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FINAL REPORT ON THE LIBERIA ECONOMIC STABILIZATION SUPPORT PROJECT

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LIBERIA ECONOMIC STABILIZATION SUPPORT PROJECT

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LIST OF ACRONYMS:

ACDB	Agricultural and Cooperative Development Bank
BGA	Bureau of General Accounting
BOB	Bureau of the Budget
CSA	Civil Service Agency
EDP	Electronic Data Processing Department, MOF
EFMC	Economic and Financial Management Committee
FDA	Forestry Development Agency
GAO	General Auditing Office
GOL	Government of Liberia
GSA	General Services Agency
LPMC	Liberia Produce Marketing Corporation
LPRC	Liberia Petroleum Refinery Corporation
MCI	Ministry of Commerce and Industry
MOF	Ministry of Finance
NBL	National Bank of Liberia
NHSB	National Housing Savings Bank
OPEX	Operational Experts
PL-480	Public Law 480 (US Food Aid Program)
PVO	Private Voluntary Organization
USAID	United States Agency for International Development
USG	United States Government

LIBERIA ECONOMIC STABILIZATION SUPPORT PROJECT

PART ONE -- INTRODUCTION AND BACKGROUND

Chapter I -- Introduction

The OPEX (Operational Experts)[1] project represented an ambitious effort to provide emergency assistance to the Government of Liberia in the area of financial management. The project's goal was economic stabilization and the purpose was to develop and implement a fiscal budget and management control system within the Government of Liberia.

The OPEX mode of assistance was direct intervention -- i.e. operational control -- into the financial management of the Government of Liberia. The OPEX team, which consisted of 17 long-term experts, was given financial control over government accounts in the Ministry of Finance and at the National Bank of Liberia. In addition, OPEX was situated with varying degrees of operational control in the revenue, customs, and data processing offices of the Ministry of Finance, the Bureau of the Budget, the General Auditing Office, the Civil Service Agency, the General Services Agency, the Ministry of Commerce and Industry, and the Liberian Produce Marketing Corporation.

The project lasted for one year, at which point it was terminated unilaterally by the U.S. government.[2] This report is meant to summarize what happened, to suggest reasons why, and to derive lessons from the experience. The lessons learned fall into three general categories:

1. lessons pertaining to USAID's future involvement in Liberia;

2. lessons pertaining to the design of "operational" projects, an approach that donors may apply in some form in another setting;

3. lessons pertaining to the nature of policy dialogue and policy reform.

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1 The official title of the project was Economic Stabilization Support Project (ESS).

2 The project was originally intended to last from two to three years.

Liberia has a rather unique economy and unique historical relations with the United States, both of which make the economic and political dimensions of OPEX somewhat hard to generalize. In addition to describing the economic environment of the project, this report will try to characterize the nature of and problems associated with the operational control achieved by the project. It is hoped that information of this nature will help put the Liberia OPEX project in a broader context.

Chapter II -- Background, Objectives, and the OPEX Agreement

The OPEX project was discussed and negotiated in a series of meetings in 1987 between Liberian President Samuel K. Doe, Secretary of State George Shultz, and USAID Administrator Peter McPherson. President Doe requested outside assistance to help control fiscal disarray in Liberia, and gave the team operational authority to implement management and policy reforms.

The specific mission of the project was "to improve revenue collection, expenditure control, and information processing mechanisms within the GOL."[3] The intended project outputs were:

1. improved policy formulation and implementation at the ministerial level.

2. a realistic government budget which excluded extra-budgetary expenditures and which would be a useful instrument of economic policy.

3. a monthly financial reporting system which would pinpoint problems and permit corrective actions to be taken.

4. an effective tax department with reforms in tax structure and implementation.

5. a functioning bank examination division in the National Bank of Liberia.

6. financial accountability at the Liberian Produce Marketing Corporation.

