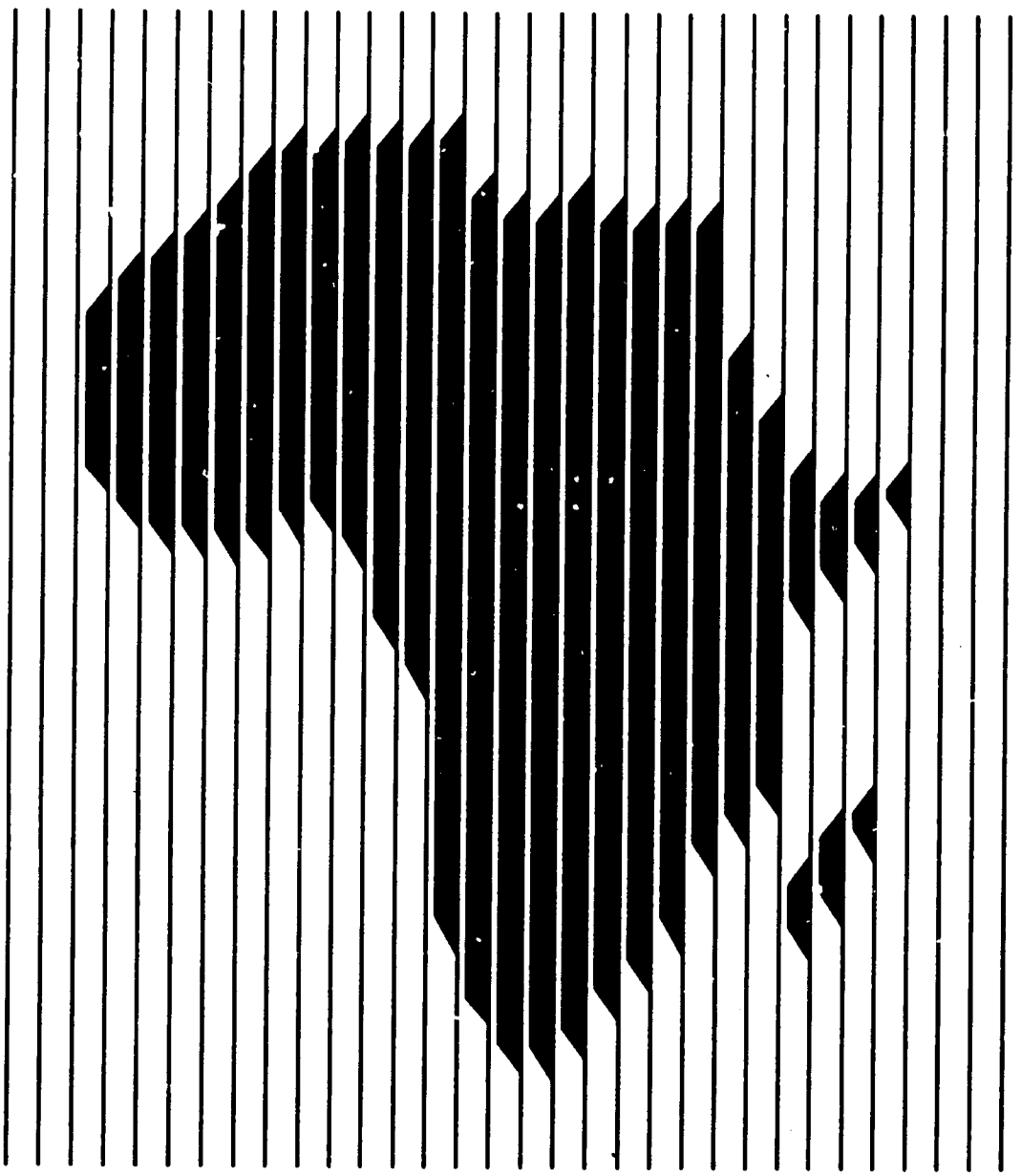
PD-ABC-298

# Development Fund for Africa

## Impact Evaluation of the Liberia Lofa County Agricultural Development Project



**Agency for International Development**
Bureau for Africa
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# IMPACT EVALUATION OF THE LIBERIA LOFA COUNTY AGRICULTURAL DEVELOPMENT PROJECT

Prepared for the U.S. Agency for International Development under contract number PDC-5315-I-05-8101-00 by Development Alternatives, Inc. (DAI) and the Institute for Development Anthropology (IDA), under a joint venture agreement between DAI, IDA, and Research Triangle Institute (RTI).

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February 1989

# FOREWORD

In September 1988, the U.S. Agency for International Development's Africa Bureau (A.I.D./AFR) launched a three-stage exercise to assess the impact of assistance in the area of rural credit. This effort was carried out in collaboration with Development Alternatives, Inc. (DAI) and the Institute for Development Anthropology (IDA), under a contract to provide technical assistance to the Agency.

The exercise was undertaken for three principal reasons:

- First, A.I.D. is responsible for ensuring that its assistance to governments in Africa is as effective as possible. This implies looking not only at the efficiency with which A.I.D. funds are channelled to recipients but also at the impact these expenditures have on the lives of people over time.

- Second, as a problem-solving organization with limited resources, A.I.D. must constantly be searching for better ideas. This implies periodic re-examination of experience to look for ways in which performance could have been improved.

- Third, in any particular sector such as that of rural credit, there are lessons to be learned from experience: theories to be disproved or refined, implementation alternatives to be tested, and unwanted effects to be avoided.

The first stage of this impact evaluation exercise was a review of project documentation and other pertinent literature. The results of this review are laid out in the document, "An Impact Evaluation of Rural Credit Projects in Africa: A Summary Review of the Literature."

The second stage of the exercise was a series of field assessments conducted by multidisciplinary teams in Cameroon, Malawi, Kenya, Lesotho, and Liberia in late 1988. Each team prepared a report of its findings, conclusions, and recommendations. These individual country reports form the basis of the final synthesis.

The last stage was the preparation of a final synthesis report, which has been issued as a separate document entitled "The Impact of Rural Credit Projects in Africa: A Synthesis Report."

February 1989

# PREFACE

This report is part of a coordinated effort by the contracting organizations to assess the impact of five rural/agricultural credit projects in Africa. The report was produced by a multidisciplinary team in Liberia for a total of three weeks, following a three-day team planning meeting in Washington, DC.

These studies represent a backward look at AID-financed projects that have ended, assessing their residual impacts and the wisdom of the intervention methods used. The project selected for Liberia, the Lofa County Agricultural Development Project (LCADP), received partial AID funding only in its first phase (1976-81). It continued for a second phase (1982-87) with World Bank and African Development Bank assistance. Since the LCADP did not fundamentally alter its credit delivery approach, we report here on both phases.

The team reviewed pertinent documentation in Washington and Liberia. Meetings and group discussions in Monrovia with officials of the Ministry of Agriculture, USAID/Liberia and other institutions served as the basis for defining the general context for the project. The team conducted group, individual, and key informant interviews with farmers, as well as project and other agency officials, in Upper Lofa County during a seven-day field trip. The team selected a representative, non-random sample of small and large farmers from several communities, including men and women, project and non-project participants, and members of several cooperatives.

After analysis and initial drafting of the report and appendices in Monrovia, the team presented its findings and recommendations to USAID and Liberian government officials. The team incorporated comments from discussions--and USAID observations on the draft documents--into subsequent revisions.

## ACKNOWLEDGEMENTS

The orientation conducted by AID and DAI staff in Washington was key to preparing the team for successful fieldwork in Liberia. The team particularly benefitted from the contributions of Ms. Cindy Clapp-Wincek from AFR/DP/PPE, and Mr. John Gadway, Ms. Peg Clement, and Mr. Jean-Jacques Deschamps from Development Alternatives, Inc.

USAID and Ministry of Agriculture staff in Liberia greatly assisted in and contributed to team efforts during fieldwork and reporting. Dr. James Beebe and Ms. Juliet Born at the Agriculture and Rural Development Office at USAID/Liberia offered constant support. The assistance of Mr. James M. Mehn, Deputy Minister for Planning at Agriculture, attested to government interest in rural credit. The team reserves special thanks to Dr. Benjamin Temple, Director of the Central Monitoring and Evaluation Unit at the Ministry of Agriculture, who furnished invaluable insights and criticism in Monrovia and during fieldwork in Lofa County.

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## SUMMARY

The goal of the Lofa County Agricultural Development Project (LCADP) was to increase agricultural production and productivity, with particular emphasis on small farmers. Project phases I and II were implemented between 1976 and 1987. The Government of Liberia has been progressively retiring or absorbing the project infrastructure and staff since June 1987, and the Ministry of Agriculture was to have finished this incorporation by the end of 1988.

LCADP has had a profound impact on small farmers in Upper Lofa. Over 10,000 farmers -- and their households -- benefitted from improvements in rural infrastructure and agricultural inputs. Smallholder acreage of cocoa and coffee has increased dramatically, and improved varieties of upland and swamp rice seeds are now widely used in the region. LCADP built many rural roads, offered rural health services, and improved village water supplies with hundreds of wells.

The project focused on promoting new farming techniques and service delivery to the rural communities. The Project Management Unit -- created as an institution separate from the weak Ministry of Agriculture -- should have ultimately transferred services delivery and extension work to the regional cooperatives, but this approach was based on a false assessment of the contemporary and future potential role of these cooperatives.

The cooperatives have failed to become independent multi-functional institutions. The size and basis for recruitment (farmers were compelled to join to receive LCADP technical inputs) robbed even pre-existing community associations of any genuine popular participation. The project also failed to furnish the training and guidance needed to generate viable institutions. The centralized, hierarchical administrative structure of the coops did not correspond to local social organizations, patterns of authority, and small-farmer interests and aspirations. The coops failed even in their most basic role of marketing their members' coffee and cocoa, although the blame is not entirely theirs.

The credit component of LCADP was not central to design or implementation. The project delivered farming inputs and associated credit based on targets, not on assessments of credit risks and likely recovery. Farmer loan repayment was intended to create a revolving fund to sustain future coop lending. However, LCADP never established the management systems necessary to follow the loan portfolio properly. The low recovery rate of only 0.5 percent on the long-term "development" loans illustrates the failure of the credit component.

External factors compounded the impact of the original weaknesses in project formulation and execution. Negative national economic growth, sharp declines in world

prices for cocoa and coffee, periodic illiquidity of institutions key to farmers (such as the Agricultural and Cooperative Development Bank and the Liberian Produce Marketing Corporation), and other factors all contributed to the failure of the credit component as well.

The team's **major findings** from their evaluation of LCADP's small-farmer credit component are as follows:

1. The model of an area development project strengthening and developing existing cooperatives to assume the lead in agricultural development and farmer credit failed.

2. Based on repayment rates, small-farmer lending by the LCADP Project Management Unit did not work.

3. The model of an agricultural development project building up a sustainable revolving credit fund for meeting future small-farmer credit needs failed. The LCADP fund proved difficult to manage as intended, and, in any case, probably represented an overestimation of the need for externally supplied credit.

4. The model of tying credit to particular input packages failed in the sense that it did not assure precise adoption of recommended practices, nor render credit an infungible farming input.

5. Tying credit to a limited number of cropping packages failed to capitalize on other productive opportunities, especially for women.

6. The external economic and political environment is extremely important to the functioning of rural credit projects.

7. Since it lent without great regard to orthodox credit-worthiness criteria, such as preexisting collateral, the LCADP was able to reach poorer farmers with its loans.

8. There are a variety of formal and informal deposit-taking and lending institutions in Upper Lofa County that are widely used by small farmers.

The **lessons learned** based on the above are:

1. Developing true farmer-serving, multifunctional cooperatives is difficult. At least initially, farmer associations should be small community groups based on local participation and leadership. Such groups should be analyzed to determine their capacity to serve as the basis for effective, new organizations such as marketing groups or credit unions -- before attempts are made to establish these larger, more complex entities.

2. Small-farmer lending by multifunctional cooperatives may conflict with their other

roles, such as marketing and technical assistance, and may be misunderstood by farmers. Wiser is spinning off by farmer cooperatives, or separate establishment, of fully bank-like, deposit-taking credit cooperatives.

3. Giving a marketing cooperative a monopoly over procurement from its members disinclines it to serve its members as well as possible. The Liberia findings suggest that free wholesale-market competition is a necessary spur to insuring that cooperatives exercise their inherent size and ownership advantages to serve all their members well, not just a dominant few.

4. Small-farmer lending by agricultural development project management units, or any other entity that is not a true financial institution, should be avoided. The Liberia case confirms the view that farmer-borrowers at least partly condition repayment on their desire for access to future credit from, and stake in (ie., deposits), the lending institution.

5. Donors should think twice about undertaking major agricultural development projects where dealing with a monopoly-holding marketing parastatal cannot be avoided. In the past decade, Liberia's coffee and cocoa parastatal has served Lofa County farmers poorly, ultimately nullifying many of the project's gains.

6. Revolving credit funds of specially earmarked funds to service a region's future agricultural borrowing needs are unlikely to work -- particularly when the monies must flow through a number of hands -- and are best avoided.

7. Tying credit to particular input packages is unnecessary. The Liberia study confirmed findings elsewhere that this approach does not ensure precise adoption of recommended practices, nor render production credit infungible. Institutional credit for inputs is better given in cash.

## PROJECT DATA SHEET

Country: Liberia

Project Title: Lofa County Agricultural Development Project, Phase I

Project Number: 669-0142

Project Implementation

Project Proposal, 1975 (June)
Project Agreement, 1976 (effective May)
Project Completion (Phase I), 1981
(to June 1982 for IBRD)

Project Donor Funding

| | |
|---|---|
| USAID | $5,000,000 |
| IBRD (Credit 517-LBR) | $6,000,000 |
| Government of Liberia | $5,900,000 |
| Farmer Contribution | $1,100,000 |
| | --- |
| | $18,000,000 |

Project Title: Lofa County Agricultural Development Project, Phase II

Project Implementation

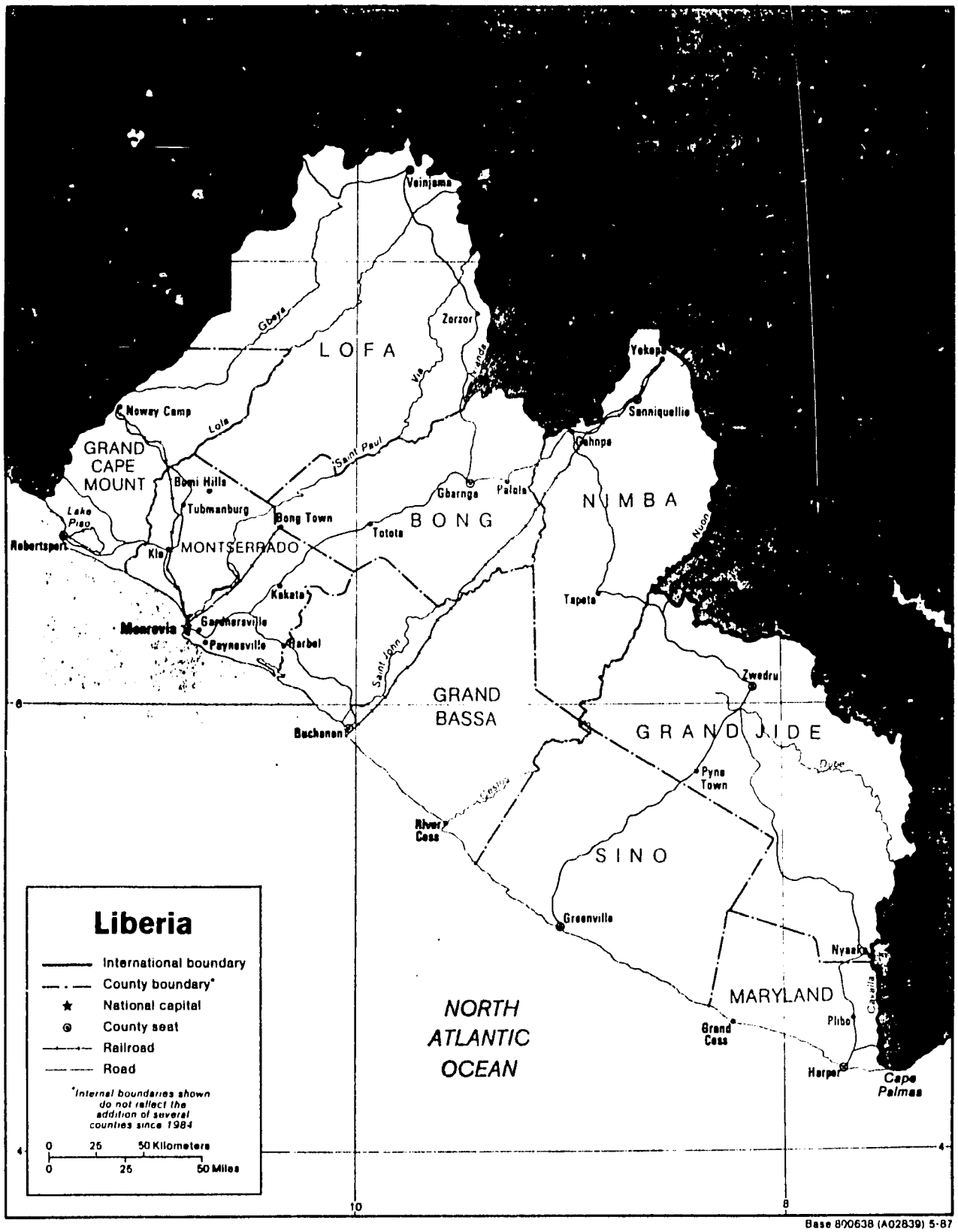
Project Proposal, 1982 (April)
Project Agreement, 1982
Project Completion, June 1987
(Government of Liberia extension to December 1988)

