undertaking a review of its public investment program, as set forth in the second four-year Development Plan for 1981-85, in order to bring proposed investment more in line with the 1982/83 Development Budget ceiling and anticipated Development Budget levels to be agreed with the IMF in the remainder of the Plan period. In so doing, the GOL should develop and apply criteria for determining priority projects for inclusion in its annual Development Budgets.

(g) Evidence that a Special Account has been established at the National Bank of Liberia and funds deposited into it by the GOL

In addition to the above-listed CPs, the GOL would be required to comply throughout the term of the Grant Agreement with the following proposed covenants:

(1) The GOL covenants that the funds provided under the Grant shall not be used to finance military or para-military requirements of any kind, including the procurement of commodities or services for those purposes.

(2) The GOL covenants that it will exert its best efforts to comply with the terms and conditions of the IMF stabilization program.

(3) The GOL covenants that, in association with the International Bank for Reconstruction and Development (IBRD), it will identify and carry out measures to improve the efficiency of operations of the public enterprises and will review opportunities for reducing the role of public enterprises in the Liberian economy.

(4) The GOL covenants that it will facilitate mobilization of public and private financial resources needed for economic recovery, including efforts to improve assistance donor coordination.

C. Counterpart Generation and Special Account

Certain problems related to counterpart funds generation have been alluded to above. It has been hoped to include these concerns in the PAAD's implementation plan. Time pressure to release the first tranche under the FY 83 Program Grant unfortunately did not allow for this. USAID proposes to address and resolve these issues in a more orderly manner in connection with the disbursement and implementation procedures of subsequent tranches under this Grant.

D. Reporting

It is further proposed that GOL should agree that financial records relating to the funds granted under this Program Grant, should be kept in accordance with generally accepted accounting principles, and that such information and records relating to the Grant be made available to AID, as AID may reasonably request. GOL should be requested to agree to provide AID with a final report (certified by the Ministry of Finance as to its correctness), within 60 days from the termination date of the Grant period. Supporting documentation of all expenditures made from funds disbursed by AID under the Grant, should accompany the final report. AID should specify to GOL, by means of an Implementation Letter, the form and content of the report and the supporting documentation.

AID should have the right to inspect GOL books, records, and other documents relating to this Grant.

Table 1
Summary of Balance of Payments 1978 - 1981
(in millions of dollars)

	1978	1979	1980 1/	1981 1/
Exports of Goods and NFS	500.0	553.6	613.5	540.7
Imports of Goods and NFS	-548.6	-587.4	-614.0	-549.0
Factor Payments 2/	- 95.9	- 87.7	- 83.7	- 72.0
Workers Remittances	- 32.5	- 35.0	- 32.0	- 33.0
Interest Public Sector	- 10.8	- 13.7	- 23.9	- 26.2
Transfers - Public Sector	16.0	23.0	25.0	48.0
Maritime Revenue	13.6	11.7	10.7	20.1
Current Balance	-158.2	-135.5	-104.4	- 65.4
Public Sector Borrowing (Net)	27.3	114.3	88.9	45.0
Banks - Change in Foreign Exchange (Net)	22.7	48.1	61.8	49.3
Unidentified	108.2	- 26.9	- 46.3	- 28.9

Source: Ministry of Planning and Economic Affairs

1/ Preliminary

2/ Estimates of this flow are believed to be underestimated being based on indirect and partial indicators.

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Table 2
Liberia Projection of Balance of Payments 1981-85
($ millions)

