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REPUBLIC OF LIBERIA
DEPARTMENT OF PLANNING AND ECONOMIC AFFAIRS
MONROVIA, LIBERIA

CONFERENCE ON DEVELOPMENT OBJECTIVES
AND STRATEGY

UNIVERSITY OF LIBERIA
27-29 OCTOBER, 1969

# LIBERIA'S FOUR YEAR PLAN FOR ECONOMIC AND SOCIAL DEVELOPMENT 1967-70 AND ACTUAL ECONOMIC TRENDS

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1. The long-range economic objectives of Liberia's four year plan for the period 1967-70 were:

   a) A steady increase in per capita income.

   b) Broadening of the economic base through diversification of production, with increased exports and import substitution as a result. Industrial development should be promoted through economy of scale resulting from active participation in projects involving other nations of the West African Region.

   c) A further participation of Liberians in all sectors of economic life.

The Chairman of the National Planning Council, President W.V.S. Tubman in his foreward to the plan gave, amongst others, the following criteria for the strategy of the Plan:

" Special attention will be given to ... projects which contribute not only to growth in the domestic product but also significantly to growth in national product".

"A greater share of future development expenditure must therefore be allocated to programs with greater income generating effect in the short-run, and consequently with greater government revenue effects".

"Other things being equal productive projects for which foreign financing can be found should receive priority".

2. The Plan gives no explicit goal for the growth of the economy except that the revenue forecast is based on a 6 percent increase in income.

The Plan focuses primarily upon the public sector and sets out the following major tasks to be accomplished:

a) Improved general administration, together with organization and development of specific institutions and procedures vital to future economic and social advances;

b) New and improved transport and communication facilities;

c) Increased agricultural production through encouragement of improved techniques and provision of a more viable marketing structure; expanded exploitation of natural resources; and

d) Continuing improvement of health, education and other social services.

3. With one important reservation, the "Development Program" is a plan for public capital formation over the four year period. However, during the last two years of the "Development Program" substantial resources were allocated for "non-capital" expenditures as shown in the following table:

Table 1

(in million dollars)

| | 1967 | 1968 | 1969 | 1970 | Total |
|---|---|---|---|---|---|
| Capital......... | 23.2 | 20.6 | 15.6 | 16.9 | |
| Non-capital..... | 0.6 | 3.9 | 8.2 | 9.0 | |
| Total........... | 23.8 | 24.5 | 23.8 | 25.9 | 98.0 |

The reason for the increase in non-capital expenditures was that the high rate of growth in capital facilities over the last years previous to the plan period had not been accompanied by an appropriate provision for operational costs.

The increase in "non-capital" expenditures was supposed to be covered out of increased budget appropriation as shown in the following table:

Table 2

(in million dollars)

| | 1967 | 1968 | 1969 | 1970 | Total |
|---|---|---|---|---|---|
| Budget appropriation | 3.5 | 6.7 | 8.5 | 9.9 | 28.6 |
| Other domestic sources | 2.5 | 3.3 | 1.8 | 1.6 | 9.2 |
| External assistance | 17.8 | 14.5 | 13.5 | 14.4 | 60.2 |
| Total............ | 23.8 | 24.5 | 23.8 | 25.9 | 98.0 |

In general, the external assistance included in the program covered only external assistance for capital formation. However, in 1965 and 1966 external assistance for expenditures not included in the program in fact amounted to well above 1/3 of total external assistance.

4. The underlying assumptions for the increased budget appropriation to the "Development Program" were that:

a) Increases in current expenditure would be limited to approximately $1 million per year.

b) External budget support and a temporary debt service relief would be continued in 1969 and 1970.

c) A substantial increase in government revenue over and above what could be expected as a result of increase in income would be obtained by various fiscal measures and improvement in tax administration.

The following table gives the estimated revenues and budgetary deficit for the planning period:

Table 3

(in million dollars)

| | 1967 | 1968 | 1969 | 1970 |
|---|---|---|---|---|
| General revenues and contribution from Public Corporations.......... | 47.7 | 50.2 | 52.0 | 55.6 |
| Additional revenues through new fiscal measure.............. | | 3.0 | 3.3 | 3.5 |
| Total..................... | 47.7 | 53.9 | 58.8 | 61.7 |
| Budgetary deficit ........ | 1.9 | 2.6 | 3.8 | 2.5 |

Even with the planned substantial increased in revenues, external assistance at a continued high level was a precondition for implementation of the Plan, as will be seen from table 2.

