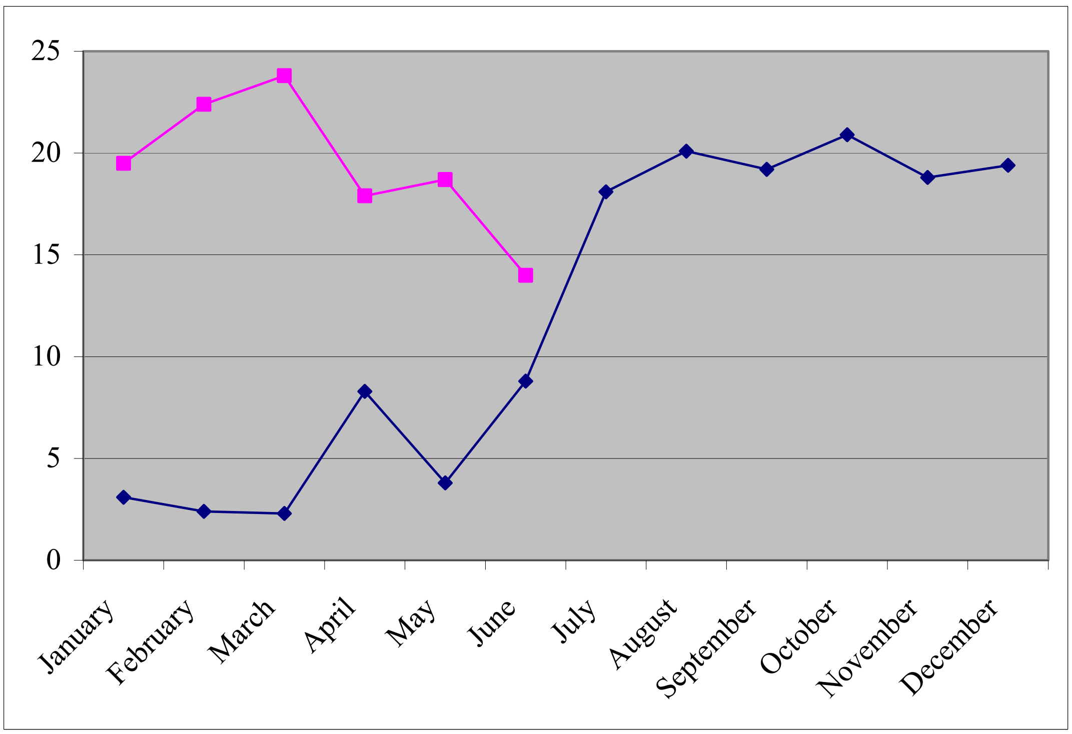
LIBERIA ECONOMIC REVIEW

JULY 2001 - JUNE 2002

INFLATIONARY TREND



UNDP - LIBERIA

MONROVIA, LIBERIA

December 2002

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1.0 Introduction

The Liberia Economic Review (LER) (2001-2002) is intended to contribute to upstream policy dialogue in the area of Economic Policy Management. Through regular publication of these Reviews, which analyzed performance of the various sectors of the Liberian economy, opportunity is provided to policy makers and the government to obtain an independent review of national economic performance. This would enable policy makers to rethink their policies, and redesign and/or adopt alternative policies.

Unlike previous LERs, this edition focuses on macroeconomic issues, growth and trends analysis. As in the previous editions, almost all major sectors are covered, including political, socio-economic and development issues, poverty and growth, monetary and fiscal policies, and debt issues. The Review concluded with a summary of United Nations Development Programme (UNDP) – Government of Liberia (GoL) Cooperation for 2002, as well as immediate challenges and opportunities for recovery and development in Liberia. Statistical Tables are annexed for an appreciation of the trends analysis in Liberia.

2.0 Overview of Political, Socio-Economic and Development Updates

The political and socio-economic situations in Liberia have not changed significantly since the LER last edition 2000/2001. The political dispensation ushered in during the 1996 multi-party elections is still in place, with President Charles Taylor as its Head. The election of Charles Taylor as the President was predicated upon the believed that the Taylor led government would have the capacity to eliminate all threats of renewed civil war, and with peace and tranquility, the country would return to economic recovery, growth and development.

This positive anticipation of a post civil war era in Liberia has not materialized. It was only two years into the term of the Taylor-led government that dissidents launched their arm attacked on the Liberian Government with the view of removing President Charles Taylor from power by force. The war between the government and dissident forces has caused the displacement of over a hundred thousand people from Lofa County, and other counties of Liberia.

The relationship between the GoL and its neighbors is not cordial. The Liberian Government continues to accuse the Guinean Government of supporting Liberian dissidents with arms and free passage for reculpuration. The Guinean Government is also accusing Liberia of supporting Guinean dissidents. The situation with Sierra Leone and Cote d'Ivoire is not any better. The GoL was accused of supporting the disbanded Revolutionary United Front (RUF) rebels through diamond smuggling and gun running. This made the Liberian government's relations with the international community sour. Sanctions were imposed on the GoL by the UN Security Council, binding the exportation of rough diamonds from Liberia, the grounding of Air Plans flying the Liberian Flag, and travel restriction on senior government officials.

The security situation in Liberia continues to deteriorate and in February 2002, the government responded by imposing a State of Emergency, which restricted the movement of Liberians, diplomatic missions and aid agencies. Many Liberians and foreign nationals, especially the Lebanese and non-essential UN Staff were evacuated from the country. The political situation in Liberia remains fragile and wanting in many respects, i.e., respect for fundamental human rights, and the rule of law, especially the right to free speech, thought and life. The human right abuses by armed groups, ex-combatants, and high operatives are of warranted concern.

Curtailing excesses from government's security forces, de-traumatizing ex-combatants, and retraining them would contribute immensely to creating a more favorable environment in Liberia. The creation of sustainable peace is a necessary pre-requisite for economic recovery, growth and development in Liberia. With continuous warfare, couple with the nation-wide insecurity, very little development has been achieved in Liberia.

Regarding economic performance, the data available from government sources indicate a diminishing growth and non-development. In 1998, IMF Staff and the GoL estimated Liberia's annual growth rate of about 5%. But recent estimates by the Ministry of Planning and Economic Affairs indicated that the economy is declining by 2% annually since 2000. Accordingly, the Gross Domestic Product (GDP) for 2002 has been re-estimated as US$456.11 million (current market prices), with the agriculture sector accounting for 57%, and forestry 24% of GDP. The Agriculture Sector declined by 1.9% from US$265.68 million in 2001 to US$260.74 million in 2002. In 2003, it is further projected to decline to US$255.43 million. The Tertiary Sector has also declined from US$81.01 million in 2001 to US$79.51 million in 2002. The Tertiary Sector remains depressed and inactive. Presently, the country has no reliable electric power and pipe borne water sources. As such, trade, industry and commerce are at their lowest; with only four (4) financial institutions presently operating. The public sector continues to increase, both in terms of manpower and logistics in the name of combating the dissident forces, which has been at the expense of expenditure on personnel services (nine months in salary arrears), education, health, safe water and sanitation services. Majority of public schools and health facilities throughout the country are not functioning due to non-payment of teachers, the lack of instructional materials, and poor classroom conditions. The country's public health services would have been in a precarious state had it not been for donor support in the rehabilitation and reconstruction of health facilities and the provisions of essential drugs, medical and non-medical materials. Access to health services is limited by poverty (lack of money to pay for services), as well as the inaccessibility of health facilities especially in the rural areas.

Presently, no new investment initiatives are coming into the country to absorb the unemployed labour force. The unemployment rate estimated as 85% in the formal sector, (computed in 1997/1998 by United Nations Common Country Assessment (UNCCA) has not been updated. Due to the on-going civil war, which came closer to Monrovia in 2002, many small business owners fled the country, while over 100,000 people were displaced from their villages, towns, and productive farms. As such, if a new employment survey were conducted, the result would be higher than the current rate.

