

# Policy Brief No.1



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Fostering Peace and Development Dialogue from An Informed Perspective

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## A Preliminary Rapid Assessment of the Socio-Economic Impact of the Political Impasse in Liberia<sup>1</sup>

**Summary:** *In this current climate of uncertainty regarding the political impasse in Liberia, the UNCT has requested a rapid socio-economic impact assessment to be undertaken by the Strategic Policy Unit (SPU) of UNDP. The assessment reveals that while elections and subsequent transitions usually result in a slowdown of economic activities as businesses and investors adopt a "wait-and-see" stance, the ongoing political impasse is compounding pre-existing problems of high poverty, high inflation, the UNMIL drawdown, sluggish economic growth and fragile political stability. Specifically, the protracted litigation over the outcome of the 10 October 2017 elections has created an atmosphere of uncertainty, anxiety, fear, and public apathy. Some of the emerging consequences of this impasse are rising prices of consumable goods, reduced demand for non-consumables, postponement of investment plans, and reduced taxes and grants, worsening the already limited fiscal space. If the political uncertainty continues, peace and security will be undermined and the development gains already made with the support of partners, including the UN and other development partners, would be reversed. This policy brief is an attempt to unravel these issues with a view to informing the UNCT and other interested stakeholders. The brief recommends that there must be a speedy resolution of the political impasse to ensure a smooth and orderly transfer of power as envisaged in the Peace Building Plan to maintain sustained peace and development. It further recommends for the need to monitor the situation closely with a focus on general security and availability of key strategic commodities, such as rice and petroleum products. Additionally, there is need to ensure accounting for movable government assets as part of hand-over priorities to avert the potential risk of their massive grab and disposal - a situation that could further contract the fiscal space of the incoming government. The new Administration will likely procure new assets (including vehicles) otherwise it would be rendered incapable of providing critical public services, including ensuring peace and security services transferred by UNMIL. In this context, understanding the current situation will define the future. If the situation continues a comprehensive assessment of the socio-economic impact of the political impasse should be conducted to complement the rapid assessment. Other results are reported and policy implications are drawn. This assessment used a triangulation of data and methods involving event study of high frequency secondary data, discussions with key informants and sheer observations<sup>2</sup>.*

<sup>1</sup> The views expressed are those of the Strategy and Policy Unit (SPU) of the UNDP and not those of the UNDP Country Office or the UN system. This is paper is to inform policy dialogue by the UNCT on the political impasse for speedy action.

<sup>2</sup> See the appendix for a methodological note.

## 1. Introduction

On 10 October 2017, Liberians went to the polls to elect their President and representatives. With 20 Presidential aspirants, no one candidate got the required scores (50% +1) to be declared an outright winner during the first round. This meant a second round for which the National Elections Commission (NEC) declared a run-off on 7 November, 2017 between Senator George Manneh Weah of the Coalition for Democratic Change (CDC) and Ambassador Joseph Nyumah Boakai of the ruling- Unity Party (UP). Shortly after the announcement for the run-off (on October 24, 2017), the Liberty Party (LP) filed a complaint to the Supreme Court seeking a writ of prohibition for the conduct of run-off elections citing fraud and other electoral malpractices (irregularities) and proposing a re-run of the elections. Meanwhile, the NEC had proceeded with its preparations for the run-off, notwithstanding the complaint for a complete halt to such preparation by LP- the third-place holder of the first round.

With nearly one day to the scheduled run-off, the Supreme Court on November 6, 2017 gave its opinion on the matter, referring the complaint back to the NEC Board of Commissioners to consider the matter. The LP was subsequently joined by UP and the Alternative National Congress (ANC) all alleging fraud and irregularities. The NEC Board of Commissioners underwent a lengthy process of review and cross examinations of witnesses and pieces of evidences presented by LP, UP and ANC.

The NEC Board of Commissioners, upon hearing the submissions in the appeal of the LP and UP, decided (on 24 November, 2017) to uphold the decision of the hearing officer and thus denied the appeal. It concluded that there was no evidence that the claims made by the parties regarding alterations to the voter register, un-authorized changes to records of counts, and discarded ballot papers were supported by sufficient evidence. The parties immediately announced their intention to appeal to the Supreme Court for which they had up to seven days. However, LP and UP lodged their appeal on 27 November, 2017 (well ahead of time allowed) with the Supreme Court for a re-run of the vote. Following the submission of the appeal to the Supreme Court, the NEC had seven days to respond to the appeal, however the NEC submitted their response earlier on 28 November 2017. The Supreme Court was entitled to seven days to issue a decision, but

announced that it would make its ruling on 7, November 2017. If the Supreme Court rules for a run-off, it could happen within December 2017. However, if a re-run is ordered it may take much longer.

Because of this political impasse, the stakes are high as uncertainty looms over the future of the country. There is fear that the transition will not be smooth, and that Liberia could degenerate into chaos, and possibly a political vacuum may set in leading to an interim arrangement come January 18, 2018 when it is expected that Her Excellency Madam Sirleaf Johnson would end her term of office.

At same time, some ordinary people unfamiliar with the legal process are expressing the view that few individuals are holding the country hostage by their pursuit of the legal suit against the NEC. This state of uncertainty, as in other parts of the world (Kenya, Spain, and Zimbabwe), has significant political and socio-economic impact as well as implications for the transition and long-term stability for the country. It is therefore necessary to determine such likely impact to prepare for different scenarios and respond from an informed perspective.

The Strategy and Policy Unit (SPU) of the UNDP responded to a request by the UNCT and undertook a preliminary rapid assessment of socio-economic impact of the political impasse and foundation for agencies to do further analysis from their perspectives to different likely possible scenarios. The key finding is that the electoral impasse is not only introducing new economic challenges, but also making the existing ones worse. The main source of economic problems is uncertainty, the wait-and-see attitude is preventing the country from moving on. The longer the situation drags, the more the misery on the populace. The rest of the policy brief highlights the impact and recommendations. A methodological note is presented in the appendix.

