PD-AAU-411
49567

PROGRAM ASSISTANCE APPROVAL DOCUMENT

(PAAD)

L I B E R I A

PAAD 669-K-606
Project 669-0189

AGENCY FOR INTERNATIONAL DEVELOPMENT
Bureau for Africa
Washington, D.C. 20523

Authorization
December 30, 1983

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

PPC memo
ulrich

DEC 23 1983

ACTION MEMORANDUM FOR THE ADMINISTRATOR

FROM: AA/AFR, Frank J. Donatelli FJD

SUBJECT: Liberia Program Grant (669-K-606)

Problem: Your approval is requested to authorize a program grant (cash) of $35 million to the Government of Liberia (GOL). It is planned to obligate $9 million at this time.

Discussion: During the period between August 1980 and August 1983 A.I.D. provided to the Government of Liberia program grants totaling $104 million to assist in its economic recovery and stabilization. The planned level of program grant assistance for FY 1984 as shown in the Congressional Presentation is $35 million. For authorization purposes, we are requesting your approval for a program grant level of $35 million even though the revised level for Liberia has been tentatively reduced to $34.15 million. If additional ESF funds are not available for Liberia, the higher authorization level cannot be used. At this time a firm apportionment of $9 million is being processed for Liberia. If additional apportionments are made available, subsequent disbursements will be made in February, May and August 1984.

It has been well documented over the past two years that Liberia's economy has seriously deteriorated and may decline further before needed structural adjustments are completed. The severe economic contraction of the developed Western economies beginning in the late 1970's precipitated by the oil price increases continues to have serious consequences for the Liberian economy. Per capita income may have declined by about one-third since the late 1970's. Real gross domestic product (GDP) declined by over 13% between 1980 and 1982 and is projected to decline another 3% or more in 1983. The country continues to be plagued by large budget deficits ($118 million in budget year 1981/1982, $99 million estimated in 1982/83 and $42.4 million projected for 1983/84), and pronounced disequilibrium in the balance of payments. Servicing of Liberia's outstanding foreign debt is becoming critical. External debt outstanding (disbursed) increased from $206.3 million at the end of December 1976 to $754.6 million at the end of December 1982. Despite successful Paris Club and London Club debt reschedulings since 1980, annual debt service payments are

(93)

a heavy burden on the economy. Debt service increased from $21 million in 1975/76 to $71.4 million in 1982/83 and is scheduled to accelerate to $93.5 million in 1983/84, $153 million in 1984/85 and $173 million in 1985/86.

Medium-term prospects for economic stabilization without improvement in prices for Liberia's export products combined with sustained policy actions appear bleak. While the U.S. and other Western economies are beginning to show signs of recovery, it will take time before this change is reflected in Liberia's economy. As the Government of Liberia struggles to meet its debt obligations in the face of continued depressed export earnings and reduced domestic economic activity, the need for additional external assistance is critical. The GOL is engaged in initial discussions on a proposed $30 million, two-year World Bank (IBRD) structural adjustment credit involving improvements in the management of public corporations, and major activities in the agricultural and natural resources (energy) sectors. Liberia also is seeking additional donor assistance as evidenced by the convening of a Donors' Round Table Conference in October 1983 and the proposed formation of an Inter-Governmental Group for Liberia.

The GOL is straining to solve its severe economic problems through a series of standby agreements with the International Monetary Fund (IMF). The focus of the current $58 million stabilization program with the IMF has been the government budget, with the GOL trying to implement a tough program of measures to increase revenues and contain expenditures.

The objectives of the proposed AID economic support assistance are:

1. To provide immediate balance of payments support to Liberia to ensure that adequate foreign exchange is available, and

2. To encourage continued GOL progress in the implementation of reforms and adjustments to economic policies required for stabilization.

The proposed balance of payments funds will be disbursed as a cash transfer through Liberia's corresponding bank (Morgan Guaranty Trust).

The conditions and covenants proposed for the grant are described in Section IV.E. of the attached PAAD. In brief, the requirements for conditionality, other than standard conditions precedent, are intended to support directly provisions of the

IMF stabilization program; to stimulate analyses and actions which will enhance the capacity of the GOL to control expenditures; and to manage external debt and to increase revenues.

The proposed covenants support the IMF standby agreement by focusing on critical expenditure categories which the GOL heretofore has had difficulty controlling. Both the conditions precedent and the covenants also provide a formal basis for continuing the macro-economic policy dialogue of recent years.

The ESF program has been discussed with the Minister of Finance, the Minister of Planning and Economic Affairs, the Governor of the National Bank and Acting Director of the Budget Bureau in formal Economic Consultative Group meetings and also in less formal meetings with some of these individuals. Agreement to the objectives of the program has been obtained. Discussions are continuing with these officials and others directly and through the Economic Consultative Group. The GOL has indicated that it would greatly prefer to consumate the agreement and have the first tranche of $9 million disbursed before the end of December. The GOL has promised expeditious action leading to signature and to the meeting of conditions precedent to disbursement. The remainder of the grant will be disbursed in three tranches in February, May and August timed to coincide with IMF standby targets.

Recommendation: That you sign the attached PAAD authorizing a $35 million program grant for Liberia.

Clearances:
AFR/DP:HJohnson
GC/AFR:DRobertson
AA/PPC:FWSchieck (see accompanying memo)
M/FM:WMcKeel 12/27
DAA/AFR:~~JJohnson~~ A.R. LOVE
AFR/PD:NCohen
AFR/CWA:JColes
GC/AID:HMFry
PPC/PB:JHummon Date

Drafted:AFR/PD/CCWAP:GHazel:12/16/83:632-8146:0750K

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

Dec 29 1 56 PM '83

DEC 29 1983

ASSISTANT ADMINISTRATOR

AID EXECUTIVE SECRETARIAT

INFORMATION MEMORANDUM FOR THE ADMINISTRATOR

FROM: A-AA/PPC, Richard A. Derham, Derham

SUBJECT: Liberia Program Grant (669-K-606)

I have concurred with the Liberia Program Grant but wished to call to your attention two understandings which were the basis for my concurrence.

1. Election Comission. AID has had under consideration a $1 million project for the Election Commission of Liberia to assist in preparation for the upcoming election. Initial consultations on the Hill have had some questions but have generally been favorable to financial assistance to appropriate activities of the Commission. No reference to the Election Commission is made in the Program Grant. It is understood that, assuming final decision to proceed with the Election Commission is made, the Program Grant will be amended to allocate $1 million of the funds included within the Program Grant to the Election Commission Project. There are, and we expect that there will be, no additional funds available for Liberia and the Region understands that the final tranche of disbursements under this program grant may not be made until after determination of the Election Commission Project.

2. Economic Policy Reform Issues. I raised with Frank Donatelli and Jay Johnson the question of consistency between a cash grant to Liberia and the rationale of the economic policy initiative for Africa. If we are to be able to argue that a $75 million appropriation will assist us in achieving policy reform in African countries, we should be able to make a similar demonstration with as substantial a cash grant as the Liberia program.

The Africa Bureau has briefed me on the background and it is clear that the U.S. has engaged in substantial policy dialogue on economic issues. Budget controls and reductions, allocation of resources, and discussion of sale of parastatals have all been discussed and there have been significant advances in each area. Interest reform discussions are beginning with this

8403035

project, which requires that Liberia review its monetary policies and its interest rate structure as a means to encouraging private savings and give AID a report prior to April 30, 1984. It would be PPC's expection that the follow-on grant contemplated for 1985 would address interest rated monetary policies and privatization in more detail and that the Bureau would have a continuing and progressive reform on such issues. I understand that is consistent with the Bureau's intention.

On the basis of these two understandings I have concurred with the project.

Noted K 12/30

cc: AA/AFR, Frank Donatelli
PPC/PB, John Hummon

A-AA/PPC:RADerham:12/

CLASSIFICATION:

AID 1120-1

PAAD

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO. 669-k-606
Project 669-0189

2. COUNTRY
Liberia

3. CATEGORY
Cash Transfer

4. DATE
November 15, 1983

5. TO:
A/A.I.D., M. Peter McPherson

6. OYB CHANGE NO.
N/A

7. FROM:
AA/AFR, Frank J. Donatelli

8. OYB INCREASE
None

TO BE TAKEN FROM: Economic Support Fund (ESF)

9. APPROVAL REQUESTED FOR COMMITMENT OF:
$ 35,000,000

10. APPROPRIATION - ALLOTMENT
GESA84/31669KG31 Budget Plan Code

11. TYPE FUNDING
☐ LOAN ☒ GRANT

12. LOCAL CURRENCY ARRANGEMENT
☒ INFORMAL ☐ FORMAL ☐ NONE

13. ESTIMATED DELIVERY PERIOD
FY 1984

14. TRANSACTION ELIGIBILITY DATE
Date of Authorization

15. COMMODITIES FINANCED
N/A

16. PERMITTED SOURCE
U.S. only:
Limited F.W.:
Free World:
Cash: $35,000,000

17. ESTIMATED SOURCE
U.S.: $35,000,000
Industrialized Countries:
Local:
Other:

18. SUMMARY DESCRIPTION

The purpose of this program grant is to help the Government of Liberia (GOL) to meet the objectives of the GOL - International Monetary Fund (IMF) agreement by (1) providing immediate balance of payments support, and (2) to encourage continued progress in the implementation of reforms and adjustments to economic policies required for stabilization.

Disbursements during FY 1984 are planned for December, February, May and August. Local currency will not be generated because it would have the effect of requiring deficit financing by the GOL and make it more difficult to comply with IMF ceilings for net credit to the Government. The $35 million program will be subject to the conditions and covenants specified in Section IV. E. of this document.

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

19. CLEARANCES
REG/DP : H. Johnson
REG/GC : D. Robertson
AA/PPC : F. Schieck
M/FM : W. McKeel 12/27
DAA/AFR : ~~J. Johnson~~ A.R. LOVE
AFR/PD : N. Cohen
AFR/CWA : J. Coles
~~GC/AID: HMFry~~

20. ACTION
☒ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE

DATE 12/30/83

M. Peter McPherson, Administrator
Agency for International Development

TITLE

CLASSIFICATION:

Only $9 million of the $35 million is available for obligation at this time. The remaining $26 million will be obligated subject to the availability of funds.

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Annexes

/1/

I. SUMMARY AND RECOMMENDATIONS

A. Recommendation

USAID Liberia recommends authorization of an Economic Support Fund grant of $35,000,000. These funds will be disbursed in installments during the course of the A.I.D. fiscal year, at mutually agreed upon times, after conditions precedent have been satisfied.

B. Grantee

The Grantee will be the Government of Liberia acting through the Ministry of Finance, the Ministry of Planning and Economic Affairs and the National Bank of Liberia.

C. Program Summary

It has been well documented over the past two years[1/], that Liberia's economy has seriously deteriorated and may decline further before needed structural adjustments are completed. The severe economic contraction of the developed Western economies beginning in the late 1970's precipitated by the oil price increases continues to have serious consequences for the Liberian economy. Per capita income may have declined by about one-third since the late 1970's. Real gross domestic product (GDP) declined by over 13% between 1980 and 1982 and is projected to decline another 3% or more in 1983. The country continues to be plagued by large budget deficits ($118 million in budget year 1981/1982, $99 million estimated in 1982/83 and $42.4 million projected for 1983/84), and pronounced disequilibrium in the balance of payments.* Servicing of Liberia's outstanding foreign debt is becoming critical. External debt outstanding (disbursed) increased from $206.3 million at the end of December 1976 to $754.6 million at the end of December 1982. Despite successful Paris Club and London Club debt reschedulings since 1980, annual debt service payments are a heavy burden on the economy. Debt service increased from $21 million in 1975/76 to $71.4 million in 1982/83 and is scheduled to accelerate to $93.5 million in 1983/84, $153 million in 1984/85 and $173 million in 1985/86.

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* The Liberian budget year covers the 12-month period July-June. Budget year 1982/83, for example, covers the period July 1982-June 1983. The Economic Survey of Liberia, published annually by the Ministry of Planning and Economic Affairs, reports economic data on a calender year basis. Both budget and calender year data are used in the text and references to either will be specific.

Medium-term prospects for economic stabilization without improvement in prices for Liberia's export products combined with sustained policy actions appear bleak. While the U.S. and other Western economies are beginning to show signs of recovery, it will take time before this change is reflected in Liberia's economy. As the Government of Liberia (GOL) struggles to meet its debt obligations in the face of continued depressed export earnings and reduced domestic economic activity, the need for additional external assistance is critical. The GOL is engaged in initial discussions on a proposed $30 million, two-year World Bank (IBRD) structural adjustment credit involving improvements in the management of public corporations, and major activities in the agricultural and natural resources (energy) sectors. Liberia also is seeking additional donor assistance as evidenced by the convening of a Donors' Round Table Conference in October 1983 and the proposed formation of an Inter-Governmental Group for Liberia.