According to the Ministry of Labour, the informal sector (petty trading) is employing (self employment) about 30% of the labour force. The rest of the unemployed, the disguised unemployed and poverty stricken population of Liberia have virtually become beggars, begging everybody. Public sector employees are hardly behind their desks, and if they were found there, they would not perform a piece of job without a tap. This slows downward productivity and increases corruption. The Commerce sub-sector is actually in a state of recession. The majority of customers no longer has the purchasing power to procure high quality and luxury goods, except for high placed public officials and security personnel. Almost every commodity in the market, for instance vehicles and wearings are used products. Most of the pharmaceuticals on the market are of poor quality and nearing expiration, as such, malaria and other communicable diseases are becoming drug resistant.

Liberia is poverty stricken, and is amongst the least developed countries, with a Human Development Index (HDI) of 0.3131 (National Human Development Report (NHDR) 2001/2002) in progress). This level of human development is based on the Liberia Demographic Health Survey (LDHS) (1999/2000); it would be less if other surveys were conducted in 2003. The development challenges facing the country have not changed significantly following the civil war. They include:

- Weak institutions of governance, human rights and the rule of law;
- Destroyed capital and social infrastructure;
- National and sub-regional insecurity;

- Increasing HIV/AIDS;
- Poor macroeconomic policies and non-structural reforms;
- Unfavorable environment for private sector development;
- The restructuring and re-training of the military and para-military forces, and the re-integration and resettlement of ex-combatants; and
- Resettlement of IDPs, returnees and refugees.

Nonetheless, these challenges are not insurmountable. However, the main hurdle facing the international community, especially the UN System is the lack of commitment on the part of the government to addressing the challenges. The agenda of the government is focus on political power and national security, which could be achieved within the context of peace and reconciliation, prudent and robust macroeconomic policies and structural reforms.

The government continues to pursue poor diplomatic and domestic policies that have placed Liberia at odd with the UN Security Council, USA, UK, the Netherlands and other bilateral donors. The IMF and the World Bank suspended lending to Liberia in 1988 due to non-payment of debt arrears and failure to pursue acceptable macroeconomic reforms through the Staff Monitored Programme (SMP). Even for humanitarian programme (food, shelter, health services and clothes for IDPs), aid agencies, including UN Agencies are finding it difficult to mobilize funding for Liberia's development programme.

There is however a window of opportunity given that Liberia is heading for General and Presidential Elections in October 2003. The Elections offer a new phase in Liberia's political environment and could provide an opportunity for a new start in reconciling Liberians, and Liberia vis-à-vis the international community. However, the situation up to elections, and the election process should be guided and supported to a successful end. This task is not government's responsibility alone, but all stakeholders, including CSOs, I/NGOs, Human Right Groups, the Liberian people themselves and the international community. There is a need for an objective review of the electoral process, and support provided in order to bring all Liberians together, including dissidents and exile politicians for the sake of peace, and for the holding of peaceful and transparent elections. The contrary would only plunge the country into continuous civil strife, displacement of people and increasing incidence of poverty.

2.1.1 Economic Growth and Human Development

The Liberian economy is based on few activities, logging/timber production, commerce and trade (export and import) and agriculture. The logging activities have grown in value by 15.5%, from US$74.881 million in 2001 to US$86.485 million in 2002. In terms of international trade, Liberia's trade deficit has more than double from US$31.888 million in 2000/2001 to US$209.883 million in 2001/2002. The growth poles, including Manufacturing, Industry and Agriculture are beset by lack of investment and poor enabling environment.

In order for the economy to grow, the war and insecurity must end, and sound macroeconomic policies and structural reforms must be pursued in order to attract foreign investment and mobilize domestic savings for investment. This can be done by the government, provided the political will exists, and with assistance from the international community.

2.1.2 Human Development

The downward trend in the country's economic growth and the continuous non-existence of basic social services has deepened the incidence of poverty and human deprivation. In Liberia, absolute poverty is estimated as 76.2% indicating that three-quarters of the people are living on less than US$1.00 per person per day, and extreme poverty is estimated as 52% of people surviving on less than US$0.50 per person per day. Accessibility to basic social services is estimated as less than 30% of the pre-war level; HIV/AIDS Prevalence Rate is estimated as 8.2% and adult literacy rate as 37%. Life Expectancy is estimated as 47.7 years, declining from 64 years in 1988 (pre-war). The HDI is 0.3131 for Liberia. This is an improvement over the HDI for 1999, which was computed to be 0.276. The increase in the HDI is attributed to the increase in life expectancy from 42.3 years to 47.7 years, the Adult Literacy Rate from 31.2 to 37.7 years, and Combined Education Attainment Ratio from 58.8 to 62 (NHDR 2003 in progress).

3.0 The Real Sector

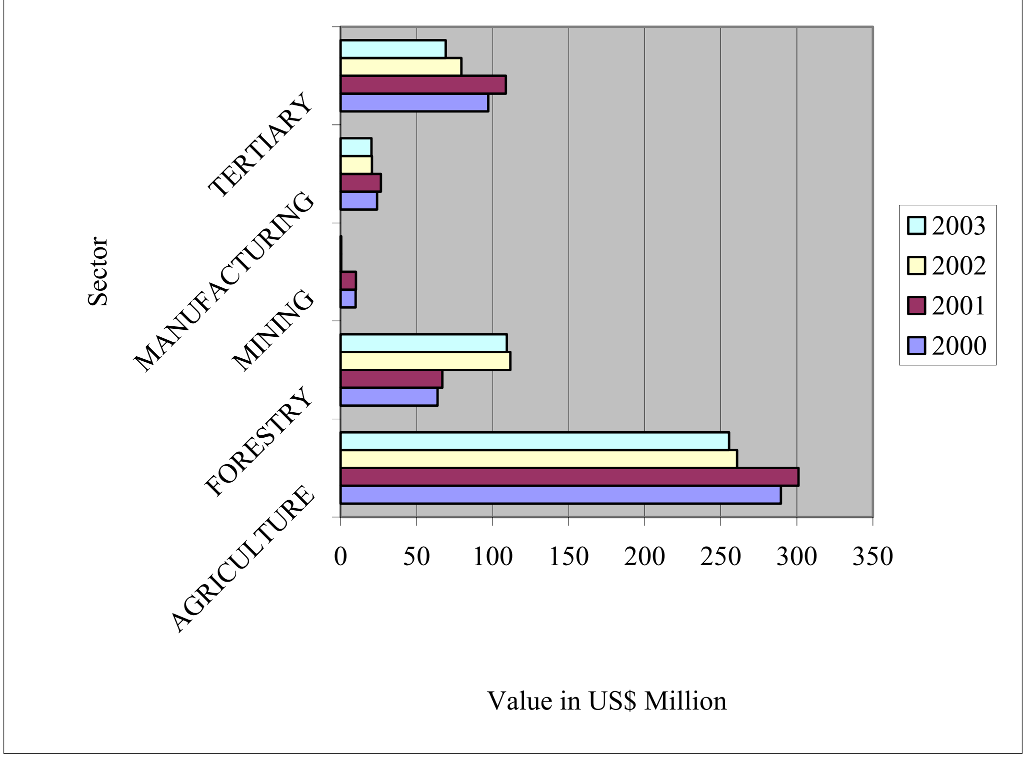
In the Real Sector, Agriculture is the largest, contributing 57% of GDP in 2002 at current market prices[1]. The main activity in this sector is rubber production, which accounted for 20% of agriculture output value in 2002. Coffee and cocoa productions are being hampered by the civil war, and the general national insecurity. Cocoa and coffee accounted for only 0.2% of GDP. Forestry/logging sector accounted for 24.4% of GDP at current market prices in 2002. This fast growing logging activity is threatening the remaining Guinea forest in Liberia. There are alarming concerns about environmental degradation and desertification.