Trends in economic development 1967-69

5. In 1967 the growth rate of the GDP within the monetary sector was only 4% compared with an annual average of 6.2 percent in the two years previous to the plan period. (The estimated contribution of subsistence economy is more or less constant over the last 5 years at the level of $30 million. The magnitude as well as the variations seems to be so questionable that the subsistence economy is excluded in the following).

According to provisional estimates the growth rate in GDP was as much as 7.7% in 1968. Although no estimate is made for the growth rate in the Plan, one can only assume that the growth rate in average, statistically has been up to the expectations. Serious doubts can, however, be raised whether the calculated growth rate in GDP actually reflects the development of the economy in 1968.

The calculated increase in GDP in 1968 is first of all due to an increase in exported quantities of iron ore, and there is no reason to doubt that this increase has taken place.

Other factors that go to explain the increase in GDP in 1968 look however less convincing. The value of "diamond exports" is stated to have been nearly doubled and a substantial increase is shown in value-added within "transport and trade," attributed to an increase in return to Liberian-owned capital, practically without any increase in return to labour.

It is well known that a part of the diamond exports is, in fact re-export of diamonds smuggled into Liberia. Much of the recorded increase in diamond exports in 1968 may well be an increase in "re-export." With the somewhat special method used for calculating national account figures the increase in value-added within the "transport and trade" sector can easily be explained by a better coverage of the statistics in 1968 than in previous years.

The decrease in the value of rubber exports, Liberia's second important export commodity, and the substantial decrease that has taken place in investments also make the large growth rate in 1968 look suspicious.

"Gross investment of major investors" increased from \$56 million in 1966 to \$76 million in 1967, of which "public investments" accounted for \$23 million as planned. In 1968 "public investments" dropped to \$10 million or approximately half of what was planned. "Private investments of major investors" was in 1968 less than \$25 million. The effect on the economy of the drop in investments to less than half of the previous years might not have been as harmful as could be expected since a large part of the investments in 1967 was accounted for by import of capital equipment. Investment not accounted for in the statistics may also be substantial and probably not fluctuating quite as widly as investments included in the statistics.

A decrease of approximately 25% in the value-added in the construction industry in 1968 also indicates that the decrease in investment must have had a substantial negative effect on the growth rate in 1968.

To conclude: the growth rate of the GDP may have been somewhat higher in 1968 than in 1967, but not as much as the statistics indicate. If that is the case the growth rate in this period has been considerably below the growth rate in the years immediately preceding the Four-Year Plan, and probably also lower than the underlying assumption of the Plan.

The prospects for 1969 are clearly that the growth rate will continue to increase. Iron ore export is likely to be higher than in 1968, both quantity and prices will definitely be higher for rubber and most likely also for cocoa and coffee. Investments may increase slightly from the depressed level of 1968. For the plan period as a whole the growth rate of GDP may not be far from expectations. What is more important - the trend is clearly the right way.

A characteristic feature of the Liberian economy is that more than one fourth of the GDP represents payments to foreign factors.

As quoted in paragraph 1 in this paper, President Tubman in his foreward to the Plan laid special emphasis on the growth rate of the national product.

In the Liberian National Accounts Statistics, payment to foreign labour and capital is deducted from GDP to arrive at GNP, but not depreciation on foreign owned assets.

The growth rate of GNP may therefore be somewhat misleading as an index of growth in actual welfare.

Net National Product at factor costs excluding net factor payments to abroad, depreciation on both Liberian and foreign-owned assets, and indirect taxes is probably the best aggregate measure of the level of well-being of the Liberian population. The growth rate of Net National Product at factor cost was 3.5% in 1967 and 8.5% in 1968.

For reasons given above the increase in 1968 may be overstated but indications are that the trend is correct. Supporting the view that in 1968 the increase in national income was larger than that in GDP is the fact that the rubber production on Liberian owned rubber farms increased by 13%, which more than offset the decline in prices.

The decrease in rubber export in value terms was therefore entirely in the concession sector. Furthermore, the sale of coffee, cocoa and palm kernels by Liberian farmers to LPMC increased in value by 14% from 1967 to 1968.

The reasons given for the prospects of a further increase in the growth rate in 1969 are largely related to increases generated from the Liberian sector of the economy, which indicates that the increase in National Income may continue to be larger than the increase in GDP in 1969.