## **2. Socio-Economic Impact and implications**

### **2.1 Policies and Programmes in Government Being held Back**

The political impasse is holding back Government policies and programmes that would transform the lives of Liberians. The Agenda for Transformation (Aft) comes to an end in 2017 and the

Government has prepared a successor AfT II framework to be handed over, among other planning documents, to the next administration, which it should develop its own development plan. Currently, Ministries, Agencies, and Commissions (MACs) are mainly focusing on recurrent expenditure (of which goods, services and compensations account for more than 70%) due to the limited fiscal space and anxiety among politically-appointed senior public servants. This means that critical growth-enhancing and poverty-reducing transformative public investments in various MACs are not taking place.

At the same time engagements with strategic partners for long-term development has slowed down as the MACs are reluctant to commit the next Administration. For instance, on 13 November 2017, the Executive Board of the IMF completed the seventh and eighth (final) reviews of Liberia's economic performance under the existing Enhanced Credit Facility (ECF) program, which enabled an immediate disbursement of US\$20.7 million. Effectively, key strategic discussions with the IMF have been concluded, but the current Government Administration cannot sign a new ECF programme because it would amount to committing the new Government to meet conditionalities therein.

## **2.2 Further Deterioration of the Fiscal Space and Threatening to Disrupt the Implementation of the FY 2017/2018 Budget**

Following the post-Ebola and commodity shock, the macroeconomic environment has been very challenging as their impact has been more persistent than expected putting a strain on fiscal revenue. At the same time, the UNMIL drawdown has reduced demand and generated huge fiscal pressure as the Government had to increase spending in the security sector and civil administration in various counties. Similarly, additional expenditure had to be provided for the conduct of the 2017 general elections. This meant that the FY 2017/2018 budget was prepared under a very tight fiscal space that threaten to reverse the gains made in the country's development. The limited fiscal space meant that the size and structure of the national budget has declined over time and it has proven entirely inadequate to the task of reviving the economy and fostering sustainable, inclusive growth. The total resource envelope estimate for FY 2017/2018 budget is USD 563.6 million, a 6.1% reduction from USD 600.2 million approved in FY 2016/2017 and even below USD 570.8 million for FY 2015/2016.

The political impasse is further constraining the fiscal space owing to reduced tax revenues and grants as donors wait to engage with the new administration thus threatening to disrupt the implementation of the FY 2017/2018 budget. Customs duties have been underperforming due to reduced imports to the country. Dutiable imports have fallen, compared to the first quarter in 2016; administrative fees from line ministries and agencies is falling. Projected Revenue of USD 103 million for three months (July-September 2017) fell to USD 98.6 million. Revenue collection in October 2017 amounted to USD 32.99 million (underperformed) and the situation is likely to be the same in November 2017, which is normally a revenue peak month. However, expenditure pressures continue to mount, including the need to make provisions to meet additional costs for NEC in case a re-run is ordered. NEC is already owed some USD 5 million by GOL from the previous election.

**2.3 Reduced ability of the incoming Administration to deliver services, including peace and security services as existing assets are either grabbed, disposed or unaccounted for, exacerbating the existing fiscal space problem.**

Given the current political impasse, focus may drift away from ensuring that movable government assets are accounted for as part of hand-over priorities. This will curb the risk of a potential grab and massive disposal of movable assets – a situation that could further contract the fiscal space the incoming Government as it would be compelled to procure new assets (including vehicles) for various MACs to discharge their functions. Currently, the cabinet has placed a moratorium on vehicle disposal and has set up a committee (comprising the General Services Agency-GSA, Public Procurement and Concessions Commission-PPCC and the Governance Commission-GC) to look into this issue of asset disposal because a spike in applications for vehicle purchases by its present users granted under a law that allows for such purchases after three years of acquisition. However, given the fact that the control of the assets is with the line MAC and not GSA enforcing such moratorium may prove very difficult under the current wave of uncertainty. Additionally, other movable assets not covered by the moratorium such as computers, laptops, printers, furniture, etc. are likely to be taken as personal property. Hence, the incoming Government will be left with limited or no assets (particularly vehicles,

computers, etc.) to start with, as well key documents or institutional memory to build on. The GSA, with support from a USAID project, has asset management software to capture the acquisition and disposal of such tremendous assets, but in the absence of a reconciliation and verification by the MACs, an inventory of assets to hand over is untenable.

#### **2.4 Imports are declining raising worries of shortages of strategic commodities**

Prior to the current political impasse, imports in general had declined due to the shortage of foreign exchange, high costs of importation (partly due to high insurance and introduction of new tariffs and new customs valuation method not based on importer's declared value), and businesses struggling with sales (especially of non-consumable commodities owing to the uncertainty). This can be seen from statistics in figure 1, where for instance imports in September 2017 amounted to USD 77.4 million compared to USD 103.8 million for the same month in 2016.