Project Funding

| | |
|---|---|
| World Bank - IDA | $15,500,000 |
| World Bank - ADF | $9,600,000 |
| Government of Liberia | $2,900,000 |
| | --- |
| Total | $28,000,000 |

## ACRONYMS

| | |
|---|---|
| ACDB | Agricultural and Cooperative Development Bank |
| ADF | African Development Fund |
| AID | U.S. Agency for International Development |
| ARD | Agriculture and Rural Development Office, USAID/Liberia |
| BCADP | Bong County Agricultural Development Project |
| CDA | Cooperative Development Agency |
| CMEU | Central Monitoring and Evaluation Unit (MOA) |
| IDA | International Development Agency |
| LBDI | Liberian Bank for Development and Industry |
| LCADP | Lofa County Agricultural Development Project |
| LPMC | Liberian Produce Marketing Corporation |
| MOA | Ministry of Agriculture |
| MPEA | Ministry of Planning and Economic Affairs |
| TCU | Town Cooperative Unit |

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# I. PROJECT SETTING

Physically, Upper Lofa County, the project's locale, is a moist tropical upland of rolling hills at 500-800 meters elevation, lying between 8° and 8°35' north latitude (see Map).[1] The Wologizi Range, along the southern part of the project area, has peaks reaching nearly 1,200 meters, and contains yet undeveloped iron ore reserves of over 900 million tons. Precipitation during the June-November rainy season reaches 2,500 mm, more than adequate for the region's predominant cropping pattern of smallholder coffee and cocoa tree cropping for cash and shifting cultivation of upland rice for subsistence.

Upper Lofa County's population is estimated between 150,000 and 185,000, at least 70 percent of which is rural. Even the inhabitants of the four towns, Voinjama, Foya, Kolahun, and Zorzor, which have populations of 2,000-10,000, tend to farm at least part time. Most of the population falls into one of five ethnic communities, each with a distinct language, leadership, and social culture. A tiny Lebanese community dominates the trading of goods imported to the region.

The region's road system is terrible, in spite of twenty years of work done by the Lofa County Agricultural Development Project (LCADP) and other projects. Not even a chunk of asphalt, much less a stretch of tarmac, can be found after turning north off the main road at Gbarnga, even on the city streets of Voinjama. Upper Lofa County nevertheless sustains year-round a thriving rotating market system, and even during the rainy season truck transhipments to Guinea pass through the area, despite exceptional peril. Matters improve during the dry season after the main roads have been regraded, and then the region's several thousand tons of coffee and cocoa production are trucked to port.

Upper Lofa County looks surprisingly prosperous, given its subsistence orientation and isolation from the coastal cities, which is almost total during the rainy season. For the most part, village and town houses are constructed of cement block and are metal-roofed. Hunger was not obviously evident, even at the end of the rainy season when food should be scarcest. Although, in fact, population pressure on the land has grown and become an important issue for some locales[2], one's impression is of underpopulation, of a landscape

[1]The Lofa County Agricultural Development Project and its sister project in neighboring Bong County were the subjects of a previous Agency for International Development Impact Evaluation that broadly analyzed the projects as examples of multisectoral area development (Harbeson et al., 1984). This study should be consulted for a broader overview of the project and its setting, particularly of Phase I (1976-81).

[2]See Harbeson et al. (1984), Appendix F.

still dominated by Nature rather than by Man.

During most of the LCADP's eleven years (1976-87), its broader Liberian political and economic setting was one of turmoil, a fact confounding analysis of the project's credit component [3]. Economic growth, which had been relatively rapid during the 1960s and early 1970s, slowed during the latter 1970s and finally reversed direction for most of the 1980s. Blame may be parceled among: political instability; falling prices for Liberia's iron ore, timber, rubber, and coffee exports; at times high oil prices; and fiscal irresponsibility by both the pre- and post-coup regimes. Liberia's Gross Domestic Product (GDP) declined at -1.3 percent/year for the period 1980-86 (World Bank 1988: Statistical Appendix Table 2). Thus, given the country's rapid population growth of 3.3 percent/year, GDP/capita declined by almost 25 percent for the period. By 1986, Liberia's total external debt was at least $1 billion, amounting to 99 percent of GNP (World Bank 1988: Statistical Appendix Table 18; see also Dunn and Tarr 1988:139-145). After the failure of a series of Paris Club refinancings and structural adjustment credits from the International Monetary Fund and the U.S. Government during 1980-85, donors and creditors sharply curtailed their support for Liberia. The LCADP was directly affected when first the African Development Bank and then the World Bank withdrew project support during 1986-87.

The monetary and fiscal aspects of Liberia's continuing troubles strongly affected the credit component of the LCADP. Since World War II, the U.S. dollar has been legal tender in Liberia, officially trading at parity with Liberia's own dollar, and constituting the greater share of the money supply. The coupling of government fiscal irresponsibility with a money supply vulnerable to foreign-sector fluctuations and to easy capital flight caused a severe liquidity crisis for most of the 1980s.[4] For Lofa County farmers, it has often meant getting paid only in warehouse receipts for the coffee and cocoa they market through the cooperatives. The cooperatives, in turn, have had to wait months for their money from the government marketing parastatal, the Liberian Produce Marketing Corporation (LPMC). Given the LPMC's preexisting limitations (FAO 1986), the liquidity crisis induced a near collapse of the official coffee and cocoa market system during 1983-86, with severe repercussions for the main actors of the LCADP credit scheme: the farmers, the cooperatives, and the project itself.

## II. PROJECT DESCRIPTION

The LCADP was an "area development project" with health and infrastructure components in addition to agriculture. It was formulated in 1973 and implemented in two

[3]For complete treatments of Liberia's recent economic and political past, consult Liebenow (1987), and Dunn and Tarr (1988).

[4]For a fuller explanation, see Dunn and Tarr (1988), pp. 125-165.

phases beginning in 1976 and continuing until 1987, when World Bank funding was abruptly suspended. By late 1988, the project (along with its sister project in Bong County) was in phaseout, and completely under Government of Liberia funding, with about 25 percent of the peak staff remaining (See Appendix H, Exhibit 1 and Table 2).

The LCADP was primarily a World Bank project that also received AID and African Development Bank funding for selected components. AID's contribution was approximately $5 million of the project's total spending of about $36 million,[5] and the Agency was involved only in Phase I (1976-81). The LCADP was the first major smallholder-targeted rural and agricultural development effort for Upper Lofa County, indeed for Liberia as a whole. It was not preceded by a pilot phase or adaptive local agricultural research, and, aside from the LPMC, there had not been any real agriculture-related government presence in the area. Admittedly, four recently formed agricultural cooperatives existed in the area, but only one had a meaningful membership. Not surprisingly, the project did not proceed as diagrammed in the appraisal reports.

The LCADP was not primarily a credit project, and no great thought or effort was given to articulating and strengthening existing local credit institutions. Credit was an element in the transfer of the project's four main technological packages: improved upland rice cultivation, swamp rice development, coffee planting, and cocoa planting. Seasonal loans were made, as well as soft "development" loans with grace periods, for tree planting and swamp rice development. Project loan infusions and farmer repayments flowed through a revolving credit fund that was intended to be tapped after project completion by the cooperatives, which were slated to take over farmer service activities, including credit.

The project brought its technology packages (and loans) to the farmers through a cadre of agricultural and commercial agents that numbered in the hundreds. They organized farmers, ideally numbering 10-30, into groups called Town Cooperative Units (TCUs), to constitute the bottom-most tier of the cooperative system. The TCUs made "group-site" investments, mainly in coffee and cocoa tree planting and swamp rice development, that typically included the project's building of an access road to the group site. The project made loans to farmers, thousands of them, technically in the name of the cooperatives, but since higher level cooperative development lagged behind the project's direct work with farmers, the LCADP continued to administer the loans.

The LCADP required that farmers interested in receiving project assistance join their local cooperative. Strengthening these organizations at the higher, district level proceeded along a separate track. There were four cooperatives at project inception slated for beefing up; an additional one, Zorzor, was formed later; and another, Quardo Gbandi, was formed by splitting from the Voinjama district cooperative. The four original cooperatives had been essentially marketing cooperatives, acting as coffee and cocoa procurement agents for the LPMC. Over its 10 years, the LCADP managed to swell the cooperatives' membership rolls

[5]See Project Data Sheet; and Appendix H, Table 1.

and in certain years the volume of produce flowing through the cooperatives was quite large, but for reasons that will be discussed, the cooperatives failed to evolve into full-service organizations capable of offering small-farmer credit.

The LCADP's achievements and failings are too numerous to list fully here.[6] The project made major improvements in the road network; built hundreds of wells and latrines; established the country's sole coffee and cocoa seed improvement program and propagation garden; trained hundreds of technicians and thousands of farmers; introduced improved rice varieties to the region; achieved an approximate doubling of coffee and cocoa productive capacity; and organized thousands of farmers into local-level cooperative-like units (Appendix H, Tables 1, 3). The project touched directly at least 75 percent of the region's roughly 20,000 farmers. For the purposes of this study, the LCADP's most important deficiencies were a failure to institutionalize a multifunctional cooperative system to succeed it, and a failure to establish a viable small-farmer credit system. Whether these were failures of implementation, the fault of extenuating circumstances, or of a faulty project design based on an inappropriate development model, is the subject of the remainder of this report.

## III. PROJECT CREDIT COMPONENT IMPACTS: FINDINGS AND CONCLUSIONS

This section summarizes the major findings and conclusions concerning the credit component of the LCADP and rural credit in Upper Lofa County.

### 1. The model of an area development project strengthening and developing existing cooperatives to assume the lead in agricultural development and farmer credit failed.

In 1974, the World Bank's project designers rightly saw the Ministry of Agriculture as incapable of managing a major rural development effort in Lofa County. They then designed the project to be spearheaded by a Project Management Unit (PMU), and succeeded by multifunctional cooperatives built up from the region's four existing, but only recently founded, marketing cooperatives. In fact, the cooperatives did not develop the intended capacities, and, with the payment delays and other illiquidity-induced difficulties of the 1980s, most of the cooperatives became insolvent simply trying to act as marketing middlemen. Whether the PMU should be blamed for failing to groom its successors, or credited for recognizing that the cooperatives were mainly managed by individuals who placed their own self interest too far above that of their members, is unclear. Whether the cooperatives could have become less mere procurers for the LPMC and more oriented

[6]For a fuller review of LCADP's Phase I, see Harbeson et al. (1984); AID Auditor General Report (1980); and the USAID/Monrovia Impact Study (1980).

toward serving farmers had there been a more stable economic context, is also unclear, but doubtful. Cooperative managers assured the team that the cooperatives could successfully manage small-farmer credit, and that if only they were granted a coffee and cocoa marketing monopoly over their members, loan collection would not be a problem. Their logic was faultless, but not convincing.

Possibly, the World Bank design team was influenced by the success of multi-functional cooperatives in countries such as Taiwan and Korea; however, after 15 additional years of experience with developing-country cooperatives, it seems likely that this same project designed today would plan for succession by a strong Ministry of Agriculture extension staff, or possibly by an indigenous private voluntary organization, and, ideally, a variety of rural financial institutions. We concluded that projects intended to produce multi-functional cooperatives, with or without their managing small-farmer credit, face a difficult task.

2. **Small-farmer lending by the LCADP Project Management Unit did not work.**

In its programs to encourage swamp rice development and cash crop tree planting, the PMU made thousands of short- and long-term loans to farmers. It made these loans in the name of the cooperatives to which the farmers belonged, but in both Phases I and II maintained the loan records itself. Loan collection, mainly of seasonal loans, was respectable for several years, particularly in Phase I, but low for others. Repayment of long-term development loans was consistently low. By 1988, seasonal loan recovery stood at 40 percent, and for development loans at only 0.5 percent.

The reasons for this poor performance are multiple: a) the PMU agents were apparently too enthusiastic in promoting the loans; b) the technical packages often failed;[7] c) the project's design of loan collection by cooperatives, through which the farmers were obliged to market, and the expected use of titled landholdings as long-term loan collateral, did not materialize; d) loan supervision and collection appeared to be weak, particularly as farmer participation in the project increased; and e) marketing failures that left farmers holding warehouse receipts for their produce left them also with insufficient cash or desire to pay back their loans; and f) farmers undoubtedly realized that the LCADP was not a good bet as a future source of credit and were not motivated to maintain a good loan repayment record with it.

The team concluded that agricultural development PMUs make poor bankers. The LCADP's real agenda of moving money and meeting targets to please its World Bank overseers left it little inclination or energy to manage carefully a small-farmer loan portfolio.

[7]A Farmer Identification Survey done in 1986-87 that reached about 75 percent of the borrowers found that approximately 25 percent of the coffee, cocoa, and swamp rice investments were unsuccessful or abandoned.

**3. The model of an agricultural development project building up a sustainable revolving credit fund for meeting future small-farmer credit needs failed.**

The LCADP Project Paper contains a spreadsheet showing that -- given certain modest charges and interest rate spreads between the Agricultural and Cooperative Development Bank (ACDB) fund manager, the cooperatives, and their farmer borrowers, and a reasonable default rate -- a revolving credit fund was clearly sustainable (AID 1975: Appendix G, Table 1). Such was not to be. In practice, the cooperatives never reached the stage of borrowing and onlending to their members; as mentioned, the PMU actually disbursed most of the small-farmer loans. Then during 1983-86, the PMU began authorizing marketing working capital loans to the cash-strapped cooperatives out of the revolving fund. When illiquidity during this period drove up marketing costs, the cooperatives became unable to pay back most of these loans. This, coupled with near-total farmer nonpayment of development loans, left the revolving credit fund almost dry by late 1988.

The team cannot say that the revolving credit fund would have failed in any case, regardless of all the extenuating circumstances. The project design itself, however, premised small-farmer loan collection by the cooperatives on the coops' enjoying a coffee and cocoa marketing monopoly over their members -- certainly not a vote of confidence in farmer-borrower responsibility. Formal small-farmer credit cannot be so vital that it warrants an entirely administered produce marketing system. The team concluded that revolving credit funds are difficult to establish and manage, and certainly do not merit chaining farmers to a single buyer for their main cash crops.

**4. The model of tying credit to particular input packages failed.**

The project design presumed that the improved technologies for rice (upland and swamp) and for new and rehabilitated cocoa and coffee were recognizably superior to customary practices, and that credit could be tied to their use. In fact, the project's agronomic coefficients came mainly from the World Bank's Eastern Area Project in the nearby Kenema region of Sierra Leone, and little actual testing in the Upper Lofa area preceded implementation (AID 1975:iv). The farmers refused to borrow for items such as fertilizer for upland rice because the variety was not as fertilizer-responsive as expected, and over time they modified the cultivation packages to fit their own perceptions of returns to borrowed funds. Since farmers have not repaid, their long-term borrowing for coffee and cocoa was probably influenced by the soft loan terms and the likelihood that the loans would not be collected. And while even credit in kind can be rendered fungible, limiting credit to only a few major crops meant missing opportunities for directly assisting numerous small-scale, cash-generating activities such as palm kernel and palm oil for market, and vegetable and peanut garden production -- both women's activities; and sugar cane production and distilling -- both men's activities. While agricultural research and extension projects are prudent to focus on a few major crops, lending institutions should willingly

finance any profitable farming enterprise.