The US Government agreed to assist the Government of Liberia in carrying out the above by providing an inter-ministerial advisor (Team Leader), seventeen operational experts, and necessary computer and office equipment.[4] In return, the President of Liberia committed his government to develop a realistic budget and comply with it, halt extra-budgetary expenditures and budget overruns, get current on civil service salaries, and develop a foreign exchange budget with priority external debt payments.

The OPEX team members were generally assigned to work at the deputy ministerial level. In case of disagreements between OPEX and their counterparts or Ministers, resolution was to be sought from the President. The actual agreement, designed to ensure Liberian sovereignty, stated:

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3 The Project Agreement, August 26, 1987.

4 See the Appendix. The number of long-term OPEX personnel was actually increased in April, 1988, from 17 to 18. However, since the project was commonly known as "The Seventeen Experts", the number 17 is still commonly cited.

"The President has ultimate authority for operations in his country and responsibility to make final decisions. Every effort should be made to solve disagreements at the Ministerial level. If this is not possible, any technical disputes between the position of the operational expert and the Minister will be referred to the President for his final determination."

The first operational experts arrived in November 1987. The project began its operational activities on January 4, 1988 -- the beginning of the new fiscal year -- when the experts took over control of the bank accounts and the check books of the Government. The project got off to a fairly good start, and for three months steady progress was made in gaining control over expenditures and arrears. Other OPEX team members located outside of the Ministry of Finance established ambitious reform agendas, and were generally well received by their counterparts. In addition, OPEX appeared popular with the local press, the civil service, and the business community.

The first indications that the project was getting off track came to light in April, a month after the President replaced the Minister of Finance, all three deputy ministers, and several assistant ministers and office directors. By June there were many more indications that the project was not progressing as intended, and OPEX requested that the U.S. Ambassador make appropriate representations to the President. In the absence of any positive signals from the President or the Executive Mansion[5], the financial condition of the Government continued to deteriorate and by September it had become clear that the objectives of the project could not be achieved. This message was relayed to the President by the Ambassador. The Project was terminated in November and most OPEX members departed from Liberia in December.[6]

5 The Executive Mansion, or just the "Mansion", refers to the offices and residence of the President of Liberia, as well as to the special Presidential advisors working there.

6 The OPEX members involved in computer and payroll applications remained for an additional 3-10 weeks.

PART TWO -- WHAT HAPPENED

Chapter III -- Key Problems Addressed by the Project

A. Overview

Much of this report will be concerned with the policy and operational problems occurring in Liberia during the course of the OPEX project. However, from the outset, it should be stated that there were also some successes. It was with the help of OPEX that:

- the bank clearing system was working well, and GOL checks were being accepted. Accountability on MOF expenditures improved, and the GOL has a much better idea of where monies are going.

- detailed work on domestic arrears (i.e. those goods and services delivered prior to 1988 but which had not been paid for) was done, allowing them to be treated knowledgeably in the FY 1989 budget.

- civil service and military payroll and pension payments were made current.

- Both trade-related and income tax revenues increased significantly.

- the deficit has been financed by loans from the private sector, with no central bank financing of the government. The money supply increased a modest 7.6% compared with an 18% increase during the same period of 1987. Thus there has been little inflationary pressure from government operations.

- a foreign exchange budget was prepared, with improved decision-making in the allocation of foreign exchange. Brooke-sensitive payments have been made, as well as good faith payments to the IMF.

- significant progress towards computerizing the MOF's expenditure control and payroll systems was made.

- significant progress in the completion and quality of government audits was made.

- significant progress in the record-keeping, change orders, and job classification in the Civil Service was achieved.

- progress in the ability of the Budget Bureau to prepare concise budget documents, and of the Ministry of Commerce to perform policy analysis, was achieved.

One can argue that OPEX had a favorable impact on the economy and on the government in 1988. On the other hand, as the unfavorable impact of fiscal decisions taken in 1988 will come in 1989, the project will have only limited future impact.