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2. To encourage continued GOL progress in the implementation of reforms and adjustments to economic policies required for stabilization.

The proposed balance of payments funds will be disbursed as a cash transfer through Liberia's corresponding bank (Morgan Guaranty Trust).

D. Conditions, Covenants and Negotiating Status

The conditions and covenants proposed for the grant are described in Section IV.E. In brief, the requirements for conditionality other than standard conditions precedent, are intended to support directly provisions of the IMF stabilization program, to stimulate analyses and actions which will enhance the capacity of the GOL to control expenditures, to manage external debt and to increase revenues.

The proposed covenants support the IMF standby agreement by focusing on critical expenditure categories which the GOL heretofore has had difficulty controlling. Both the conditions precedent and the covenants also provide a formal basis for continuing the macro-economic policy dialogue of recent years.

The ESF program has been discussed with the Minister of Finance, the Minister of Planning and Economic Affairs, the Governor of the National Bank and Acting Director of the Budget Bureau in formal Economic Consultative Group meetings and also in less formal meetings with some of these individuals. Agreement to the objectives of the program has been obtained. Discussions are continuing with these officials and others directly and through the Economic Consultative Group. The GOL has indicated that it would greatly prefer to consumate the agreement and have the first tranche of $9 million disbursed before the end of December. The GOL has promised expeditious action leading to signature and to the meeting of conditions precedent to disbursement. The remainder of the balance of payments grant will be disbursed in three tranches in February, May and August timed to coincide with IMF standby targets.

II. ANALYSIS OF ECONOMIC CONDITIONS

A. Overview

For the past three years, Liberia's monetary economy (as distinct from the non-monetary, or rural subsistence economy) has registered an average annual decline of 4.4% in real terms. This contraction illustrates the influence on the economy of the international recession -- and the resulting reduced demand for the country's main export commodities -- the post-coup loss of confidence, the resulting capital flight, deficit propelled liquidity crisis and the virtual lack of new productive investment.

Monetary gross domestic product (GDP) in 1971 dollars at factor cost declined from $366.2 million in 1980 to $336.5 million in 1982, while total GDP (including the non-monetary sector) declined from $443.4 million in 1980 to $417.5 million in 1982 (Table 1). The latter decline occurred despite a resurgence of growth in the non-monetary subsistence agriculture sector, due in large part to a bumper rice harvest attributed to good weather and the 1981 increase in the farm-gate price of rice.

Based on data available in Liberia, much of it incomplete, per capita GDP in current terms over the same three-year period declined from $575 in 1980 to $523 in 1982, reflecting both a shrinking economy and a 3.4% per annum population growth rate -- one of the highest in Africa. IBRD experts suggest that the decline as of November 1983 may have been much greater.

Disinvestment and reduced output have taken place primarily in the rubber and iron ore mining industries, traditionally the main earners of foreign exchange, because of slack demand and high operating costs. In budget year 1982/83 both the rubber industry and iron ore mining operations implemented drastic cost-cutting measures, including personnel cutbacks, reduced social services and the closing of certain parts of their operations altogether.

The reduced level of economic activity has adversely affected Liberia's sources of income and revenues and has contributed to the continuing fiscal crisis facing the Government of Liberia (GOL). As a result of fiscal constraints, public investment outlays have been considerably reduced in recent years. Development expenditures amounted to $254.2 million in 1979 and in 1982 had declined to $139.6 million. This shortage of development-oriented investment is likely to make an eventual economic recovery slower and more difficult.

Moreover, the domestic (non-concession) private sector, the one most likely to provide the needed economic push in the absence of improved export demand, continues to experience severe problems. The private sector suffers from lack of capital, inadequate access to loan funds and credit because of heavy domestic borrowing by GOL, high interest rates and a continuing liquidity problem in the banking sector. High reserve requirements imposed on commercial banks have limited their ability to expand loans to the private sector. Though considerable stability has returned since the 1980 coup, the confidence problem still exists.

A recent EEC-funded study[2/] indicates that iron-ore mining in Liberia may effectively cease during the latter part of the decade, while future rubber prices are uncertain because new technology and an expectation of stable real world prices for oil are expected to make synthetic rubber once again competitive with natural rubber.

Finally, Liberia's mounting debt service obligations, which were temporarily eased by London and Paris Club reschedulings, remain formidable. For example, debt service payments were budgeted at $71.4 million in BY 1982/83 and are projected at $93.5 million during the current budget year.

The short-to-medium term economic and financial situation is likely to remain difficult. GOL projections are for further but diminishing negative economic growth in 1983, marginal growth in 1984 and 1985 and low level growth thereafter.[3/] Modest growth would furthermore require external assistance of a magnitude considerably greater than the amount presently assured.

B. Sectoral Performance

Data on the sectoral origin of GDP (in current and constant prices) for the period 1978-1982 are presented in Tables 2 and 3. The export-oriented sector's contribution to monetary GDP deteriorated by 11% in real terms between 1980 and 1982 while the domestic-oriented sector still remains depressed after a 13.6% real decline between 1979 and 1980. However, the most significant contributor to the domestic-oriented sector remains "government services", whose contribution constitutes little in the way of increased productivity and value-added.

Mining

Mining is the most important single economic activity in Liberia, contributing on average about 30% of GDP in real terms. Although minerals such as gold and diamonds are exploited, the industry is dominated by iron ore mining, which accounted for 29.1% of real GDP in 1982. Iron ore exports accounted for 65.2% of total exports in 1982.

The iron ore mining companies have been going through an extremely difficult period. This has been due to the recession in the steel industries of OECD countries, the principal market for iron ore exports, and was aggravated by high and increasing production costs in Liberia as a consequence of increases in energy costs, wages and social overheads. The iron ore mining companies reported significant losses and instituted major cost reduction schemes in 1982. LAMCO has reduced its workforce by 1,300 persons and discontinued certain social service functions, while Bong Mining Company closed its pelletizing plant. The 50% GOL-owned National Iron Ore Corporation (NIOC) is also experiencing major financial problems.

Agriculture

Approximately two-thirds of the country's population depend on agriculture and related activities for their livelihood. The agriculture sector consists of a monetized sector, which produces essentially for export and the traditional sector devoted mainly to supplying the subsistence needs of the rural inhabitants.

The monetized sector, which accounted for over 17% of real monetary GDP in 1980, accounted for just over 14% in 1981 and in 1982. This has been due to a significant decline in the production of rubber and logs.

-- Rubber --

Rubber production leads the monetary agriculture sector. Rubber production has declined over the past two years and exports have dropped significantly. Export earnings from rubber declined from $102.2 million in 1980 to $86.7 in 1981 and $53.4 million in 1982. This drop has been due to low world market prices since 1980.

Seven foreign-owned concessions, cultivating half the acreage planted with rubber trees, produce 75% of Liberia's rubber. The rest is produced by inefficient, low-yielding Liberian-owned rubber farms who sell to Firestone and the Liberian Agriculture Company (LAC) when prices are sufficiently attractive. The slump in rubber prices in the past few years has caused many Liberian rubber farmers to abandon their farms and Firestone has closed the Cavalla Plantation in Maryland County. However, earnings from rubber exports are expected to improve in 1983 with the rise in world market prices. More aggressive purchasing efforts by Firestone and LAC have led some small growers to resume tapping.

-- Timber --

Until 1980 forestry was a strong and growing contributor to the monetary agriculture sector. However, the 1980 coup caused many logging operations to cease, as their owners and managers left the country, and the recession in industrialized countries along with the strengthening of the U.S. dollar caused demand for Liberia's forest products to drop. Forestry's contribution to GDP in current prices dropped from $47 million in 1980 to $26 million 1982. Export earnings from logs and sawn timber have declined considerably, from $72.5 million in 1980 to $32.6 million in 1982. World market prices for logs have been increasing and export earnings are expected to improve.

Manufacturing

Manufacturing activities account for only about 7% of monetary GDP and provide employment for around 6,000 persons. Most manufacturing activities are based in the Monrovia area. As a result of power outages in the first half of 1983, manufacturing activities suffered both in cost (idle workers) and reduced output. Manufacturing establishments are mostly foreign-owned and limited to assemblage, agricultural processing, beverages and chemical products. A number of government-owned manufacturing and processing enterprises teeter on the edge of bankruptcy. Liberia's market for manufactured goods is small and economies of scale cannot be realized. However, there is scope for a limited amount of import substitution manufacturing in the wider Mano River Union and ECOWAS context; these markets offer future potential once currency exchange and payments problems can be resolved.

Construction

Public sector construction activities over the past year provided employment to 4,000 Liberian workers. Construction activities undertaken include the military barracks construction (USG and GOL), construction of a National Archives Building (GOL) and some highway construction (GOL). Private sector construction activity was limited to ongoing residential construction.

Government Services

Government continues to be the largest employer in the economy providing employment for about 49,000 persons while about 8,000 persons are employed in Government-owned corporations and other public bodies. Public sector employment constitutes about 28 percent of monetary sector employment. Expenditure on wages and salaries (recurrent and development) totalled $155.8 million in 1981 and $156.1 million in 1982. A significant reduction was to occur in 1983.

Government services accounted for about 21% of monetary sector GDP in current terms in 1982 compared to about 12.4 percent in 1979. However, government operations add a low productive component, although factor costs are high. Much of this is due to comparatively high salary levels and overstaffing.

Transportation, Storage and Communication

This subsector contributes about 10% to monetary GDP. Liberia's transportation needs are met by a combination of road transport, coastal shipping, air services and on a limited scale inland waterways. There is also a rail transportation system operated by the mining companies for the transportation of mainly iron ore. Roads are inadequate (average road density of 0.125 per square mile is one of the lowest in West Africa)[4] and poorly maintained, while gasoline costs $3 a gallon. High fuel costs and poor roads make transportation in the interior very expensive. Urban transportation on the other hand, based upon a highly competitive private sector bus and taxi fleet, is one of the most efficient and least expensive in the region.

Liberia has the world's largest registered ocean shipping fleet as a result of its "open registry" facilities, which represent a flag-of-convenience to ship owners from many nationalities. Maritime revenues from the fleet contribute about $20 million to GOL revenues annually.

Domestic air transporation has long been shared between a public corporation, Air Liberia, and two air charter companies. Over the past few years, Air Liberia has experienced severe financial difficulties. Coupled with this, it lost one of its Trilanders in a non-fatal accident in 1981 and its main money-earner, a Hawker-Siddley HS-748, which crashed in early 1983 in Sudan with the loss of seven Air Liberia professionals. The company is being reorganized and the Israel Government is reportedly considering provision of management and technical assistance, together with two Boeing 707 aircraft. The company recently acquired the leased services of three Swiss-owned C-212 Casa STOL passenger aircraft and is once again able to provide air services on a nationwide basis. The C-212's are soon to be replaced by three Israeli Aravas airplanes purchased with an Israeli Government loan.

Trade and Commerce

This sector is virtually a monopoly of the Lebanese and Indian communities, with a small percentage participation by Liberians, (Mandingos). In 1980 this sector contributed 6.8 % to GDP, down from

8.1% in 1979 and 8.8% in 1978. No accurate data are available on the 1981 and 1982 performance of this sector, but a substitute indicator, the Business Trade Levy, showed a drop from $7 million in 1980/81 to $5.5 million in 1981/82 and to $2 million in 1982/83. Rough indicators, therefore, show a continuing decline in this sector. Although volume appears stable, value of trade is reduced. High-ticket items are less traded, largely as a result of surcharges reflected in the prices and because of increased individual tax rates and public sector salary cuts, which reduced disposable income. Trade and commerce employ about 16,000 individuals.

Energy

Up to the fourth quarter of 1982, Liberia imported all of its fossil fuel which was refined at the government-owned Liberia Petroleum Refining Company (LPRC). Though the value of oil imports has been declining, it still represents a significant share of total imports, amounting to $115.1 million in 1982, compared to $152.1 million in 1980. There was a further reduction in 1983 due to a switch to imports of refined product at more favorable low prices than the former contract for crude and due to other savings forced by the GOL's fiscal constraints.

Because of severe financial problems faced by both the GOL and LPRC and the subsequent cancellation of the "oil facility" in July, 1982, the country experienced severe oil shortages. After an A.I.D. sponsored study of oil import options in early 1983, the GOL decided to close the refining operation of LPRC. Refined products are now imported by LPRC and other private companies. Citibank, Monrovia, now plays the leading role in financing oil imports utilizing Liberia Produce Marketing Corporation (LPMC) offshore receipts.

Public sector oil use is virtually limited to the Liberia Electricity Corporation (LEC) and Petro-chemical Industries. The former uses large quantities of diesel and fuel oil for power generation during the dry season, when it cannot operate the hydro-electric facility near Monrovia,
while the latter has a contract to supply all government vehicles with fuel. Concessions, which account for 60 percent of total oil consumption, have imported their own products since the refinery stopped refining in January 1983.