The Tertiary Sector accounted for 17% of GDP in 2002. This Sector comprises of trade, and services (construction, finance, utilities and tourism, among others). It is be-crowded by the ravages of the war, poor infrastructure, structural bottlenecks, and monopolistic and rent-seeking behavior. Only four commercial banks are operating at the moment, compared to 14 commercial banks before the civil war (1989-1996).

The Manufacturing Sector accounted for only 5% of current GDP. This sector is still rudimentary; the main activity is packaging finished and/or semi finished products from abroad, namely cement, alcoholic beverages, soft drinks, detergents, painting furniture, fixture and mattresses (Annex 2). The content of value added is very low. There are only 9 companies in this sector, and majority are protected by Law (Ministry of Labour).

[1] Ministry of Planning & Economic Affairs estimates of GDP

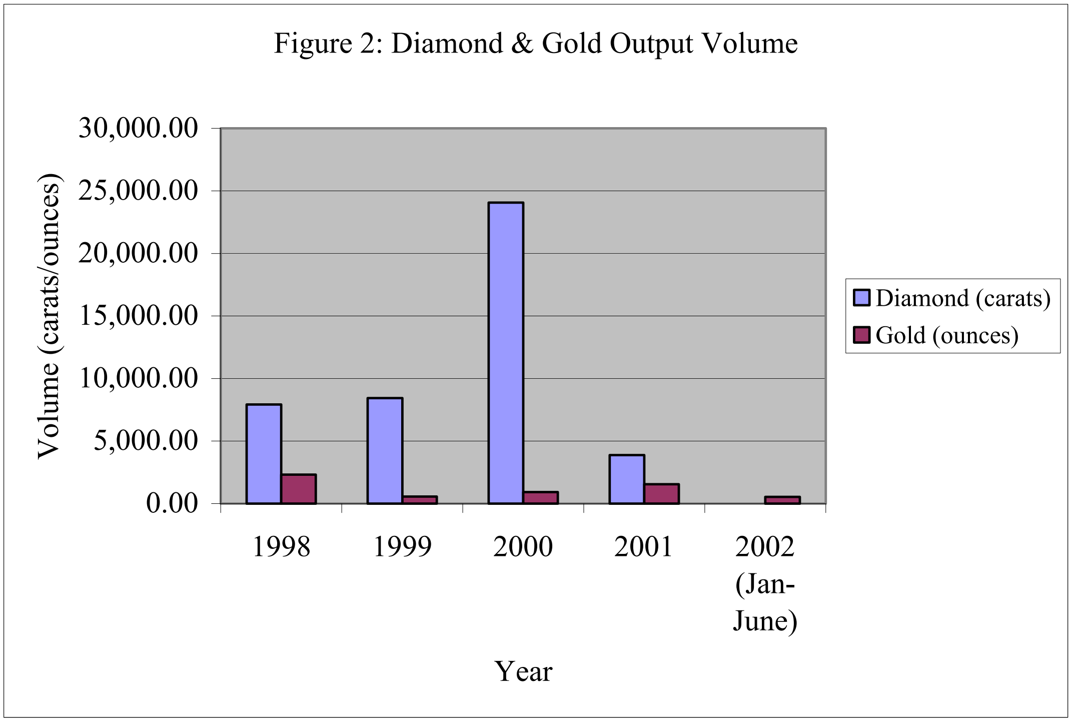
Figure 1: Real Sector Contribution to GDP



Source: Ministry of Planning and Economic Affairs

The Mining Sector contribution to GDP in 2002 was negligible. The only activity was gold mining, which accounted for 0.06% of GDP. Statistics reveals an increment in gold mining from 182.26 ounces in July – December 2001 to 528.30 ounces in January to June 2002, reflecting an increased of 190% (Ministry of Lands, Mines and Energy).[2] Diamond mining is constraint by the UN Sanctions. The export of rough diamonds from Liberia is band until a certification regime is put in place.

[2] Statistics is by far lower in this edition than in the LER July 2000-June 2001, Ministry of Lands, Mines & Energy, CBL Statistical Bulletin



Source: Ministry of Lands, Mines and Energy

In summary, the outlook of Liberia's Real Sector is gloomy. The Agriculture Sector is the only sustainable and renewable source for national income growth, if new technology is applied and appropriate complementary facilities for processing and storage, as well as incentives for investment are provided. Also, peace must be restored in Liberia, so that cocoa and coffee farms, which presently lied in ruin and unattended to can be revitalized. The Agriculture Sector, like other sectors, is affected by the effects of the civil war. The other sectors, Mining, Manufacturing, and Tertiary would require substantial capital investment, if they were to make any significant contribution to national income.

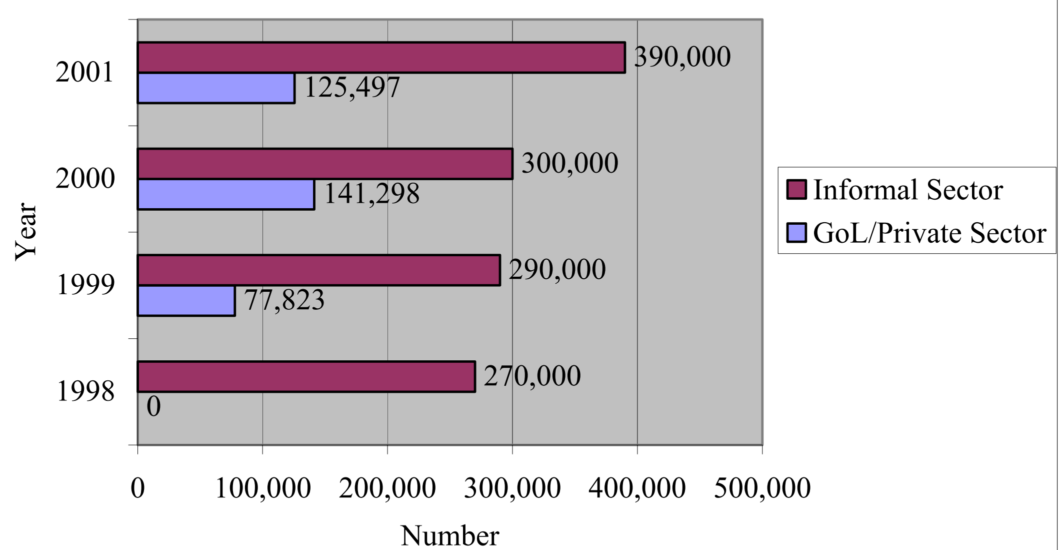
The investment climate is presently affected by the poor security situation, political isolation, poor communication, and mal-financial management system in the country. Almost all of the commercial banks in the country do not facilitate large trade ventures, especially through letters of credit. Also, because of limited investment and exports, foreign exchange earnings and reserves are limited, which affect the importation of goods into the country, as well as the country's balance of payment position.

There seems to be over emphasis on the importation of consumer products (food and live animals which accounted for 30.3% in 2002), building materials, and foodstuff. Importation of heavy machinery for investment has ceased due to the collapse of major economic activities during the era of the war. Basic infrastructure such as electricity and water supply has not been restored, even in the City of Monrovia. Iron ore mining, which accounted for more than 50% of GDP (pre-war) has not been reactivated.