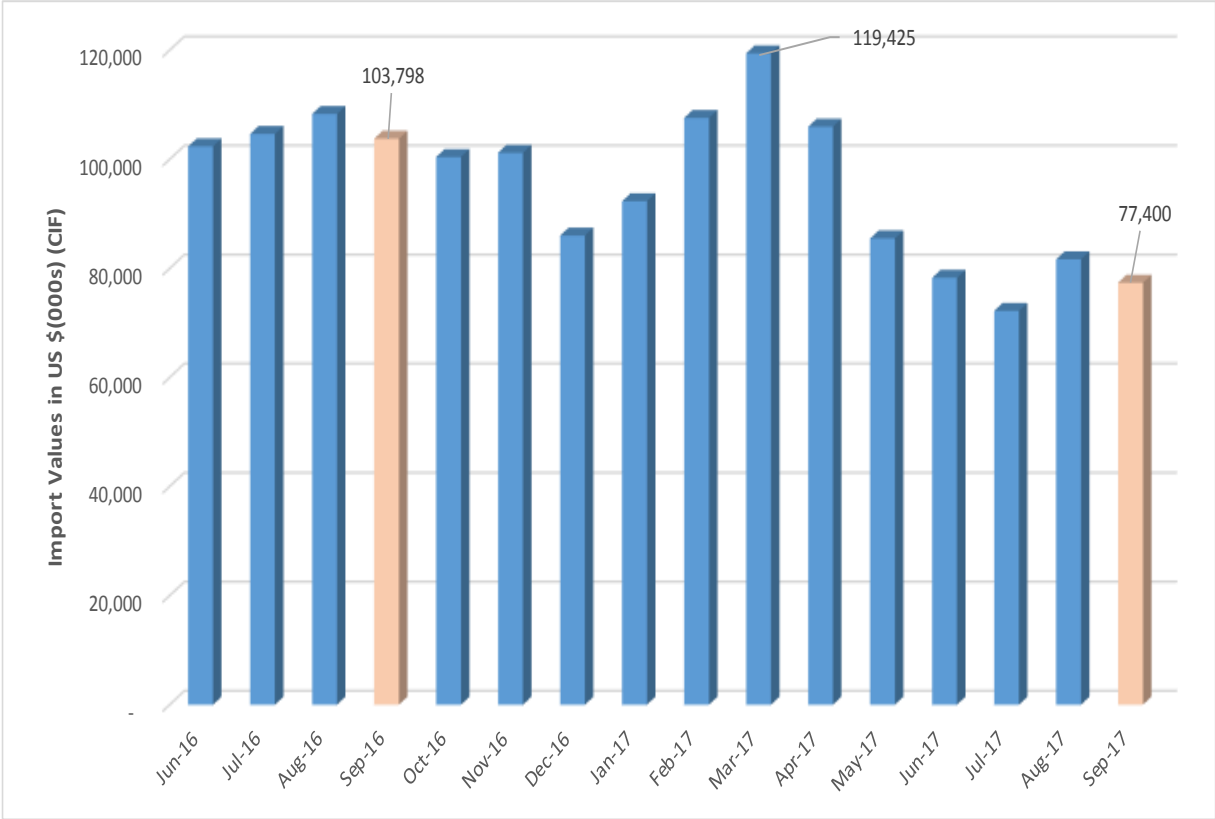
Although there is no official data yet for October to November 2017, interviews with key stakeholders and institutions show that the situation has worsened due to the electoral impasse. According to the Liberian Business Association (LIBA), 90-95% of their members are experiencing difficulties because of delayed importation of essential commodities which were expected to restock their business. If the stalemate persists, consumables may run out of stock.

With regard to rice, there is no major cause of concern in terms of shortages at this point in time since the country had already imported significant quantity before the political impasse and harvesting has also been taking place in the major rice producing areas of Nimba, Lofa and Grand Gedeh counties. Similarly, fuel and gasoline stocks are not likely to be depleted soon, unless the stalemate continues, and the Liberia Petroleum Refining Company (LPRC) finds it difficult to import and restock, as ships take precautionary measures to avoid docking on the Liberian ports. Nevertheless, a major concern in the event of worsening situation is delivery and distribution challenges, when the work force of major gasoline and fuel importers become incapable of going to work as movement is constrained/restricted.

However, although the stocks of key strategic commodities are not critically low, the main concern is that Liberia is an import-dependent country and if the political stalemate continues for

a long time, the country could run out of these commodities leading to higher inflation and making many households sink deeper into poverty, as well as endangering peace and security.

**Figure 1: Imports in CIF Values (Thousands of USD) June 2016 to September 2017**



Source: CBL Financial statistics

**2.5 Domestic and Foreign Investments on Hold as the Stalemate Lingers**

Many businesses have put investments on hold, while others have dropped plans for investment altogether, due to uncertainty over the electoral impasse. Expansion work is on hold, and new Investors have not gone beyond scoping of investment opportunities. Concessions are slowing down with foreign staff going on leave. It is arguably true that many are leaving due to fear and speculation.

**2.6 Reduced Foreign travels**

There is a noticeable decline in number of people travelling to Liberia. This may be attributable to rising insecurity in the country and renovations taking place in Roberts International Airport, which has led to reduced flights to Liberia. For instance, Kenya Airways no longer operate flights

to Liberia on Mondays and Thursdays.

## **2.7 Slowdown in Business Activity**

Although there is no up-to-date data, interviews with key informants point to a slowdown in business activity in various sectors such as transport, storage and communication; trade, hotel & restaurants and services. This is because many consumers are postponing the purchase of non-consumable products and luxury services and instead use the limited financial resources to cater for domestic consumption, including stocking of key commodities such as foodstuffs and other consumables.

**Reduced Hotel Activity:** Although there is no up-to-date data, interviews with key hotel and restaurants in Monrovia point to a slowdown in business, which started since the beginning of the year, but has been worsened by the political impasse. This can also be seen in the bank loans to hotels which declined from LRD 420.1 million in January 2017 to LRD 125.6 million by August 2017. Hotel occupancy rates have drastically dropped since October 2017. With varied degree, hotel occupancy has dropped by more than 50% although the situation is picking up since recent hearing in to the legal case. For example, hotel reservations made before the scheduled run-off were cancelled. The impact is worse for hotels that charge high rates for their services and cater for high-worth customers. For hotels, which are relatively less expensive their business has been cushioned by a high number of workshops related to the general tendency of government, donors and NGOs try to exhaust their 2017 budgets as well as post-mortem of the elections held in October 2017.