Table 4

PRINCIPAL AGGREGATES OF NATIONAL ACCOUNTS OF LIBERIA 1965-68

(in million dollars)

| Principal aggregates | 1965 | 1966 | 1967 | 1968 |
|---|---|---|---|---|
| Gross domestic product, market price, monetary sector | 267.3 | 287.2 | 298.8 | 321.8 |
| Less domestic fixed capital consumption................ | 35.6 | 39.6 | 43.7 | 49.3 |
| Less indirect taxes............ | 19.3 | 21.0 | 22.0 | 21.5 |
| Net domestic product factor cost monetary sector............. | 211.4 | 226.6 | 233.1 | 251.0 |
| Less net factor payment abroad.. | 81.3 | 88.3 | 89.9 | 95.6 |
| Net national product at factor cost monetary sector (national income)............. | 130.1 | 138.3 | 143.2 | 155.4 |

7. Exports increased from $151 million in 1966 to $159 million in 1967 and reached $169 million in 1968. Imports increased from $114 million in 1966 to $125 million in 1967 but fell again to $109 million in 1968.

Consequently a minor decrease in the trade surplus of $37 million in 1966 to $34 million in 1967 reversed to an all time record of $60 million in 1968.

The increase in iron ore exports accounts for $12 million of the total increase in exports of $18 million from 1966 to 1968. Increase in export of diamonds accounts for $6 million. Decrease in the export value of rubber and coffee is balanced by an increase in cocoa, palm kernels and logs.

The composition of the exports has not changed much since 1966. Iron ore makes up for 70% of exports in 1968 as it did in 1966. The substantial decrease in rubber prices over the last years has however, reduced the value of rubber exports from well above 18 percent of total export in 1966 to 15 percent in 1968.

The decline in imports must have been due to a decline in imports of capital equipment because of the substantial drop in private as well as public investments. According to the trade statistics a large part of the decline in imports was traceable to miscellaneous manufactured consumers goods. This is most likely caused by wrong entries in 1967 statistics of unspecified duty free imports of capital equipment by the concessionaires.

8. Government's revenues increased from $45.2 million in 1966 to $48.1 in 1967 which was somewhat more than assumed in the Plan. In 1968 Government's revenues rose to $51.8 million or by 7.7%, which is more than the increase in GDP but substantially less than the approximate 14% increase which according to the Plan should have been

achieved through various fiscal measures.

In 1969, prospects are that revenues will be around $60 million and well above the Plan. Even without any increase in revenues in 1970, total revenues for the whole Plan period will be close to the target.

The increase in current expenditures sine 1966 has however been somewhat higher than the $1 million estimated per annum in the Plan. Debt servicing has also accounted for more of the expenditures than estimated. The appropriation for the "Development Program" has therefore been far below the planned figures, in spite of the increase in revenues being close to target. For the whole Plan period the target appropriation for the "Development Program" will hadly reach half of the planned $29 million.

The most serious consequences for the "Development Program" of the shortfall in domestic resources have been that the planned increase in appropriation for non-capital expenditures has been impossible to realize. This has most likely led to a dis-investment and under-utilization of existing capital equipment.

In the IBRD's excellent report on the current economic situation in Liberia dated May 26, 1969, this important problem does not seem to have been given sufficient weight. The World Bank has therefore over-estimated the possibilities for financial savings and consequently Liberia's capacity to finance public capital formation in the period 1969-1975 with conventional World Bank loans. Up till 1977, when the debt servicing will drop substantially, Liberia will have to depend on on soft-term loans and grants for financing the major part of public capital formation, unless substantial new sources of revenues should turn up in the meantime.

External assistance, which according to the Plan should cover approximately 80% of capital formation, was in 1967 on the same level as in 1966, but fell drastically in 1968. Indications are that external assistance in 1969 and 1970 will be of the same magnitude as in 1968. In total, external assistance will hardly reach $50 million against planned $60 million. Budget appropriation for capital formation has also been running at lower rates than expected and will be at the maximum only half of the planned $16 million. In total, public capital formation will be approximately 2/3 of the planned $75 million.