4.0 Public and Private Sectors Employment

The total labour force in Liberia is estimated as 1.05 million. In 2001, the Ministry of Labour recorded total employment to be 522,519 or 49.8%. Of this figure, the formal employment sector accounted for 132,519 or 25.4% of the employed. The government sector accounted for 44% of formal sector employment; while the informal sector accounted for 74.6% of total employment, which is 30% of the total labour force. The informal sector (petty trading) has become an alternative copping mechanism and a source of livelihood (Annex 4). Majority of the unemployed are crowded in slum settlements, and displaced camps around Monrovia and other urban towns. The apparent increase in the share of the informal sector with respect to employment is attributed to the on-going civil war and the displacement of people from their towns, villages and productive farms. Employment creation is beset by structural and policy limitations, which must be addressed. The security environment must improve; and in terms of policies, investment incentives and the tax laws need to be reviewed to make them competitive and attractive to private indigenous and foreign investors. There is an apparent increase in the formal sector unemployment rate from its estimated 85%. However, there has been no survey to determine the current level of unemployment in the country.

Figure 3: Employment Statitics



Source: Ministry of Labour

5.0 Fiscal Performance

5.1.1 National Budget

Since 1997, national budget has not exceeded US$100 million or 1/3 of the pre-war level. For the period July 2001 – June 2002, the national budget was US$82.8 million, which is 8.7% less than the (2000/2001) budget. The budget was fully funded by domestic revenue and loans. The budget strategy focuses on "laying the foundation for long term growth, transparency and accountability in public sector management, adopting a macroeconomic framework for the efficient use of the budget as a management tool, diversification of agriculture and industrial activities, and creating an enabling environment for private sector development”. The main challenge however is adhering to the budget, spending in keeping with budgetary appropriations. There has been a lot of extra-budgetary expenditures, leaving many sectors, especially the social sector un-funded. The poor budgetary policy has contributed to deepening the inequality and poverty among the people of Liberia.

Of the total national budget for 2001/2002 of US$82.83 million, 60% was apportioned for recurrent expenditure, and 40% for development expenditure. Of the total recurrent expenditure, allotment capital transfers accounted for 35%; personnel services, 22%; good and other services, 15%; and current transfers and subsidies accounted for about 11% (Table 1).

Table 1: Liberian Government Budget FY 2001/2002 (In US$ million)

Categories	Amount	%
Recurrent	49.85	60
Personnel Services	(18.28)	(22)
Good & Other Services	(12.60)	(15)
Current Transfers & Subsidies	(9.19)	(11)
Fixed Assets	(2.54)	(3)
Capital Transfers	(29.00)	(35)
Development	32.98	40
Total	82.83	100

Source: Bureau of the Budget

In terms of budgetary allocation by sector, County Development (CD) accounted for the largest amount, 35.02%; followed by General Administrative Services (GASS), 32.05%; Social Community Services (S&CSS), 17.48%; Government of Liberia Special Commitment (GoL/SC), 13%; and Economic Services (ES) accounting for the lowest, 2.42% (Table 2). It is worth noting that budgetary allocation is far from actual budget execution.

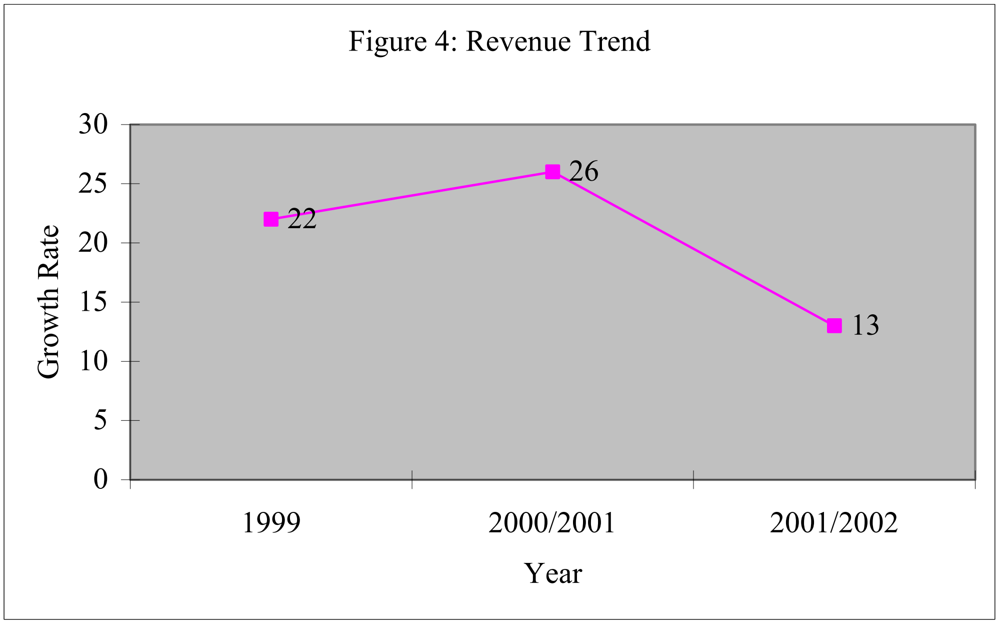
Table 2: Budgetary Distribution by Sector (US $ Million)

Categories	Recurrent	Development	Total	%
GASS	24.99	1.55	26.54	32.05
S&CSS	12.67	1.81	14.48	17.48
ESS	1.42	0.59	2.01	2.42
GoL/SC	10.50	0.27	10.77	13.00
CD	-	29.00	29.00	35.02
Total	49.58	33.22	82.80	100

Source: Bureau of the Budget

5.1.1.1 Revenue Performance

Actual revenue for the period 2001/2002 was US$71.8 million, which is 13.2% lower than budgetary projection; and compared to the past fiscal year, this represents a decline by 13 percentage points (see Figure 4). Customs and Excise taxes accounted for the largest share of national revenue, 28.6%; followed by direct taxes, 20.6%; FDA Levy, 17.5%, and Maritime, 14.4%, respectively. According to GoL, the civil war between government and dissident forces in Liberia is responsible for the decline in revenue generation (Annex 4).

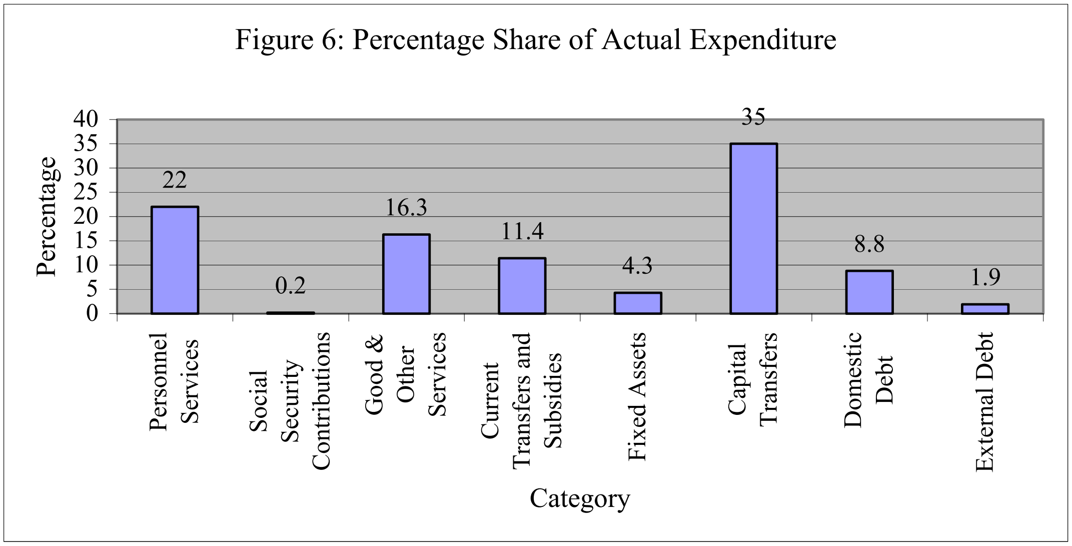


Source: Bureau of the Budget

5.1.1.2 Expenditure Performance

Government's reports indicate that total expenditure incurred in 2001/2002 amounted to US$ 82.81 million; this yielded a budget deficit of US$ 11.01 million. Of this amount, capital transfers accounted for 35%; personal services, 22%; goods and other services, 16.3% and current transfers and subsidies, 11.4%. It is worth noting that the picture indicated is that personnel services (salaries and wages) were fully funded during the period, which is far from reality. The Government was in six months salary arrears by the end of the fiscal period.