Services

In 1981, there were about 1,026 registered, privately-owned service establishments operating in Monrovia. Employment in this sector is about 11,000 persons; Liberian nationals represent 88% of employment. More than 70% of the businesses are Liberian-owned. This sector contributes about 3% to GDP. (Not counted are personal services positions, like salaried cooks, house servants, which would add to the employment figure.) This formerly buoyant sector has stagnated for the past two years, reflecting a reduced level of business activity and lower incomes in primary and secondary sectors of the monetary economy.

C. The Current Crisis

1. Fiscal Situation

The deterioration in the Liberian economy has been vividly manifested in the public accounts. Expenditure growth rates, particularly recurrent expenditures, have far outstripped revenue growth rates, resulting in significant overall budget deficits. Table 4 presents a summary of data on Government's fiscal operations for the period 1977-1982.

Between 1977 and 1981 recurrent expenditures increased by an average annual growth rate of 20% compared to an average annual increase of 6.6% for revenues. Corresponding to the disparity in the growth rates of current expenditure and revenue, the current budget, which recorded a surplus of $55 million in 1977, recorded deficits of $18.0 million in 1981 and $20.2 million in 1982. With this deterioration in government accounts given the obligatory nature of the major current expenditure items (salaries and debt service), development funds became more and more a residual item. The development budget, for example, shrank from almost 30% of budgetary expenditures (excluding external resource expenditures) in 1979 to only 17.2% in 1982. The overall budgetary deficit has grown from $24.3 million in 1978 to $75.1 million and $74.9 million in 1981 and 1982 respectively. In order to finance the escalating deficits, the Government resorted to heavy domestic and external borrowing, especially at the peak of spending on the OAU related activities in 1979.

-- Central Government Revenues --

A summary of Government revenues for the period 1978-1982 is presented in Table 5. The category "Taxes on Income and Profits" was the major source of Government revenue in 1982 accounting for 35.8% of total revenues. This was due to the fast growth of personal income tax and the decline in import duty collections. Receipts from individual income tax which accounted for 13.9% of total revenue in 1978 accounted for over 20% in 1982 making it the second most important single source of domestic budget resources after import duties. The increase in the number of Government employees and their salaries along with improved collections, gradual increases in the income tax rates and the lowering of the tax exemption limit were responsible for this increase. Individual income tax receipts increased from $26.5 million in 1978 to $49.0 million in 1982. National reconstruction tax receipts (which is also a special levy on individual income) amounted of $14.4 million in 1982.

The difficulties faced by the iron ore mining companies are reflected in GOL receipts from iron ore profit sharing. Receipts from this source which stood at $28.3 million in 1976 gradually declined and amounted to only $3.4 million in 1982. The re-emergence of iron ore profit sharing as a significant source of government revenue will depend on economic recovery in Europe and the U.S. as well as significant investments in new mines. Lacking new investments, currently exploited iron ore reserves may be exhausted within four years.

The contribution of corporation taxes to budget revenues has declined steadily since 1979. Because of the rice riots of April 1979 and disturbances at the time of the military coup of April 1980, businesses were allowed to deduct losses from their taxable income over a period of five years. This factor, together with under-reporting of income by many business houses was responsible for the decline. There are currently only a handful of corporations paying taxes to the Government.

Import duties account for the bulk of taxes on foreign trade and have traditionally been the most important single source of budget revenues. Revenue from this source declined by over 16% in 1982 to $67.3 million from $80.3 million in 1981. The drop in the value of imports by over 10% in 1982 was mainly responsible for this decrease, together with under collection due to improper invoicing and other forms of evasion.

-- Recurrent Expenditures --

Despite modest revenue increases, the explosion in recurrent expenditures, particularly wages and salaries since 1980, has been the paramount cause of fiscal instability. Recurrent expenditures increased by 25.8% in 1980 and 22.5% in 1981. Though this growth slowed down to 6.8% in 1982 it was still above the growth rate of revenue (See Table 6).

Within the recurrent budget, wages and salaries increased from a level of $85.1 million in 1979 to $154.3 million in 1982. The increase in the public sector minimum wage to $200 monthly for civilians and $250 for the armed forces in the aftermath of the April 1980 coup and major expansion in government employment account for the increase. The growth in personnel costs has been dramatic and efforts to contain it will be discussed under "Stabilization Programs and GOL Performance".

-- Development Budget --

The GOL since 1979 has found it increasingly difficult to finance development expenditures. In fact, over the past two years recurrent expenditures exceeded revenues, resulting in recurrent budget deficits. In the absence of any budget surplus, most development activities are in essence carried out by external resources and domestic borrowing. Government budgetary expenditure for development amounted to $54.7 million in 1982 from a high of $82.5 million in 1979 (when such spending was swollen by OAU costs) while at the same time external resources expenditure dropped from $171.7 million in 1979 to $84.9 million in 1982. One reason for the decrease in external resource expenditures was the GOL's inability to meet its full counterpart contributions. This is by no means a satisfactory response to the growing development needs of the country.

2. The Monetary Situation

The Liberian monetary system is based on the use of the U.S. dollar as its principal medium of exchange. The official monetary unit is the Liberian dollar - at par with the U.S. dollar, but issuance of the Liberian currency
is limited only to coins of five dollars and less. The money supply is only partially known due to the absence of data on U.S. dollar notes and coins in circulation. The recorded money supply only includes a fraction of the total amount of money in circulation.

As a consequence of the above, Liberia is denied the use of monetary policy in dealing with its fiscal problems. This has both advantages and disadvantages for a developing country like Liberia. Past efforts to offset the liquidity problem through introduction of the $5 coin served to accelerate flight of the more trusted U.S. dollar bills, i.e. Gresham's law in action.

Monetary developments over the past three years have been dominated by sharp increases in bank credit to the Government. Net claims on Government by the National Bank of Liberia (NBL) increased from $58.9 million at the end of December 1979 to $244.9 million at the end of June 1983. This growth reflects the inability of the Government to finance its operations from revenue sources, and is one of the variables the stabilization program is trying to contain. High domestic spending has resulted in a continuous deterioration in the foreign assets position of the banking system, particularly that of the National Bank. In contrast, net foreign liabilities of commercial banks, which had increased from $19.6 million in June 1981 to $37.7 million in June 1982, were sharply reduced to $8 million by June 1983.

The foreign assets position of the National Bank of Liberia (NBL) is one of the critical issues that has continuously plagued GOL as its continued deterioration has had serious implications for the economy. Gross foreign reserves of the NBL at the end of June 1983 were $8 million or less than one month's import value. The NBL is experiencing difficulties in settling external payment obligations when due and arrears have accumulated.

Another dimension of the foreign exchange situation facing the NBL is what is commonly referred to as the "transfer problem". This relates to the inability of the NBL to effect transfers because of insufficient foreign exchange balances against which these transfers could have been effected.

This was particularly critical in relation to payments for oil imports and external debt. Oil was imported solely by the Government, processed at the LPRC and sold on the local market, for Liberian dollars, which ultimately had to be converted into foreign exchange to pay for the oil offshore. The import capacity of the public sector is determined by (a) the transferability to overseas banks of government deposits at the local banks, including the National Bank of Liberia, (b) the Government's "offshore" revenue, and (c) the capacity of the Government to borrow externally. These three elements have been extremely limited over the past few years and GOL has experienced extreme difficulties in meeting scheduled offshore payments. This resulted in the cancellation of the oil facility in 19[illegible].

The GOL's offshore receipts are extremely limited while payments are substantial. An analysis of the public sector's estimated offshore income and expenditures for 1983/84 (Table 7), including expected IMF and ESF flows, shows public sector offshore receipts of $151.4 million and payments of $190.4 million for a projected total deficit of $39.0 million, at the end of June, 1984.

Viewed in financial terms, Liberia's main problem is a liquidity squeeze -- there are insufficient funds to meet obligations. This shortage is reflected not only in GOL's difficulties in meeting external payments but also in a decline in bank lending to the private sector, reduced investment and negative growth of GDP.

Commercial bank lending to private companies and individuals has fallen from $143.8 million at the end of December 1979 to $67.8 million at the end of June 1983. At the same time there has been a gradual recovery in commercial banks' deposits. Commercial banks' resident deposits, which fell from $143.0 million at the end of 1979 to $91.8 million at the end of December 1981, have gradually recovered and amounted to $121.9 million at the end of June 1983. The recovery in deposits has however been slow. The commercial banks attribute the drop in lending to the IMF's required doubling of the reserve requirement (from 15% to 30%), which they have to maintain with the NBL, leaving them with insufficient funds to meet private sector credit demand.

3. Foreign Trade and 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 the size of gross domestic product (GDP). In 1982 exports of goods and non-factor services amounted to 47.5% of GDP at current market prices while imports of goods and non-factor services were 59.1%. This degree of openness means that the Liberian economy is highly sensitive to changes in the foreign trade sector.

-- Balance of Payments --

Balance of payments statistics for the period 1978-1982 are presented in Table 8. Despite positive trade balances and a continuous narrowing of the current account deficit since 1978, the balance of payments position has deteriorated sharply over the past few years. The major problem has been on the capital account. The absence of new investment and capital flight resulting from political and economic disruptions reduced the capital account surplus from over $135 million in 1978 to under $16 million in 1982.

There has been a continuous narrowing of the current account deficit since 1978, from -$158.2 million in 1978 to -$73.7 million in 1982. Factor income payments abroad represent one of the largest negative items and in 1982 amounted to $132.1 million or 15.6% of GDP at market prices. Other large negative items are the Government's interest payments and remittances. Higher levels of grants to the public sector and maritime revenue since 1981 and significant trade surpluses have not fully counteracted the larger negative items mentioned above.

Nowhere is the balance of payments problem manifested more dramatically than in the capital account. There has been massive foreign disinvestment averaging about $30 million per annum between 1979 and 1981. The rate of disinvestment slowed down in 1982 and was estimated at negative $16.8 million. The negative private investment rate is a fundamental factor in the recent decline of GDP and any economic recovery program has to aim at reversing this trend.

-- Balance of Trade --

Except for 1977, Liberia's trade balance has long been positive. The table below presents data on the balance of trade for the period 1977-1982. Export earnings declined by 9.8%, from $529.2 million in 1981 to $477.4 million in 1982, while imports on the other hand dropped

Balance of Trade, 1977-1982
($ Millions)

	1977	1978	1979	1980	1981	1982
F.O.B. Exports	447.4	486.4	536.6	600.4	529.2	477.4
Imports C.I.F.	463.5	480.9	506.5	533.9	477.4	428.4
Trade Balance	-16.1	5.5	30.1	66.5	51.8	49.0

by 10.3% from $477.4 million in 1981 to $428.4 million in 1982. As a result the trade surplus of $51.8 million in 1981 contracted slightly to $49.0 million in 1982.

-- Terms of Trade --

The terms of trade deteriorated further in 1982, reflecting the growing gap between import and export prices. The export price index went up by 13.3% compared to a 14.1% increase in the import price index. As a result, the terms of trade deteriorated by about 1% as seen in the table below.

Export and Import Price Indices
1975 = 100

	1975	1976	1977	1978	1979	1980	1981	1982
Exports	100	103.4	119.7	108.1	120.2	133.8	117.3	132.9
Imports	100	95.9	117.8	121.4	139.5	163.0	173.5	197.9
Terms of Trade	100	107.8	101.6	89.0	86.2	82.1	67.6	67.2

4. External Debt Problem

Liberia's external debt position has deteriorated considerably in recent years. The use of commercial short-term external borrowing to finance expansionary GOL fiscal policies from 1975 to 1980 led to a rapid build-up of external indebtedness. External debt outstanding (disbursed) increased from $206.3 million at the end of 1976 to $754.6 million at the end of December 1982. (See Table 9) Total external public debt outstanding (including undisbursed) amounted to $853.2 million at the end of December 1982.

The rapid build-up of external debt, much of it on hard commercial terms to finance the first Development Plan and activities related to the hosting of the OAU Conference in 1979 has created severe servicing problems. Viewed in terms of conventional debt service ratio, Liberia did not seem to have debt service problems as the ratio averaged about 7% before 1976 and 1980. But because of the absence of surrender obligations, 5/ export earnings are not available to NBL to form part of its foreign assets. GOL therefore has to meet debt service payments out of its revenues or more specifically from its offshore receipts.

Difficulties in meeting debt service obligations prompted the Government to request debt relief from the Paris Club. Negotiations were held in December 1980 and relief obtained was estimated at $19.4 million. Debt servicing difficulties persisted, forcing the Government to request a second Paris Club meeting in December 1981. Agreement was reached to provide debt payment relief covering the period January 1, 1982 through June 30, 1983. Debt relief provided was estimated at $24.8 million. Negotiations were also concluded under the London Club in December 1982 between the Government and commercial banks to reschedule commercial loans.