The initial assessment of the economic situation by OPEX was that Liberia faced three serious financial problems which had to be dealt with if it were to achieve economic recovery: the budgetary deficit, the external debt, and reform of the foreign exchange system.

The budgetary problem was intensified by the sharp increase in extra-budgetary expenditures and the earmarking of revenue. The external debt problem had arisen because of the very high debt service ratio (debt service was about 50 percent of export earnings) and the growing level of arrears. The major creditors were unwilling to lend to Liberia. Finally, the growing disparity between the official and the parallel exchange market rates created serious problems for importers. They were not able to get allocations of foreign exchange from the National Bank, which opened exceptional opportunities for favoritism or corruption on behalf of GOL officials who allocated the exchange.

These were the three major issues addressed by OPEX. While they more directly involved the Ministry of Finance and, in the case of the foreign exchange issue, the National Bank, all OPEX members in one way or another were involved in these issues. Improving the efficiency of the procurement practices of the GSA and the personnel practices of the CSA were essential to disciplining the budget. The budgeting process at the Bureau of the Budget was closely tied in to the control of expenditures at the MOF. The operations of the LPMC affected both the budget and the foreign exchange position of the country.

B. The Budgetary Problem

The budgetary problem can be attributed to several factors: the lack of a realistic budget, an indeterminate level of domestic arrears, the high level of extra-budgetary expenditures, encumbering (committing) of current revenues, mortgaging of future revenues, the lack of reliable financial accounting information, and finally the use of the national budget as a social welfare system.

The magnitude of Liberia's budgetary problem could not be determined with any degree of precision. The accounts of the MOF were found by OPEX to be in such disorder that one could only make gross estimates. How many checks had been issued and failed to clear the banks for lack of funds? What was the magnitude of the vouchers approved for payment and not paid? What was the value of the goods and services actually received by the Government? What was the size of the domestic arrears, i.e. indebtedness to domestic banks and suppliers? How many employees were on the payroll and what was the actual size of the payroll? These were basic questions to which OPEX had to find answers in order to determine the size of the problem.

1. Initial Budget Operations

In taking over the MOF accounts on January 4, 1988, OPEX's first step was to close all existing (known) bank accounts and to instruct the banks to reject any checks which were not endorsed by OPEX. The endorsement consisted of a listing of all approved checks sent daily to each bank by OPEX messenger. The checks themselves were signed by GOL signatories, usually the Deputy Minister for Expenditure and the Comptroller.

Very early in the process of handling the checkbooks OPEX uncovered $4 million in checks which had been issued in 1987 but which had not been accepted by the banks for lack of funds. OPEX recalled these checks and cancelled them. Several major contractors retained their checks, however, and banks cashed them as funds became available, contrary to an explicit agreement between the MOF and the banks. In at least one case, however, a high level Ministry of Finance official authorized the bank to honor checks to a contractor, without advising OPEX.

For the first quarter of the year the Government operated on a strict cash basis. Expenditures were limited to only the highest priorities: payroll, rentals, insurance, minimal operating needs, and foreign debt service.

2. The 1988 Budget

Concurrent with the above financial operation, OPEX worked with the Budget Director and the Budget Committee in developing a realistic budget for 1988. A realistic budget was one that included all known expenditures which could be financed by known sources of revenues and potential credits, without the issuance of new coins or other financing by the National

Bank. OPEX arrived too late in 1987, however, to have a substantial impact on the 1988 budget.

The 1988 Budget approved by the President in April fell short of being realistic, but did provide reasonable budgetary objectives for the year. The budget projected revenues of $240 million, while actual revenues available to cover budgeted expenditures were projected at $210 million.[7] Early in the project, it was felt that this shortfall did not constitute an unmanageable problem per se, as it appeared that two safety (moderating) measures were in place to contain expenditures. First, the Bureau of the Budget restricted the monthly expenditure authorizations to the actual revenues of the previous month. Second, the MOF, with OPEX holding the checkbooks, restricted cash expenditures to cash receipts.