	1982	1983	1984	1985
Export of Goods & NFS	621.8	708.8	815.2	888.7
Goods	609.1	694.3	799.3	870.9
NFS	12.7	14.5	15.9	17.8
Import of Goods & NFS	611.0	786.4	854.8	905.2
Goods	533.3	684.9	744.5	788.7
NFS	77.9	101.5	110.3	116.5
Resource Balance	-10.8	-77.6	-39.6	-16.5
Net Factor Service Income	-132.6	-125.9	-116.9	-109.5
Interest on Reserves	0.6	1.1	1.7	2.3
Maritime Revenue	22.9	26.1	29.5	33.3
Direct Investment Income	-70.0	-65.0	-60.0	-55.0
Interest payments	-46.1	-46.1	-46.1	-46.1
Workers' remittances	-40.0	-42.0	-42.0	-44.0
Net Transfers	41.0	41.0	41.0	41.0
Current Account Balance	-80.8	-162.5	-115.5	-85.0
Capital Account	80.8	162.5	115.5	85.0
Net Direct Foreign Investment	20.0	20.0	20.0	20.0
Net MLT debts	60.8	142.5	95.5	65.0

Table 3
Summary of Government Revenue 1976 - 1982
($ millions)

Revenue Items	1976	1977	1978	1979	1980	1981	1982 1/
Domestic Revenue	133.5	159.9	177.0	192.4	202.8	202.9	213.8
(As % of Monetary GDP at Current Market Prices)	21.1	22.3	22.9	21.9	22.1	24.1	19.4
Taxes on Income and Profits	64.1	62.9	60.1	71.1	72.4	73.5	84.0
Iron Ore Profit Sharing	(28.3)	(19.5)	(11.2)	(10.4)	(8.3)	(5.6)	(3.3)
Corporations	(14.1)	(16.8)	(16.6)	(23.9)	(20.0)	(11.8)	(15.0)
Individuals	(8.3)	(15.6)	(26.5)	(31.5)	(38.6)	(53.6)	(48.5)
Austerity	(7.8)	(4.3)	(-)	(-)	(-)	(-)	(-)
Other	(5.6)	(6.7)	(6.3)	(5.3)	(5.5)	(2.5)	(17.2)
Taxes on Property	2.4	2.5	2.8	3.0	3.1	2.8	2.9
Taxes on Domestic Transactions	12.0	13.6	17.7	20.2	28.7	24.4	24.4
Taxes on Foreign Trade	41.4	59.6	73.0	78.6	69.1	79.7	74.1
Other Taxes	7.2	9.0	10.2	12.4	14.6	19.5	20.5
Non-Tax Revenue	6.4	12.3	13.6	7.1	23.5	3.0	7.9
Maritime Revenue	16.3	12.8	13.6	11.7	10.7	20.1	24.1
Total Revenue	149.8	172.7	190.6	204.2	222.4	223.0	237.9

1/ Preliminary

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Table 4
Economic Classification of Budgetary Expenditure 1976 - 1982
(in $ million)

Classification	1976	1977	1978	1979	1980	1981	1982
Recurrent Budget	87.6	117.7	137.2	156.5	196.8	241.0	293.7
Wages and Salaries	47.4	66.3	73.4	85.1	116.8	152.7	157.7
Goods and Services	19.5	24.1	31.5	39.2	33.9	42.3	56.
Capital Formation	1.7	2.1	3.5	3.4	3.2	3.0	7.
Interest	4.6	7.8	12.0	13.7	23.9	20.2	39.
ransfers	6.6	11.3	12.1	13.2	15.7	19.5	19.
Public Corporations	(0.6)	(1.0)	(0.7)	(-)	(-)	(-)	(-
Other Transfers	(6.0)	(10.3)	(11.4)	(13.2)	(15.7)	(19.5)	(5.
Unallocable	7.8	6.1	4.9	1.9	3.3	3.3	6.
Development Budget	29.9	35.5	77.7	82.5	57.8	57.1	97
Non-Capital	8.7	11.2	11.6	19.4	18.0	10.2	NA
Wages and Salaries	(3.7)	(4.3)	(8.5)	(9.5)	(6.8)	(3.1)	NA
Goods and Services	(4.8)	(5.2)	(2.0)	(6.3)	(8.1)	(6.1)	NA
Current Transfers	(0.2)	(1.7)	(0.5)	(3.6)	(3.1)	(1.0)	NA
apital	17.2	20.5	54.1	47.4	25.3	27.6	N
Direct Expenditure	(16.5)	(20.0)	(50.7)	(47.4)	(25.3)	(27.6)	N.
apital Transfers	(0.7)	(0.5)	(3.4)	(-)	(-)	(-)	N
Transfers to Publi Corporations	4.0	3.8	12.0	15.7	14.5	19.3	N
Debt Amortization	18.5	25.5	21.4	36.8	24.7	4.9	
Foreign Loans	(15.3)	(22.3)	(18.5)	(34.4)	(23.9)	(4.4)	N
Internal Debt	(3.2)	(3.0)	(2.9)	(2.4)	(0.8)	(0.5)	I
Total Budgetary Expenditure	136.0	178.5	236.3	275.8	279.3	303.0	3
As % of GDP at Current Market Prices	21.5	24.9	30.5	31.3	30.5	36.0	