Despite this, debt service payments constitute a significant burden on the economy. Debt service payments were budgeted at $71.4 million in 1982/83 increasing to $93.5 million or 37.8% of budgeted revenue in 1983/84 and roughly twice the projected GOL offshore receipts. Given the current crisis the economy is going through, this is indeed a significant burden.

The GOL did not meet all of its debt obligations in 1982/83 and by the end of the budget year had accumulated arrears totaling at least an estimated $14.0 million. The GOL has made commitments to eliminate these arrears by May 31, 1984 and not to permit the emergence of any new arrears under the current IMF stabilization program. Those commitments constitute performance criteria under the program.6/

After GOL defaulted on the oil facility, protracted efforts were made at reaching an agreement on renewing the short-term facility. These efforts failed and GOL has now initiated discussions with the concerned London Club banks with a view to obtaining a consolidation of the outstanding amount of $26.0 million into a medium-term loan.

The GOL has again applied to the Paris Club to reschedule or refinance part of its external debt service falling due in 1983/84 in respect of both commercial and official creditors. Negotiations will take place in December 1983 and debt relief is expected to amount to $34.0 million.

D. Stabilization Programs and GOL Performance

1. IMF

Since 1980 the GOL has concluded three successive standby arrangements with the IMF, each of which focused on alleviating budgetary deficits through increased revenue measures, expenditure controls, improved public sector management, and limitations on domestic and external borrowings.

-- Budget Years 1980/81 and 1981/82 --

The 1980/81 standby, signed in September 1980, covered a two-year period in the amount of SDR $65 million (approximately $72 million). The program called for adjustments on the revenue side, comprising increases in taxation on foreign trade, air travel, beer and individual income taxes. In addition, a compulsory national savings bond scheme was introduced which generated about $20 million during the fiscal year. Tax revenues, however, fell below program estimates for customs, excise and corporate tax collections. At the same time, there was an increase in recurrent expenditures, resulting in an overall GOL deficit of $114.6 million in 1980/81.

Budget year 1981/82 was the second year of the initial standby agreement and continued to focus on reducing the overall deficit through a combination of discretionary revenue measures and efforts to contain the growth of recurrent expenditures. The 1981/82 budget introduced some new revenue measures and significantly curtailed many expenditure commitments originally envisaged by the Government. The need to ensure balance in public sector finances was recognized. Major revenue measures were the imposition of a graduated national reconstruction tax (from 2 percent to 10 percent) on all wage and salary income to replace the compulsory national savings bond scheme, increases in the excise duties on gasoline and beer, making liable for duty all imports by government agencies and public corporations, and improvement in collection procedures. At the same time, a limit was established on the total of all recurrent cash expenditures and within this, on recurrent spending for wages and salaries. The price of rice was increased despite considerable opposition, thus eliminating losses by the Liberia Produce Marketing Corporation (LPMC), which had been subsidizing rice purchases. The Government also undertook to make economies in foreign expenditures, including tighter control of foreign travel.

However, the resulting overall revenue performance was considerably less buoyant than had been hoped. A number of fiscal measures had to be modified during the course of the budget year. The excise tax on beer which was raised from $0.59 to $1.10 per liter and the transshipment tax on foreign goods transported through Liberia had to be scaled down. In addition, expenditures were higher than planned, reflecting slippage in controls on other recurrent expenditures and on non-budgeted expenditures. As a consequence, the overall deficit was slightly higher than in 1980/81 at $117.7 million or 10.6 percent of GDP. The IMF concluded that performance criteria under the program were, however, met.

-- Budget Year 1982/83 --

A second standby agreement for 1982/1983 was approved by the IMF on September 29, 1982, and provided SDR 55 million (approximately $58 million). In addition, the GOL obtained SDR 27 million from the IMF

Compensatory Financing Facility (CFF) because of shortfalls in export earnings. The 1982/83 stabilization program called for increased budgetary discipline, a reduction in recurrent expenditures, a shift in public expenditures towards productive investment, an improvement in the operations of public corporations, and clearing debt service arrears.

The original budget for 1982/83 aimed at reducing the overall deficit to 7% of GDP from 10.6% of GDP in 1981/82 and at containing the increase in net public bank credit to $30 million (later revised to $32 million). No new tax measures were contemplated and the principal focus was a 19% reduction in recurrent expenditures (other than scheduled interest payments) from the actual outturn for 1981/82.

By the end of 1982 the fiscal targets were recognized as unattainable without additional measures, mainly due to revenue shortfalls, nonbudgeted expenditures and less than expected savings in personnel costs despite thorough payroll scrutiny. In an effort to redress the situation, new initiatives were taken starting January 1, 1983. One significant measure was the reduction in wage rates for all public sector employees ranging from 16 2/3 percent to 25 percent. Other measures to bring expenditures under control included reductions in development expenditures and curtailment of foreign travel by government employees. Moreover, in January the GOL initiated an intensive campaign to enforce tax collections.

The GOL met all the quantitative performance criteria through January 1983 and in a formal sense met the quantitative performance criteria for April, 1983. Total expenditure was reduced by 10.5 percent, including a reduction in the wage bill by $21 million, or 13 percent, and a cutback in other recurrent expenditures by $20 million, or 22 percent. However, April ceilings were met by the GOL borrowing $11.3 million from private commercial banks against the May and June tax revenues. The Government, therefore, did not attempt to meet the June 30, 1983 ceilings, as negotiations on the 1983/84 standby agreement had already commenced and it had requested a review of the 1982/83 agreement. No SDR purchases were therefore made in May/June, 1983. In summary, Liberia made three purchases under the standby amounting to SDR 35 million.

Fiscal performance during 1982/83 as a whole fell short of the program target. The overall deficit was programmed at $84.9 million, but the actual outturn was an estimated overall deficit of $99.0 million, which may be (depending on the final figure) an improvement in comparison to the 1981/82 overall deficit of $117.7 million. The shortfall was largely attributed to reduced grants, sharper than anticipated declines in imports and customs duties, lower maritime revenues and significantly reduced non-tax revenue.

One issue affecting Liberia's purchases under the 1982/83 standby arrangement was the existence of external arrears under the oil facility to the group of 24 banks which had been financing Liberia's oil imports. The Fund approved the standby arrangement for 1982/83 on condition that understanding would be reached on the elimination of these arrears which then amounted to $10 million. By the end of November 1982 they had grown to $26 million, the full amount of the outstanding credit under the oil facility. In February 1983 during the review of the standby arrangement, the Fund decided that "Liberia will not make purchase under the standby arrangement ... during any period after May 14, 1983, while Liberia has any outstanding external arrears."

-- Budget Year 1983/84 --

The IMF approved the current standby arrangement for SDR 55 million ($58 million) on September 14, 1983.7/ The 1983/84 program continues to focus on the public sector, particularly on containing public sector expenditures. The program seeks to limit the overall budget deficit to $42.4 million and to limit domestic bank financing to $30 million.

As part of the process of budgetary control, a limit of $185.5 million has been established on all recurrent expenditures, including non-budgetary expenditures. The rate of recurrent expenditures is also limited to $46.4 million per quarter. Of this total, the budgetary appropriation for recurrent expenditures on personnel costs (wages and salaries) is limited to $122.5 million, in large part reflecting the full impact of the January 1983 wage cut.8/ Quarterly expenditure rates for salaries are limited to $30.6 million and a $1.6 million limit on travel has been established.

The stabilization program assumes that the Government will be able to reschedule or refinance part of its external debt service falling due in 1983/1984, which would result in debt relief of some $34 million. Liberia is to reach agreement with the Paris Club before the end of December 1983, eliminate the $14 million in arrears at end-June 1983 by May 31, 1984, and not to permit any new arrears. A review of progress in implementing the program will be carried out with the Fund in early December.

Quantitative Performance Criteria
for 1983/1984 Stand-by Arrangement
($ million)

	1983 Nov.30	1984 Feb.29	1984 May.31	1984 June 30
Net domestic assets of National Bank of Liberia	194	203	210	212
Net claims of banking system on public sector	290	300	309	311
Net claims of banking system on Government	267	276	283	285
Outstanding external payments arrears	9	4	---	---
New external borrowing of 1-12 years maturity	-----------------5------------			

Source: IMF, Liberia-Request for Stand-By Arrangement, August/17,1983.

2. U.S. Government

Since 1980 the U.S. has provided $104 million of Economic Support Funds (ESF) and $50 million under PL 480 Title I in support of economic stabilization.

Economic Support Fund Grants - BY 1980/82 to 1982/83

Program	Amounts	Authorization	Uses
669-K-601	$ 5 million	Aug. 1980	Oil imports
669-K-602	$ 7 million	Dec. 1980	Oil imports
669-K-603	$25 million	May/June 1981	Oil imports
669-K-604	$35 million	Nov. 81-July 82	Oil Imports/ Debt Service
669-K-605	$32 million	Oct. 82-Aug. 83	Oil Imports/ Debt Service

The first two ESF grants had conditions precedent requiring essentially the GOL's continued successful adherence to the IMF standby programs. Subsequently the U.S. required that equivalent amounts of counterpart funds be generated and be placed in a special account at the National Bank of Liberia. These counterpart funds were used to support mutually agreed upon development-oriented efforts undertaken by the GOL and its various bilateral and multilteral donors. PL 480 Title I rice sales proceeds have similarly been applied to selected self-help efforts in the agricultural sector.

As is indicated above, Liberia continues to experience severe budget and offshore funds (FX) shortfalls. It is clear that Liberia will continue to need both the ESF and PL 480 resources comparable to current levels for the near future. Under ESF Program Grants III, IV, and V, the GOL was required to generate $68 million in counterpart funds. As of the latest GOL accounting figures, it had accounted for only $16.5 million in disbursements. The difference of $51.5 million is accounted for partially by (a) the long accounting lag on the part of the GOL; (b) the fact that $13 million was used for debt service and did not generate any counterpart funds; and (c) "leakages" out of the system when ESF was applied to oil bills. USAID continues to monitor the use and reporting on outstanding ESF counterpart balances to ensure that these are allocated to and expended on GOL development budget activities.

As part of the FY 1983 grant, conditions and covenants were required to ensure implementation of specific stabilization and fiscal recovery measures. These included:

-- installing or maintaining a system for estimating offshore public sector funds availabilities and requirements;

-- reviewing the GOL system of expenditure approvals and controls;

-- continuing efforts to increase revenue generation, especially tax collections;

-- independent audits of personnel expenditures;

-- continuing efforts to reduce or settle bills due to public corporations; and

-- reviewing its public investment program and determining priority projects for its Development Budgets.

While the GOL undertook the reviews and audits and developed the systems called for by the A.I.D. agreement, extra-budgetary expenditures for 1982/1983 rose, rather than declined as Liberia's financial constraints required and as is essential for Liberia to reduce or eliminate the budget deficit. Substantial technical assistance in satisfying revenue requirements was provided by Internal Revenue Service personnel, and since April 1983 by U.S. Customs advisors who work with the GOL as part of the

Increased Revenue for Development project. A computerized central cashiering facility was installed at the Ministry of Finance, for example, to reduce revenue collection losses between pay-in and deposit stages. The Economic and Financial Management Committee (EFMC), headed by the Minister of Finance, was created during FY 1983, to improve expenditure controls. Assistance was also begun in January 1983 from the public finance advisors working under the A.I.D. Economic and Financial Management and Training project. While the U.S. and IMF stabilization program has helped to curb some of the excesses in spending which followed the coup, much more remains to be done by the GOL to lower expenditures and to increase revenues.

Overall, one might conclude that GOL compliance with IMF and U.S. performance requirements has been mixed. Some cuts in spending have been achieved and progress made in increasing revenues. Coordination between GOL economic decision-makers remains weak despite creation of the Economic Consultative Group and setting up the EFMC. Tightening controls over expenditures has been weak, reflecting several factors. Government accounting and financial systems are cumbersome and slow - it takes on average nine months for an expenditure once incurred to be recorded and show up on financial statements, making monitoring of expenditures very difficult. These are basically institutional and systemic problems which will require time for technical assistance to overcome. Second, there are efforts to evade controls. Third, there are political pressures on Government to distribute the benefits of the revolution to the populace manifest in "show-case" spending on projects like the Archives building and Ganta-Harper Highway. Such pressures may rise as the PRC moves closer to its announced turn-over to civilian rule. Fourth, recovery in world markets has been slow, and there is no certainty that world market prices will recover to the levels of the 1960's and early 1970's. A recent IBRD report projects, for example, that iron ore prices in 1990 may be about half those of 1960-70.[9/] Finally, GOL implementation capability is very weak, affecting day-to-day operations as well as high level, even courageous, policy decisions like the cut in GOL salaries last January.