**The Exchange Rate and Changing Consumer Patterns are Pushing Small Business Owners Out of Business:** Business activity has declined due to the political impasse that has brought economic activities in the country to a standstill and high prices occasioned by the depreciation of the LRD. A selected number of marketers contacted during the rapid assessment, indicated that they have virtually been out of business since 19 October, 2017 when the results for the general elections were announced by NEC. They also blame the depreciation of the LRD as one key cause of their plight. Prior to the general election, the exchange rate was close to LRD 120 per USD, something that was already angering many small business owners and low-income



earners who use the LRD in their everyday transactions. Businesses complain that the depreciation has led to high prices for inputs/materials and when the final products/services are priced high so as get profit at the end of the day, they become so expensive that nobody wants to buy. What has complicated the situation is that most suppliers require payment in USD but the small businesses sell to consumers largely in LRD. Such businesses not only suffer significant exchange loss in the process, but also have a hard time in sourcing USD. At the same time, as part of risk mitigation measures due to the political uncertainty, many people have adjusted their buying patterns preferring to stock non-perishable consumable goods. Consequently, businesses dealing with non-consumer goods and services are suffering. Business that are involved in cross-border trade and receive trade credit from the suppliers complain that foreign suppliers are no longer providing the same to Liberian businesses due to the political impasse.

## **2.8 Increased Pressure on the LRD versus US Dollar**

Prior to the political impasse the exchange rate had already been depreciating. The LRD exchange rate depreciated by 17.7% between end of December 2016 to LRD 118.6 per 1 USD by 19 October 2017- day NEC released the election results with the verdict of a run-off on 7 November 2017. Key drivers of the high depreciation are reduced export proceeds following slow recovery in prices of rubber and iron, reduced donor inflows, the UNMIL drawdown, increased demand to pay for imports, policy of paying public servants 20% in LRD and 80% in USD when most prices are quoted in USD, policy of paying taxes 50% in USD and 50% in LRD, and expectations due to the election-induced anxiety.

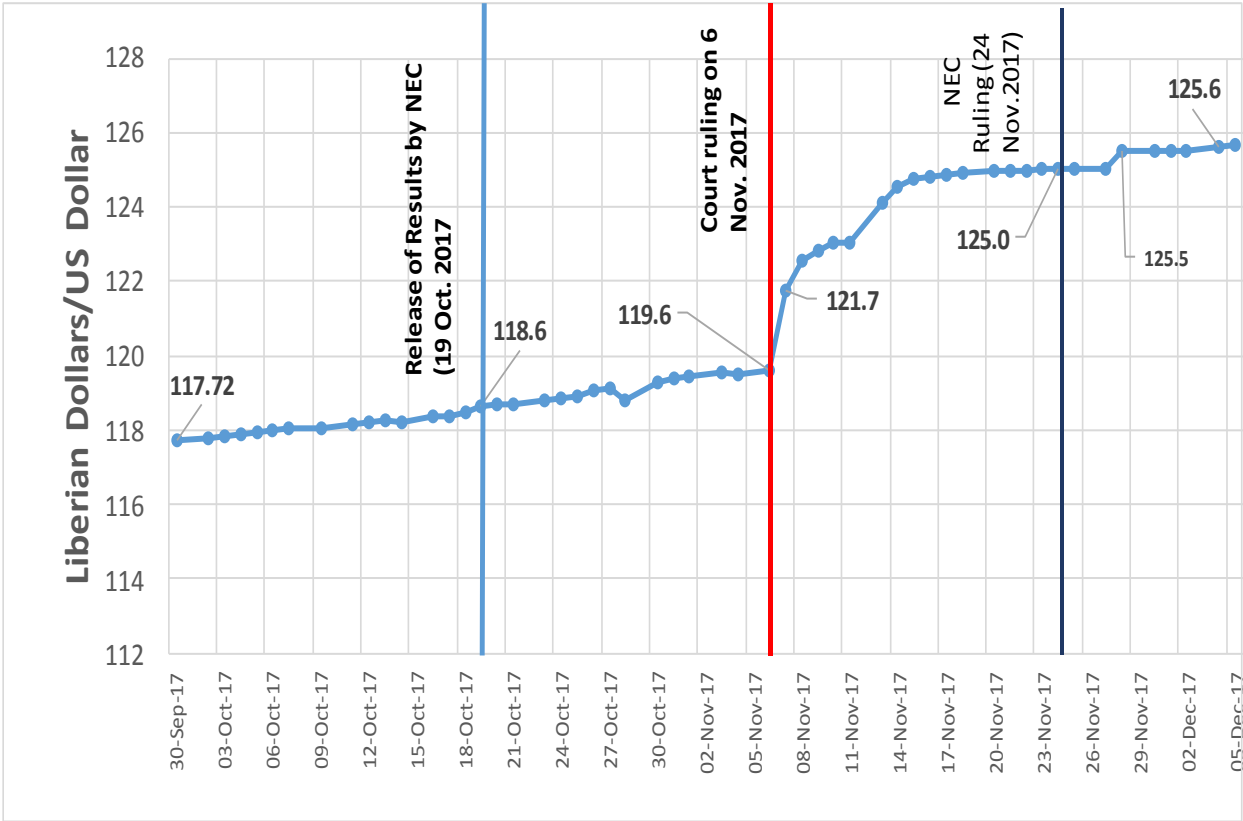
In order to see the impact of the political impasse on the depreciation, we map the political events to the behavior of the exchange rate. LP filed an appeal case to the Supreme Court on 24 October 2017 but the NEC continued with its preparation for the run-off leading to the LRD losing value from LRD 118.6 per 1 USD on 19 October (date NEC released the election results) to LRD 119.6 per 1 USD on the 6 November (date the Supreme Court ruled on the case filed by LP and directing NEC to suspend the re-run that was scheduled on 7 November and the NEC Board of Commissioner to hear the appeal).