The following table compares the planned public capital formation with what actually has been realized:

Table 5

(million dollars)

| Sources | 1967 | | 1968 | | 1969 | | 1970 | 1967-1970 |
|---|---|---|---|---|---|---|---|---|
| | Plan | Realized | Plan | Realized | Plan | Realized | Plan | |
| External Assistance | 17.8 | 18.0 | 14.5 | 10.0 | 13.5 | 10.0 | 14.4 | 60.2 |
| Budget appropriation | 5.4 | 5.0 | 6.1 | 0.6 | 2.1 | 1.3 | 2.5 | 16.1 |
| Total............. | 23.2 | 23.0 | 20.6 | 10.6 | 15.6 | 11.3 | 16.9 | 76.3 |

Table 6 gives figures for total external assistance and public debt servicing for the period 1966-68 and estimates for 1969-70.

The table illustrates why it has been impossible to maintain public capital formation at the planned level in spite of increase in revenues and austerity budget.

Table 6

(million dollars)

| Sources | 1966 | 1967 | 1968 | Estimates 1969 | 1970 |
|---|---|---|---|---|---|
| External assistance | 35.4 | 34.7 | 22.3 | 22.4 | 17.0 |
| Debt servicing | 13.9 | 14.0 | 15.5 | 18.6 | 17.0 |
| Net foreign assistance | 21.5 | 20.7 | 6.8 | 3.8 | - |

External assistance includes IMF drawings and debt servicing includes IMF repurchases. The table includes all foreign assistance, also assistance not included in the Development Program.

Financial flows from the developed countries to the developing countries has been one of the important measures of assistance given to the developing world. Liberia is already contributing to private capital accumulation in the developed world through a much larger returns to foreign owned capital than she receives of private investments.

Unless Liberia is able to attract substantially more external assistance in the public sector in the years to come, than in the past two years, Liberia's debt service on public loans will also exceed what she receives of capital in the public sector.

The prospects for further growth in the nearest coming years are favourable. The sustained decrease in rubber prices since 1960 of almost 10 percent a year stopped in March 1968 and there has been substantial increase in the following months. Prognosis for the next years is optimistic. Production, especially from Liberian owned rubber farms is likely to increase substantially. One may at least hope for a 5 percent annual increase in production.

The iron ore price which also has had a continuous downward trend since 1960, has now hopefully reached the bottom, although there is not much hope for a revival in the 1970s. A new pelletizer plant coming into operation in the near future will, however, increase the value of Liberia's iron ore export. Possibilities for an expansion of iron ore production from new deposits are good.

Possibilities for the development of other mineral resources are even more promising. Very promising kyanite deposits has been found, and in July 1969 negotiations with two United States companies for offshore oil drilling were concluded on terms favourable to the Government of Liberia.

There is every reason to believe that Liberia's 8 million acres of forests are now finally on their way to be an important source for the development of Liberia's economy. New and improved concession agreements and new roads are the most important reasons for expecting a larger contribution from the forestry sector in the future.

The Government now seems to be determined to give the agricultural policy a "new deal". It may take some years before this will have any effect on Liberia's economy, but the potentials should be substantial both for import substitution and for export.

To sum up, uncertainties about the national accounts figures as well as the increase in population makes it a futile exercise to attempt to calculate the increase in income per capita, but it must have been moderate and well below what was envisaged in the plan.

It may well be however, that the Liberian sector of the economy has benefited more from the increase in GDP during the planned period than in the past. A fuller participation of Liberian in all sectors of the economy seems to be on its way.

The hope for industrial development through participation in joint economic projects involving other West African nations seems farther away today than when the Plan was written. The possibilities of industrial development through processing of local resources for export to the European market are on the other hand probably better today.

There is no much hope of achieving any substantial diversification of the economy in the plan period, but there are indications of a development towards more variety in economic activities.

With the recent development in World Market rubber prices, the prospects for reasonable prices in the coming years and the great potentials for increased production from Liberian-owned rubber farms, it could also be questioned if diversification should be given the highest priority in the immediate future.

Although it has not been possible to create sufficient savings in the budget to meet the planned contribution to the "Development Plan", because the increase on current account and debt servicing has been somewhat higher than planned, the budgetary performance has still been impressive. Prospects are that the improvement in the administration and management of the budgetary and fiscal policy will continue and this is probably one of the most important real achievements in the plan period.

A further development of Liberia's economy, aiming at an improvement in the welfare of the majority of the Liberian population will depend heavily on public foreign loan and assistance. Liberia's performance in the management of foreign debt obligations and her ability to identify and plan attractive projects may be the most important factors in an economic policy aiming at growth with development in the coming years.