1/ Preliminary

Table 5

External Public Debt Outstanding 1975-81 1/

(in millions of dollars; end of period)

Lenders	1975	1976	1977	1978	1979	1980	1981
Suppliers' credits	8.6	14.8	17.3	17.7	17.2	12.6	11.2
Finanancial institutions	9.7	10.5	41.2	81.4	133.2	133.9	133.7
Multilateral loans	34.1	43.4	59.3	84.8	128.4	175.2	190.0
Bilateral loans	123.5	141.1	146.1	154.8	183.6	207.8	250.6
Total disbursed debt	175.9	209.8	263.9	338.7	462.4	529.5	586.4
Undisbursed	101.0	93.6	113.7	306.0	261.0	190.0	165.8

Source: Data provided by the IBRD

1/ Covers both direct and government-guaranteed debt as of September 30, 1981

IMF Resources:	1979	1980	1981
Disbursed	-	36.1	86.9
Undisbursed	-	86.1	37.8

Table 6
Loans Classified by Economic Sector
('000L$)

		April 1982	May 1982	June 1982
1)	**Agriculture**	10,303	9,852	8,233
	11. Rubber	(4,491)	(3,708)	(2,234)
	12. Forestry	(1,075)	(1,265)	(1,125)
	13. Fishing	(25)	(5)	(6)
	14. Other Agriculture	(4,712)	(8,474)	(4,868)
2)	**Mining & Quarrying**	78	69	66
	21. Iron Ore	(3)	(3)	(66)
	22. Quarrying	(75)	(66)	(-)
3)	**Manufacturing**	1,973	1,808	1,144
4)	**Construction**	13,732	12,724	12,871
	41. Housing	(8,691)	(8,728	(8,435)
	42. Home Improvement	(142)	(90	(740)
	43. Other Construction	(4,899)	(3,906	(4,026)
5)	**Transportation, Storage & Communication**	19,962	19,721	19,666
	51. Transportation	(19,962)	(19,721	(19,666)
	52. Storage	(-)	(-	(-)
	53. Communication	(-)	(-	(-)
6)	**Trade, Hotels, Restaurants**	36,280	38,665	41,368
	61. Diamond Trade	(-)	(-	(-)
	62. Other Trade	(35,940)	(38,354	(41,252)
	63. Hotels	(284)	(311	(116)
	64. Restaurants	(56)	(-	(-)
7)	**Services**	655	988	730
8)	**Personal**	7,610	7,025	6,136
9)	**Government of Liberi**	4,796	4,619	4,418
10)	Public Corporation	61,227	42,206	51,705

Table 7
Commercial Banks' Aggregate Statements
(in thousands L$)