This ruling by the Supreme Court sent shivers in the foreign exchange market with the LRD

depreciating from LRD 119.6 per 1 USD on 6 November (the date of the Supreme Court ruling) to LRD 121 per USD1 (the next day- 7 November 2017). Following the public anxiety, the local currency depreciated further from LRD 121 per 1 USD on the 7 November to LRD 125 per 1 USD on 24 November 2017 – the day the NEC Board of Commissioners ruled to deny the appeal and upheld that the first-round vote was fair. The local currency depreciated further from LRD 125.0 per USD1 on the day of the NEC ruling to LRD 125.5 per 1 USD following the lodging of the appeal case to the Supreme Court by LP and UP on 27 November 2017 and hovered around the same level as the public await the ruling (see figure 2).

The high depreciating has had far-reaching consequences, including pass-through effects to domestic prices. In highly dollarized economy, there is limited option for the Central Bank to curb the inflation through monetary policy.

**Figure 2: Exchange Rate (Mid-Rate) from 2 October to 5 December 2017**

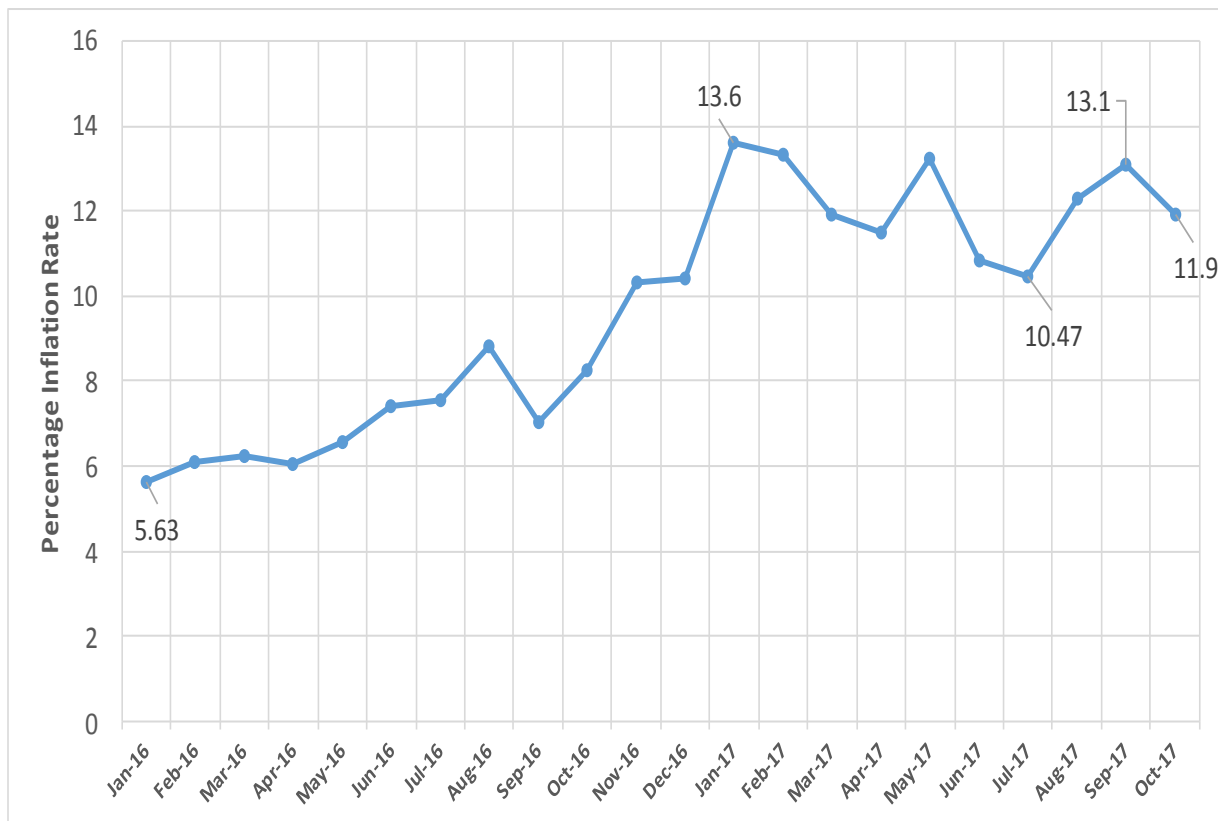


Source: Data from CBL

## 2.9 Higher Inflation

The depreciation of the LRD against the USD and shortages of consumable products are pushing domestic prices up. Prior to the general elections on 10 October 2017 prices were already on the rise due to the depreciation of the LRD, shortages of consumables and inflationary expectations. Headline inflation rose from 10.47% in July 2017 to 13.1% by September, but declined to 11.9% in October 2017 (Figure 3). However, although official inflation statistics for November 2017 are yet to be released by LISGIS, interviews with key stakeholders show that prices of commodities and services have been rising mainly due to the pass-through effects of the depreciation of the LRD, rising prices of imports, and inflationary expectations among the populace because of the political uncertainty.