Since the late 1970s, the fungibility of credit, even when given in kind, has also become more widely recognized. It has become clear that the way to promote new cropping methods is through demonstrations and active farmer involvement in their development, rather than by tying them to credit. This is not to say there is no place at all for using access to credit and assistance as a means of inducing selected cultural practices. In fact, developed countries commonly condition assistance on, for example, the farmers' adoption of improved soil management practices. Farmers, however, often perceive soft-term lending by government agencies to be grants. The team concluded from the LCADP example that tying credit to the farmers' use of particular input packages almost certainly does not work as planned, and, in any case, it is a second-best way to promote those packages.

### 5. The external economic and political environment is extremely important to the functioning of rural credit projects.

While political instability and economic collapse in the 1980s did take some toll on the LCADP as a whole, for the most part the project functioned surprisingly well: money (mainly the World Bank's) continued to flow into its coffers, roads were built, and an extension service of several hundred persuaded several thousand farmers to use improved rice seed and to plant coffee and cocoa. When the banking system became illiquid and export crop marketing channels began to break down, however, cooperatives and farmers were left holding the IOUs. The cooperatives became insolvent, and farmers did not bother with repaying their loans. Ironically, while credit was not meant to be the centerpiece of the LCADP, many observers now view the project a failure because of the large amount of small-farmer debt still outstanding and the poor fiscal condition of the cooperatives.

The team concluded that developing-country rural credit projects should assume and anticipate political and economic instability. Because of such conditions and the poor financial markets they engender, large injections of capital to a rural area may indeed increase production; but at the same time they may generate financial "growth" consisting mainly of unpaid and unpayable loans owed to remote lenders (in this case, the LCADP).

### 6. The LCADP provided credit in a way that reached poorer farmers.

The LCADP promoted coffee and cocoa tree planting and swamp rice development to any and all interested farmers: male and female, rich and poor.[8] Farmers without title to land for tree planting were allocated it by the tribal authorities, with, in theory, a

[8]Project officials estimate that about 25 percent of the development loans were made directly to women, primarily for swamp rice.

mortgageable title being granted.[9] Thus, prior ownership of sufficient land was not a major constraint. Women, who by custom cultivated swamp rice, were favored by that part of the program. Many farm families who previously grew only upland rice and had few sources of cash income now have initial 1-2 acre plantings of coffee and cocoa from which they can easily expand into adjacent areas using vegetative cuttings. Since the LCADP did not overly trouble itself about the future administrative problem of collecting the loans, since land ownership was not a major constraint, and since the project did not doubt the ultimate profitability of the loans, the project made loans more rapidly and to a broader class of farmers than would have any conceivable, profit-driven financial institution.

The team concluded that, for the most part, the loans resulted in productive investments that will benefit many small farmers directly and the country as a whole indirectly for many years to come.

**7. There are a variety of formal and informal deposit-taking and lending institutions in Upper Lofa County that, evidently, are widely used, but farmers still expressed concern over a lack of credit for seasonal agricultural activities, such as cutting brush on their tree plantations.**

Upper Lofa County has a branch office of the ACDB that in 1986 had approximately $750,000 of deposits on which it paid interest of 8 percent/year. Village savings and lending associations of varying sophistication are also common, and individuals can be found taking cash to Lebanese shopkeepers for safekeeping at no interest. Aside from the ACDB, which has taken deposits in Upper Lofa County since 1985 but which made no loans, there seem to be a number of deposit takers and sources of at least small short-term loans in the area. Farmers widely expressed their frustration that, having planted the project's trees and developed the project's swamp rice fields, they could not raise enough cash to hire labor for maintenance.

Without detailed study, and given that a major potential lender, the ACDB, had been abdicating its lending responsibility, the team could not draw firm conclusions as to the region's balance of savings versus farm credit needs. Given the size of local savings, it does appear that the project design overestimated the need for externally injected seasonal credit funds requiring special administration in a revolving fund.

## IV. LESSONS LEARNED

[9]The project design called for title deeds to be granted to farmers planting coffee and cocoa on land nominally held in tribal trust. The title then would be held in mortgage by the project/cooperative until the investment loan was repaid. The team was unable to ascertain how much of the project-planted lands had actually been entitled.

A number of rather obvious lessons emerged from the above findings, as well as some lessons that are not directly pertinent to credit.

- Developing true farmer-serving, multifunctional cooperatives is difficult. The strategy of nurturing what are basically marketing cooperatives into organizations that can broadly spearhead agricultural development is a risky one, to be avoided in all but a few carefully studied settings.

- Since a number of the project-initiated, village-level TCUs continued to be active -- even as the district coops remained moribund and the LCADP phased out -- the Liberian experience suggests that in the early stages of cooperatives (or other agricultural organizations) farmers have greater affinity for local, smaller-scale groups, rather than large, formal, modern organizations. Organizing should start at the local level prior to the forming of higher district-level cooperatives.

- Small-farmer lending by multifunctional cooperatives may conflict with other roles, such as marketing and technical assistance, and may be misunderstood by farmers. Wiser is spinning off by farmer cooperatives, or separate establishment of, fully bank-like, deposit-taking credit cooperatives.

- Giving a marketing cooperative a monopoly over procurement from its members is unlikely to motivate it to serve its members well. The Liberia findings suggest that marketing cooperatives may require the spur of free competition at the wholesale farmgate level to serve all their members well, not just a dominant few.

- Small-farmer formal lending by agricultural development project management units (PMUs) or any other entity that is not a true financial institution, should be avoided. The corollary is that projects should push new farming techniques, and financial institutions should do the lending.

- Donors should think twice about undertaking major agricultural development projects where dealing with a monopoly-holding marketing parastatal cannot be avoided.

- Revolving credit funds to service a region's future agricultural needs are unlikely to work and should be avoided.

- A range of financial services should be made available to small farmers. The same institutions should take deposits and make loans.

- Tying credit to particular input packages is unnecessary. Institutional credit for inputs should be given in cash, when at all feasible.

- Small farmers should not bear the costs -- in cash, labor, or credit -- of experimentation and adaptation of technical packages to local conditions, as they did

with the LCADP.

In the team's study of the LCADP's credit component and observations in Lofa County, we found nothing to disprove the so-called "New View" of rural credit which holds that projects should not treat credit as an input or scarce factor of production.[10] However, because of the many extenuating circumstances that short-circuited the planned development of Lofa County's cooperatives, which are not financial institutions, the team could not say definitively whether they could have managed a small-farmer credit program.

There is clearly a need for improved financial markets and services in Lofa County, despite the presence of the ACDB and the plethora of smaller, more informal institutions. Group lending by a strengthened ACDB to TCUs or other farmer groups is one possibility. Encouraging the organization of larger, more formal, credit cooperatives is another. Whether such measures should be delayed until macroeconomic conditions in Liberia are more stable is a matter for deeper study.

The team found nothing to disprove the New View propositions that deposit taking should be the lead service offered in rural areas, and that investment opportunities lying outside agriculture can have a higher return to which freely functioning financial markets may allocate rural savings; but the gross differences in infrastructure and levels of living between Liberia's rural and urban areas make the New View rhetoric sound like Neo-Trickledown rhetoric: that savings naturally flowing from the rural to higher-returning urban industry will redound to the eventual good of both. The ACDB branch in Upper Lofa County is, perhaps inadvertently, taking this principle to its logical extreme by making no loans at all despite its sizable deposit base. There is clearly a need for government-directed infrastructure and services investment in Liberia's rural areas, and it is not at all obvious that the returns there will be less than in the more urban areas. Upper Lofa County has conspicuous capability to produce far more food for the urban areas, and coffee and cocoa for export, given further investments in infrastructure, farm implements, market channel improvement, and agricultural research and extension. Whether at this stage in its economic development Liberia benefits more from a net negative flow of savings from the rural areas (as the ACDB apparently believes), or the converse, remains an important issue.

[10]See, for example, J.D. Von Pischke, D.W. Adams, and G. Donald (1983).

# APPENDIX A

# LOGICAL FRAMEWORK

## APPENDIX A

## LOGICAL FRAMEWORK (Narrative Description)

### Lofa County Agricultural Development Project, Phase I

Goal: To improve the welfare of rural people in the traditional sector through integrated rural development.

Purpose: To increase agricultural production and productivity in Upper Lofa County, primarily on small farms.

Outputs: To establish several "service systems" needed to motivate, guide and provide farmers with the knowledge organization and means to apply improved agricultural technologies.

Principle outputs included:

1. Training Project Management Unit staff
2. Farmer training programs and facilities
3. An operational extension system
4. A credit system
5. An input supply system
6. Land development
7. A marketing system
8. A schistosomiasis surveillance system
9. Building 100 kms of farm to market roads
10. Research field trials
11. Seed multiplication
12. Seedling nurseries
13. Village wells

Inputs: USAID-financed inputs included:

1. PMU Cooperative/Credit Division personnel, commodities, vehicles and equipment
2. Farm inputs (principally fertilizer and seed)
3. Schistosomiasis personnel, vehicles and equipment
4. Construction of a dormitory block
5. Prefinancing three key PMU staff and contingencies



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# APPENDIX B

# EVALUATION METHODOLOGY



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## APPENDIX B

## EVALUATION METHODOLOGY

This ex-post evaluation of agricultural credit to small farmers in Lofa County, Liberia, used Rapid Rural Appraisal methods. These techniques aim at gathering, synthesizing, and reporting on information very quickly using multidisciplinary teams focusing on specific issues (Chambers 1985 and Honadle 1982). Before leaving for the field, all of the team members assembled in Washington on 28 and 29 September 1988 for a briefing by AID and DAI staff on the objectives, methods, and expected results of the evaluation.

The workshop served to elaborate a common approach for the methods and products of the entire evaluation. AID staff offered an orientation on previous impact evaluation expectations and experiences. DAI staff briefed the teams on current perspectives on rural financial services and rapid rural appraisal methods. Discussions covered data collection methods and standardization, as well as reports and debriefings in the country and in Washington. The teams developed country and individual scopes of work based on these general sessions and team discussions.

The evaluation team for Liberia had four members: an agricultural economist, a credit specialist, a regional planner/agronomist, and a social anthropologist/team leader. The team members arrived in Monrovia on 15 and 16 October 1988. After several days of meetings and interviews with officials in Monrovia, the team spent seven days in Upper Lofa County from 21 to 28 October. The team completed drafts of the evaluation reports before debriefing USAID and Government of Liberia officials on 4 November. Three of the team members left Monrovia on 5 and 6 November. The social anthropologist/team leader was absent for a 27 to 29 October conference in Freetown, Sierra Leone, and subsequently remained in Monrovia until 10 November.

The team reviewed documentary information in Washington, Monrovia, Voinjama, and Kolahun. Project documents and other pertinent reports were available in Washington and Monrovia. Dr. Temple and LCADP staff furnished annual and other reports. The credit specialist examined files at the cooperative at Kolahun. The social anthropologist located ethnographic materials at the University of Liberia and USAID Mission.

In Monrovia, the team interviewed officials from the following institutions: the Agriculture and Cooperative Development Bank, the Cooperative Development Agency, the Lofa County Agricultural Development Project, the Ministry of Agriculture, the Ministry of Commerce, the Ministry of Planning and Economic Affairs, and USAID (particularly the Agriculture and Rural Development Office). The team conducted open-ended interviews



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together, based on the issues identified during the Washington workshop. Dr. Benjamin Temple, Director of the Central Monitoring and Evaluation Unit at the Ministry of Agriculture, participated in all phases of team discussions in Monrovia and fieldwork in Upper Lofa County.

The team drafted a question guide to focus fieldwork. After introductory meetings with officials, the team often split into smaller groups to interview agency officials or farmers. Team members interviewed officials at the local offices of the project, bank and cooperatives. Site visits around Kolahun and Voinjama -- in spite of very poor road conditions -- permitted direct contacts with a range of small and large farmers.

The team alternated between group, individual, and key informant interviews with a non-random sample of farmers. The team selected a range of informants -- men and women, small and large farmers -- to identify significant differences in project impact. Visits included small and large rural communities, as well as district, branch, and village cooperative units. The team interviewed approximately 30 farmers individually or in groups.

The team debriefed USAID and Government of Liberia officials before the end of mission. The Liberian officials specifically requested team opinions on credit recovery on outstanding loans. During the debriefing, a paper on these issues prepared by the team served as a basis for discussions (see Appendix H). USAID reviewed the drafts of the main body and individual appendices of the report. These comments are reflected in the final draft of the field report.

# APPENDIX C

# THE DEMAND FOR FINANCIAL SERVICES IN RURAL LIBERIA

## APPENDIX C

## THE DEMAND FOR FINANCIAL SERVICES IN RURAL LIBERIA

### INTRODUCTION

Agricultural credit to small farmers in Africa has played a part in nearly every large regional development or integrated rural development project. The success of credit components in these projects has been mixed, at best. The most frequent problems have been overestimated demand for credit and low repayment rates. In many cases, failure or poor performance of a project's credit component has loomed large in the evaluation process.

It was in the hope of analyzing this poor performance and proposing alternate approaches that USAID performed the present study. It was carried out in Liberia, using the Lofa County Agricultural Development Project (LCADP) as a case study. From the beginning, one element seemed to emerge as the salient economic factor: the repayment rate (and thus, the success of the credit component) and the demand for credit are intimately interwoven. In this project the credit component was tied to a technical package that, it was assumed, would lead to achievement of a large increase in new and rehabilitated croplands for coffee, cocoa and swamp rice. The acreage targets for these crops drove implementation of the project. But, by virtue of its being tied to this package, the demand for credit by farmers was implicitly overestimated by project designers. Overestimation of demand led the project to pursue a "hard sell" approach in order to meet credit disbursement targets. This has inevitably resulted in a poor repayment rate.

Credit has often been seen as a more or less isolated economic transaction that can be easily tacked on to a larger development project as a convenient supplementary program. The present analysis, however, takes the point of view that credit is but one element of a larger set of financial services that an enterprise may choose to employ in the course of economic decision making. The Liberian farmer, as principal decision maker for a small economic enterprise, bases his perceived need to take credit first, of course, on the available investment opportunities, but then secondarily, on the quality of financial services easily at his disposal. It is for this reason that analysis of the credit component of the LCADP was done in terms of an overall demand for financial services.



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## FINDINGS

### The Structure of the Demand for Credit

**Constraints.** In the African context generally, and particularly in Liberia, the demand for credit at the farm level is severely constrained by the limitations placed on the farmer in terms of access to productive resources. While large landholders holding formal land titles usually have access to credit, smallholders in the traditional land-tenure system must seek other ways to collateralize their land. In Upper Lofa County, for instance, there has been a continuous movement over time toward tree crops (coffee and cocoa). Adoption of these crops not only represents a trend toward cash farming, but the planting of trees also implies a valorization of the land that they occupy and acceptance of a more permanent tenure. The degree to which investment in tree crops is motivated by one or the other of these phenomena is at present uncertain.

Historically, access to productive land in Africa has not been restricted. Liberia is, however, experiencing a strong trend toward the monetization of land values. Although this is presently at a fairly rudimentary stage, the evolution of a market for land could have serious consequences in terms of cropping patterns as well as for income distribution and equity if a minority manages to gain title to a large share of the land.

Access to land is in turn constrained by access to sufficient supplies of labor to work it. Again, in northern Lofa County, it is becoming increasingly necessary to hire labor, notably for work on coffee and cocoa fields, but also in the production of rice for household subsistence. Farmers have frequently remarked that one of their most urgent credit needs is for hired labor to do routine weeding, brushing, and pruning of tree crops and swamp rice maintenance. According to studies conducted by the monitoring and evaluation unit of LCADP, 15-39 percent of tasks performed on all crops were done with hired labor, with coffee and swamp rice the most demanding and upland rice the least (see Appendix H, Tables 6-8). The supply of labor appears not to be a problem, as seasonal migration from Guinea is common and daily wages relatively low. Farmers, however, frequently complained about the difficulty in quickly getting sufficient cash to hire this labor. This concern was usually expressed in terms of lack of short-term credit. Credit for such inputs as fertilizer, which they did not want, was plentiful, while credit for labor, needed to maintain tree crop and swamp rice investments, was not.