End of Period	PERSONAL DEPOSITS Demand	Time	Savings	PUBLIC CORP. DEPOSITS Demand	Time	Savings	OTHER CO. ETC. DEPOSITS Demand	Time	Savings
	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
1974: Dec.	7,427	3,483	14,135	1,566	4,260	706	29,779	5,597	1,910
1975: Dec.	7,829	4,367	17,906	3,772	4,035	848	21,710	4,252	1,122
1976: Dec.	7,900	5,258	23,088	6,050	6,713	219	39,419	6,916	1,235
1977: Dec.	6,410	10,452	30,875	7,950	6,933	268	35,986	3,125	1,158
1978: Dec.	8,319	8,296	39,257	8,293	6,943	938	46,589	12,709	2,061
1979: Dec.	11,297	8,384	41,790	13,100	16,304	123	41,514	7,582	2,889
1980: Dec.	10,429	4,379	30,346	11,284	7,753	394	35,263	4,603	1,263
1981: Jun.	7,843	4,410	30,967	14,775	5,693	1,795	32,560	6,696	1,200
Sep.	8,716	4,691	30,689	10,057	6,676	2,007	37,291	7,651	1,140
Dec.	6,680	3,560	30,312	2,880	5,492	1,079	31,322	7,506	3,001
1982: Jan.	6,881	3,758	30,831	10,302	6,250	504	31,933	9,555	1,453
Feb.	7,104	4,523	30,079	11,832	6,636	794	29,736	8,028	1,672
Mar.	7,685	5,021	31,687	6,165	8,052	726	39,114	8,495	1,835
Apr.	9,926	5,295	32,062	13,696	7,678	753	30,806	9,849	1,928
May	9,123	6,034	32,409	3,609	7,539	762	31,505	8,475	1,822
Jun.	9,853	5,649	34,498	10,976	7,551	645	31,158	8,935	2,929

Table 8
Sectoral Composition of the Public Investment
Comparison of First and Second Development
Plans (a) $ Million

	First Plan 1976/77 - 1979/80			Second Plan 1981/82 - 1984/85		
	Amount 1980 Prices	Amount Current Prices	Percentage	Amount 1980 Prices	Amount Current Prices	Percentage
Directly Productive:	168	131	22.4	216	265	35.4
- Agriculture	132	103	17.6	203	249	33.3
- Industry	36	28	4.8	13	16	2.1
Human Resource Development:	91	71	12.1	123	152	20.3
- Education	70	55	9.4	89	110	14.7
- Health	21	16	2.7	34	42	5.0
Physical Infrastructure:	243	190	32.7	274	332	44.3
- Power	28	22	3.8	42	50	6.7
- Water	19	15	2.6	34	41	5.5
- Telecommunications, Ports, etc.	36	28	4.8	54	65	8.7
- Urban Development and Housing	26	20	3.4	18	22	2.9
- Highways and Feeder Roads	134	105	18.0	109	133	17.7
D. Others:	245*	191*	32.8*	17	21	2.8
TOTAL	747	583	100.0	613	749	100.0

* Includes OAU related projects

(a) The grouping here of sectors follows the traditional classification. It must be recognized, however, that not all investments in agriculture and industry are necessarily directly productive as for example, expenditures on extension services, while many investments in infrastructure (like in power, water and telecommunications) can be regarded as being directly productive.

Table 9

REVISED PUBLIC SECTOR FOREIGN EXCHANGE FORECAST
FOR LIBERIA DURING US FY-83
($ MILLION)

REV: OCTOBER 19, 1982

	OCT.	NOV.	DEC.	JAN	FEB.	MAR.	APR.	MAY	JUN.	JUL.	AUG.	SEPT.	TOTAL US FY 83
Sources													
Offshore Revenues 1/	2.5	3.0	2.5	7.5	2.5	2.1	1.8	1.5	1.3	7.6	3.2	0.5	36.0
Public Sector Exports 2/	2.3	1.8	1.0	2.3	2.8	2.1	1.8	1.5	1.3	2.5	2.4	0.2	22.0
LPRC 3/	2.4	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	46.4
IMF-CFF 4/	30.0	-	-	-	-	-	-	-	-	-	-	-	30.0
IMF-Standby 4/	5.5	-	21.4	-	10.7	-	-	10.7	-	-	10.7	-	59.0
ESF 5/	-	12.0	-	-	-	10.0	-	-	-	10.0	-	-	32.0
WACH 6/	0.4	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.1	0.2	0.2	5.0
Miscellaneous 7/	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	12.0
Total Sources	44.1	22.4	30.4	15.3	21.5	19.7	9.1	19.2	8.1	25.2	21.5	5.9	242.4
USES													
Payroll cash 8/	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	72.0
Oil bill 9/	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3	147.6
NHSB advances 10/	.7	.7	.6	-	-	-	-	-	-	.4	.4	.4	3.2
Debt Services 11/	11.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.0	5.0	5.0	71.4
Embassies & Scholarships 12/	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	12.0
Miscellaneous 12/	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	18.0
NBL advances (non-add) 13/	(1.5)	(5.9)	-	-	-	-	-	-	-	-	-	-	(7.4)
Total Uses	33.1	27.1	27.0	26.4	26.4	26.4	26.4	26.4	26.4	26.2	26.2	26.2	324.2
Surplus/shortfall	11.0	-4.7	3.4	-11.1	-4.9	-6.7	-17.3	-7.2	-18.3	-1.0	-4.7	-20.3	-81.8