The government has indicated that the prevailing civil conflict in the country is burning-up substantial amount of revenue. This, the Government claims, is responsible for the low funding of social services and community development. The social services are minimally operating owing to assistance from the donor community, UN Agencies, EU, USAID, and I/NGOs, etc.



Source: Bureau of the Budget

6.0 Money, Banking, Prices

6.1.1 Monetary Policy Development

The Central Bank of Liberia (CBL), was founded in 1999, and mandated to put into place several monetary mechanisms to ensure that the monetary policy is properly managed and controlled. Albeit, policies that have been developed include targeting low inflation and a stable pricing environment; maintaining stability in the value of the Liberian Dollar against other convertible currencies; maintaining broad money growth; ensuring supportive growth of credit to the private sector; facilitating the establishment of interbank markets, which will ultimately provide the CBL with an avenue for effective monetary policy intervention purposes; ensuring that interest rate policy strikes an appropriate balance between savings and resource mobilization; if need be, reducing the reserve requirements to free resources for use by Commercial Banks to extend credit to customers in the private sector; creating a liberal financial environment to ensure free entry and exist without undue disturbance to the financial system.

As it is known, several commercial banks have either voluntarily closed down or faced bankruptcy prior to the establishment of the CBL. Commercial Banks' failures have been due to poor and inefficient management, huge service burden, non-performing loan portfolios, and huge public sector debt. Today, there are only four functional commercial banks in Liberia, which the CBL is doing business with. They include the Liberia Bank for Development and Investment (LBDI); International Bank (Liberia) Limited; ECO Bank of West Africa; and the Liberian Trading and Development Cooperation (TRADEVCO). The CBL has stabilized interest rate by setting a ceiling that commercial banks lend to the public. Additionally, the CBL has institutionalized the parallel market into foreign exchange bureaux, which are found in almost everywhere in Monrovia and in other parts of the country. The CBL is liquidating the Liberia United Bank Incorporated (LUBI) through a Liquidation Team.

The CBL during the period intervened to stabilize the money supply and the exchange rate between the Liberian Dollar and the United States Dollar as well as other currencies. However, owing to the fact that CBL does not have absolute control over the monetary system in Liberia, the few big businesses sometimes turn themselves into speculators, taking advantage of national insecurity to hoard all the United States Dollars from the market through the sale of Liberian Dollar at any rate; and during the festive seasons, the speculators would artificially caused the exchange rate to fall by holding on to the Liberian Dollar thus appreciating it against the United States Dollar. This has caused imbalances in the exchange rate between the Liberian Dollar and United States Dollar in the economy. This phenomena has led to galloping increases and fluctuations in the exchange rate on the Liberian market (see section 6.1.1.5)

6.1.1.1 Commercial Banks' Financing of Economic Activities

Loans and advances per major economic activities witnessed a drastic reduction during the period under review. This was attributed to the lack of confidence in the investment climate by financial institutions. Lending to the Agriculture Sector dropped by 2.4 percentage points from 14.3% in 2001 to 11.9% in 2002. Trade, hotel and restaurant increased by 1.4 percentage points from 15.4% in 2001 to 16.7% in 2002 (see table 3).

Table 3: Commercial Bank Lending by Economic Sector 1998-2000 (L$ '000)

SECTOR	Dec.-1999	Dec.-2000	2001	2001 % share of total loans	2002	2002 % share of total loans
Agriculture	739,670	154,158	656,699	14.26	365,201	11.91
Mining & Quarrying	450	0	155	0.00	121	0.00
Manufacturing	3,441	171	11,172	0.24	25,119	0.00
Construction	1,250	14,801	44,350	0.96	37,823	1.23
Trans., Storage & Communication	76,722	432	21,138	0.46	13,530	0.44
Trade, Hotel & Restaurant	76.722	119,865	708,805	15.39	514,038	16.77
Other	938,702	603,056	3,161,157	68.67	2,109,261	68.82
Total	1,760,239	892,483	4,603,476	100	3,065,093	100

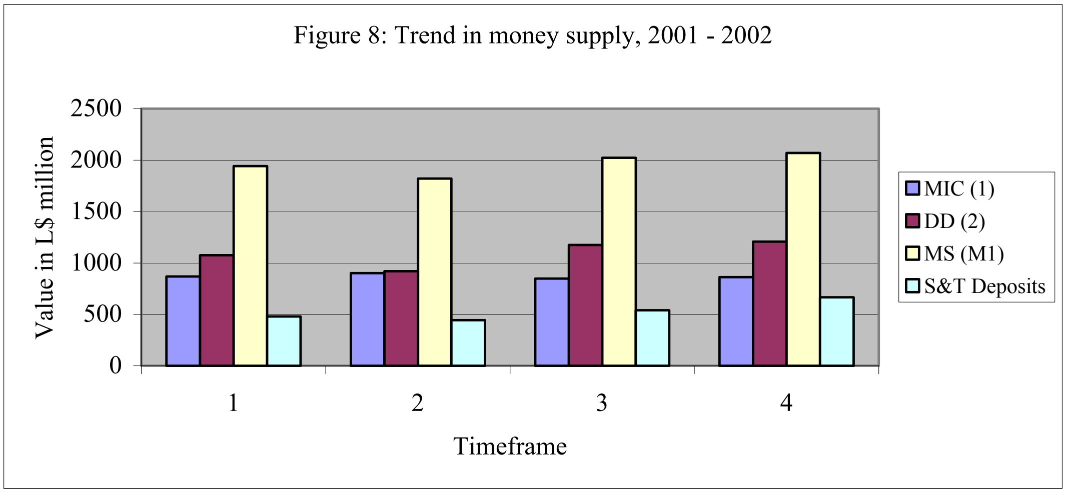
Source: Central Bank of Liberia

6.1.1.2 Money Supply

In fiscal year 2001/2002, Broad Money Supply experienced some fluctuation between the last quarters of 2001 and the first two quarters of 2002, averaging L$2,496.65 million. The first half of 2002 experienced a steady increase in money supply, which led to high inflationary pressure in the market. This was particularly due to national insecurity and the conscious decisions of business people to trade the Liberian Dollars for the United States Dollars, which is needed for importation of commodities.

Money In Circulation (MIC) increased by 4%, from L$867.4 million during the third quarter of 2001 to L$902.2 million during the fourth quarter of 2001. The increased in MIC during the fourth quarter was due to increasing demand by the public to hold cash for Christmas transaction purposes. Both Demand Deposits (DD), and Time and

Savings Deposits decreased during this time of the year (see Annex 8 & Figure 8). The first two quarters of 2002, experienced lower MIC but higher DD and Time/Saving Deposits revealing declining demand for cash and increasing demand for interest income.