Liberian agriculture operates in an environment of relatively inflexible prices at the national level. De facto ceiling prices for the main Lofa cash crops, coffee and cocoa, are set by the LPMC, which is their sole legal exporter. In addition, the LPMC has at various times in the 1980s enjoyed a monopoly for importing rice. The LPMC does not give farmers credit for coffee and cocoa production; on the contrary, for most of this decade it has in effect borrowed from farmers by paying them with IOUs. The national rice market has been extremely shallow because the margin between the rural and urban prices for paddy

has been too small to cover transportation and marketing costs. Technical constraints on upland rice cultivation and poor marketing infrastructure have made it cheaper to import rice for the cities. This rules out rice production beyond family subsistence requirements and limited sales on rural and regional markets. For coffee and cocoa, the LPMCs low farmgate prices relative to the world price and inability always to pay in cash have induced considerable smuggling of the harvest to Guinea in recent years.

Finally, the demand for credit is ultimately constrained by the macroeconomic setting in which the individual farmer operates -- the situation known locally as the "liquidity crisis." The crisis, in fact, is the result of mismanagement of budgetary and trade deficits at the national level to the extent that most government agencies in Liberia have cash-flow difficulties. This has meant diminished cash in the hands of export crop producers while they held coop and LPMC IOUs; a total lack of credit from commercial banks (mainly the ACDB); and the premature shutdown of the LCADP, Upper Lofa farmers' predominant source of credit since 1976.

**Credit and Production.** A formal credit program component of an agricultural development project depends heavily on achieving crop yield increases anticipated in the project design. The classic credit program is tied to a specific input package, which the designers of the project assume will generate surplus production for the market. The proceeds from the sales of this surplus then pay for the credit. Projects often include a centralized marketing scheme so that credit repayments can be deducted at the point of sale. Little thought is given to what farmers' investment priorities actually are, what resources they need to achieve these priorities, and what sort of financial assistance they need in mobilizing those resources.

The principal food crop in Liberia is rice. It is produced mainly by upland shifting cultivation, using land extensively and few inputs other than labor. The result is a nearly complete orientation toward rural subsistence combined with dependence upon imports for urban food needs, as historical data show (Appendix H, Table 11). Given the lack of an integrated national marketing system and better cropping technology, there is no incentive for farmers to borrow more and expand production of rice much beyond the needs of rural consumption.

LPMC-announced coffee and cocoa prices have not varied much in recent years and are not closely pegged to world prices. In recent years of low world prices, the LPMC occasionally lost money. In the good years of the early 1970s, the LPMC was reluctant to pass along to farmers gains made from relatively high world prices, then more recently implicit gains from the overvalued Liberian dollar. (The LPMC has gained by buying from farmers with overvalued, inconvertible Liberian dollars and selling for hard currency.) To make matters worse, the actual farmer prices received are often much below the announced ones and in the 1980s they have often not been paid in cash. In the face of this restrictive market situation, the farmer adopts a risk-averse, subsistence strategy for rice and smuggles his coffee and cocoa out of the country.

Most institutional credit programs in Africa have had something like the LCAPD's strong government/project/donor orientation. Credit is passed through government and projects to farmers from a relatively remote donor. Credit is given in kind in the form of inputs, the cost of which is then deducted with interest at the end of the season when the farmer sells his produce. The agricultural project framework requires a single profitable cropping and input package, and implementation becomes a matter of achieving specific adoption targets. However, farmers and LCADP staff quickly recognized the shortcomings of the input packages proposed for the project and did show considerable flexibility in modifying the original package. All the same, the absence of a realistically expressed demand for the implied financial exposure continued to complicate relations between farmers and project staff during the life of the project. LCADP staff itself listed the "target orientation" of the project as one of its problems. Credit packages in the project context can be indistinguishable in intent to the farmer from the input packages, even though they find ways to make fungible and convert in-kind loans to cash. What these credit-and-input packages really amount to are partial cost recovery schemes, not true credit programs. Farmers undoubtedly understand them in this way, and it is self-deception for donors and project personnel to view them as a financial service.

## Availability of Rural Financial Services

**Traditional Methods of Savings and Capital Formation.** African villagers have developed a number of traditional methods for providing financial services. Rotating work exchange groups, tontines and other rotating contribution schemes, and even private access savings and credit facilities all exist at the village level. A group of villagers in Selega, Lofa County, Liberia, described a "credit union," which collected members' savings and loaned them out to individuals within the group at interest. The objective of this particular savings society was to turn over its loan "portfolio" every three months at 10 percent interest for the period (a 40 percent annual percentage rate). So successful had this particular society been that the group was contemplating paying a dividend at the end of the current year. This type of savings and loan society is apparently not unusual in this part of Liberia. Equally common are other forms of borrowing -- from well-off neighbors, Lebanese businessmen, or Mandingo traders. Rudimentary saving techniques such as keeping money in a sack at the store of a local merchant are also common. Interest rates for these informal types of saving and borrowing were not determined, but are assumed to be quite usurious in some cases. Not infrequently, portions of a farmer's crops are pawned for ready cash in a variant of forward contracting.

Nevertheless, the average farmer seems to put more faith in these kinds of locally available financial services than in those of government, banks, or projects. Also, the repayment rate on these kinds of loans tends to be nearly perfect. This, of course, is due to the force of rural public opinion that holds nonpayment of a debt to one's fellows as a serious loss of face in the community. The degree to which these "traditional" savings and credit activities operate in the informal sector is indicative, not only of the above mentioned

lack of confidence in the formal credit system, but also of the lack of awareness by formal institutions of the parameters of the demand for rural financial services. In view of the real potential for capital formation and mobilization of savings at the local level by these entities, some effort should be made to integrate them into the financial services supply network.

**Innovative Rural Savings Strategies.** A frequent reason given for the low repayment rates of project-initiated credit programs like that of LCADP is that farmers often abandon the infrastructure created with the loans and are thus unable to recoup the profits necessary for repayment. It is estimated that about 25 percent of LCADP's loans are not viable. This same phenomenon may be viewed from a different perspective. In Upper Lofa much of the development loans was for small coffee and cocoa plantings. In the first place, farmers were making an economic judgement as to the relative long-term worth of investing in food crops or cash crops. Some of these plantings were subsequently abandoned, and farmers expressed concern over the high cost of maintaining coffee and cocoa plantings until production. On the other hand, many farmers remarked that, although covered with weeds and bush, the trees still exist, and so does the equity that they represent to the individual who planted them.

In the traditional legal and tenure system, this equity is inalienable. In other words, planting a tree is not at all like planting an annual crop. In the latter case, a farmer may use the land allotted to him for that purpose for as long as he maintains it according to the societal norms of good husbandry. Thus, when an African farmer plants a tree, he owns it forever, regardless of the state of the land on which it stands. In addition, the farmer need only await the moment when prices rise beyond the marginal cost of maintenance to clear the brush and harvest his investment! This type of savings/investment -- in the form of sunk assets -- is an example of a very shrewd form of hedging by supposedly unsophisticated farmers.

## CONCLUSIONS AND RECOMMENDATIONS

Improving the environment in which agricultural production and marketing take place should induce increases in the demand for services like rural credit. The following conclusions and recommendations, then, are given in the spirit of creating the conditions in which a financial services system can operate.

### Rice

**Marketing.** The scope for market expansion of the Liberian subsistence-oriented rice production system is limited. For the foreseeable future, rural subsistence needs will continue to be mainly met by small-scale upland shifting rice production, while urban food needs are met by imports. The scope of the demand for production credit for rice is

consequently extremely limited. By the same token, given the more or less dualistic nature of the rice market, there appears to be no fundamental policy dilemma in allowing more competition in the marketing of rice. Although price controls are sometimes enforced in urban areas, innumerable women sell small quantities of parboiled rice at uncontrolled prices in rural markets throughout Liberia.

**Price and Import Policy.** In the same vein, domestic rice prices should be fully decontrolled. This will provide at least a limited additional incentive to increase production without causing undue pressure on food prices in the urban market. The basis of a policy of indirect price management is already in place, and the price of rice in the smaller towns is very close to the price of imported rice in Monrovia. Neither a policy of farmgate price supports given Liberia's lack of a comparative advantage in rice, nor a policy of subsidizing imports, since the price is already relatively low, makes sense. In view of its past performance, a monopoly on rice imports for LPMC should be discouraged. Moving in this direction, AID recently decided to bypass LPMC with its PL-480 imports, channeling them through other organizations. The policy should be extended by granting commercial import licenses for rice to any private sector firm showing evidence of being able to manage the transaction. While these actions would have no direct influence on credit availability, their effect in terms of a general liberalizing influence on the market would be positive.

## Cash Crops

**Research and Extension.** The demand for rural financial services derives from a sound development policy that promotes rural income generation. Cash crops have an important role to play in this context. Tying credit to a given technical package is usually intended to make that package more accessible. Of greater importance than credit to adoption is developing and demonstrating new methods that are clearly superior to the existing ones.

While precise information on farmers' real motives for planting coffee and cocoa is lacking, it may be that the response to LCADP's tree-crop credit package was conditioned as much by farmers' desire to establish usufruct land claims than the attractiveness of the credit/input package itself. Their willingness to borrow may well have been based on a realistic assessment of LCADP's ability to collect. Simple investment analysis of coffee and cocoa planting suggests, however, that it is indeed profitable, as does the great interest of displaced LCADP staff in planting the crops themselves.

The present credit non-repayment impasse in upper Lofa County represents a barrier to the free passage of technical information between farmers and extension agents. More reasonable technical packages need to be developed at the outset, and their extension to farmers must be dissociated from the provision of financing. If partial cost recovery is deemed necessary for extension and research services, it should be on a fee basis. A buy-in fee would have the double attraction of being both a measure of farmer interest and the

appropriateness of the technical package.

**Marketing.** The argument for dissociating credit disbursement and recovery from extension services applies equally to marketing. Cooperatives in northern Lofa County assert that they should be given a coffee and cocoa marketing monopoly over their members ostensibly so their debts may be collected. Logic says farmers would avoid them if at all possible under such circumstances. Financial organizations should make and collect loans, while marketers stick to marketing.

**Rural Organization.** Upper Lofa County farmers repeatedly expressed their need for short-term credit. This need was not expressed in terms of the kind of production credits tied to a specific input package of the kind offered by LCADP, but rather in terms of consumer loans and cash for hiring labor for crop maintenance. Credit needs, and more broadly, financial services needs, tend to be expressed and met at the local level. Where demand exceeds availability of such resources, credit projects should identify potential financial services providers at this level and concentrate on reinforcing them.

Cooperatives emerged more or less spontaneously in upper Lofa County during 1972-1977, chiefly as an effort by local interests to capture part of the coffee and cocoa market. The cooperatives are insolvent today because of the recent marketing system breakdowns and banking system illiquidity. Coop leaders also complain that their progress has also been inhibited by being associated with the recovery of LCADP loans. Ironically, as mentioned, most cooperative officers interviewed thought they should be conferred special purchasing authority vis-á-vis LPMC in order to collect outstanding loans. There is some sentiment in the larger coops for diversifying into the areas of processing and such financial services as credit unions. While it would be inadvisable, given their track record, to include these organizations in any kind of financial services project, there is no reason to discourage them entering the business on their own. It should be clear from the outset that their survival in this area would be left to the test of the market.

The conflict of interest between the local cooperatives and LCADP led to the formation, at the initiative of the project, of the TCUs. These were, in fact, not really village-level coops, but an attempt to channel broader based participation in the project through the larger coops. The TCUs may well pose a unique opportunity for the extension services in the area, especially as these services are in the process of contraction subsequent to closing of LCADP. They represent an organizational level which can be usefully addressed in the passage of technical information to farmers.

## Recommendations

Analysis of the credit component of the Lofa County Agricultural Development Project has shown that the traditional project approach to rural credit can compromise other activities (ie., extension and research) inasmuch as collection of unpaid credits can become

a major preoccupation of project staff. In addition, the target approach of projects, combined with institutional layering, tends to obscure possibilities for tapping existing savings and credit activities at the village level. The following set of recommendations has been formulated with an eye toward improving the environment in which financial services entities operate and increasing the awareness of the actual demand for such services. The recommendations fall into two categories: those pertaining to policy and those related to an overall development strategy, with specific reference to the case of Liberia.

**Policy Reforms.** The following questions should be addressed by the Liberian government in order to improve the operating environment for financial services institutions and the diagnosis of the demand for credit.

- Statutory provisions concerning land tenure and land ownership should be clarified to eliminate the disincentives for small farmers to invest in improvements in the quality and productivity of farmland.

- Price policy for all agricultural products should be liberalized. Exposure to the international market for both rice and cash crops (coffee and cocoa) will provide more than adequate upper limits on prices for the foreseeable future.

- Competitiveness in the agricultural sector should be enhanced. LPMC's purchasing, importing, and exporting monopolies should be eliminated. other market players (eg.cooperatives and private traders) should be allowed to meet the test of the market on an equal footing with government enterprises.

- Statutory and policy reforms should be made to increase the effectiveness and performance of capital markets. These would include: monetary policy reform, including devaluation, market-set interest rates, systematizing and publishing of debt collection procedures, and regulatory reform to allow openings for more financial services providers from the private and informal sectors at national and local levels.

**Development Strategy.** Recognition must be made of the fact that financial services constitute an integral part of the economy, and not merely a component to be attached to development projects in order to expedite partial cost recovery. The following recommendations, therefore, relate to the establishment of a development strategy and the role of rural financial services in that strategy:

- Agricultural extension should be oriented to the village level, utilizing natural rural organizational structures to compensate for the inevitable shortages of resources at the central government level.

- Agricultural research should be oriented toward applied research, following the promising beginnings in the Lofa, Bong, and Nimba areas. National agricultural research should concentrate on a farming systems approach and should be tied to the

field extension services. Information systems stressing the dissemination of reasonable technical packages need to be developed, along with the capability to disseminate key economic information to farmers (i.e., radio broadcasts of local and national price movements);

- Provision of financial services should be left to those entities, particularly in the private sector, that specialize in them. The legitimacy and essential role of small, village-level providers should also be recognized. Above all, provision of financial services to farmers should be dissociated from research and extension activities in order to allay suspicion and ensure the integrity of each separate operation.

# APPENDIX D

# THE LCADP AND RURAL CREDIT IN UPPER LOFA COUNTY

# APPENDIX D

## THE LCADP AND RURAL CREDIT IN UPPER LOFA COUNTY

## THE LCADP CREDIT COMPONENT: A DESCRIPTION

The LCADP credit component offered the following loan packages and terms to farmers, all at 10 percent/year.

**Development Loans**

Cocoa and coffee: in-kind loans of seedlings, tools, sprayers, pesticides, and fertilizers; 12-year loan with five-year grace period (four-year grace period for cocoa).

Swamp rice: in-kind loans of tools, hired labor, and equipment for land clearing; six-year loan with two-year grace period.

**Seasonal Loans**

Upland and swamp rice: in-kind loans of seeds and fertilizer; one-year loan.

Coffee and cocoa: In-kind loans of fertilizers, sprayers, and agricultural chemicals; one-year loan.

Method of Loan Arrangement: According to the project appraisal documents, the credit component was intended to have worked as follows. Farmers filled out application forms after being identified and recruited by the project. A precondition of the loan was membership in a district-level cooperative and a village-level Town Cooperative Unit (TCU). The TCUs would approve the creditworthiness of the applicant, and the cooperative would then guarantee the loan and maintain farmer credit records. The value of these in-kind loans was initially credited to a revolving fund at the ACDB. The Voinjama PMU was responsible for distributing the inputs directly to the borrowers. Repayment of the loans was to be made mainly in-kind (coffee, cocoa, or rice). Borrowers were to bring their produce to the district coops. The coops would deduct the credit repayment from the produce and pay the farmer cash for the surplus. The coops were then to sell the produce to the LPMC in Voinjama, take an 8 percent commission from the proceeds to cover handling costs, and deposit the cash balance into the revolving fund.

The revolving fund was to be managed by the district coops for continual use by the farmers. Loans were to be monitored through the PMU by Commercial Assistants who



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lived in the vicinity of the borrowers, each overseeing about 40 farmers. According to the Phase I design, the fund would amount to $3.8 million by the end of project development in 1980 (AID 1975: Annex 7, Table 1). All development loans from phase I would have been repaid by 1987 with $3.4 million available for continued agricultural development for 8,000 farmers. The cooperatives were to be charged 7 percent/year interest on credit from the fund. The fund was to retain 5 percent of this and ACDB would receive a 2 percent commission. The cooperatives would on-lend to farmers at 10 percent/year using the 3 percent margin to cover credit administration and bad debts. The ACDB would provide banking facilities to the project, cooperatives, and LPMC. In theory, then, the fund was to be self-sustaining and serve small farmers for many years.