E. Stabilization Prospects

Medium term prospects will depend on a combination of external factors and the strength of GOL's policy and implementation performance. Projections of world market demand for Liberia's principal exports indicate that price prospects will not improve markedly. The onus therefore will have to be on policy performance to reverse the current decline in the economy. In overall terms, the Government needs to restore balance in the fiscal accounts, stimulate exports, increase real imports, attract foreign investment, arrest capital flight and ameliorate the liquidity squeeze on the economy.

The standby agreements with the IMF since 1980 essentially focused on the restoration of fiscal stability. Notwithstanding some difficult measures taken by GOL, the problem still remains, particularly with regard to expenditures. Though significant cuts have been made in wages and salaries, the benefits will not be realized if poor controls and institutional weaknesses continue. The Government should strive to reduce wages further below the $122 million budgeted for personnel services in 1982/83.

The IMF, IBRD and AID have consistently stressed the need for a cut in public sector employment levels (currently about 49,000 excluding public corporations) as this is the root of many of the GOL's problems. The unrealistic minimum wage and excessive levels of employment in the public sector have caused serious budgetary imbalances. The salary cuts implemented from January 1983 will help to alleviate the problem but more has to be done. Rural farm labor shortage, alongside open urban unemployment (estimated at between 30% to 50% for Monrovia) is traceable in part to the public wage policy. The need to review and further reduce public sector wage bill should be a fundamental component of the recovery problem. One means for so doing might be through a restructuring of the pay scale to eliminate the distortions introduced by the doubling of the minimum wage in 1980. Realistically, however, the issue of payroll reduction, either through cuts in wages or GOL personnel lay-offs is a very sensitive one which will be difficult for the PRC Government in its concluding years (or for a new civilian government still building support) to undertake.

The Economic and Financial Management Committee (EFMC) was strengthened to improve its budget control performance. Continued assistance from the AID-sponsored Economic and Financial Management and Training project is critical to develop financial management capabilities in the Ministry of Finance and Budget Bureau.

Given the limited funds available for development, the GOL should disburse funds only for high priority, growth-oriented, revenue-yielding projects, projects designed to prevent deterioration of the existing capital stock, and those that would show a quick return on investment. USAID uses its counterpart funds from previous ESF and PL 480 sources to support what we regard as critical USAID, other donor and GOL activities and by withholding counterpart from specific projects to reinforce concerns expressed in various fora about these activities' development priority and impact. In reply to our FY 1983 conditions precedent, the GOL did state its priorities and criteria for funding development budget projects. A similar follow-up condition precedent, which is also an outgrowth of the UNDP donors conference, is included in the FY 1984 program grant.

Increased revenue generation in the short-run will have to come from improved administration and collection procedures of customs duties, corporations and partnership taxes and forestry stumpage fees. The AID-sponsored Increased Revenue for Development project is currently addressing these issues. Income tax rates are already extremely high and further increases from this source may be counterproductive, unless they come from improved collections.

The GOL in cooperation with the IBRD has embarked on a program to rationalize the public corporations. This involves a) identifying those corporations that should be sold to the private sector, either in a joint venture or outright (the Government has identified a few public corporations for sale, including the Timber and Plywood Corporation and the Mesurado Group of Companies, and the IFC is currently assisting GOL in seeking private investors to buy these corporations); and b) providing technical assistance to improve the efficiency of those remaining in the public sector. The GOL is engaged in initial discussions on a proposed $30 million two-year IBRD structural adjustment credit involving improvements in the management of the public corporations and major activities in the agricultural and natural resources sectors.

The need to pursue effective fiscal policy measures during the current fiscal year cannot be over emphasized. The current standby agreement is possibly the final one. GOL will therefore have to drastically reduce expenditures as revenues could not conceivably rise to compensate for IMF inflows, even with optimistic assumptions about export prices for the principal export commodities. Moreover, public debt service payments are expected to increase particularly with regards to IMF debt. The GOL will be hard-put to meet such payments and the possibility of default on debt payments is real.

To stimulate exports and help improve the balance of payments position, the GOL needs to address a number of sectoral issues and formulate policy, particularly in the mining, forestry, rubber and concession sectors, where the bulk of exports originate. The most important issue in the mining sector is whether LAMCO-JV will proceed with the development of the ore in the Western area or opt for the integrated project with Bong Mining Company. The final decision is critical for Liberia's development prospects.

Earnings from rubber exports are expected to increase with the recent upward trend in prices. Two French companies are presently negotiating to take over the Cavalla rubber plantation turned over to the GOL by Firestone. The world market prices of logs have also recently increased and prospects are good. More vigorous enforcement of concession agreements needs to be pursued to collect revenues that are legally owed the Government as well as better management of the physical resources to prevent illegal felling and over exploitation of forest reserves.

With increased export earnings, the current account deficit will be further narrowed. The deterioration in the capital account is projected to abate after 1984 only if measures aimed at restoring confidence are sustained and increased capital inflows are forthcoming as a result of the Donor Conference.

III. ANALYSIS OF TRANSITION PROCESS

A. Constitutional Reform and Electoral Process

Under the People's Redemption Council (PRC), which swept to power with the 1980 coup, Liberia is rewriting its constitution and preparing for open, democratic presidential and legislative elections in 1985. The GOL has committed itself in word and deed to establishing civilian, democratic rule in April, 1985.

Beginning in April, 1981, a first step in the process was taken with the formation of a National Constitution Commission to draft a new constitution. Following presentation of the draft to the PRC, a Constitutional Advisory Assembly, comprising 59 representatives from throughout Liberia, was elected in regional conventions in mid-1983, to review and modify the draft Constitution. Head of State Doe accepted the Assembly's revised draft in October 1983 and promptly submitted it for review by the PRC. As planned in the transition timetable (Table 10), the final step in constitutional ratification is to be a nationwide referendum scheduled for January 1984 but which may slip to February or March.

Meanwhile, on July 25, 1983, the PRC issued Decree 75 authorizing the formation of the Special Elections Commission (SECOM), and approved the timetable for the transition to civilian rule. The SECOM, whose five members were named the following week, was charged with drafting election laws, registering political parties and candidates, maintaining voter rolls and conducting presidential and legislative elections returning Liberia to civilian rule in 1985.

In response to Head of State Doe's request for assistance to Liberia in the transition process, several democratic nations have contributed assistance to Liberia's National Constitution Commission and the Special Elections Commission. To date, the U.S. has provided financial and advisory assistance in the organizational and planning phase of the National Constitution Commission. Additionally, Mr. William Kimberling, Deputy Director of the U.S. Federal Elections Commission Clearinghouse on Elections Administration, has visited Liberia twice under U.S. auspices and at the invitation of the National Constitution Commission and the Special Elections Commission. Working in collaboration with British elections expert Sir John Boynton, he has assisted the GOL in developing an 18-month plan of action and a $3.4 million budget for the 1985 elections (Table 11). Thus far, they have recommended procedures for voter registration, and helped to draft a new elections law regulating registration and operation of political parties and candidates, and election procedures.

Direct U.S. grant assistance to Liberia's transition process currently amounts to over $300,000 since FY 1982. This includes $280,000 in AID human rights funds and $18,800 in AID P D & S funds, plus an estimated $3,000 from ICA for one of Mr. Kimberling's visits.

The U.S. support has included studies of Liberia's legal system, education programs to explain provisions of the new draft constitution and to publicize the rights of citizens under the new draft constitution, and related activities.10/

The Dutch Government contributed $25,000 in late 1983 toward the public education campaign of the National Constitution Commission. The campaign is to inform Liberians of the content of the draft constitution and their voting rights. The Federal Republic of Germany granted $30,000 to the National Constitution Commission in 1982. The British Government has supported two visits to Liberia by elections expert Sir John Boynton. Recently, the Republic of Korea donated four buses equipped with loud speakers to assist in the dissemination of information prior to elections.

B. Requirement for Transition Assistance

The task before the Special Elections Commission (SECOM) is formidable, and will require the full attention of Commission members, recruitment of a qualified professional staff and adequate resources. The SECOM 1984 work schedule includes registering an estimated one million voters, conducting the constitutional referendum, registering and regulating political parties and formulating procedures for elections. The Government of Liberia has budgeted $1.3 million in 1983/84 to support these transition activities, up from $550,000 in 1982/1983. These funds, if disbursed in a timely fashion and supplemented by significant technical and financial assistance from U.S. human rights grants and from other friendly countries, should meet the funding needs for transition in Liberia's 1983/84 budget year.

Local reaction to the new draft Constitution has been very positive and the U.S. is encouraged by recent public statements reaffirming GOL determination to make the transition successful. However, there is increasing concern about the pace of preparations for the elections and that the Special Elections Commission may fall behind in its tight schedule. Hampered by a shortage of qualified administrative and technical staff, irregular release of GOL budget allocations due to the Government's cash shortages, and the sheer complexity and magnitude of its mandate to build an equitable elections infrastructure from scratch, the SECOM elections timetable is in danger of slipping. Of particular concern are potential shortages in GOL revenues and cash availabilities, raising the possibility that funding for the elections may be adversely affected by budget constraints.

Additional proposals for human rights funds (approximately $400,000) are also being prepared in support of specific transition activities not included in the GOL budget (see Monrovia 11234). The combination of Liberian budget allocations and additional discrete grants from Liberia's friends for specific transition projects, should adequately meet transition costs.

IV. PROGRAM DESCRIPTION

A. U.S. Interests

The United States has important political and strategic interests in Liberia, U.S. Government communications facilities, and almost $450 million in private sector investment. Because of the historical "special relationship" between the United States and Liberia, the U.S. Government's position on the political and economic changes now taking place in Liberia has a critical impact on these changes, the future of U.S. interests in the country, and the actions of other donors and the international business community toward Liberia. If, with U.S. support and assistance, Liberia can revive its economy and effect the return to civilian rule, U.S. interest in and relations with Liberia will be strengthened as will U.S. relations with Liberia's neighbors. If Liberia is unable to revive its present economic system or establish constitutional government, and it appears that a lack of support from its traditional ally is a contributing factor, the Liberian Government may be forced into radical solutions to its present problems.

The U.S. has several times reaffirmed its intention to assist Liberian transition to constitutional government in line with the timetable published and approved by the PRC. Assistance to the transition is an integral and important part of overall U.S. policy. The consensus of support within Congress that has resulted in high U.S. economic assistance levels for Liberia ($63 million in FY 84) is dependent upon continued perceived and actual progress in the transition and its eventual success. Failure to adhere to the 1985 deadline for whatever reason could risk eroding that consensus. But a firm PRC government commitment to civilian rule transition can be encouraged and strengthened by adequate U.S. material and technical assistance in meeting the costs and administrative complexities of the turnover to elected civilian government. Also, restoration of a civilian-led democracy in Liberia should lead to a sounder investment climate, and a stronger base of public support and confidence. There is no economic precondition for civilian rule. There is, on the contrary, a civilian rule precondition for economic stability and a sustained, genuine economic recovery.

B. A.I.D. Assistance Strategy

Liberia's long-term economic prospects are good. It has a base of renewable resources (agriculture, forestry, hydroelectric energy potential, offshore fishing) as well as sizeable, yet underdeveloped, mineral deposits (iron ore, uranium, bauxite, and possibly offshore oil), needed to provide its people with an improved standard of living. The present productive base of the economy is narrow but has the potential to expand, given certain inputs.

The economic stabilization program, which includes P.L. 480 Title I balance of payments financing for rice imports in addition to ESF budget support, is being aided, too, by a $58 million IMF Standby Arrangement approved in September, 1983. The PAAD proposes a direct U.S. Government budget support grant of $35 million to the GOL in support of IMF efforts. The grant will be disbursed to facilitate the GOL's meeting IMF debt arrears targets and the agreement will include conditions and covenants related to IMF objectives and requirements. These are also directed to supporting GOL implementation of its own decrees.

The proposed ESF grant will assist Liberia in its current severe crisis. This is likely to be an extremely difficult task. It is clear that a long period of stringent financial and fiscal discipline will be required of Liberia's government and people and that the economy must undergo a significant structural adjustment to expand the productive base and reduce its dependence on iron ore, rubber and timber exports. A.I.D.'s assistance provides the GOL with further incentives to undertake these difficult policy changes and structural reforms.

In this context, A.I.D. strategy in Liberia in the short-and medium-term is:

--to help stabilize the economy especially by helping make the IMF standby a success;

--to assist in restoring international financial confidence in Liberia;

--to promote, production, particularly in the agricultural sector, with special emphasis on increasing exports;

--to support the evolution of Liberia's democratic political system;

--to continue the broad policy dialogue in existence between the GOL and the U.S.G., and

--to assist with long term development activities that lay the groundwork or maintain Liberia's capacity for growth.

C. Program Objectives

The objectives of the proposed program grant are:

1. To provide immediate balance of payments support to Liberia to assure that adequate foreign exchange is available; and

2. To encourage continued GOL progress in the implementation of reforms and adjustments to economic policies required for stabilization, and

The proposed ESF grant will have a Project Assistance Completion Date (PACD) of September 30, 1984.