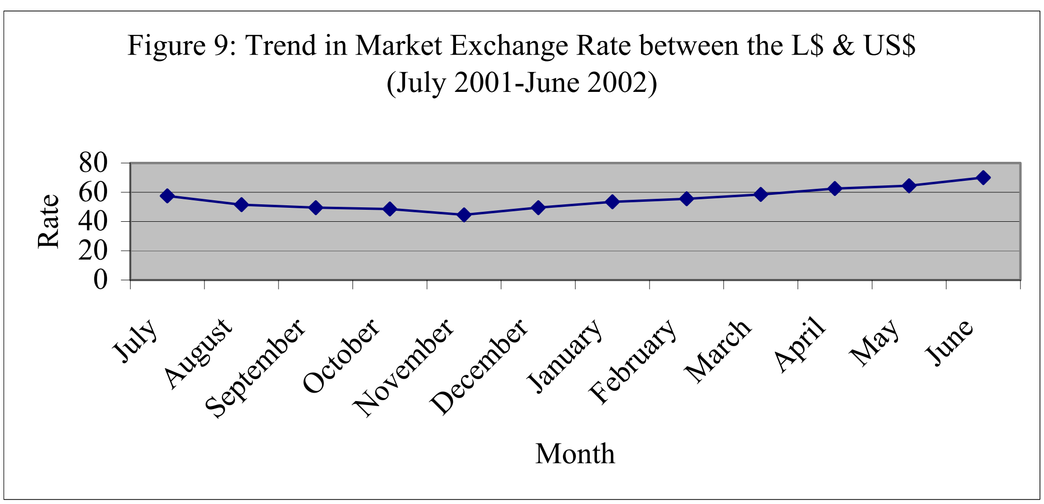


Source: Central Bank of Liberia

Note: 1 = 3rd Quarter, 2001; 2 = 4th Quarter, 2001; 3 = 1st Quarter 2002, and 4 = 2nd Quarter, 2002.

6.1.1.3 Exchange Rate

The exchange rate is determined by market forces (supply and demand). Due to the lack of major economic activities in the country, and the government's inability to attract foreign exchange, the fluctuation in the exchange rate is attributed to the action of few business entities. The exchange rate between the Liberian Dollar and the United States Dollar continues to increase steadily. On the average, the exchange rate for the third and last quarters in 2001, stood at L$52.8 and L$47.5 to US$1.00; and the first and second quarters in 2002 showed L$55.8 and L$65.6 to US$1.00, respectively.

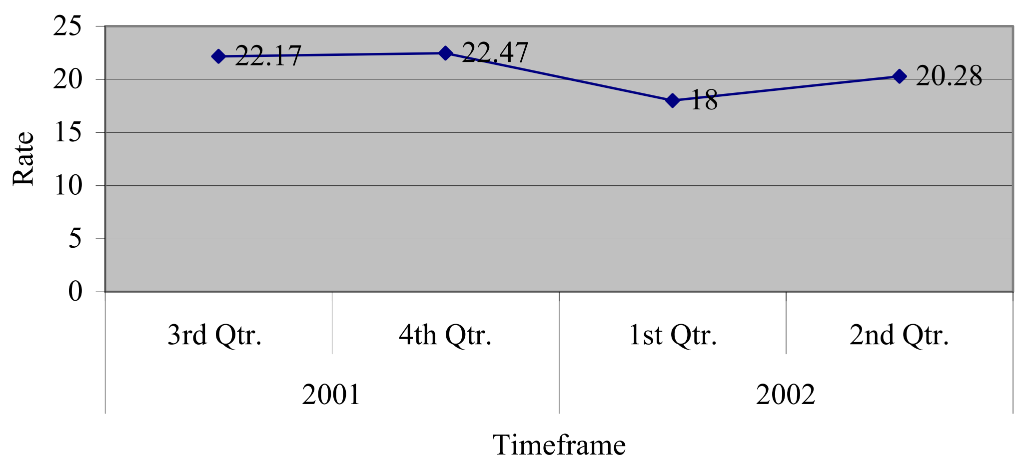


Source: Central Bank of Liberia Statistical Bulletin

6.1.1.4 Commercial Banks' Lending Rate

The average lending rate showed an increase by 0.3 percentage point from 22.17% to 22.47% during the third and fourth quarters of 2001, and 2.3 percentage points from 18.0% to 20.28% (first and second quarters of 2002). In order to contain the escalation in the lending rate, the CBL set interest rate ceiling as an inducement for the public to do business with commercial banks. As for the average mortgage and certificate of deposits (CDs), the rates were held constant in 2001 and 2002 at 16% and 5%, respectively. The personal lending rate increased by 1.0 percentage point from 12.68% to 13.68% during the third and fourth quarters in 2001, and decreased by 4.04 percentage points, from 21.96% to 17.92% during the first and second quarters of 2002 (See Annex 11).

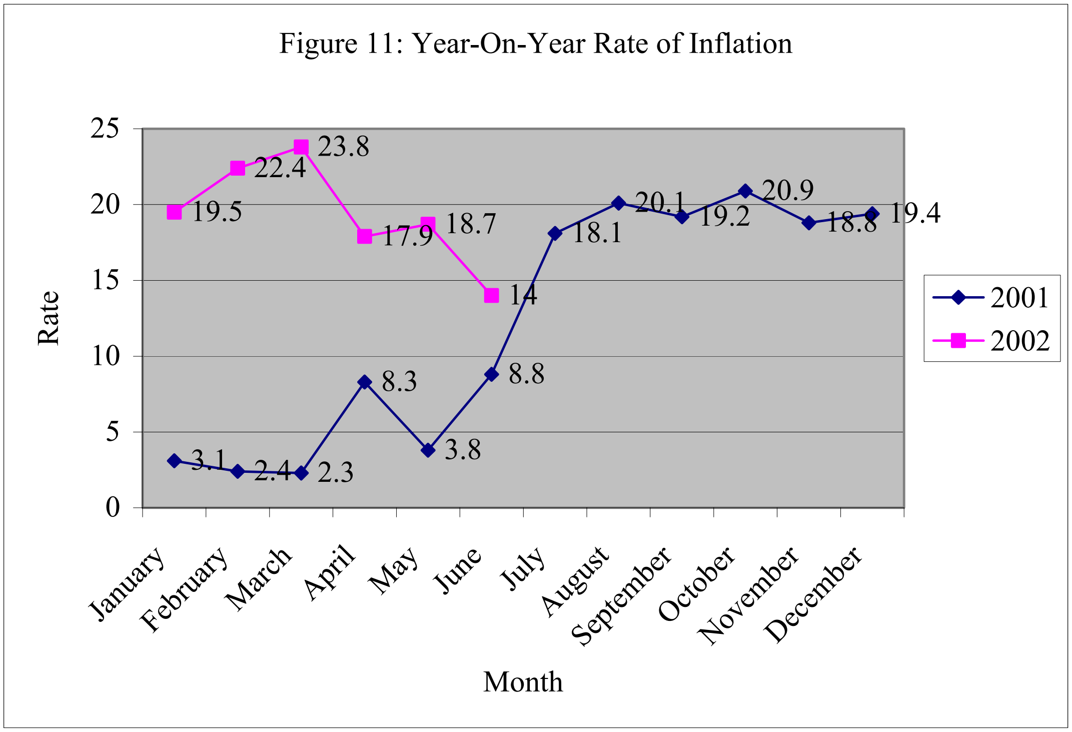
Figure 10: Trend in Average Commercial Banks Lending Rate



Source: Central Bank of Liberia

6.1.1.5 Inflation and General Price Level

The general price level of essential commodities continues to increase in the Liberian economy. This is mainly attributed to the shortage of foreign exchange in the economy thereby depreciating the real value of the Liberian Dollar. On the average, the inflation rate was 19.4% during the third and fourth quarters in 2001, compared to 19.3% during the first and second quarters in 2002. This shows a decrease of 0.1 percentage point (Figure 11). The slight reduction in the inflation rate was due partly to the speculative tendencies of the few business monopolies in the Liberian economy. During festivity seasons, the business monopolies usually hoard the Liberian Dollar thus causing an artificial appreciation of the Liberian Dollar against the United States Dollar. When the exchange rate is rising or falling, the speculators gain in the process. On the other hand, the fixed income earners (public sector employees) see themselves losing purchasing power, as the exchange rate increases; the prices of imported essential commodities also increase simultaneously, especially fuel and foodstuff (including Liberia's staple food – rice).