## GENERAL FINDINGS AND CONCLUSIONS

### The Project's Goal of a Self-Sustaining Revolving Fund Was Not Achieved

Loan disbursements were less than targeted. Tables 4 and 5 (Appendix H) illustrate the gap between target and actual disbursements. The revolving fund could not be credited until the inputs were disbursed. With the level of Phase I disbursements achieved, even with perfect loan performance, the revolving fund could reach only $2.6 million. Phase II lending was similarly lower than planned. Because farmers doubted the economic viability of several of the technical components, such as fertilizing upland rice, targets were not attained. In fact, one of the most successful programs was a rice-seed exchange that involved no true credit. It consisted of a one-to-one trade of traditional rice seed for improved varieties.

Farmers' loan performance has been poor for seasonal loans (60 percent default) and dismal on development loans (99.5 percent default).

Tables 4 and 5, Appendix H, illustrate farmers' loan-repayment performance. The better-than-dismal performance of the seasonal loans is tarnished by the fact that a large portion of them were actually simple seed exchange. But farmers are not entirely culpable for this poor performance. Given the LCADP's design and Liberia's economic crisis in the 1980s, it is surprising that any repayment at all was achieved.

First, borrowers were not necessarily committed to the loans to begin with. Because targets were high, the PMU focused on disbursing as many loans as possible instead of assuring themselves of the creditworthiness of each borrower and worrying about its own ability to collect the loans. Moreover, according to one non-project farmer, people in his community were pressured by their leaders to participate. Unfamiliarity with formal credit and the soft terms of the loans may also have influenced farmers to treat the LCADP loans less than seriously.

Second, farmers were unable to market their produce efficiently to service the loan. The 1980 political upheaval was followed by a severe shortage of liquidity in the economy (to be discussed under the following conclusion). Short on funds, the LPMC often delayed for up to several months its payments to the coops for the farmers' produce. When the LPMC did issue checks to the coops, ACDB would not always have enough cash to honor them (or, according to ACDB, the LPMC had overextended its credit line at the bank and was writing checks against an empty account). The cooperatives further aggravated this already difficult situation by withholding LPMC payments to farmers to cover their own operating costs. In the end, farmers were frequently left with nothing for their produce except warehouse receipts that could not be redeemed for months. Therefore, many of them began to sell their produce instead to middlemen or across the border, bypassing the coops and their loan obligation.

Finally, LCADP's technical packages, particularly with debt included, were not always economically viable. In 1986-1987 the PMU conducted a farmer identification survey that covered 75 percent of the borrowers. Results showed that about 25 percent of the examined loans were non-productive due to abandonment or poor crop performance. To begin, project planners made false assumptions about where cocoa could grow, leading to a number of failed plantings. Moreover, 1982 crop budget estimates using actual yields revealed that farmers were than making only marginal gains using the credit-financed technologies, in some cases, no gains at all (Appendix H, Tables 6-8). This situation apparently held for most of the 1980s. Not included in these calculations is the cost to the farmer in delayed payments for his produce. There is also an intangible cost associated with the high risk to farmers in incurring costs every year for tree crops that do not yield maximum results until they are six years old.

During the liquidity crisis that followed the 1980 coup, the cooperatives had difficulty getting paid for farmers' produce by LPMC and ACDB. As "middle buyers," or individuals licensed to buy directly for the LPMC, began to intervene, attracting farmers' produce away from the cooperatives, the LCADP intervened. From 1983-1986 the LCADP extended short-term interest-free marketing loans to the coops from the revolving loan fund, of which a balance of $135,000 remains outstanding. In addition, the district coops have collected farmer repayments totalling $35,167 that have yet to be deposited into the revolving fund. The cooperatives' response to the allegation of eroding $170,167 from the revolving loan fund is that they need the funds to cover their own operating costs.

**The ACDB Serves Upper Lofa County Farmers Poorly**

Government borrowing from the banking system to finance the deficit has left banks, including ACDB, unable to operate efficiently.

Banks are severely limited in their lending capacity because of the liquidity crisis that started in 1980 and has worsened after 1983. The 1985 budget deficit reached $900 million.

To finance its expenditures, the Government of Liberia began issuing checks on the National Bank of Liberia and private commercial banks without maintaining balances to cover them. To make up the difference, the government raised the legally mandated reserve requirement from 15 percent of deposits in 1980 to 50 percent in 1985. These "excess reserves" went from $4.6 million in 1980 to $20.8 million in 1983 and left the banks without sufficient liquidity to operate properly (Dunn and Tarr 1988:147). The "Other Liabilities" account in ACDB's balance sheet reflects the movement of these excess reserves in the bank itself. These increased from $375,000 in 1981 to $5,173,000 in 1986. Although ACDB's President, Wilson Tarpeh, did not reveal any liquidity problem with the bank, common knowledge and the experience of a number of customers speak to the contrary.

The ACDB has aggressively sought profitability and consequently reduced its relative percent of agricultural loans, particularly those to smaller farmers.

The ACDB was established in 1976 to promote agricultural development, but until 1982 it operated with a net income loss due to organizational expenses and inadequate income from interest on its mainly agricultural loans. To increase profitability it increased its fee-based services (letters of credit, overdraft facilities, guarantees, and the discounting of bills for non-agricultural activities) and put emphasis on short-term loans and high-yield instruments. Priority was switched to commercial banking from long-term agricultural development lending. This shift in focus improved the bank's performance, giving it its first net profit of $302,413 in 1983 and a steady growth thereafter. The cost has been to leave Liberian small farmers no formal institutional source of credit, aside from the agricultural projects in their active years.

Upon the team's visit to Voinjama, it was surprised to learn that ACDB's local branch was virtually non-operational. Although it still took deposits and paid 8 percent/year interest on these, it had not made any new loans since 1984. Rather, these funds were being channelled back to Monrovia into higher-yield loans.

**The LPMC Serves Upper Lofa Farmers Poorly**

LPMC's pricing policies do not provide optimal incentives to producers.

LPMC enjoys an export monopoly for Upper Lofa farmers' two main cash crops: coffee and cocoa. It consults with an interministerial committee to set monthly prices. Liberian farmgate prices have been much lower than world-market prices, reflecting internal economic conditions and the institutional capacity of LPMC. In theory, the Government sets LPMC price formulas based on world market prices. Deductions are then made for: 1) operational and overhead costs, 2) transfers for price stabilization, 3) agriculture development funds, and 4) LPMC profits (10 percent of the value of exports as profits and overhead expenses). In practice, farm prices tend to be lower than they could be, and thus the costs of LPMC's operating inefficiencies are transferred to the producer.

An important deficiency in Liberia's cocoa and coffee marketing system is insufficient short-term working capital financing. According to LPMC's General Manager, the fact that a sizeable share of its operations is prefinanced by foreign suppliers (instead of ACDB) helps to reduce its capital shortfall. While probably the small farmer would be better served if LPMC had competition, the number of Liberian firms that could raise the financing needed to undertake such an enterprise is probably limited. Until Liberia's economy recovers and financial markets return to normal, financing procurement and export of coffee and cocoa will be a problem regardless of the marketing structure.

**The Burden Placed on the PMU and Cooperatives to Oversee Marketing, Extension, and Credit Operations Was Too Heavy**

The cooperatives initially established themselves to serve a limited and familiar circle of farmers. When facing financial collapse under the project, they chose to protect this primary interest before honoring their commitment to LCADP and the thousands of new small-farmer members it provided them.

After the LPMC, the cooperatives are the most popular scapegoat for the decline of LCADP. The evidence is clear that the coops diverted significant amounts of funds from the project in order to support their marketing operations and their less than efficient management. None of the cooperative managers we spoke with denied this. We visited the manager of the Voinjama district cooperative with LCADP's Commercial Manager and asked him if he planned to repay an overdue $40,000 produce marketing loan extended by the project. He flatly said, "No, we need to pay staff salaries first." In fact, he told us he had used the marketing loan to purchase equipment to resell to farmers, thinking that would be more profitable than buying produce. When farmers did not reimburse them for the equipment, the plan backfired.

From the cooperatives' perspective, project assistance was not geared to enable them to handle the increased volume of inputs, credit, and marketing. Managers told us that they were given limited information from the project about the loans they were asked to collect. When asked what they would most need in order to function successfully at this point, the most common response was training in bookkeeping and financial management. Although the project had assigned bookkeepers to the cooperatives, the LCADP focused more on developing its own capabilities than on training indigenous coop staff.

One cannot predict whether or how the cooperatives might have developed without the presence of LCADP or how they will now develop given members' eroded confidence in them and discontinued project support. Most of them discussed plans for future activities beyond the project when asked what they would do without LCADP. These ranged from planting collective cash crops to opening a collective store with core members of the cooperative.

The PMU was given too many conflicting responsibilities. Its orientation led it to

focus on extension and research while the credit component deteriorated.

The most evident indication of the PMU's area of strength was in the tour the project had arranged for us out of Voinjama. Activities focused heavily on viewing the project's research and extension accomplishments, which were impressive. Subsequent meetings with the Commercial Manager to discuss the credit component raised more questions than answers. LCADP's annual reports contained several conflicting disbursement and repayment figures from year to year. The project's bookkeeping uses thousands of index cards, each filled with information about an individual borrower. Information about interest due and the number of months loans were overdue was not centrally available. Additionally, one of the project's 1988-1989 phase-out priorities is to complete the farmer identification survey that was begun in 1986-1987 to establish the viability of loans outstanding. This information should have been collected on a regular basis from the beginning of the project as part of an efficient credit monitoring system. Regular monitoring serves the added purpose of providing a deterrent to loan default.

**There Is Untapped Credit/Savings Potential in Upper Lofa County That Could Be Directed to Future Agriculture Development**

ACDB's Voinjama branch holds substantial savings that are being loaned out through the Monrovia office instead of back to the community.

Table 10, Appendix H, illustrates the level and trend of ACDB's deposits in Voinjama from 1981 to 1986, revealing a consistent level of savings even during the period of massive capital flight immediately following the 1980 coup. In fact, from 1981-1983, savings in Voinjama were the highest of all ACDB's branches, including the Monrovia branch. The Voinjama branch has also had a high percentage of long-term savings, as opposed to demand deposits. This stable pool of funds (amounting to $775,000 in 1986) is an indication of resources that exist in Voinjama that could be channeled into productive local investments. Even with a 30 percent reserve requirement attached to it, the current pool of savings could finance about 6,000 ha of cocoa, or 4,600 ha of coffee, or 3,000 ha of upland rice in Lofa. As discussed earlier, the ACDB Voinjama branch has not made any new loans since 1984. These deposits are being channeled out of the county and used instead mainly for commercial loans in other parts of the country.

An undetermined (but probably substantial) amount of money is circulating in Upper Lofa County's informal financial sector. With little competition, moneylenders and deposit holders impose stringent terms on customers, providing opportunity for new institutions to serve the farmer better.

For example, the Lebanese merchants in Voinjama function as an informal savings-and-loan institution. Farmers tend to deposit money with them for security reasons since they pay no interest. If the merchant has tied these deposits up in his own business affairs,

depositors must give a significant lead time before getting the funds back or fabricate convincing stories for why they must have the cash immediately. Many of the small farmers we met also told us about small community loan funds that operate by collecting money from the group after each harvest time and then lending it out. Loan size ranged from $10 to $100. Quoted interest rates for these loans ranged from 40 percent to 180 percent per annum. Those few who do not repay are undoubtedly socially ostracized and forfeit all future opportunities for credit in the community. One group of women farmers living in Voinjama said that for them such funds had not been successful because "it is difficult to know everyone in the group." They were referring to the various ethnic groups and geographic origins of members in the city.

There is obvious evidence of important amounts of wealth in housing, vehicles, jewelry, etc.

The team was impressed with the quality of housing and overall standard of living in Lofa, particularly given the bad road conditions that isolate the area. The team was told that the political and economic disruption has prompted a number of Monrovians to build houses in Lofa for their future security, while others spend on housing and consumer goods because they do not believe they will earn an adequate return on other types of investments. The indication is that resources are, indeed, available in Lofa for future productive investment. The limiting factors are the economic and political situation, which has dampened investment incentives.

## SUMMARY

From a purely developmental perspective, the project enabled many farmers to plant trees who had none to start with and use marginally more productive rice seed. They have benefited as well from the new infrastructure. A more cost-effective program to achieve such results would have been a free distribution of inputs such as coffee and cocoa seedlings, avoiding the added burden of attempting to sustain a credit fund.

Future projects would be more effective if activities did not attempt to direct economic behavior through credit, even with the most careful planning. Institutions that are not led by market principles are more effective when focused on extension, research, and the provision of infrastructure from which production is induced. Success in these areas, however, cannot be achieved without reasonable policies at the national level. In hindsight, AID chose wisely in not participating in LCADP Phase II, given Liberia's situation in the early 1980s.

Enhanced community-based and managed financial institutions such as credit coops have real potential for filling the gap between formal and informal credit in Lofa, particularly if they are supported by an improved marketing system and infrastructure. But

such institutions should arise from the bottom up through local demand, rather than being created by a project.

# APPENDIX E

# SOCIAL IMPACT ANALYSIS: LCADP CREDIT COMPONENT

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## INTRODUCTION

Upper Lofa is a multiethnic region with approximately 185,000 persons dispersed over 8,000 square kilometers. Of the five predominant ethnolinguistic groups -- the Gbandi, Kissi, Loma, Mandingo and Mende -- only the Kissi are not members of the global Mande ethnolinguistic family. With the exception of the Mandingo minority settled among the other groups as traders and craftsmen, these peoples are almost exclusively small farmers.

Until the national government intervened during this century, sociopolitical organization was decentralized and segmentary. Councils of village elders governed communities as senior representatives of their ranked kinship groups (patrilinies). Hereditary offices such as "chiefs" were not common. Exceptional men became "big men" in the course of their lifetimes through personal accomplishment and patronage.

The national government established a local administration based on imported models of government. A hierarchy of village, clan, district, and paramount chiefs centralized power. Although modern administrations have incorporated some "traditional" leaders and forms of government, the local recognition of the legitimacy of these changes probably remains in question. Indeed, it is arguable how much the recent expansion of national bureaucracies and political organs has served regional interests or aspirations.

Cash cropping and monetization of local economies have progressively increased since the turn of the century. Small farmers have cultivated coffee and cocoa for export through Guinea since the 1930s, and through Monrovia since the late 1950s. Regional trade in such other agricultural products as kola nuts, palm kernels, and rice was also well developed.

## FINDINGS AND CONCLUSIONS

### Organization and Division of Labor

Although there is surplus land in Upper Lofa and smallholder agriculture predominates, farm households do not tend their fields in isolation. Agriculture-based ties between similar-holding-size farmers and between larger and smaller farmers are pervasive. With respect to the latter, local "big men" have historically mobilized additional labor from young men through control of access to women and land. These client farmers were



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common throughout Lofa and neighboring Bong Counties. Interviews with large farmers suggested that these relationships remain pervasive.

Hiring labor for cash, whether local small farmers or migrants, has become universal. For example, even in the late 1960s, 42 percent of the Kissi farmers in the Foya region had worked for other farmers occasionally or regularly (Amachree 1970:81). The vast majority (82 percent) received cash for their labor, while the rest received food and access to land as clients of larger farmers. Migrants from Sierra Leone, Guinea, and distant Mali work as groups in rotation for several months each during the agricultural cycle. The farmer lodges and may feed laborers, as well as paying wages (the current daily average wage is $2.00 with meals, and $2.50 without). All farmers interviewed in the various communities use wage labor to clear land, brush coffee and cocoa, and assist in other tasks.

The organization of labor groups varies significantly. Farmers annually form what are called in Liberia *kuu* groups to collaborate on specific kinds of tasks. Although leadership and membership can remain the same year after year, each *kuu* is dissolved at the end of the agricultural cycle. Farmers are then free to join or create other kuus. Membership may be mixed or gender-specific, and can include members of the same household, kin, neighbors, or others. Household members often belong to different -- or several -- kuus to mobilize labor. Each *kuu* may devote labor to one task such as harvesting, or cover several tasks in the course of the year. Size of membership may also vary greatly. The *kuu* works together, rotating on individual fields until completing the same task for all members. Hosting a *kuu* can represent a major expense for the beneficiary, as plenty of food (including meat) and alcoholic beverages must be furnished. Hired labor can therefore prove an attractive alternative to the obligations and costs of joining a *kuu*.