**Figure 3: Inflation Rates from January 2016 to October 2017**

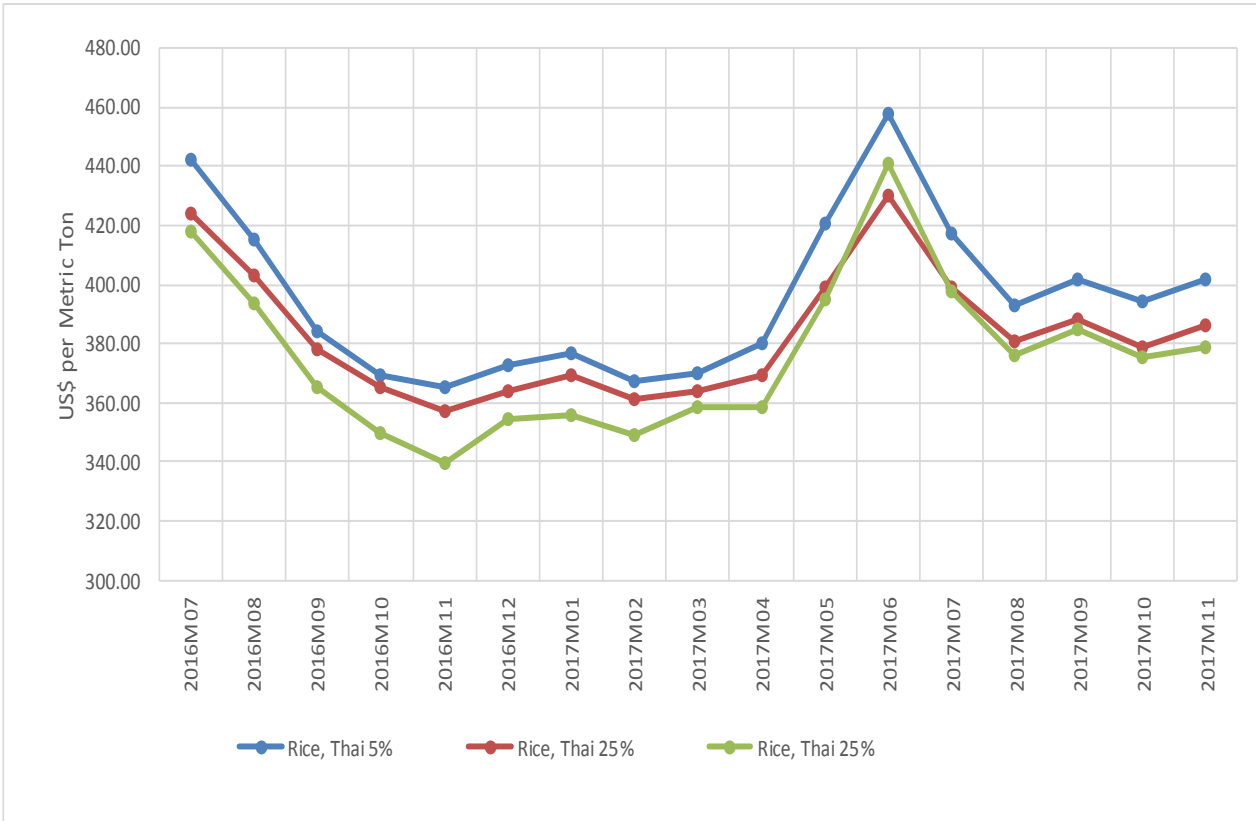


Source: Data from LISGIS

*Prices of Key sensitive strategic commodities:*

**Rice:** Rice is a stable food of Liberians and the increase of its price is politically sensitive. The FAO’s Liberia Market price monitor reports that the retail price of a 50kg bag of rice rose by 25% in September 2017 relative to same price in the previous year. Interviews with key stakeholders also reveal that the price of rice is increasing mainly due to the high depreciation of the LRD, which has offset benefits from declining international prices of rice (see figure 4), and increased domestic supply from the harvesting taking place in the major rice producing areas of the country such as Lofa, Nimba and Grand Gedeh counties.

**Figure 4: International Price of Rice (US \$ Per Metric Ton) January 2016 to November 2017**



**Source:** World Bank Commodity Review Report October 2017

**Petroleum products:** Petroleum products are inputs to many other production processes in the country. Pump prices of gasoline and other fuel products have been rising partly because of the uptick in the international crude oil prices and the depreciation of the LRD against the USD. Brent crude price rose from USD 46.89 per 1 barrel in June to USD 62.57 per 1 barrel in November 2017. Pump prices of gasoline and other fuels have risen since the release of the general election results

by LRD 11 and LRD 18 respectively per gallon, relative to the price of LRD 390 on 12 October, 2017, which was also an increase of 6 cents over the September 2017 pump price of both gasoline and fuel. Interviews with key stakeholders indicate that the same trend is expected to continue in the coming months affecting the lives of Liberians at this politically sensitive time.

#### **2.10 Bank Activity is Slowing Down**

The deteriorating situation of the balance sheets of businesses and households have not only reduced the demand for loans but also made it difficult for them to service USD-denominated loans. Around 95% of Liberia's bank loan portfolios are denominated in USD. Additionally, banks are becoming more risk adverse preferring to focus on recovering existing loans, including those given to political aspirants during the just-ended elections.

#### **2.11 Increased Insecurity**

Interviews with key informants point to the fact that crimes such as house burglary and armed robberies are on the rise due to reduced livelihood activities and general uncertainty in the country. This is affecting women more than men.

#### **2.12 Lower Labour Productivity**

In view of the heightened insecurity and lethargy, staff in public and some private sector offices are leaving office early thereby reducing labour productivity.