Source: Ministry of Planning & Economic Affairs

7.0 Commercial and International Trade

7.1.1 Commerce and Industry

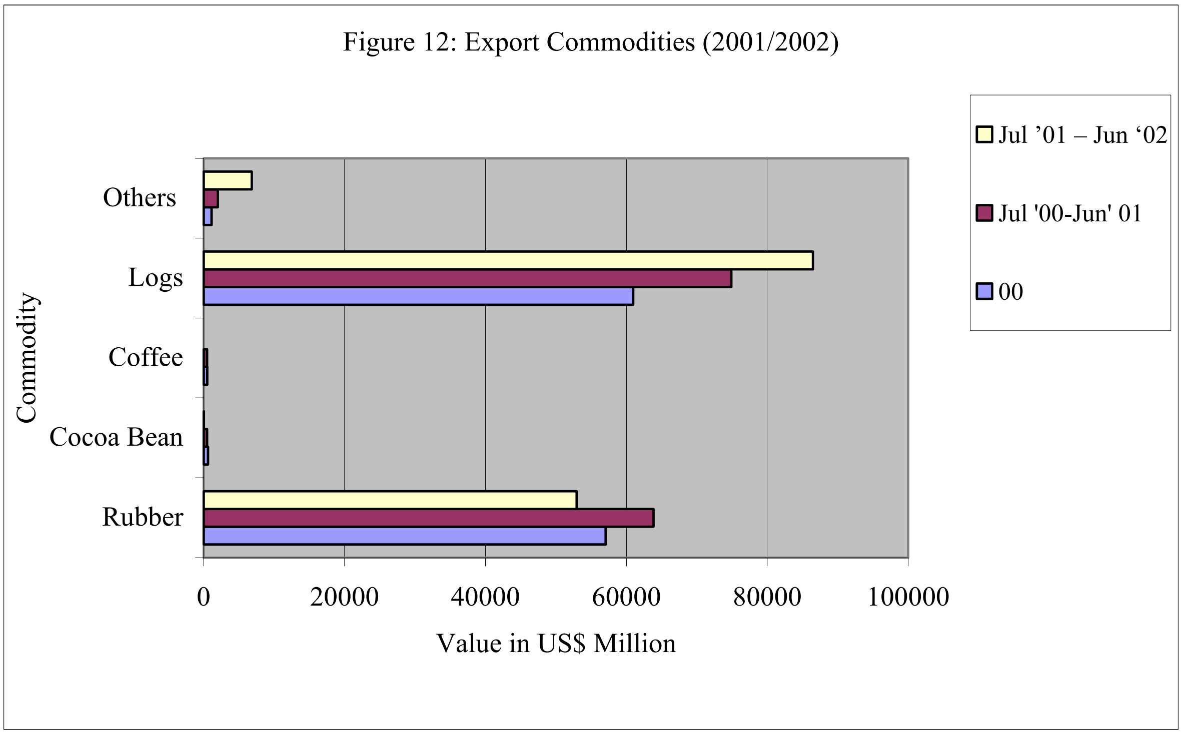
In spite of national insecurity, the Ministry of Commerce and Industry reported the registration of 619 new Liberian businesses, and 37 new foreign businesses in 2001, compared to 861 new Liberian registered businesses, and 102 new registered Foreign businesses in 2000. The total registered businesses in 2001 were 3,689, including petty trade, compared to 3,172 total registered businesses in 2000. According to the Ministry, this improvement in business activities was primarily due to the introduction of the New Tariff Regime, which replaces the customer user fee of 5% of CIF value by the Goods and Services Tax of 7%. On a disaggregated level, Montserrado County (Monrovia) in 2001 accounted for 82% of total registered businesses, including petty trade, and Outstation (leeward counties) accounted for 18% (Annex 14).

7.1.1.2 International Trade

The Liberian economy is free market system oriented. The economy depends on exports for its foreign exchange. In terms of trade balances, Liberia's trade deficit has more than double from US$31.888 million in 2000/2001 Fiscal Year to US$63.588 million in 2001/2002 Fiscal Year. Like the other sectors, foreign trade is steadily declining. The main trading partners of Liberia are USA, UK, Europe, Switzerland, Germany, Italy, France, Netherlands, Belgium and Singapore. There are also cross-border trade with neighboring countries like Guinea, Ivory Coast, Sierra Leone, as well as with Ghana, Mali, Togo and Nigeria.

7.1.1.3 Export

The main export commodities are round logs, rubber, cocoa beans, and coffee. The estimated total export value was US$146.295 million in 2002, compared to US$141.723 million in 2001, an increase of 3.2%. Exports accounted for 32% of GDP in 2002. The increment in export value was due to the on-going logging and rubber operations in the country. Of the total export earnings, round logs accounted for 59% and rubber, 36% (figure 12). The export commodities are unprocessed, with little or no value added.



Source: Ministry of Commercial & Industry/Forestry Development Authority

7.1.1.4 Imports

The total estimated import in 2002 stood at US$209.883 million compared to US$173.611 million in 2001. This indicates a 21% import growth. The growth was due to the increment in importation of food and live animal (US$63.717 million) followed by petroleum products, (US$61.877 million[3]) (see Annex 16).

7.1.1.5 National Debt Portfolio

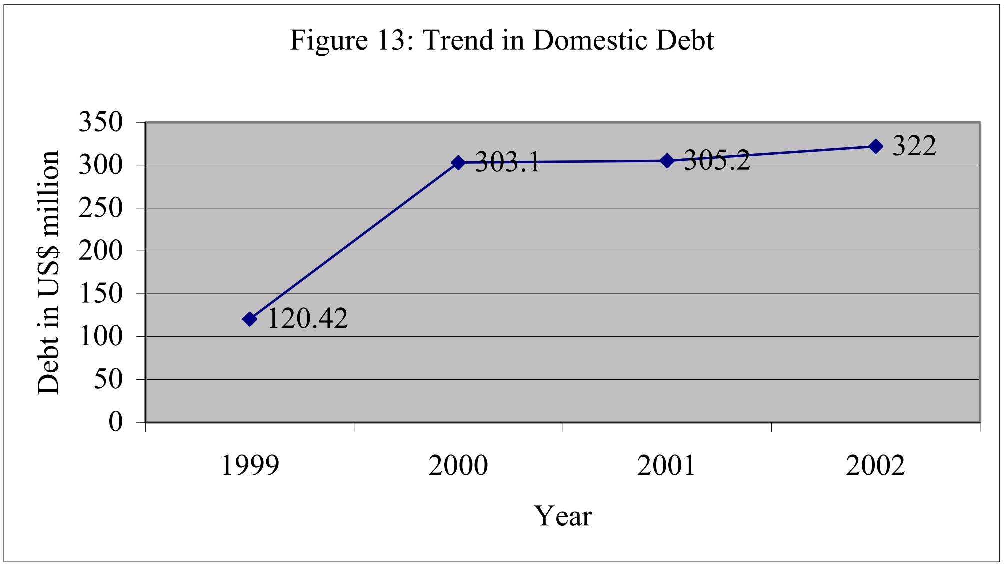
Liberia's existing debt (external and domestic) stands at US$2.8 billion, of which 88% is external and 12% is domestic.