The distribution of specific agricultural tasks by gender characterizes labor organization in Upper Lofa. Crops tend to be gender-related as a function of the major tasks and annual calendar necessary for each crop. As specialists in clearing and "brushing," men almost monopolize coffee and cocoa plantations. Only women weed upland rice, during the period (from August to September) when men are busy brushing their trees. Women with coffee or cocoa must hire male wage labor during this period. Most women concentrate instead on harvesting a peanut crop planted earlier in the season, or on the broadcast planting of swamp rice fields (which require little initial clearing or subsequent brushing with male labor) (see Currens 1976 and Dennis 1972: 47-54).

There are dramatic differences within the region -- even within the same ethnic group -- in the sexual division of labor. For instance, only women plant and harvest upland rice in a Loma area just sixty miles south of Voinjama (Currens 1976:364-365, n.7), whereas men and women share the planting and harvesting of upland rice among the Loma in Voinjama. Children and the elderly protect fields from birds and rodents.

Although agricultural tasks, rather than crops, have historically been gender specific (see "Labor" section, and Currens 1976), coffee and cocoa have become significant "men's"

cash crops since the 1950s. Women have instead concentrated on individualized rice, especially swamp rice, cultivation -- as well as palm oil and "garden" production of peanuts and vegetables -- for cash income. The clearing and brushing needed for coffee and cocoa trees correspond closely to previous, specifically masculine tasks; the weeding (without clearing) for swamp rice corresponds to feminine ones. These tendencies were pronounced before LCADP started in 1976 (see Currens 1976 and 1979), and were not greatly affected by the project.

During the project, women invested in coffee and cocoa plantations -- as well as in swamp rice development -- receiving about 25 percent of all credit. Figures detailing inputs by crop were not available, but anecdotal evidence and project documents suggest that women used credit mainly to expand swamp rice cultivation. Swamp rice promotion proved "successful" for the LCADP in the sense that farmers were interested in at least portions of the package and acreage targets were achieved (Appendix H, Table 1). However, "Asia-like" yields of 3.5 ton/ha anticipated by the project's designers did not materialize (World Bank 1975: Annex 4, Table 4). At actual yields of 1.6 ton/ha, project swamp rice was about as lucrative as traditional swamp rice and upland rice in 1982 (Harbeson 1984: B-25-27). This probably held for most of the past decade. Women swamp rice investors benefited in the sense of stabilizing and making more accessible their staple food source, especially in areas such as Foya where population is increasing pressure on slash-and-burn land, but they have not made a financial killing for their troubles.

Women with access to credit not restricted to agricultural inputs through technical packages for specific crops would certainly have invested in other already existing alternatives. Informants indicated that women have been expanding peanut cultivation, as well as coffee and cocoa. The project's narrow focus on a few specific crops did not help women to respond flexibly to changes in marketing opportunities.

The LCADP did not transform the organization or division of labor of households or communities. The project certainly accelerated ongoing changes, and extended their impact to the majority of small farmers. Farmers now cultivate far more coffee and cocoa using hired labor, and other labor relations are becoming increasingly monetized. Lofa farmers are, however, generally prosperous from cash crops and other sources of income beyond those supplied and induced by the LCADP. Farmers interviewed complained about specific impediments to production -- such as periodic cash shortages or poor transport for marketing -- rather than lack of access to resources. They want improved infrastructure and more services, including short-term cash credit and seedlings or improved seeds.

### Social Stratification and Income Distribution

Cash cropping of some rice became common in the Kissi region in northwest Lofa as early as the 1880s. The Loma started coffee planting in the 1930s, and gathered other tree crops -- especially palm kernels and kola nuts -- for trade in adjacent Guinea and Sierra

Leone. Cash cropping accelerated with the completion of a direct road to the Liberian coast in 1958 (Currens 1976:363-365). Although there were significant differences in individual wealth and status in Upper Lofa societies before the advent of farmer cash cropping for export, general norms remained based on a model of small-farmer households. Exceptional farmers became "big men," with large households exercising authority through labor mobilization and primarily agricultural production. The many small polities in these societies had not yet developed corporate groups with exclusive, hereditary access to offices or resources.

The vast majority of households in Upper Lofa remain smallholders (90 percent). These farmers differ dramatically from the largeholders. The small-farmer households exploited 46 percent of the cultivated land in plots of 4 hectares or less in 1971. A small group of largeholders -- generally with individualized property rights -- exploited most of the remaining cultivated land in plots of 20 hectares or more (USAID 1975:7). These trends are more pronounced in neighboring Bong County (IDA 1984:39-40). Although most small farmers enjoy rights to fallow land essential to perpetuating the prevailing shifting system of agriculture, the prospect of increasing pressure for access to land has become a universal farmer concern (see, for example, Harbeson 1984:6).

Individualization of land tenure and agricultural production is pervasive. Large plantation owners seek government land titles to secure their considerable investments in tree crops, rural roads, and other infrastructure. Smaller farmers have increasingly sought individual titles to reinforce their legal right to cultivate "tribal" or "clan" lands officially held in common by their community. Farmer cultivation of tree crops has had the advantage of establishing long-term household rights to exploit common land through usufruct. In contrast, land left fallow for five to ten years after one to three years' cultivation for upland rice and other crops is more exposed to conflicting claims. The predominant shifting system of cultivation, however, depends on these rotations of cultivated and fallowed land.

Income from cash crops is individualized. Men -- and some women -- control income from their coffee and cocoa. Most women cultivate personal fields, as well as contributing to household production for subsistence. In 1970 the majority of Kissi women in Foya (52 percent) had individual fields (Amachree 1970:80-81). Loma women in 23 percent of the households in one community north of Voinjama had personal upland rice fields in 1971 (Currens 1976:365). These indicative figures do not include coffee or cocoa fields, nor "garden" crops (like cassava and sweet potato).

Project impact has been quite positive in this light, as both rich and poor farmers benefited from project inputs. Nearly all the region's farmers adopted the project's new rice varieties, and at least 4,000 of the region's roughly 20,000 farm households planted coffee and cocoa.[11] Demand was already high for increasing small-farmer coffee and cocoa

[11]See Appendix H, Table 1. LCADP records show 3,492 farmers planting coffee and 3,303 planting cocoa. An unknown but sizable number planted both, however, resulting in

holdings before LCADP, as evidenced by purchase of 19,000 coffee and cocoa seedlings in the small village of Lawalzu (1,500 inhabitants) north of Voinjama in 1972 (Currens 1976:364, n. 4). The Liberian Government's finally offering such real services to "country" people as improved seeds and seedlings was quite revolutionary, according to the older farmers interviewed.

The project's impacts probably were confined mainly to smaller farmers. The few larger farmers interviewed had seldom used LCADP inputs on credit, preferring to pay in cash or use other sources. They indicated no wish to risk incurring complex debts with governmental or banking institutions.

Plainly, credit repayment has not had a negative impact on small-farmer status, given the very modest level of reimbursement. But farmers did express concern about the future implications of such payments, especially the minority in debt for failed or abandoned crops. Nevertheless, the evidence of small-farmer savings, capital investment (in homesteads and farms) and enthusiasm to increase cash cropping or other production (such as palm oil or sugar cane gin) attests that the general population can mobilize labor and resources.

**Cooperatives and Local Organization**

The LCADP designers made fundamental errors in their assessment of the nature and potential of the region's preexisting cooperatives. Although farmers had started small coops in several communities for marketing and occasionally for furnishing other services, local and national "big men" quickly dominated these embryonic organizations. Project goals aimed at investing the coops with multi-functional responsibilities for thousands of members totally overloaded modest organizations and their few trained personnel.

The PMU soon realized that these coops were not associations fully focused on member objectives. In order to close the gap between coop management and farmers, project staff tried to encourage local participation through the creation of "Town Cooperative Units" (TCUs). In theory, the TCUs (eventually over 300 groups) were creatures born of the district level "mother" coops in order to extend their marketing -- and credit collection -- network. In practice, some of the TCUs have been active and have potential for benefiting their members, quite independently of the higher cooperative levels, while others are no more than farmer associations of convenience compulsory for receiving LCADP benefits. The World Bank strongly supported this hierarchical organization as most efficient for management and administration.

Given the distant relationship between district and town coops, LCADP later introduced a further modification to manage activities at the local level more effectively. "Branch" coops became a level intermediate between district and town coops. The increased

some double counting.

complexity of the new organization did not solve basic problems, and the entire structure failed to market farmer produce, deliver agricultural inputs, offer extension services, or furnish other services.

Small farmers quickly saw the coops as not serving their interests. During discussions, farmers in Kolahun depicted the coops as a political arm of Congressmen alienated from the "country" and indifferent to the interests of small farmers. For example, a community elder and founding member of a coop in the early 1970s testified that politics and expansion of membership stifled local participation. When later asked why the credit program had failed, he offered a proverb: "When the fish rot, he starts at head."

Despite the organizing of the TCUs, the district cooperatives were centralized for execution of their main function -- procurement and marketing of coffee and cocoa -- quite the opposite of the decentralized, segmentary structure of indigenous Upper Lofa societies. This structural conflict between local and coop leadership was evident during discussions at the Gbandi "mother" coop for the Kolahun district. The General Manager is a young, well-educated man obviously groomed and selected by powerful patrons. Office and attitude evoke a state -- or at best parastatal -- bureaucracy. There was nothing reminiscent of local consultation and participation in a village, with the older farmers voicing community concerns. The young manager complained of farmer defaults on loans, and about their general irresponsibility. The managerial staff saw coop monopoly of member marketing -- in spite of the history of payment problems and low official prices -- as the panacea.

These incipient tensions between the coop leadership -- generally young and "book" educated, formally disposing of project resources at their discretion -- and local authority composed of "chiefs" and "councils of elders" also led to the breakdown of any effective community sanction to collect loans in neighboring Bong County (Institute for Development Anthropology 1984:54-55). The young coop managers had insufficient leverage in -- indeed knowledge of -- each community to manage their membership effectively.

In contrast, a dynamic TCU visited near Voinjama is really a local farmers' association serving local needs and aspirations. The farmers are interested in such community services as stocking a pharmacy to assure a constant, inexpensive supply of vital drugs -- an interest that characterized the beginnings of the coop in Kolahun. This TCU has few relations with the "mother" coop; and certainly benefits from no services.

## Credit

Small farmers in Lofa frequently use credit and savings services offered by local, informal, financial institutions. Farmers interviewed discussed a number of alternatives, including: 1) no-interest loans for small amounts from relatives, friends, and local "big men." For instance, a large farmer interviewed near Voinjama had offered a neighbor a no-interest loan for this agricultural year for $200; 2) small short-term loans from common cash pots

from members of revolving associations (locally called susu); 3) loans from local moneylenders at interest rates of 25 percent/year or more for short periods; 4) savings deposits with local merchants with no accrued interest in cash. In Kolahun, Lebanese offer services that are generally drawn upon by farmers as goods rather than cash; and 5) other informal credit associations. Loans are generally short-term, or at most annual, to be paid at harvest.

Small farmers understand the nature and implications of taking credit. They sometimes take credit from moneylenders, repaid at high interest rates. Of course, sanctions supported by local authorities assure farmer reimbursement. However, farmers calculate the extent and productivity of their investments using indigenous categories. For example, rather than calculating acreage, they measure rice fields by yields in bags of paddy, and coffee and cocoa by the number of trees. Given the imperatives of managing and maintaining household agricultural production year after year, misunderstanding of the conditions and implications of taking a loan is most unlikely.[12]

Explanation of the implications of loan conditions by the LCADP extension workers was certainly inadequate. Farmers evidently see the long-term payments with compounded interest as unfair and unexpected. Officials of the Cooperative Development Agency (CDA) in Monrovia offered several examples of bank lending in the region that have served as poor examples to local farmers. For example: the Liberian Bank for Development and Industry (LBDI) has offered loans to individual farmers that have led to the expropriation of their farms. One farmer received a loan in 1974 for $12,000 to establish a coffee plantation of 21 acres. After losing $3,000 for initial fees before receiving the remaining balance of $9,000, the farmer eventually paid another $8,000 before expropriation of his farm. The CDA later paid another $6,000 toward this loan. With penalties and compounded interest, a balance equivalent to the principal of the original loan remains outstanding. Another very large farmer borrowed $46,000 for 200 acres in 1974/75. After the farmer paid $28,000, LBDI seized the plantation. CDA bought this farm for $100,000, and after paying $49,000 to date to LBDI still has an outstanding balance of $81,000. Although these two examples are of loans to large -- rather than small -- farmers, and reflect the arbitrary charges and procedures of one particular bank, as well as the inevitable laws of compound interest, they do highlight the problems with long-term lending for all farmers.

## SUMMARY OF FINDINGS AND CONCLUSIONS

1. Lofa small farmers have significant aggregate savings in cash and capital.

2. Lofa small farmers understand and use credit through informal financial institutions.

[12] For comparative information on the scope and complexity of West African informal financial institutions, see Seibel and Marx (1986).

3. Small farmers want and could use more financial services for savings and credit in cash.

4. Project coffee and cocoa seedlings and improved rice seeds have increased small-farmer production.

5. A narrow project technical/agricultural focus failed to capitalize on other productive opportunities -- especially for women farmers.

6. Project-supported higher cooperatives have been a complete failure. Despite afflictions not altogether of their own doing, most smaller farmers do not believe the district-level coops serve their interests. Some local-level TCUs appear sustainable and worthy quite independently of their formal parent organizations.

## RECOMMENDATIONS

1. Formal agricultural and credit services should be offered independently by separate institutions (or at least distinct branches within the same institution).

2. Smaller farmers' associations (rather than cooperatives) appear worthy of support. They should be small community groups based on local participation and leadership. Some existing TCUs constitute the basis of these groups. The characteristics of local sociopolitical organization should be analyzed further to determine their capacity -- and future potential -- to serve as the basis for effective, new organizations such as marketing groups or credit unions.

3. A range of financial services should be made available to small farmers.

4. Centrally initiated agricultural projects should concentrate on services such as extension and applied research, and not get directly involved in lending. As resources permit, they should take a farming systems approach, and, while they may prudently focus on major crops, they should at least consider minor crops and their roles in the cropping pattern. For example, Lofa small farmers also cultivate significant quantities of cassava, peanuts, sesame, and sweet potatoes.

5. Small farmers should not bear the costs -- in cash or credit -- of experimentation and adaptation of technical packages to local conditions as in effect they did with the LCADP.

6. Small farmers should pay for agricultural inputs on a cash basis to the service institution.

# APPENDIX F

## LCADP SMALL-FARMER LONG-TERM LOAN COLLECTION



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## APPENDIX F

## LCADP SMALL-FARMER LONG-TERM LOAN COLLECTION

[The following document was prepared by the team at the request of the Ministries of Agriculture and of Planning and Economic Affairs,and presented in a briefing during their last week in country.]

### GENERAL REMARKS

As part of a general review of the U.S. Agency for International Development's (USAID) past programs in African small-farmer credit assistance, a four-person team was sent to Liberia (October 17-November 5, 1988) to examine the credit aspects of the Lofa County Agricultural Development Project (LCADP). Before the team arrived, the Liberian Ministries of Agriculture and of Planning and Economic Affairs requested that, in addition, the team study and make recommendations concerning the collection of loans advanced by the LCADP to farmers, which have an outstanding principal balance of nearly $3.5 million. In this brief paper, we offer some general remarks on the issues involved, the debt-collection policy options as we see them, and our recommendations.

The mainly coffee and cocoa tree planting loans made to Lofa County small farmers should be collected only if the costs of doing so are less than the return. These costs are not only the very high administrative costs of contacting and collecting from approximately 13,000 farmers, but also the political costs of lost farmer good will and openness to future new technical packages, as well as lost foreign exchange revenue to Liberia from coffee and cocoa output as farmers smuggle their harvests across the border to avoid debt collection.

The debts should not be collected with the idea that the sum will finance a revolving credit fund for serving Lofa farmers' future credit needs. Experience in many other countries shows that such funds seldom function as intended and are easily depleted. Moreover, the concept is based on the probably mistaken assumption that Lofa County savings are inadequate to fund routine agricultural credit needs. Savings deposits with the Voinjama Agricultural and Cooperative Development Bank (ACDB) branch are sizable, totalling nearly $750,000 in 1986, while the bank has not made any farmer loans at all in the



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region for the past several years.[13] In addition, village-level savings and credit associations collect and reloaned, primarily on a short-term basis, what may be considerable sums in aggregate.