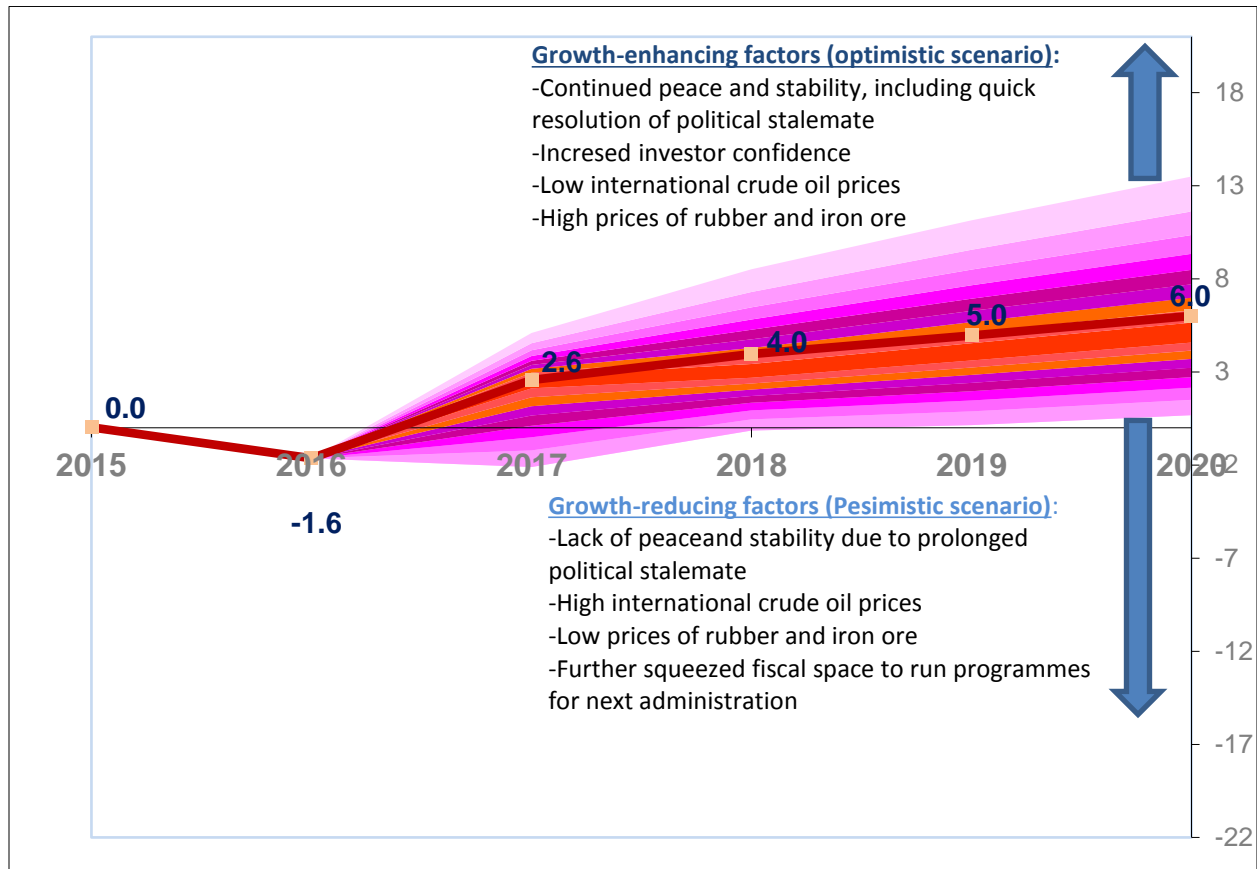
#### **2.13 Possibility of Recording Less than Project GDP Growth**

Prior to the general election and the Supreme Court ruling on 6 November 2017, medium-term macroeconomic outlook was favourable. Growth was projected to rebound from negative 1.6% in 2016 to 2.6% in 2017, rising to 4% in 2018, largely on account of further expansion in commercial gold, continued growth in agricultural sector, continued peace and stability, and recovering consumer and investor confidence (optimistic scenario in figure 5).

However, the current political impasse has led to uncertainty, speculation and reduced capital expenditure, all of which threatens to change the positive macroeconomic outlook. As shown in figure 5, if the political stalemate continues then the pessimistic scenario for growth may obtain

with significant implications.

Figure 5: Fanchart of Annual GDP growth and forecasts



#### 2.14 Increased Household Poverty

Prior to the political impasse household poverty was already a big challenge. As shown in table 1 54.1% of the households live below the national poverty line, with the situation being worse in the rural areas. Similarly, 70.1% of the population are multi-dimensionally poor reflecting deprivations in education, health and living standards (UNDP, Human Development Report 2016). Additionally, 21.5% live near the multi-dimensional poverty implying that a small shock will drive them to poverty.

The reduced economic activity as a result of the political impasse is making it difficult for many households to meet their basic needs and worsening their poverty situation. This is also affecting

the working class, many of whom are paid partly in USD and partly in LRD. A case in point is the public servants who are by law paid 80% in USD and 20% in LRD using the preceding month's exchange rate. With exchange rate depreciating at a very high rate, the public servants suffer income loss due to the difference between the previous and current month's exchange rate.

**Table 1: Poverty Levels by Region as At 2014**

	Absolute Poverty	Food Poverty	Extreme Poverty
Liberia	54.1	45.0	18.5
Area of residence			
Rural	70.0	52.8	27.4
Urban	43.3	39.7	12.4
Region			
Montserrado	31.6	32.5	6.6
North Central	71.7	57.7	29.8
North Western	66.0	52.4	24.3
South Central	47.5	36.3	9.0
South Eastern A	51.1	34.5	12.8
South Eastern B	78.9	65.0	38.7

**Source:** Household Survey (2014), LISGIS

### 3. Conclusions and Recommendations

The 2017 general elections were expected to be the first smooth political transition in Liberia since 1944 and the first to be run by the Government of Liberia without direct support of the UN. However, the current political impasse seems to paint a completely different picture and has led to a slowdown in the socio-economic system, which in turn has led to suffering by the people.

The preliminary findings of this rapid assessment reveal that the political stalemate is compounding the socio-economic challenges the society was already experiencing due to the slowdown in the economy, depreciation of the LRD owing to the decline in the prices of key export commodities, UNMIL drawdown, and reduced donor inflows. If the political impasse drags for a long time, it would have far-reaching effects and jeopardize the existing peace and

security. Already public confidence in the political system and the social contract between the citizens and the state is fast being eroded.