7.1.1.6 Domestic Debt

The domestic debt is steadily increasing, mainly due to GoL's borrowing from private vendors. The CBL recorded total domestic debt of US$322.3 million in 2002

[3] The petroleum products figure does not account for 2000 as well as April 2001 and June 2002. If data was available for April 2001 and June 2002, the trade deficit could be much higher than what it is.

compared to US$305 million in 2001, an increase of US$16.8 million or 5.5% (Annex 17).



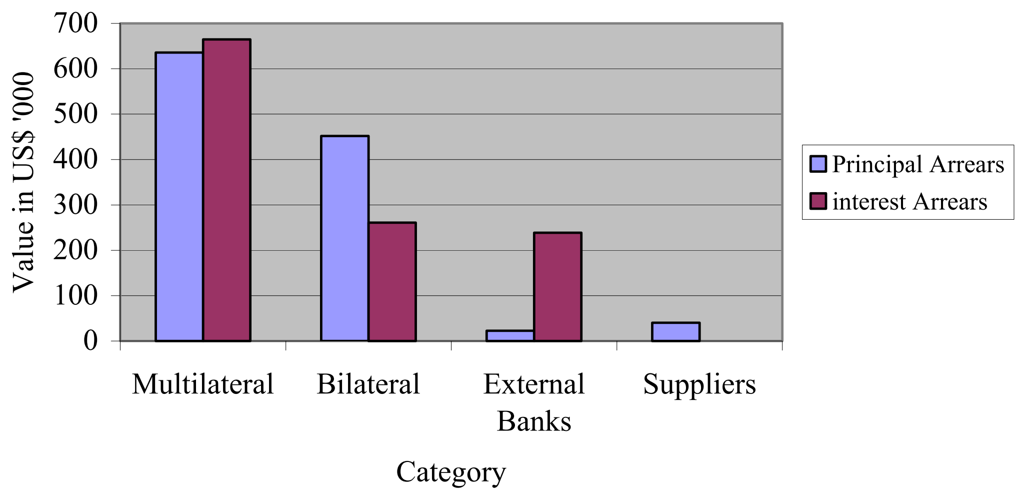
Source: Central Bank of Liberia/Ministry of Finance Reports

7.1.1.7 External Debt

On the international side, GoL is making some effort by paying a monthly payment of its external debt in the tune of US$50,000.00 to the IMF. The total external debt owed by the government is estimated as US$2.5 billion. The structure of the external debts is as follows: multilateral, 48%; bilateral, 28%; international financial institutions, 21%; and suppliers, 1.8%. Liberia's debt is about 613.8% of GDP and 1,913.9% of export earnings (Annex 19).

The government needs to make concerted effort in ensuring that the IMF's SMP is reactivated, which would establish the basis for the Heavily Indebted Poor Countries (HIPC) Initiatives, and subsequently the PRSP. These initiatives could lead to debt relief, and the opening of new windows for international aid for development.

Figure 14: External Debt as at June 2002



Source: Ministry of Finance

8.0 UNDP – GoL Cooperation/Challenges and Opportunities

In keeping with CCF – 1 (1997 –2002), UNDP substantive assistance to Liberia has been in two key areas: poverty/reduction, governance and economic management. Substantive outputs in the areas of policy management in post war Liberia (1997-present) have been the preparation of the National Reconstruction Programme (NRP), the Liberia's Five Years Reconstruction and Development Plan (NRDP), the state of the Environment Report, the Environmental Act, Environment Policy, the Education Policy and Master Plan, the Estate Devolution Bill, the Poverty Profile of Liberia, Statistics Act, NHDR 1999; and NHDR (2003- in progress). UNDP has continued to take the lead in providing policy direction to the government of Liberia.

For the next three years, within the context of the UNDP's Country Programme Outline (CPO), UNDP will contribute to addressing Liberia's development challenges in three key areas as follows.

1. Peace building and recovery at the community level;
2. Good governance; and
3. HIV/AIDS as cross cutting issues.

The CPO is based on the updated UNCCA (2000/2001) and the modified United Nations Development Assistance Framework (UNDAF) for Liberia, 2003-2005. The CPO is predicated upon the continuous humanitarian situation in Liberia, the residual rehabilitation, resettlement and reintegration needs, as well as the emerging and growing HIV/AIDS pandemic. This situation is adversely affecting development endeavors in Liberia. With the pending elections (October 2003), Liberia has an opportunity to move from a state of hostility to peace, and political and socio-economic growth. For the first time in Liberia, the MDGs/Targets are being discussed, and Millennium Development Goal Report (MDGR) is being prepared.

For 2003, UNDP policy intervention will be in the areas of Public Expenditure and Investment Programmes, with the view of assisting government to lay firm foundation for sustainable development and growth. Under the programme area, UNDP will endeavor to improve the enabling environment for national cohesion, increase community capacity for the delivery of basic social services, build local capacity for self empowerment, increase livelihoods opportunities, and reduce dependence of the population on humanitarian assistance.

Under the second programme area, UNDP plans to support an institutional electoral framework conducive for free and fair elections, and support activities that will enhance respect for the rule of law, strengthen civil protection within the context of security sector reform, enhance human rights protection, increase public awareness on good governance issues, increase use of SHD Concepts within key national policy formulation, enhance capacity for aid coordination, data collection and macroeconomic management in support of poverty reduction and economic recovery, and enhance capacity for HIV/AIDS Prevention.

The United Nations Country Team (UNCT) in Liberia is working collaboratively in addressing national concerns. The UNCT cooperated fully in updating the UNCCA (2000/2001), the modified UNDAF, which lay the foundation for the preparation of UN Agencies' Country Programmes. Discussions are underway for joint implementation of project activities, and monitoring and evaluation. The UNCT is also participating in the preparation of the MDGR.

8.1.1 Immediate Challenges and Opportunities for Recovery and Development in Liberia

The development challenges in Liberia are enormous; they have not changed significantly since the official end of the war in 1997 and the inauguration of the Taylor-led government. Some of these challenges include:

1. National and sub-regional insecurity;
2. Poor governance and human right record;
3. Poor relations with the international community;
4. Poor macroeconomic policies, and lack of interest in structural reforms;
5. Unfavorable environment for private sector development;
6. Destroyed and dilapidated socio-economic infrastructure;
7. High incidence of poverty and diseases such as HIV/AIDS, and hunger (food insecurity); and
8. Continuing humanitarian, refugees and IDPs crisis.

In the area of governance, the continuous dissidents attacks, the UN Sanctions, upholding respect for the rule of law, human rights, press freedom, as well as, ensuring transparency and accountability in the management of public resources and structural and policy reforms are still of critical concern in Liberia.

The demobilization process was a fast-track-non-camping one, owing to the fact that many of the combatants were temporary fighters. The reintegration modality allowed for the same treatment of all the combatants, the core fighters and the temporary ones, disarmed and released in the community. This process could not be considered demobilization for the core ex-combatants, in terms of actual correction, re-orientation and rehabilitation in camps and other solitary conditions. The hardened ex-fighters were absorbed in the rank and file of the security apparatuses of the country. Many of these ex-combatants are blamed for much of the excesses and human right breaches perpetrated by the security forces. The Government, in most instances, has been reluctant to take punitive measures against members of its security forces for human right violations.

The continuous security breaches in the country are also attributed to the over-representation of the ex-NPFL fighters vis-à-vis those of other warring factions, the high level of illiteracy amongst the security officers, and the confusing command structure of the security machinery. The restructuring and training of the security forces along the lines of the ECOWAS Peace Plan is crucial to lasting peace in Liberia and the sub-region.

The continuous fighting by dissident and government forces has eroded the gains that were made in the reintegration and resettlement of the population of the northwestern region of the country. Recent IDPs caseload as a result of the fighting is estimated as 100,000 people.