The view that the loans should be vigorously collected to instill and maintain farmer responsibility toward credit has merit. In numerous countries, farmers have construed government loans to be grants and transfers because they were made on soft terms and were not vigorously collected. Failure to collect the Lofa County small-farmer loans would very likely have some negative effects on future development projects in the area that have credit components. It must be remembered, however, that at least 25 percent of the project-recommended coffee and cocoa plantings failed, and that the loans were promoted and advanced by LCADP field agents in a sometimes overly enthusiastic and confusing manner. Furthermore, to varying degrees during the 1980s, the government marketing system has failed the farmer. All of this indicates that the government has not fully kept its side of the bargain with Lofa County's small farmers. It is not entirely fair to expect small farmers to bear all the marketing and credit risk.

In sum, while the team agreed with the principal that government-sponsored credit to small farmers should be collected, and never, if at all possible, confused with grants, it did not think it entirely fair to collect, vigorously and stringently, the LCADP-extended loans. Aside from the issue of equity, the criterion for collection should be that the direct and indirect benefits of doing so are greater than the direct and indirect costs.

The team was told that three agencies -- the LCADP, the cooperatives, and the Agricultural Cooperative and Development Bank -- wished to assume the burden of collecting the loans, each to the exclusion of the other. Therefore, this report examines here as well the seldom-stated option: that all or most of the loans be written off and forgiven.

It is too late to begin any major new debt collection effort for the September, 1988-June, 1989 crop buying season: the Liberia Produce Marketing Corporation (LPMC) has already begun its direct buying program, and the other possible collectors, the LCADP, the district cooperatives, and the ACDB, currently lack the resources. Any new strategy could only begin with the 1989-90 crop season, or later.

Regarding potential debt-collection agents, the team does not favor collection by the district cooperatives via granting them marketing monopolies. Few of the cooperatives have proven themselves to be well managed and fiscally responsible, even before the extra-ordinary pressures put on them by the 1984-86 market system illiquidity. Moreover, since 1987 the LPMC has, at least in theory, greatly expanded its capacity to procure directly from

[13]The team noted that in 1986 (the most recent year for which it had data) deposits from the ACDB's six regional branches, taken in total, represented only about 10 percent of the bank's capital -- the ACDB can easily afford to lend in Lofa at least the amount of local deposits it takes in.

the farmers, probably rendering the coops, in many areas, a superfluous marketing layer.

The district-level cooperatives, which are essentially marketing cooperatives, rightly fear for their survival if they are denied a favored status in Liberia's monopolized crop marketing system. However, survival is important only if the present structure of district, branch, and town cooperatives can be reasonably expected to develop the capacity of serving small farmers in multiple ways.

Beyond benign neglect, which the cooperatives have endured for the past several years, the team saw two possible, nonexclusive options for strengthening the cooperative system. First, allow Liberia's cooperatives the right to compete with the LPMC (and, ideally, with others) to buy from farmers and to export coffee, cocoa, and other crops. While it is a major and thoroughly debated issue, and somewhat beyond the scope of the debt issue, we feel obliged to observe that Liberia's small farmers would be better served by a more competitive export-crop marketing system. Potentially, active competition could invigorate the cooperative system from top to bottom, and provide the basis for its diversification to other processing and farmer service roles. Second, whether or not LPMC's monopoly continues, the Lofa County cooperatives might best be reorganized, with focus placed on the lowest level, 10-30 member Town Cooperative Units (TCUs), particularly their self-help and productive activities. Higher level cooperatives might then reemerge gradually over time, based on the grass roots felt needs of small farmers. This presumes the existence of a strong Ministry of Agriculture (or other) extension capacity.

Similarly, the team could not recommend a major role for the ACDB in collecting the Lofa County small-farmer loans. First, their similar efforts in Bong County have not been successful. Second, the Lofa ACDB branch is presently no match for the job: its staff is less than ten and there are over 13,000 loans. Third, loan collection will largely be in-kind, a portion of farmers' coffee and cocoa harvest, and the ACDB is equipped to deal only in cash.

Only LCADP until it is phased out in December 1989, and then the Ministry of Agriculture, to the extent to which it assumes project responsibility, are in a position to manage a small-farmer loan collection program. The project made the loans; its field agricultural and commercial agents know the TCUs and farmers at the lowest level where the loans will have to be collected. The LCADP could logistically manage collection in-kind -- but probably only if it is funded at levels significantly above the reportedly planned figure of 80 staff for 1989. The required additional logistical and staff funding does not appear likely in the relatively brief time remaining before the September 1989 start of the next harvest season.

The team is not suggesting, however, that debt collection should be a major reason for supporting a substantial Ministry of Agriculture presence in Lofa County. Extension, mainly targeted on continued small-farmer coffee and cocoa planting, is far more important. At

this point, the LCADP has established a solid base for continued rapid expansion of coffee and cocoa plantings in the area: the grass roots organizational structure of TCUs is in place, and the LCADP could provide already trained staff. The LCADP now has bearing coffee and cocoa seed gardens producing improved seed material adapted to the area; and many farmers now have initial 1-2 acre tree crop plantings beginning to bear, on which they can expand.

## OPTIONS

In the team's view, the Government of Liberia has basically two options concerning collection of the Lofa County small-farmer loans: 1) write off and forgive most or all of the loans; and 2) collect them through LCADP and a strengthened local Ministry of Agriculture presence in the county. Within the latter option, there are several additional choices to be made concerning the method and the extent to which the loans should be collected.

### Option One: Forgive the Loans

This option has several attractions. It should not be considered only a last resort, or the alternative only if costs of collection outweigh the likely return. First, political good will could be engendered by, for example, a public announcement of loan forgiveness. Second, loan collection would not interfere with the continued extension work with the farmers. Third, any tendency of farmers to avoid marketing through the official channels for fear of debt collection would be avoided. These indirect benefits must then be weighed against the indirect cost of possibly encouraging farmer irresponsibility toward formal, institutional credit.

Most of the expenditures and foreign borrowing for the LCADP were intended to be recovered indirectly through general economic growth and foreign exchange earnings. Less than 10 percent of the project's total outlays of roughly $35 million have been loaned to farmers. Moreover, the investments that were made by the farmers with their loans were themselves highly subsidized: directly through soft terms, and indirectly through the technical support and access roads built at no charge to farmers. Coffee and cocoa plantings, which have roughly doubled the county's export tree crop area since the project's inception in 1976, are in place and producing. The country and the treasury will indeed recover the loans made to small farmers, albeit indirectly, through at least 20 years of increased coffee and cocoa production by Lofa County farmers. By this logic, improvements to the local marketing system so that this additional harvest can be more efficiently procured, processed, and transported, is probably a wiser marginal use of resources than loan collection.

**Option Two: Collect the Loans**

As discussed above, the team recommended that if the loans are to be collected the LCADP and Ministry of Agriculture should be the collector, and that the proceeds revert simply to the treasury. If collection is to be pursued, it is suggested that first the LCADP complete the farmer identification program to determine which loans resulted in productive investments. Loan writeoffs and writedowns should be made based on the success of the investments and present ability of farmers to pay, given the present coffee and cocoa prices, which, in many cases, are much lower than when the loans were made. Second, simple payment plans should be devised for each loan, including, if necessary for the sake of farmer comprehension, elimination of complex compound interest charges and fees. Third, loan collecting should be carried out by the LCADP's Commercial Office, and kept entirely separate from extension.

While conforming to the above general guidelines, there are several collection variants that the LCADP and MOA may wish to consider. One is a partial writeoff that favors the region's smaller farmers, by, for example, forgiving loans for the first 1-2 acres of planting. The second is collection through in-kind contribution rendered mainly to strengthen the TCUs. For example, the LCADP is considering farmer self-help coffee and cocoa seedling production. The project could take loan payment in-kind through production of a certain number of seedlings for some fixed number of years. These would then be redistributed to other farmers.

As mentioned above, and, to be sure, without having performed a detailed analysis, any program of debt collection that the team can envision would require more than the planned LCADP 1989 staff of 80. If the LCADP has ideas for how the loans might be collected with such minimal resources, they should be carefully explored. Our present view is that debt collection would require significant additional MOA resources for Upper Lofa, allocated ideally by early 1989. But while we favor a staff larger than 80 for Upper Lofa, stronger extension is a better reason than debt collection for allocating additional funds. Continued extension services and tree-seed production are vital to maintaining the on-farm investments sponsored by the project over the past decade. Moreover, as discussed above, continued expansion of coffee and cocoa can be achieved at much lower costs than in the past.

## RECOMMENDATIONS

Given the present levels of resources available to the MOA for Lofa County, the team recommends that the Government of Liberia strongly consider announcing publicly forgiveness of all or most of Lofa County's small-farmer development loans. In our view, the various direct and indirect costs of allowing the matter to drag on unresolved into the next five years are greater than simple loan forgiveness. In any case, we find the issue of

lesser importance than other agricultural concerns of the region, such as: road maintenance, improving the market system, providing extension services, and reorganizing the cooperatives.

If the LCADP and MOA do receive increased 1989 and beyond funding for Lofa County, and the likely returns to debt collection are determined greater than the costs, then it would be sensible to pursue loan collection. In this case, as mentioned, we suggest that the collection program be simple, that loan writeoffs and writedowns be made based on loan analysis, that collection be kept separate from extension, and that alternative in-kind forms of collection be considered.

# APPENDIX G

# LIST OF PERSONS CONTACTED

## APPENDIX G

## LIST OF PERSONS CONTACTED

Agricultural and Cooperative Development Bank (ACDB)--Monrovia

E. Augustus Erskins - Assistant Manager/Special Assistant to the President
Wilson K. Tarpeh - President

Cooperative Development Agency (CDA)

Barry Fandler - Field Officer
Mr. Jabeh - Auditor for the Lofa Region
Joseph Kettor - Registrar
T. Benedict Nimely - Director for Administration
Mr. Samuels - Economist
Mr. Wewo - Director for Operations

Liberian Produce Marketing Association (LPMC)

Dr. Chris Toe - Deputy Managing Director for Operations
Two assistants of Dr. Toe at LPMC

Lofa County Agricultural Development Project (LCADP)

Joseph F. Kamara - Project Manager
Mr. Worzi - Deputy Project Manager

Ministry of Agriculture (MOA), Government of Liberia

Dryper Birch - Director, Credit and Farmers' Associations
Moses Elliott - Deputy Minister for Extension Work
James M. Mehn - Deputy Minister for Planning
Mr. Morse - Director, Marketing
Dr. Benjamin Temple - Director of the Central Monitoring and Evaluation Unit (CMEU)
Mrs. Marian Varflay - Coordinator of Projects
Mrs. Wilkins - Assistant to the Minister of Planning and Economic Affairs
Peter Deo Youn, Jr. - Deputy Minister for Technical Affairs (former Project Manager of BCADP)

Ministry of Commerce and Industry (MOC), Government of Liberia



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Jeremiah M. Tulay - Deputy Minister (former Project Manager for LCADP)

Ministry of Planning and Economic Affairs (MPEA), Government of Liberia

Vivion Diggs - Director, Agricultural Division
Mr. Yecke - Agricultural Division

USAID/Liberia

Dr. James Beebe - Agricultural Development Officer
M. Beebe - SPPD/Private Voluntary Organizations
Juliet Born - ARD
Timothy Born - SPPD/CIP
John Hicks - Mission Director
R. McClure - Controller
Fred Witthans - Mission Economist

Kolahun Region

James A. Cooper - General Manager, Gbandi Farmers Cooperative Society
Musa Kaneh - Kolahun elder and founding member of coop
John Marlay - Gbandi Coop Accountant
Administrator and Operations Officers for the Gbandi Coop

Several merchants and farmers in the town.

Voinjama Region

Moses Aku - Manager, Voinjama District Cooperative
Abu B. Barollu - Acting Chairman, Quardi Gbani Cooperative
Daniel Lakay - Assistant Manager, ACDB Branch Voinjama
A Project Farmer with nine other members of his household, Vice-Chairman Voinjama District Cooperative, as well as leader of Lawalazu Branch Coop and Anagalsu TCU
Allen Tamaklo - Managing Director, LPMC Voinjama
A Largeholder, Non-Project Farmer, Zozoma Town
Joseph Zayzay - Commercial Manager, LCADP

Other staff at LCADP Voinjama.

Approximately twenty other male and female farmers in group discussions in Lawalzu,

Quardi Gbani, Selega, and Voinjama, and six individual farmers inside and outside the project.

Other Persons

Dr. Arthur M. Heagler - Associate Professor of Agricultural Economics at the Louisiana State University Agricultural Center, studying rice production for USAID/Liberia.

# APPENDIX H

# DATA TABLES AND EXHIBITS

Table 1 LCADP Targets and Achievements

| | Unit | Phase I (77-82) Target | Phase I (77-82) Actual | Phase I (77-82) % Actual | Phase II (83-85)(87) Target | Phase II (83-85)(87) Actual | Phase II (83-85)(87) % Actual | Cum. Phases I & II (77-85) Target | Cum. Phases I & II (77-85) Actual | Cum. Phases I & II (77-85) % Actual |
|---|---|---|---|---|---|---|---|---|---|---|
| **Farmer Participation** | | | | | | | | | | |
| Upland Rice | No. | 9800 | 5271 | 54 | 6000 | 3613 | 60 | 15800 | 8884 | 56 |
| Swamp Rice | No. | 2775 | 3152 | 114 | - | 748 | - | - | 3900 | - |
| Cocoa (New) | No. | 2306 | 2323 | 101 | - | 980 | - | - | 3303 | - |
| Coffee (New) | No. | 3540 | 1748 | 49 | - | 1744 | - | - | 3492 | - |
| Coffee (Rehab) | No. | - | 175 | - | - | 279 | - | 0 | 454 | - |
| | | | | | | | | 0 | 0 | - |
| **Crop Area** | | | | | | | | | | |
| Upland Rice | Ha | 7100 | 6234 | 88 | 4050 | 3381 | 83 | 11150 | 9615 | 86 |
| Swamp Rice | Ha | 1550 | 2048 | 132 | 790 | 416 | 53 | 2340 | 2464 | 105 |
| Cocoa (New) | Ha | 1900 | 1572 | 83 | 1290 | 720 | 56 | 3190 | 2292 | 72 |
| Coffee (New) | Ha | 2300 | 1197 | 52 | 2230 | 1321 | 59 | 4530 | 2518 | 56 |
| Coffee (Rehab) | Ha | 100 | 117 | 117 | 140 | 207 | 148 | 240 | 324 | 135 |
| Cassava* | | - | - | - | 600* | - | | 600* | | |
| Total Area | | 12950 | 11168 | 86 | 8500 | 6045 | 66 | 21450 | 17213 | 78 |
| **Infrastructure** | | | | | | | | | | |
| LCADP Roads - Const. | Mile | - | 366 | - | 72 | 88 | 122 | 72 | 454 | 631 |
| MPW Roads - Const. | Mile | 375 | 174.9 | 47 | 240 | 53 | 22 | 615 | 227.9 | 37 |
| LCADP Roads - Rehab. | Mile | - | | - | 90 | 287 | 319 | 90 | 287 | 319 |
| MPW Roads - Rehab. | Mile | - | | - | 600 | 35 | 6 | 600 | 35 | 6 |
| Latrines | No. | - | 80 | - | 75 | 51 | 68 | | 131 | |
| Wells | No. | 125 | 208 | 166 | 120 | 45 | 38 | 245 | 253 | 103 |
| Bridges | No. | - | 5 | - | - | 4 | - | 0 | 9 | - |
| Sub-Centers | No. | - | 27 | - | 18 | 5 | 28 | - | 32 | - |
| Stream Crossings | No. | - | 410 | - | - | - | - | 0 | 410 | - |
| Culverts (installed) | No. | - | 503 | - | - | - | - | 0 | 503 | - |
| **Total Project Cost** | $000 | 20833 | 19029 | 91 | 22608 | 17427 | 77 | 43441 | 36457 | 84 |

*Cassava planted following upland rice.

Source: LCADP Annual Reports.

Table 2 Lofa and Bong County Agricultural Development Projects' Staff 1985

| Division | LCADP | BCADP |
|---|---|---|
| Administration | 41 | 44 |
| Finance | 17 | 16 |
| Audit | 6 | 6 |
| Evaluation | 18 | 16 |
| Schistosomiasis & Surveillance | 14 | 14 |
| Agricultural Services | 188 | 138 |
| Commmercial Services | 145 | 75 |
| Plant Production Unit | 79 | 52 |
| Land Planning | 43 | 24 |
| Training | 27 | 11 |
| Infrastructure | - | 61 |
| Workshop | - | 24 |
| Total | 578 | 481 |

Source: FAO 1986: Annex 2, Table 1.