D. Implementation Procedures

1. Justification for Cash Transfer

In designing the program, the Mission reviewed again the merits of a cash transfer and Commodity Import Program (CIP) and the experience with both in other countries. The Mission concluded that the cash transfer mechanism was the only means to achieve the program's objectives.

A Commodity Import Program (CIP) is unnecessary now. Private sector importers have well established commercial relationships with U.S. exporters; a CIP would only disrupt these more efficient channels. In addition, the U.S. is already far and away the dominant supplier of raw materials and intermediate goods. Thus, there is no commercial advantage to the U.S. to institute a CIP.

Most importantly, a cash transfer is essential because the ESF funds are to be used to enable the GOL to meet among other things, its external debt service obligations thus necessitating balance of payments support to cover offshore (FX) funding shortfalls. To finance the GOL deficit and overdraft, and provide the commercial banks with small amounts of foreign exchange, the National Bank continuously draws down its offshore deposits, obtains foreign loans, uses up net clearing balances, and makes book entries on government debt to the banking system. The same approach is used to pay for budgeted debt service. Due to the absence of adequate offshore reserves and the NBL's inability to transfer funds offshore, A.I.D. funds are required to meet pressing debt service requirements.

2. Disbursements

Plans call for funds to be disbursed in four tranches throughout FY 1984. The first tranche, $9 million, is expected to be disbursed in December 1983, or shortly thereafter. Subsequent disbursements of approximately $8-9 million each are planned for February, May and August 1984, timed to coincide with IMF target dates (See Section II. D p. 21).

Disbursements shall occur after notification by Implementation Letter that Conditions Precedent for disbursement have been satisfied, and after GOL submission to A.I.D. of a written request for disbursement of grant funds. Disbursements will be made via electronic transfer from the Federal Reserve Bank New York to the Morgan Guaranty Bank or to any other commercial bank.

3. Local Currency

Given the present and near term financial situation of the GOL and the uses to which ESF will be put, there will be no requirement for generation of counterpart funds into a special account. To require counterpart deposits would have the affect of requiring deficit financing by the GOL, exacerbating its continuing liquidity problems and making it more difficult to comply with IMF ceilings for net credit to the government.

As attempted in earlier ESF program grants, the counterpart concept was developed to provide funds for priority projects in the GOL development budget. When earlier ESF grants were used to help pay oil import bills, it was expected that sales proceeds of oil on the local market would generate inconvertible, locally held dollars, which then could be used to help fund development activities, much like counterpart is generated under PL 480 Title I or traditional CIP programs.

The assumptions underlying the counterpart generation concepts have proved to be partially incorrect. Domestic oil sales did not always generate an equivalent amount of receipts. The principal factor causing the shortfall was "leakages" in the system, largely attributable to the inability of major purchasers, such as the GOL, to pay the Liberia Petroleum Refinery Corporation (LPRC), which has outstanding receivables currently estimated at $53 million.

Further, assumptions regarding counterpart generations proved totally invalid when ESF funds were used to service external debt. In these cases, no counterpart was generated at all. Accordingly, to meet the earlier A.I.D. counterpart requirements, the GOL had to set aside counterpart equivalent from already inadequate general revenues, thus exacerbating its severe liquidity problem. The GOL, in effect, had to trade external foreign exchange relief against domestic, revenue and budgetary hardships. USAID decided, therefore, to drop the counterpart requirement after the first tranche of the FY 1983 ESF Program Grant V. Working with the Economic Consultative Group, the Mission will assure that the balance of counterpart funds generated by previous ESF program grants are utilized for the funding of mutually agreed to development activities.

4. Reporting

It is proposed that the 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 A.I.D., as A.I.D. may reasonably request.

E. Conditions and Covenants

The following are the conditions and covenants that the Mission proposes be attached to the balance of payments grant. Following State Department and AID-Washington review and approval of these conditions, negotiations leading to a grant agreement with the GOL began on November 15. Any modifications to these conditions that may result from these negotiations will be communicated to Washington for approval prior to final authorization of the PAAD (see for example, Monrovia 11178 and 11299).

The Mission proposes that prior to disbursement of the grant the GOL shall furnish to A.I.D.:

1. Each Disbursement

a. A quarterly report on the payroll, prepared by the Economic and Financial Management Committee (EFMC) and circulated to its members, beginning with the quarter ending September 30, 1983 and covering the prior three months. The report shall specify by ministry and agency the number of net personnel additions and deletions and the monthly cost impact of these payroll changes on both the automated and cash payrolls, as well as the total cost of the payroll by ministry and agency.

b. A quarterly report, prepared by the Economic and Financial Management Committee (EFMC) and circulated to its members, beginning with the quarter ending September 30, 1983 and covering the previous months, of monthly approved as well as proposed extra-budgetary expenditures and expenditures that exceed budgetary limits, the amount of each expenditure, the ministry or agency concerned, the reason for the expenditure and the corresponding budget reductions planned to accomodate these expenditures. The report will include as an attachment the National Bank of Liberia's end of the month Account Balance and Net Position report, for each month of the quarter and the allotment ceilings for the quarter by major categories of expenditures.

c. A quarterly report, prepared by the Economic and Financial Management Committee and submitted to its members, beginning with the quarter ending September 30, 1983 and covering the previous three months, of the operating subsidies (as defined in the 1983/84 Budget Document) paid from both the Government's recurrent and development budgets to public corporations. The report shall include for each subsidy the amount paid to public corporations which are to be specified by A.I.D., the budgetary source, the purpose of the subsidy, increases or decreases in the amount of subsidies paid to each specific corporation from the previous quarter, when the amount is to be repaid, and when the subsidy is expected to terminate.

d. A quarterly report prepared by the National Bank of Liberia and circulated to EFMC members, covering the three preceding months, beginning with the quarter ending September 30, 1983, showing actual monthly debt service payments to all public sector creditors.

e. A quarterly plan beginning with the October 1, 1983 quarter showing proposed foreign exchange expenditures to be made by month to all creditors of the public sector.

2. First Disbursement

a. A time-phased plan for carrying out a complete census of the Government of Liberia's external debt, including such debt owed by public corporations, and for the scheduling and prioritizing of debt service payments.

b. A report specifying measures which the Ministry of Finance will take during 1983/84 to improve collection of personal, corporate, real estate and customs taxes and other revenues. The report shall specify (a) actions planned to improve tax collections, tax audits, collections of stumpage fees and any other actions deemed appropriate; (b) how these planned actions will be carried out, and (c) the estimated increases in revenues to result from the specified measures.

c. Evidence that the Government has adopted the United Nations daily subsistence allowance as its per diem allowance for Government officials traveling abroad, including officials of public corporations.

d. A report of Government projections on a monthly basis of estimates of the availabilities and requirements of both onshore and offshore public sector funds through the end of January 1984.

3. Second Disbursement

a. A comprehensive pro-forma budget for 1984/85, and a separate off-shore funds budget, including identification of alternative revenue sources and amounts expected from each, to be prepared by the Ministry of Finance and the Budget Bureau.

b. Evidence that the Government will not execute contracts entered into by the Government, including public corporations, for construction projects and for the purchase of capital equipment financed with public funds but not included in the Government budget for 1983/83 as of August 1, 1983, and will not execute such contracts which are in the 1983/1984 budget but for which construction has not yet begun.

c. A report of Government projections on a monthly basis of estimates of the availabilities and requirements of both onshore and offshore public sector funds through the end of June 1984.

4. Third Disbursement

a. A debt-service schedule, to be prepared by the Ministry of Finance and the National Bank of Liberia, for the period July, 1984 - June, 1985 showing by month the amounts of principal and interest due to all public sector creditors, including IMF charges, SDR repurchases and Trust Fund repayments.

b. A Government review of its Public Investment Program for 1981/82-1984/85, identifying from within the original Program a time-phased and financially feasible plan of high priority investments, to meet medium and longer term Development Plan objectives which are essential to Liberia's economic recovery and resumed growth.

5. Special Covenants

a. That the Government will support at the highest levels measures to increase the effectiveness of revenue generation, including the vigorous pursuit of civil and criminal prosecution of persons and organizations that evade the payment of taxes or defraud the Government of its revenue.

b. That the Government, in a continuing effort to remove organazational, administrative and technical impediments to increased revenue generation, shall actively promote information sharing and improve coordination between all ministries and agencies of Government that gather data on taxpayers and revenue sources.

c. That the Government shall not use the funds provided under this grant to finance military or para-military requirements of any kind, including the procurement of commodities or services for those purposes.

d. That the Government will comply with the terms and conditions of the IMF stabilization program, as may be amended from time to time.

e. That the Government will record all funds received in the form of cash grants from AID against authorizations in the Liberian budget and/or the budgets of such other official entities of the Liberian government to which these funds may be applied. Such grants shall also be reflected in the international accounts of the Government of Liberia or its official entities.

f. That the Government will purchase no airplanes for any purpose during the period covered by the Agreement.

g. That the Government will give full cooperation to the IBRD to facilitate expeditious appraisal and negotiation of the IBRD's proposed Structual Adjustment Program of assistance to Liberia.

h. That the Government will not during budget year 1983/1984 exceed the IMF standby ceiling for recurrent expenditures on personnel costs (wages and salaries) of $122.5 million.

i. That the Government will review its monetary policies and, in particular, its interest rate structure as a means to encourage private savings and to alleviate its liquidity crisis, and issue a report thereon to A.I.D. prior to April 30, 1984.

j. That the Government will assure provision of adequate and timely budget allowances of funds budgeted in 1983/1984 for the Special Elections Commission.

FOOTNOTES

1/ These studies include Ministry of Planning and Economic Affairs, Country Economic Memorandum (Prepared for the Liberia Round Table Meeting, Geneva, October, 1983); IBRD, Liberia: Current Economic Situation and Prospects, December 30, 1982; AID, Liberia: Country Development Strategy Statement, FY 1985; IMF, Liberia-Request for Stand-by Arrangement, August 17, 1983 and Elliott Berg Associates, The Liberian Crisis and An Appropriate U.S. Response, February, 1982.

2/ Socio-Economic Study of a Proposed Bong Mining Company and LAMCO JV Integrated Project, Economic Consultants Ltd. of the UK in association with Exploration and Bergban of Germany, and Development Consultants and Price Waterhouse of Liberia, August 1983.

3/ Country Economic Memorandum 1983, Ministry of Planning and Economic Affairs.

4/ Economic Survey of Liberia, 1981. Ministry of Planning and Economic Affairs.

5/ This refers to the procedure whereby export proceeds are surrendered to the Central Bank in exchange for "local currency."

6/ There are difficulties in clearly determining what debts are "in arrears" because Liberia's creditors use a variety of definitions. The IMF considers payments to be "in arrears" when payments are overdue, while the IBRD allows sixty days grace before disbursements are suspended due to arrears. On the other hand, payments of Foreign Assistance Act (FAA) debts are considered "in arrears" when payments are overdue, when they are six months overdue (Section 620 Q) and one year overdue (Section 517, the Brooke Ammendment). P.L. 480 debts do not fall under the FAA standards and a "gentleman's agreement" seems to govern the "arrears" determination for Monrovia's port payments. There is a need to clarify what constitutes "arrears" for FAA, PL 480, Exim-Bank, military assistance, OPIC and other similar obligations.

REPUBLIC OF LIBERIA
MINISTRY OF FINANCE
MONROVIA, LIBERIA

OFFICE OF THE MINISTER

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MF-2-4/EDM/1030/'83

November 14, 1983

Ms. Lois Richards
Director
USAID/Liberia
Monrovia, Liberia

Dear Madam Director:

I refer to my letter MF-2-4/EDM/904/'83 dated October 21, 1983 and hereby request approval for full disbursement of the $35 million (Thirty Five Million Dollars) Economic Support Fund (ESF) from the United States Government that has been programmed in our fiscal year 1983/84 budget.

In keeping with established procedure payment of the amount will be made in tranches during the fiscal year. I again request for payment of the first tranch in the amount of $12 million (Tweleve Million Dollars) to be used in full for debt service payments.

Kind regards,

Very truly yours,

G. Alvin Jones
MINISTER

Annex B

REPUBLIC OF LIBERIA
MINISTRY OF FINANCE
MONROVIA, LIBERIA

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OFFICE OF THE MINISTER

MF-2-4/EDM/904/'83

October 21, 1983

Ms. Lois Richards
Director
USAID
Monrovia, Liberia

Dear Madam Director:

The Government of Liberia hereby requests your consideration for the first trench of the Economic Support Fund (ESF) from the United States Government that has been programmed in our fiscal year 1983/84 budget. As you are aware the first quarter of the fiscal year has ended thus necessitating certain expenditures for which the ESF was intended to be used.

We request that the trench be in the amount of $12 million. The total amount will be used for debt service payments.