Table 9
(continued)

	1982 July	Aug.	Sep.	Oct.	Nov.	Dec.	1983 Jan.	Feb.	Mar.	Apr.	May	Jun.	TOTAL
Balance b/f	(47.419)	(41.389)	(46.899)	(54.178)	(49.092)	(47.207)	(54.118)	(48.613)	(52.009)	(55.688)	(54.540)	(54.840)	(47.419)
Surplus/Deficit b/f	6.030	(5.510)	(7.279)	5.086	1.885	(6.911)	5.505	(3.396)	(3.679)	1.148	(.300)	(12.424)	(19.845)
Closing Balance	(41.389)	(46.899)	(54.178)	(49.092)	(47.207)	(54.118)	(48.613)	(52.009)	(55.688)	(54.540)	(54.840)	(67.264)	(67.264)
FINANCING OF DEFICIT:													
Increase in net Credit to GOL by NBL	-0-	-0-	-0-	7.000	7.000	7.000	15.000	15.000	15.000	22.000	22.000	30.000	30.000
Increase/Decrease in Spl. A/C	(.792)	(1.022)	(2.777)	(2.000)	(2.000)	(2.000)	(2.000)	(2.000)	(1.500)	(1.000)	(.500)	(.500)	(.500)
Unpaid Checks	38.325	41.742	51.476	38.592	37.207	41.118	29.613	34.009	36.188	30.040	30.340	36.764	36.764
NBL Overdraft	3.856	6.179	5.479	5.500	5.000	8.000	6.000	5.000	6.000	3.500	3.000	1.000	1.000
	41.389	46.899	54.178	49.092	47.207	54.118	48.613	52.009	55.688	54.540	54.840	67.264	67.264

Table 10
Estimated Cash Flow Statement 1982 - 1983
(in millions of dollars)