Some of the key **policy recommendations** are:

### **Immediate/Short term**

- a) Monitor the situation with an emphasis on those areas that have the potential to jeopardize peace, security and the authority of the state govern. These include, among others, the levels of supply of strategic commodities such as rice and petroleum, ability of the state to pay salaries of civil servants (including the police and the military), and the general security situation in the country
- b) Impress upon key stakeholders that the electoral dispute is having far-reaching socio-economic impacts and its effects may linger for a long time after the resolution of the political impasse. This is a call for the political leaders to take responsibility and be aware of the significant consequences of the political impasse, including endangering the peace dividend gained through years
- c) Improve communication and messaging around this political impasse stalemate to reduce the panic, anxiety and uncertainty that exists and ensure that the public avoid the risk aversion behavior in their consumption patterns and return to normal life
- d) If the political stalemate continues, conduct a comprehensive assessment of its socio-economic impact. The current situation may not only have impact on the limited space, but also will affect the policy space within the ongoing multiple transitions.
- e) Take pre-emptive measures to address the problem of vanishing public assets with significant implications on the fiscal space for the next government. Some urgent policy measures include:
  - Suspend the policy of allowing for vehicle disposal after a useful life of three years. The current rates of depreciation are year 1 at 40%, year 2 at 40% and year 3 at 20%, which were set in the year 2000 due to the poor road conditions. The



depreciation rate should be reviewed to ensure that the useful life of vehicles is more than 3 years since the condition of many roads has improved significantly.

- Suspend the current policy of giving the user the first right of refusal means that public officials buy government vehicles at prices set by themselves. The prices at which vehicles are disposed should be based on competitive bidding as it is the case in other countries.
  - Make the existence of a reconciled assets inventory as a condition for the completeness of the handing over documentation being prepared by senior public officials in various MACs
- f) Upon taking over in January 2018, the new Government should engage in activities to build confidence of investors and other development partners on the Liberian economy, including an international conference on Liberia's Development early 2018

### **Medium to Long term**

The new Administration should:

- (i) Expand the fiscal space by ensuring fiscal prudence and debt sustainability through improved revenue mobilization, rationalization of public expenditure and improvement of debt acquisition.
- (ii) Diversify the economy away from agriculture and minerals to other growth-promoting and employment-creating sectors such as fisheries, tourism and manufacturing. This would reduce the economy's vulnerability to shocks.
- (iii) Address the problem of import-dependence that has been the cause of chronic current account deficits and pressure on the exchange rate. These include implementation of policies that encourage domestic production of products currently being imported to the country including rice. Such a policy would not only conserve the limited foreign exchange but also reduce Liberia's vulnerability to international commodity price shocks.
- (iv) Address the problem of vulnerable employment (unsecure jobs), especially among the youth and stands at 71.4% of the population. This has been caused by weak private sector, mismatch of skills and low economic growth. Some of the policies to address the challenge include developing the private sector so as to create job opportunities and

formalization of the economy.

- (v) Implement policies that gradually address the problem of dollarization in which the US dollar functions as a legal tender. This would not only empower the Central Bank of Liberia to control inflation but also avoid the current problem that small businesses are facing in which suppliers are not accepting LRD as a means of payment. One possible policy is to continuously build public confidence on the LRD by encouraging its widespread use in the country and ensuring that the old and soiled notes are replaced promptly.
- (vi) Ensure that government asset management is linked to, or informs, the budget preparation process:
  - Inventory of assets (including fixed assets) are conditional to the budget call circular, the budget hearing process (budget hearing guide) and the budget appropriation process;
  - Revisit the composition of the budget committee with a view to including GSA, which is involved in asset tracking;
  - Review the protocol for vehicle fleet manage to ensure the linkage between GSA and the MACs;
  - Revisit the threshold of USD 15,000 for physical audit verification by the Ministry of Finance downwards; and
  - Set up a data base for asset tracking and link to this both the procurement and budget formulation and execution processes, including the recognition and payment of outstanding leases.

## References

Reports and data from FAO, LISGIS, CBL, MOA- Liberia Market Price Monitor, October 2017  
Economist Intelligence Unit Country report on Liberia.

IMF Article IV

## Appendix

## Methodology Note

The objective of the rapid assessment was to unravel quickly the socio-economic changes that

could be exclusively attributed to the political impasse and less to other events such as UNMIL drawdown. To achieve this objective, compromises or trade-offs had to be made by UNDP on three variables- time, quality/rigour of analysis to separate cause and effect, and cost of the research. First, the assessment needed to inform UNCT as soon as possible to facilitate policy dialogue and advocacy on the importance to solve the political impasse speedily. Second, the assessment had to sacrifice quality of research to achieve speed. A comprehensive quality research would mean conducting a survey, which is costly, time consuming and could miss the opportunity to influence policy decisions, and the report may come out when the political impasse has been resolved.

In view of the foregoing, UNDP adopted a triangulation of data collecting methods and analyses involving secondary data, interviews with key informants and observations. With regard to secondary data, event analysis methodology was adopted in which data for high frequency variables (such as exchange rates) were collected and individually analyzed for changes before NEC released the election results on 19 October and Supreme Court ruling on 6 November 2017. Significant changes of the high frequency after the two events would be attributed to the political impasse. This was then corroborated with the key informant interviews. For other impact that entail either low frequency or data that come with a long-lag, interviews with key informants were undertaken to determine their perception on the impact of the political impasse. In some cases, a team from SPU went around to see for themselves what was going on, including to market places.

The methodological approach adopted has some flaws. First, it was done quickly and some sacrifices had to be made about quality. This include, the fact that it was done by UNDP staff, which could affect the nature of the responses from the interviewees. Second, in view of the fact that this is a very politically sensitive time, some key informants preferred to remain anonymous. These flaws can be corrected through a comprehensive survey if the stalemate continues for a long time.