As scheduled elimination of our external arrears is a performance creteria under the IMF Agreement and a condition for our planned Official Debt Rescheduled negotiation under the Paris Club, we would be grateful for your usual timely assistance in the disbursement of this amount. We shall later submit to you a detail list of the debt service payments for which the amount will be used.

Kind regards,

Very truly yours,

G. Alvin Jones
M I N I S T E R

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3A - (1) COUNTRY CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source of the program.

A. GENERAL CRITERIA FOR COUNTRY

1. FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such/country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents or from entering the U.S. unlawfully?	The Department of State has not so determined.
2. FAA Sec. 620 (b). If assistance is to a government, has the Secretary of State determined that is not controlled by the international Communist movement?	Liberia is not controlled by the international Communist movement. The country is a staunch supporter of the United States.
3. FAA Sec. 620 (c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?	No.
4. FAA Sec. 620(e) (1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?	No.

5. <u>FAA Sec. 620(f), App. Sec. 108.</u> Is recipient country a communist country? Will assistance be provided to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia, or Laos?	No.
6. <u>FAA Sec. 620(i).</u> Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?	No.
7. <u>FAA Sec 620(j).</u> Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property?	No.
8. <u>FAA Sec. 620(l).</u> If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason?	No.
9. <u>FAA Sec. 620 (o); Fishermen's Protective Act of 1967, as amended, Sec. 5</u> If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters, (a) has any deduction required by Fishermen's Protective Act been made? (b) has complete denial of assistance been considered by AID Administrator?	No.
10. <u>FAA Sec. 620(q); App. Sec. 504.</u> (a) Is the recipient country in default on interest or principal of any AID loan to that country? (b) Is country more than one year in default on interest or principal on U.S. loan made pursuant to program for which funds appropriated under Approp. Act, unless debt was earlier disputed, or appropriate steps taken to cure default?	(a) Yes it has, but a Presidential waiver has been granted. (b) No.

11. FAA Sec. 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistanced Staff (PPC/RC).	In 1980, defense expenditures accounted for 5.1% of central government expenditures; $5 million was spend on military imports. No expenditures were made for the purchase of sophisticated weapons systems.
12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?	No.
13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget?	Liberia is current in its U.N. obligations.
14. FAA Sec. 620A: Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism?	No.
15. FAA Sec. 659. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by the United States, and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base?	N.A.
16. FAA Sec. 669,. Has the country, delivered or received nuclear reprocessing enrichment equipment, materials, or technology, without specified arrangements or safeguards, etc.?	No.

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17. FAA Sec. 670 Has the country delivered or received nuclear feprocessing, equipment, material or technology? Is the country not a "nuclear-weapon state" as defined in Article IX(3) of the Nuclear Non-Proliferation Treaty and on which detonates a nuclear explosive device? — No.

18. FAA Sec. 901. Has the country denied its citizens the right or opportunity to emigrate? — No.

B. FUNDING SOURCE CRITERIA FOR COUNTRY

1. Security Supporting Assistance Criteria

a. FAA Sec. 502B. Has the Department of State made findings which indicate that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, is program in accordance with policy of this Section? — The Department of State has not so determined.

b. FAA Sec. 531. Is the Assistance to be furnished to a friendly country, organization, or body eligible to receive assistance.? — Yes.

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country have Special Account (counterpart) arrangements been made? — N.A.

2. Development Assistance Country Criteria

a. FAA Sec. 102(c), (d). Have criteria been established, and taken into account, to assess commitment and progress of country in effectively involving the poor in development, on such indexes as: (1) small-farm labor intensive agriculture, (2) reduced infant mortality, (3) population growth (4) equality of income distribution, and (5) unemployment. — N.A.

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b. FAA Sec. 115 Will country be furnished, in same fiscal year, either security supporting assistance, or Middle East peace funds? If so, has the Congress specifically authorized such funds, or is assisance for population programs, humanitarian aid through international organizations, or regional programs? — N.A.

c. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State made findings which indicate that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? — N.A.

d. FAA Sec. 201(b)(5),(7)&(8); Sec. 208 211(a)(4),(7). Describe extent to which country is: — N.A.

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

(3) Increasing the public's role in the developmental process.

(4) (a) Allocating available budgetary resources to development.

(b) Diverting such resources for unnecessary military expenditure and intervention in affairs of other free and independent nations.

(5) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

(6) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

e. FAA Sec. 201(b), 211(a). Is the country among the 20 countries in which development assistance loans may be made in this fiscal year, or among the 40 in which development assistance grants (other than for self-help projects) may be made? N.A.

practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

5. FAA Sec. 601(b). Information and conclusion on how assistance will encourage U.S. private trade and investment abroad in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

By protecting traditional U.S./Liberian relations, the proposed grant will help maintain U.S. economic interests in Liberia and access to the Liberian market for U.S. producers.

6. FAA. Sec. 612(b); Sec636(h). Describe steps taken to assure that to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

N.A.

7. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

The U.S. does not own excess Liberian currency.

B. FUNDING CRITERIA FOR NONPROECT ASSISTANCE

1. Nonproject Criteria for Security Supporting Assistance

a. FAA Sec. 531. How will this assistance support promote economic or political stability? Is the country among the 12 countries in which Supporting Assistance may be provided in this fiscal year?

The grant will provide the GOL with the additional foreign exchange it requires to avoid default on debt obligations and to help finance democratic elections. This will promote both economic and political stability in Liberia.

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered; FAA Sec. 653(b)
(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;

Congress was notified of AID's intention to provide balance of payments support in the FY 1984 Congressional Presentation. A Congressional Notification will be forwarded 15 days prior to obligation of AID's intention to grant $1 million for transition activities.

(b) is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that figure plus 10%.

N.A. ~~Funds are~~ made available pursuant to a Continuing Resolution

2. FAA. Sec. 611(a)(2) If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No such action is required.

3. FAA Sec. 209, 619 Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?

No. U.S. and Liberian interests will best be served by a direct Government-to-Government agreement.

4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic

The proposed grant will help protect Liberia's present free enterprise system thereby fostering private initiative and competition.

2. Nonproject Criteria for Development Assistance

a. FAA Sec. 102(c); Sec. III; Sec. 281a. Extent to which activity will (1) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?

N/A. Source of funding is ESF.

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [include only applicable paragraph-- e.g. a, b, etc.--which corresponds to sources of funds used. If more than one fund source is used for assistance include relevant paragraph for each fund source.]

N.A.

(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is fully account taken of needs of small farmers.

(2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor; extent to which assistance gives attention to interrelationship between (A) population growth and development and overall improvement in living standards in developing countries. Is activity designed to build motivation for small families in programs, such as education in and out of school, maternal and child health services, agriculture production, rural development and assistance to urban poor?

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(3) [105] for education, public administration, or human resources development if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; is so, extent activity is:

(a) to help alleviate energy problem;

(b) reconstruction after natural or manmade disaster;

(c) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(d) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.

c. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on: (1) encouraging development of democratic economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the cuntry; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy. — N.A.

d. FAA Sec. 281(b). Describe extent to which program recognized the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental and political processes essential to self-government.

e. FAA Sec. 201(b)(2)-(4) and -(8) Sec. 201(e); Sec. 211(a)(1)-(3) and -(8). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives?

f. FAA Sec. 201(b)(6); Sec. 211(a)(5)(6) Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position.

3. Nonproject Criteria for Development Assistance (Loans only)

N/A. Source of funding is an ESF grant.

a. FAA Sec. 201(b)(1). Inforation and conclusion on availability of financing from other free-world sources, including private sources within the United States.

b. FAA Sec. 201(b)(2); 201(d). Information and conclsuion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and United States) or lending and relending terms of the loan.

c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

d. FAA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from - private sources, or is otherwise being used to finance procurements from private sources?

4. Additional Criteria for Alliance for Progress

N.A.

[Note: Alliance for Progress assistance should add the following two items to a nonproject checklist.]

a. FAA Sec. 251(b)(1)-(8). Does assistance take into account principles of the Act of Bogota and Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America?

b. FAA Sec. 251(b)(8); 251(h). For loans has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress (now "CEPCIES," the Permanent Executive Committee of the OAS) in its annual review of national development activities?

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Table 1

TRENDS IN NOMINAL AND REAL GDP 1980-1982

(In $ million)

Monetary Economy	1980	1981	1982 1/
GDP at current factor cost	800.8	754.4	729.5
GDP at constant 1971 factor cost	366.2	350.1	336.5
GDP deflator (index)	218.7	215.5	216.8
Annual Change (%)			
GDP at current factor cost	4.5	-5.8	-3.4
GDP at constant 1971 factor cost	-4.7	-4.4	-4.0
GDP deflator	9.7	-1.5	6
Traditional Economy			
GDP at current factor cost	185.0	190.0	219.6
GDP at constant 1971 factor cost	77.2	75.0	81.0

Source: Ministry of Planning and Economic Affairs.

1/ Preliminary

Table 2

SECTORAL ORIGIN OF GROSS DOMESTIC PRODUCT AT CURRENT FACTOR COST

1978-1982 (Monetary Economy)

(In million $)

	1978	1979	1980	1981	1982 1/
Export Oriented Sector	248.5	266.5	312.0	249.7	253.5
Agriculture	118.3	139.7	159.0	118.3	111.5
Rubber	(46.7)	(56.0)	(61.5)	(45.0)	(31.4)
Forestry	(35.0)	(40.0)	(47.0)	(26.5)	(26.0)
Other	(36.6)	(43.7)	(50.5)	(46.8)	(54.1)
Mining and Quarrying	130.2	126.8	153.0	131.4	142.0
Iron Ore	(117.6)	(110.0)	133.0)	(115.9)	(122.7)
Other	(12.6)	(16.8)	(20.0)	(15.5)	(19.3)
Domestic Oriented Sector	421.5	499.8	488.8	504.7	476.0
Manufacturing	53.7	82.0	77.0	68.3	n.a.
Construction	50.1	60.0	32.5	30.0	n.a.
Government Services	82.0	95.0	123.6	155.8	156.1
Other Services	235.7	262.8	255.7	250.5	n.a.
Total GDP at Current Factor Cost	670.0	766.3	800.8	754.4	729.5

Source: Ministry of Planning and Economic Affairs.

1/ Preliminary

Table 3

SECTORAL ORIGIN OF GROSS DOMESTIC PRODUCT AT CONSTANT (1971) FACTOR COST

1978-1982 (Monetary Economy)

(In million $)

	1978	1979	1980	1981	1982 1/
Export Oriented Sector	153.2	161.8	174.0	153.7	154.8
Agriculture	59.9	62.8	63.0	49.4	49.6
Rubber	(21.9)	(20.2)	(21.0)	(21.3)	(16.5)
Forestry	(21.2)	(23.2)	(23.0)	(12.3)	(10.6)
Other	(16.8)	(19.3)	(19.0)	(15.8)	(22.3)
Mining and Quarrying	93.3	99.1	111.0	104.3	105.2
Iron Ore	(88.3)	(94.2)	(106.0)	(98.6)	(98.0)
Other	(5.0)	(4.9)	(5.0)	(5.7)	(7.2)
Domestic Oriented Sector	215.0	222.5	192.2	196.4	195.3
Manufacturing	30.7	33.0	26.0	23.6	n.a.
Construction	22.0	20.0	15.0	14.0	n.a.
Government Services	36.9	39.6	39.6	50.4	50.5
Other Services	128.6	129.9	111.6	108.4	n.a.
Total GDP at 1971 Factor Cost	368.2	384.4	366.2	350.1	336.5

Source: Ministry of Planning and Economic Affairs.

1/ Preliminary

Table 4

GOVERNMENT REVENUE AND EXPENDITURE, 1977-1982

(In million $)

Item	1977	1978	1979	1980	1981	1982
Budget Revenue	172.7	190.6	204.1	222.4	223.0	237.3
Recurrent Expenditure	117.7	137.2	156.5	196.8	241.0	257.5
Recurrent Budget Surplus/Deficit	55.0	53.4	47.6	25.6	-18.0	-20.2
Development Budget (Government)	35.5	77.7	82.5	57.9	57.1	54.7
Overall Budget Surplus/Deficit	19.5	-24.3	-34.9	-32.3	-75.1	-74.9
External Resources Expenditure	81.0	68.3	171.7	137.6	97.4	84.9
Government Surplus/Deficit	-61.5	-92.6	-206.6	-169.9	-172.5	-159.8
Financing of Surplus/Deficit	61.5	92.6	206.6	169.8	172.5	159.8
Foreign Financing (Net)	58.7	49.8	137.3	113.7	93.0	79.4
Foreign Loans (Net)	42.7	27.3	114.3	88.7	45.0	31.5
Disbursement	(65.0)	(45.8)	(148.7)	(112.6)	(49.4)	(37.0)
Amortization	(-22.3)	(-18.5)	(-34.4)	(-23.9)	(-4.4)	(-5.5)
Grants	16.0	22.5	23.0	25.0	48.0	47.9
Domestic Finance	2.8	42.8	69.3	56.1	79.5	80.4

Source: Ministry of Planning and Economic Affairs.