Table 3 LCADP District Cooperative Membership

| Cooperative | | Phase I | Phase II (New Members) | | | | Phases I& |
|---|---|---|---|---|---|---|---|
| Membership | Unit | Total | Y1 | Y2 | Y3 | Total | Total |
| Foya | Head | 4015 | 547 | 722 | 278 | 1547 | 5562 |
| Kolahun | Head | 4280 | 567 | 606 | 264 | 1437 | 5717 |
| Voinjama | Head | 1863 | 285 | 258 | 48 | 591 | 2454 |
| Zorzor | Head | 856 | 1285 | 1217 | 695 | 3197 | 4053 |
| Quardu | Head | 673 | 71 | 98 | 22 | 191 | 864 |
| Guama Mende | Head | - | 110 | 156 | - | 266 | 266 |
| Total | | 11687 | 2865 | 3057 | 1307 | 7229 | 18916 |

Source: LCADP Annual Reports.

Table 4 Disbursement and Repayment of Seasonal Loans (000 dollars)

| Project Year | Phase I Target Disbursements | Actual Disbursements | Repayments | % Repayments Made on Time | % Repayments Made Late (in the following year) | Principal Balance Due | Balance as % of Disbursement |
|---|---|---|---|---|---|---|---|
| 1977 | 16 | 9 | 9 | 80 | 20 | 0 | 0 |
| 1978 | 69 | 40 | 37 | 65 | 35 | 3 | 4 |
| 1979 | 108 | 53 | 43 | 70 | 30 | 10 | 19 |
| 1980 | 214 | 52 | 25 | 72 | 28 | 27 | 52 |
| 1981 | 288 | 48 | 29 | 74 | 26 | 19 | 40 |
| 1982 | - | 35 | 5 | 60 | 40 | 30 | 86 |
| 1983 | - | 22 | 11 | 50 | 50 | 11 | 50 |
| 1984 | - | 8 | 5 | 67 | 43 | 3 | 36 |
| 1985 | - | 6 | 3 | 60 | 40 | 3 | 50 |
| 1986 | - | 1 | 0.9 | 55 | 45 | 0.1 | 10 |
| 1987 | - | 3 | - | 0 | 0 | 3 | 100 |
| 1988 | - | 0 | - | 0 | 0 | - | - |
| Total: | | 277 | 167.9 | - | - | 109.1 | 41 |

Source: LCADP, and USAID 1975: Annex 7, Table 1.

Table 5 Disbursement and Repayment of Development Loans (000 dollars)

| Year | Phase I Target Disbursements | Actual Disbursements | Repayments | Principal Balance Due | Balance as % of Disbursements |
|---|---|---|---|---|---|
| 1977 | 16 | 56 | 5 | 51 | 91 |
| 1978 | 453 | 294 | 5 | 289 | 98 |
| 1979 | 583 | 394 | 2 | 392 | 99 |
| 1980 | 821 | 292 | - | 292 | 100 |
| 1981 | 1026 | 329 | - | 329 | 100 |
| 1982 | - | 215 | - | 215 | 100 |
| 1983 | - | 264 | 0.1 | 263.9 | 100 |
| 1984 | - | 266 | - | 266 | 100 |
| 1985 | - | 93 | - | 93 | 100 |
| 1986 | - | 60 | - | 60 | 100 |
| 1987 | - | 36 | - | 36 | 100 |
| 1988 | - | 1 | - | 1 | 100 |
| Total | - | 2300 | 12.1 | 2287.9 | 99 |

Source: LCADP, and USAID 1975: Annex 7, Table 1.

Table 6 LCADP Estimated Farm Budgets for Upland Rice Before Financing, 1982

| Income / Cost | Traditional | Seed Exchange | Seed Exchange and Fertilizer |
|---|---|---|---|
| Income | | | |
| Yield (kg/ha) (1) | 1316 | 1599 | 1456 |
| Financial Farmgate Price ($/kg) (2) | 0.386 | 0.386 | 0.386 |
| Gross Income ($/ha) | 508 | 617 | 562 |
| Cost | | | |
| Hired Labor (3) | 83 | 130 | 113 |
| Seed (4) | 21 | 27 | 27 |
| Tools (4) | 16 | 16 | 16 |
| Fertilizer & Pesticides | - | - | 24 |
| Total Cost ($/ha) | 120 | 173 | 180 |
| Net | | | |
| Net Income ($/ha) | 388 | 444 | 382 |
| Return per Day of Household Labor ($) (3) | 1.6 | 2.27 | 2.26 |

(1) Yield data are the weighted averages from three annual surveys undertaken by the Lofa Project Management Unit.

(2) The financial farmgate price is based upon the current financial value of Import substitution for home (farm) consumption.

(3) The estimated labor inputs required are from Lofa Project Management Unit surveys. Hired labor is assumed to cost $2.50 per person per day.

(4) Costs for material inputs, such as seed tools, fertilizer, and pesticide, are estimated based upon data from the World Bank Ligeria Agricultural Assessment Team and from the Lofa Project Management Unit.

Labor Inputs (person/day/ha)

| Category | Traditional | Seed Exchange | Seed Exchange and Fertilizer |
|---|---|---|---|
| Total | 276 | 249 | 214 |
| Family | 243 | 196 | 169 |
| Hired | 33 | 52 | 45 |

Source: Harbeson, et al. 1984:B-24.

Table 7 Estimated Farm Budgets for Swamp Rice before Financing (Single Crop), 1982

| Income / Cost | Traditional | Project |
|---|---|---|
| Income | | |
| Yield (kg/ha) (1) | 1875 | 2227 |
| Financial Farmgate Price ($/kg) (2) | 0.386 | 0.386 |
| Gross Income ($/ha) | 724 | 860 |
| Cost | | |
| Hired Labor (3) | 195 | 210 |
| Seed (4) | 20 | 22 |
| Tools (4) | 16 | 20 |
| Fertilizer & Pesticides | - | 35 |
| Total Cost ($/ha) | 231 | 287 |
| Net | | |
| Net Income ($/ha) | 493 | 573 |
| Return per Day of Household Labor ($) (4) | 3.52 | 4.00 |

(1) Yield data are the weighted averages from three annual surveys undertaken by the Lofa Project Management Unit.

(2) The financial farmgate price is based upon the current financial value of import substitution for home (farm) consumption.

(3) The estimated labor inputs required are from Lofa Project Management Unit surveys. Hired labor is assumed to cost $2.50 per person per day.

(4) Costs for material inputs, such as seed, tools, fertilizer, and pesticide, are estimates based upon data from the World Bank Liberia Agricultural Assessment Team and from the Lofa Project Management Unit.

Labor Inputs (person/day/ha)

| Category | Traditional | Credit |
|---|---|---|
| Total | 218 | 227 |
| Family | 140 | 143 |
| Hired | 78 | 84 |

Source: Harbeson et al. 1984: B-26.

Table 8 Estimated Farm Budgets for Tree Crops Before Financing, 1982

| Income / Cost | Coffee | | Cocoa | |
|---|---|---|---|---|
| | Traditional | Project | Traditional | Project |
| **Income** | | | | |
| Yield (kg/ha) (1) | 295 | 550 | 340 | 550 |
| Financial Farmgate Price ($/kg) (2) | 1.15 | 1.15 | 1.03 | 1.03 |
| Gross Income ($/ha) | 339 | 633 | 350 | 567 |
| **Cost** | | | | |
| Hired Labor (3) | 25 | 48 | 8 | 23 |
| Fertilizer & Pesticide | - | 39 | - | 38 |
| Tools (4) | 18 | 30 | 14 | 33 |
| Total Cost ($/ha) | 43 | 117 | 22 | 94 |
| **Net** | | | | |
| Net Income ($/ha) | 296 | 516 | 328 | 473 |
| Return per Day of Household Labor ($) (3) | 8.71 | 8.19 | 17.26 | 8.6 |

(1) Yield data are the weighted averages from three annual surveys undertaken by the Lofa Project Management Unit. Yield estimates for project tree crops are estimates made by the World Bank Liberia Agricultural Assessment Team.

(2) The financial farmgate price for coffee and cocoa beans are based on LMPC official producer prices, minus a 10 percent factor for quality and weight discounts, marketing, and transportation costs paid by the farmer.

(3) Labor input requirements are calculated from Lofa Project Management Unit data from surveys. The traditional tree crop labor requirements are taken directly from the survey estimates, but the project tree labor requirements are adjusted to include harvesting-related labor needs.

(4) Costs for material inputs, such as tools, fertilizer, and pesticide, are estimates based on data from the World Bank Liberia Agricultural Assessment Team and from the Lofa Project Management Unit.

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Labor Inputs for Mature Tree Crops (person/day/ha)

| Category | Coffee | | Cocoa | |
|---|---|---|---|---|
| | Traditional | Project | Traditional | Project |
| Total | 44 | 82 | 22 | 64 |
| Family | 34 | 63 | 19 | 55 |
| Hired | 10 | 19 | 3 | 9 |

Source: Harbeson et al. 1984: B-28.

Table 9 Agricultural And Cooperative Development Bank
Interest Spread 1981 - 1985
(amounts are in $000; rates are in percent/year)

| ITEMS | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|
| I INCOME | | | | | |
| Average Loans | 2,765 | 2,158 | 6,552 | 12,149 | 16,412 |
| Interest Received | 369 | 328 | 789 | 1,933 | 2,097 |
| Average Lending Rate | 13.4 | 15.2 | 12.1 | 15.9 | 12.8 |
| II AVERAGE FUNDS | | | | | |
| Average Deposits | 3,027 | 3,884 | 5,856 | 7,870 | 15,877 |
| Due to Banks | - | - | 3,075 | - | 393 |
| Accounts Payable | 355 | 290 | 907 | 1,240 | 650 |
| Government Subsidy | 250 | 500 | 500 | 721* | 245* |
| Total Funds | 3,632 | 4,674 | 10,338 | 9,831 | 17,165 |
| III INTEREST PAID | 124 | 120 | 208 | 414 | 311 |
| IV INTEREST PAID AS % OF FUNDS | 3.4 | 2.6 | 2.0 | 4.2 | 1.8 |
| V INTEREST SPREAD | 10.0 | 12.6 | 10.1 | 11.7 | 11.1 |

* Incremental capital surplus by government.

Source: FAO 1986: Annex 2, Table 9.

Table 10 Agricultural and Cooperatives Development Bank (ACDB) Deposits and Disbursements, Voinjama Branch (amounts in $000)

| Year | Savings Deposits | Demand Deposits | Total | Savings as % of ACDB's Total Savings in Liberia | Total Deposits as % of ACDB's Total Deposits | Loan Disbursements in Voinjama as % of ACDB's Total Disbursements |
|---|---|---|---|---|---|---|
| 1981 | 732 | 286 | 1018 | 50 | 31.0 | 27.0 |
| 1982 | 816 | 412 | 1228 | 47 | 29.0 | 18.0 |
| 1983 | 918 | 277 | 1195 | 43 | 16.0 | 4.0 |
| 1984 | 589 | 779 | 1368 | 21 | 15.0 | 1.5 |
| 1985 | 599 | 660 | 1259 | 19 | 5.5 | 0.0 |
| 1986 | 581 | 194 | 775 | 13 | 2.1 | 0.0 |

Source: ACDB Annual Reports (1981-86), and ACDB Voinjama.

Table 11 Liberia Rice Production and Consumption (000 tons)

| Year | Gross Prod. (Paddy) | Net Prod. | Clean Rice Equivalent | Rural Consump.* | Marketable Surplus | Imports | Avail. Urban |
|---|---|---|---|---|---|---|---|
| 1975 | 268 | 228 | 137 | 125 | 12 | 31 | 43 |
| 1976 | 288 | 245 | 147 | 127 | 20 | 38 | 58 |
| 1977 | 296 | 252 | 151 | 129 | 22 | 56 | 78 |
| 1978 | 288 | 245 | 147 | 131 | 16 | 61 | 77 |
| 1979 | 291 | 248 | 149 | 134 | 15 | 63 | 78 |
| 1980 | 244 | 208 | 125 | 136 | -11 | 88 | 77 |
| 1981 | 269 | 229 | 137 | 138 | - 1 | 110 | 109 |
| 1982 | 284 | 241 | 145 | 141 | 4 | 83 | 87 |
| 1983 | 285 | 241 | 145 | 143 | 2 | 75 | 77 |
| 1984 | 290 | 246 | 148 | 146 | 2 | 87 | 89 |
| 1985 | 298 | 253 | 152 | 148 | 4 | 62 | 66 |
| 1986 | 288 | 254 | 147 | 151 | - 4 | 110 | 106 |
| 1987 | 291 | 247 | 148 | 154 | - 6 | 111 | 105 |

*Estimated at 145 kg/person/year.

Source: Ministry of Planning and Economic Affairs; Ministry of Agriculture; USAID.

Table 12 Liberia Rice Prices (cents/lb.)

| Year | CIF Import Price (1) | Domestic Retail Price (2) | Farmgate Support Price (3) |
|---|---|---|---|
| 1975 | 15 | 20 | 8 |
| 1976 | 15 | 20 | 20 |
| 1977 | 16 | 22 | 20 |
| 1978 | 17 | 22 | 20 |
| 1979 | 18 | 22 | 20 |
| 1980 | 20 | 20 | 20 |
| 1981 | 23 | 20 | 30 |
| 1982 | 17 | 24 | 30 |
| 1983 | 18 | 24 | 30 |
| 1984 | 18 | 24 | 30 |
| 1985 | 16 | 23 | 25 |

(1) Actual figures.

(2) Official price in Monrovia.

(3) Official support price. Converted in equivalent milled rice (60 percent conversion).

Source: USAID.

Table 13 Liberia Coffee and Cocoa Production and Export (tons)

| | Liberia Produce Marketing Corporation | | | | | |
|---|---|---|---|---|---|---|
| | Total Purchases | | Lofa Purchases | | Total Exports | |
| | Coffee | Cocoa | Coffee | Cocoa | Coffee | Cocoa |
| 1975 | 4,091 | 2,773 | 2,545 | 864 | 4,136 | 3,182 |
| 1976 | 5,045 | 2,818 | 2,091 | 682 | 4,227 | 2,500 |
| 1977 | 9,091 | 3,091 | 2,682 | 727 | 10,091 | 2,045 |
| 1978 | 8,364 | 3,455 | 2,545 | 1,045 | 8,682 | 4,045 |
| 1979 | 8,500 | 3,682 | 3,091 | 818 | 8,227 | 3,409 |
| 1980 | 10,409 | 5,227 | 4,818 | 1,909 | 12,727 | 3,727 |
| 1981 | 8,318 | 6,682 | 3,545 | 1,500 | 11,091 | 6,545 |
| 1982 | 10,000 | 4,591 | 3,955 | 1,318 | 10,000 | 4,591 |
| 1983 | 7,409 | 5,727 | 2,955 | 1,636 | 7,455 | 5,273 |
| 1984 | 4,909 | 6,136 | 1,955 | 1,773 | 4,909 | 5,864 |
| 1985 | 11,136 | 5,000 | 4,409 | 1,455 | 11,091 | 5,136 |
| 1986 | 8,409 | 3,909 | 3,318 | 1,136 | 8,409 | 4,409 |

Note: All legal procurement and export of coffee and cocoa is by the LPMC and its agents. Purchases do not reflect production exactly because of unofficial cross-border trade. Exports differ from purchases because of carry-over stocks.

Source: LCADP

## EXHIBIT 1

Liberia Agricultural Projects Disposition Letter

# EXHIBIT 1

## Liberia Agricultural Projects Disposition Letters

REPUBLIC OF LIBERIA
MINISTRY OF PLANNING AND ECONOMIC AFFAIRS
P. O. BOX 9016
MONROVIA

OFFICE OF THE MINISTER

MPEA-C-2.5/1410/'88 October 3, 1988

Mr. Director:

I have the honour to inform you that the recommendations of the Inter-Ministerial Technical Committee (IMTC) set up to assess the problems facing the Lofa and Bong Counties Agricultural Development Projects (LCADP and BCADP), have been endorsed by the President of Liberia. A copy of his letter is herewith attached for your information and perusal.

A Plan of Action to effect the recommendations of the Committee is being worked out jointly by this Ministry and the Ministry of Agriculture along with the Project Managements.

Kind regards,

Sincerely yours,

Elijah E. Taylor
MINISTER

Mr. John F. Hicks
Director
USAID/Liberia
Monrovia, Liberia

Attach.

CC: Minister of Agriculture

# APPENDIX I

# BIBLIOGRAPHY

## APPENDIX I

## BIBLIOGRAPHY


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