SOURCE	1982 July	Aug.	Sept.	Oct.	Nov.	Dec.	1983 Jan.	Feb.	March	April	May	June	TOTAL
Current Revenue	26,685	18,228	15.457	25.749	19.006	17.675	33.187	18.075	21.318	25.468	18.862	18.390	258.100
Grants	6.000	-0-	6.500	6.500	6.500	6.500	6.500	6.500	6.500	6.500	6.500	7.000	71.500
Loans 1/	4.000	4.000	5.000	5.000	5.000	5.000	5.000	5.000	5.500	5.500	5.500	6.000	60.500
Sale of PL 480 Rice	1.000	1.000	1.000	1.250	1.250	1.500	1.300	1.300	1.400	1.300	1.300	1.400	15.000
	37.685	23.228	27.957	38.499	31.756	30.675	45.987	30.875	34.718	38.768	32.162	32.790	405.100*1/
APPLICATION													
Recurrent Payroll	13.500	10.800	10.700	13.000	11.000	10.800	13.000	11.000	10.851	13.000	11.000	10.900	139.551
Other Recurrent Exp.	3.200	5.360	6.830	4.670	5.090	5.780	4.670	5.090	5.705	4.670	5.090	5.719	61.874
Other Services	1.600)	2.060)	2.500)	2.000)	2.000)	2.160)	2.000)	2.000)	2.160)	2.000)	2.000)	2.167)	24.647)
Materials & Supplies	.600)	1.000)	1.165)	.600)	1.000)	1.165)	.600)	1.000)	1.165)	.600)	1.000)	1.167)	11.062)
Equipment	-0-)	.100)	.165)	.070)	.090)	.105)	.070)	.090)	.105)	.070)	.090)	.108)	1.063)
Property	-0-)	-0-)	-0-)	-0-)	-0-)	-0-)	-0-)	-0-)	-0-)	-0-)	-0-)	.001)	.001)
Subsidies & Cont.	1.000)	2.200)	3.000)	2.000)	2.000)	2.350)	2.000)	2.000)	2.275)	2.000)	2.000)	2.276)	25.101)
INTEREST PAYMENTS													
External	4.257	1.819	4.708	1.873	2.131	3.585	5.880	4.206	2.928	2.272	2.910	5.213	41.782
Internal	-0-	-0-	1.250	.050	-0-	1.250	-0-	-0-	1.250	-0-	-0-	1.300	5.100
Ext. Debt Principal	1.948	.559	.548	.120	-0-	3.471	2.832	.475	3.213	2.228	.062	3.662	19.118
Int. Debt Principal	.100	.100	.100	1.600	.150	.200	.200	.200	.250	.250	.250	2.000	5.400
Encumbrances	.650	.600	.600	.600	.500	.500	.400	.300	.200	.200	.150	.145	4.845
Development Budget	8.000	9.500	10.500	11.500	11.000	12.000	13.500	13.000	14.000	15.000	13.000	16.275	147.275
Internally Financed	4.000)	4.500)	5.500)	6.500)	6.000)	6.000)	6.500)	7.000)	8.000)	8.000)	6.000)	8.852)	76.852)
Externally Financed	4.000)	5.000)	5.000)	5.000)	5.000)	6.000)	7.000)	6.000)	6.000)	7.000)	7.000)	7.423)	70.423)
	31.655	28.738	35.236	33.413	29.871	37.586	40.482	34.271	38.397	37.620	32.462	45.214	424.945**
Surplus/Deficit	6.030	(5.510)	(7.279)	5.086	1.885	(6.911)	5.505	(3.396)	(3.679)	1.148	(.300)	(12.424)	(19.845)1/

*Sanctioned Revenue Budget....................	$390.100	
Sale of PL 480 Rice............................	15.000	$405.100
Less:		
**Sanctioned Expenditure Budget................	420.100	
Encumbrances................................	4.845	$424.945
+Estimated Cash Deficit....................................		$ 19.845

Footnotes

1/ MOF/NBL projections for Liberia FY 83; July, August and September 1983 figures are projected from 1982 actuals.

2/ MOF projections: net of debt service to Citibank, estimated at 40 percent of export receipts. July, August, September 1983 figures are projected from 1982 actuals.

3/ Except for October 1982, this is a projected monthly average, constituted by offshore payments made by oil-consuming concessions. October 1982 figure reflects BMC product import in August on its own account.

4/ IMF/MOF. Actual value of tranches depends on the SDR - U.S. dollar exchange rate at the time of the transfer.

5/ Proposed tranches, subject to AID/Washington approval and availability of funds.

6/ MOF projections; July, August, September 1983 figures are projected from 1982 actuals.

7/ Residuals; MOF projections.

8/ Projected monthly average.

9/ Includes crude oil shipments of $140 million, plus $7.6 million for occasional product imports to meet projected shortfalls. $12.3 million is monthly average.

10/ Payments due and payments projected for transport charges in connection with PL 480 rice imports

11/ Total figure reflects Liberia FY 83 foreign debt payments (including bi-lateral, IBRD and IMF interest, service charges and principal) of $67 million plus an estimated $6 million in up-front interest payments for the soon-to-be-rescheduled London Club (commercial)debt. July, August, September 1983 figures are projections.

12/ MOF projections

13/ NBL advances can be rolled over and therefore are not added-in.