Table 5

SUMMARY OF GOVERNMENT REVENUE, 1978 - 1982
(In $ Millions)

Revenue Item	1978	1979	1980	1981	1982
Domestic Revenue	177.0	192.4	211.7	202.9	216.8
(As % of Monetary GDP at current Market Prices)	22.9	21.9	23.1	23.3	25.6
Taxes on Income & Profits	60.1	71.1	72.4	75.3	84.9
Iron Ore Profit Sharing	(11.2)	(10.4)	(8.3)	(3.3)	(3.4)
Corporations	(16.6)	(23.9)	(20.0)	(15.3)	(16.2)
Individuals	(26.5)	(31.5)	(38.6)	(49.1)	(49.0)
Austerity	(-)	(-)	(-)	(-)	(-)
National Reconstruction	(-)	(-)	(-)	(4.8)	(14.4)
Other	(5.8)	(5.3)	(5.5)	(2.8)	(1.9)
Taxes on Property	2.8	3.0	3.1	4.0	4.0
Taxes on Domestic Production	17.7	20.0	28.7	19.3	26.8
Taxes on Foreign Trade	73.0	78.6	69.1	80.3	67.3
Other Taxes	10.2	12.4	14.9	12.9	20.1
Non-Tax Revenue	13.2	7.1	23.5	11.1	13.7
Maritime Revenue	13.6	11.7	10.7	20.1	20.5
Total Revenue	190.6	204.1	222.4	223.0	237.3

Source: Ministry of Planning and Economic Affairs

Table 6

ECONOMIC CLASSIFICATION OF BUDGETARY EXPENDITURES

1977 - 1982

(In $ Million)

Classification	1977	1978	1979	1980	1981	1982
Recurrent Budget	117.7	137.2	156.5	196.8	241.0	257.5
Wages and Salaries	66.3	73.4	85.1	116.8	152.7	154.3
Goods and Services	24.1	31.5	39.2	33.9	42.3	53.8
Capital Formation	2.1	3.5	3.4	3.2	3.0	6.9
Interest	7.8	12.0	13.7	23.9	20.2	18.1
Transfers	11.3	12.1	13.2	15.7	19.5	20.1
Public Corporations	(1.0)	(0.7)	(-)	(-)	(-)	(-)
Other Transfers	(10.3)	(11.4)	(13.2)	(15.7)	(19.5)	(20.1)
Unallocable	6.1	4.9	1.9	3.3	3.3	4.3
Development Budget	35.5	77.7	82.5	57.8	57.1	54.7
Non-Capital	11.2	11.6	19.4	18.0	10.2	22.4
Wages and Salaries	(4.3)	(8.5)	(9.5)	(6.0)	(3.1)	(1.8)
Goods and Services	(5.2)	(2.6)	(6.3)	(8.1)	(6.1)	(12.2)
Current Transfers	(1.7)	(0.5)	(3.6)	(3.1)	(1.9)	(8.4)
Capital	20.5	54.7	47.4	25.3	27.6	24.2
Direct Expenditure	(20.0)	(50.7)	(47.4)	(25.3)	(27.6)	(24.2)
Capital Transfer	(0.5)	(3.4)	(-)	(-)	(-)	(-)
Transfers to Public Corporations	3.8	12.0	15.7	14.5	19.3	8.1
Debt Amortization	25.3	21.4	36.8	24.7	4.9	5.6
Foreign Loans	(22.3)	(18.5)	(54.4)	(23.9)	(4.4)	(5.5)
Internal Debt	(3.0)	(2.9)	(2.4)	(0.8)	(0.5)	(0.1)
Total Budgetary Expenditure	178.5	236.3	275.8	279.3	303.0	317.8
As % of GDP at Current Market Prices						

Source: Country Economic Memorandum, Ministry of Planning and Economic Affairs.

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Table 7

Public Sector Foreign Exchange Forecast FY 1983-1984
($ Millions)

SOURCES	JULY	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	TOTAL
Offshore Revenues	5.4	3.0	0.3	3.2	3.0	5.1	5.1	3.9	1.3	5.0	1.6	4.5	41.4
Public Sector Exports	–	–	–	–	–	–	–	–	–	–	–	–	–
L.P.R.C.1/	–	–	–	–	–	–	–	–	–	–	–	–	–
I.M.F.2/	–	–	21.4	–	–	13.4	–	–	13.4	–	10.8	–	59.0
E.S.F.2/	6.0	–	–	–	9.0	–	9.0	–	–	9.0	–	– (8.0)	33.0
W.A.C.H.	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	6.0
Miscellaneous	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	12.9	4.5	23.2	4.7	13.5	20.0	15.6	5.4	16.2	15.5	13.9	6.0	151.4
USES													
Payroll Cash3/	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	60.0
Petroleum Products1/	–	–	–	–	–	–	–	–	–	–	–	–	–
Debt Arrears4/	–	–	–	–	8.0	–	–	6.0	–	–	–	–	14.0
Debt Service5/	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.7	95.5
(of which IMF)	(2.6)	(1.8)	(2.8)	–	(1.7)	(2.8)	(1.8)	(2.8)	(1.7)	(2.3)	(1.9)	(2.8)	(25.0)
Miscellaneous	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
NBL Advances6/	1.5	–	5.8	–	–	–	–	–	–	–	–	–	7.3
Embassies & Scholarships7/	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	3.6
Total Uses	15.6	14.1	19.9	14.1	22.1	14.1	14.1	20.1	14.1	14.1	14.1	14.0	190.4
Surplus/Deficit	-2.7	-9.6	+3.3	-9.4	-8.6	+5.9	+1.5	-14.7	+2.1	+1.4	-0.2	-8.0	
Cumulative Surplus/ Deficit	-2.7	-12.3	-9.0	-18.4	-27.0	-21.1	-19.6	-34.3	-32.2	-30.8	-31.0	-39.0	-39.0

Footnotes Table 7

1/Assumes that oil import financing is taken entirely out of the public sector and that local banks' oil import financing is partially offset against public sector export earnings and LPRC offshore receipts; it further involves onshore dollar payments by LPRC to the local banks. It is further assumed that the $26 million in default to the now-defunct international oil financing facility will be rescheduled under the London Club (up-front payment not reflected here).

2/IMF timing and tranches reflect current thinking. It assumes that the May 1983 tranche will be folded into the September drawing. ESF amounts in the aggregate are correct; the timing and size of the tranches (except for July 1983 and July 1984) are arbitrary to an extent. It is proposed that the final $8 million would be payable sometime between July and October 1984.

3/Source: NBL and IMF.

4/The IMF assumes that debt arrears under the 1983/84 standby are $14 million; these will be eliminated by May 1984.

4/Debt service in the GOL 1983/84 budget is $935 million (interest $54.9 million; amortization $38.6 million).
Source: BOB.

5/Source: MOF.

6/Source: NBL/MOF.

Table 8

BALANCE OF PAYMENTS, 1978-1982
(in millions of dollars)

	1978	1979	1980	1981	1982 1/
Trade balance	5.6	30.1	66.5	51.8	49.0
Exports (f.o.b)	486.4	536.6	600.4	529.2	477.4
Imports (c.i.f)	480.8	-506.5	-533.9	-477.4	428.4
Non factor services	- 54.2	- 63.9	- 67.0	- 60.1	- 62.0
Credits	13.6	17.0	13.1	11.5	10.0
Debits	- 67.8	- 80.9	- 80.1	- 71.6	- 72.0
Balance of good and NF services	- 48.6	- 33.8	- 0.5	- 8.3	- 13.0
Factor income	-139.2	-136.4	-139.6	-125.2	-132.1
Government interest payments	- 13.2	- 22.3	- 22.3	- 22.6	- 18.1
Remittances	- 32.4	- 35.0	- 32.0	- 33.0	- 35.0
Factor payments	- 93.5	- 79.1	- 82.3	- 58.6	- 64.0
I M F charges	--	--	- 3.0	- 10.0	- 15.0
Transfers	29.6	34.7	34.7	68.1	71.4
Grants to public sector	16.0	23.0	25.0	48.0	47.9
Grants to private sector	--	--	--	--	3.0
Maritime revenues	13.6	11.7	10.7	20.1	20.5
Balance of current account	-158.2	-135.5	-104.4	- 65.4	- 73.7
Capital movements	135.5	87.5	42.6	16.1	15.7
Government borrowing	45.8	148.7	112.6	49.4	37.0
Government loan repayment	- 18.5	- 34.4	- 23.9	- 4.4	- 5.5
Net direct foreign investment	108.2	- 26.8	- 46.1	- 28.9	- 16.8
Change in reserves	- 22.7	- 48.0	- 61.8	- 49.3	- 58.0
Year-end level of reserves	8.6	- 39.4	-101.2	-101.2	-208.0
National Bank	13.1	- 12.4	- 71.9	-109.8	-166.0
Commercial banks	- 4.5	- 27.0	- 29.3	- 40.7	- 42.0

Source: Country Economic Memorandum, Ministry of Planning and Economic Affairs,

1/ Preliminary

Table 9

External Public Debt Outstanding 1976 - 1982
(in millions of $)

	1976	1977	1978	1979	1980	1981	1982
Total disbursed and undisbursed	302.2	380.0	655.1	740.8	754.8	766.6	853.2
Suppliers credits	16.2	21.1	20.4	24.1	20.7	17.0	14.3
Financial institutions	10.5	41.2	153.5	145.2	138.1	129.6	128.1
Multilateral loans	99.8	135.6	218.4	268.2	281.9	287.7	362.8
Bilateral loans	175.7	182.1	262.8	303.3	314.2	332.4	348.0
Total disbursed	206.3	263.6	343.4	463.1	537.3	614.7	754.6
Suppliers credits	14.8	17.8	18.0	17.7	14.3	11.9	10.8
Financial institutions	10.5	41.2	81.4	131.2	136.6	129.6	128.1
Multilateral loans	43.4	59.3	84.9	129.2	168.2	197.4	299.5
Bilateral loans	137.6	145.3	159.1	185.0	218.2	275.8	316.2

Source: Country Economic Memorandum, Ministry of Planning and Economic Affairs.

TRANSITION TIME-TABLE[2]

May 12-June 30, 1983	County/Territorial Conventions to select Members of the Constitutional Advisory Assembly.
May 15, 1983	Creation of Special Elections Commission by PRC Decree.
July 1, 1983	Special Elections Commission becomes operational.
July 26, 1983	Induction of Assembly Members.
August 1-Sept. 30, 1983	Sitting of Advisory Assembly Members on draft Constitution.
September 1, 1983	Special Elections Commission presents draft elections laws to PRC.
October 1, 1983	PRC promulgates decree on elections laws.
	Special Elections Commission presents draft decrees on the delimitation of electoral constituencies and the registration of voters to the PRC.
November 1, 1983	PRC issues decrees on the registration of voters and the delimitation of electoral constituencies.
January 9-19, 1984	Referendum and Voters' Registration.
April 12, 1984	Lifting of ban on political activities; political parties permitted to organize and register with Special Elections Commission.
October 1, 1984	Voters' registration list published.
November 1-10, 1984	Verification and handling of challenges of national voters' registry.
Nov. 19-Jan. 18, 1985	Political parties permitted to begin campaigning.
January 2, 1985	Final registration list published.
January 18, 1985	Political parties campaigning ends.
January 20, 1985	Election Day.
Jan. 20-25, 1985	Ballots tabulated and official results announced.
Jan. 26-Feb. 5, 1985	Period for challenges.
Feb. 6-28, 1985	Period for resolving challenges.
March 1, 1985	Official certificates of elections issued.
April 5, 1985	Legislature convenes for organizational purposes.
April 12, 1985	Inauguration Day.

Table 10

[2] As prepared by National Constitution Commission.

Table 11

Estimated Costs of Election in Liberia[1]

($ U.S.)

Permanent Staff	485,000
Temporary Staff	625,000
Start Up (est. 18% of permanent staff salaries for desks, typewriters, duplicating machines, telephones, etc.)	90,000
Office Supplies and Consumables (est. 9% of permanent staff salaries)	45,000
Travel and Per Diem (for registrar and poll worker training, county officials, cartographer, etc.)	50,000
Special Travel (for overseeing out-of-country printing and production)	25,000
Postage	5,000
Printing (election law, voter registration forms, ballots and promotional materials)	1,198,500
Registration and Election Day Supplies (ultra-violet lights, voting booths, flags)	502,000
Other (heavy duty vans)	250,000
Total	$3,275,500

1) As prepared by William C. Kimberling in Conducting Elections in the Republic of Liberia, May 25, 1983.