3. Extra-budgetary expenditures

The budget process unravelled when the magnitude of extra-budgetary expenditures became clear to both the BOB and OPEX.[8] These extra-budgetary expenditures reduced available revenues for normal budget items. Moreover, many of these extra-budgetary expenditures were financed by encumbered or committed revenues and therefore had priority over other expenditures.

Extra-budgetary expenditures continued to grow during the course of the year. During the first quarter they amounted to $40 million at an annual rate, but by the third quarter they had accelerated to an annual rate of $70 million, one-third of the total budget. The largest extra-budgetary items were repayment of domestic debt to commercial banks and the financing of off-budget contracts.

4. The Civil Service Payroll

Another major cause of the budgetary problem was the use of government employment as a social welfare system. Prior to the arrival of OPEX, USAID had identified the huge payroll as a major obstacle to fiscal reform and had initiated a Civil Service Reform Program aimed at gradually reducing the number of employees on the payroll. OPEX eventually identified 43,000 employees on the payroll, costing $108 million per year, or 55 percent of total budget expenditures.

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7 This amount excludes revenues collected by the LPRC and FDA, some $30 million, that was never transferred to the MOF or subject to OPEX controls.

8 The problem of extra-budgetary expenditures was noticed early in 1988, and the first OPEX quarterly report emphasized that "20% of all expenditures [in the first quarter of FY88] are not contained in the 1988 budget" (pg. 6). By the second quarterly report it was stated that extra-budgetary expenditures had "undermined the entire budget process" (pg.15).

The problem was monitored on a monthly basis throughout the year. Monthly reports were always submitted to the client (GOL) and the sponsor (USAID) simultaneously.

The strategy agreed upon between OPEX and the GOL was to identify the number of extra-budgetary workers and to either transfer them to budgeted slots or release them. On April 15, 1988, President Doe signed an Executive Order mandating the regularization of payroll and the elimination of supplementary accounts. With the assistance of OPEX, the Civil Service Agency (CSA) began a procedure of administering skills (literacy) tests to these workers, finding appropriate new jobs, and finding on-budget financing. In actuality, however, after the CSA completed its findings, nothing would be done. The Ministers controlling these special accounts were not willing to act on either the job reclassifications or layoffs. The fact that the President had signed an Executive Order made no difference.[9]

5. Domestic Arrears

The huge stock of domestic arrears created an early and continuing problem for the GOL and for the project. Prior to the arrival of OPEX, the MOF had initiated a study of domestic arrears which estimated outstanding claims to be $30 million. It was unclear, however, whether all of these claims reflected goods and services actually delivered. OPEX undertook an exercise, to review each claim, and concluded that the total value of goods and services received by the Government did not exceed $15 million. Since the 1988 budget included only $4 million for payment of domestic arrears, OPEX suggested that the balance be paid with promissory notes, which the Minister approved and recommended to the President. (The President never responded.) The notes were designed, printed, and ready for distribution, but remained unused at the termination of the project.

While opposition to the issuance of promissory notes had a legitimate rationale, given the unhappy experience of creditors with Government bonds and the generally poor credit-worthiness of the GOL, the main opposition came from influential people who were in position to abuse the system. As an example, the OPEX review revealed that one Liberian company had submitted a claim for $2 million, having only delivered goods for $900,000. Yet it had managed to persuade the Executive Mansion to issue a directive to the Finance Minister to pay the full $2 million in the form of a guarantee to a Government owned bank (NHSB). With the evidence provided by OPEX, the Minister of Finance was able to scale down the claim to $900,000, but the company still managed to get the money via a bank guarantee. This not only gave the vendor a full settlement, in contrast to the many other creditors without privileged access, but the payment also constituted an extra-budgetary expenditure.

9 One case study is at the MOF, which had an account using revenues from bonded warehouses to pay almost 600 full time employees at a cost of $12 million per year. After testing, CSA found that 30% failed to pass the lowest civil service exam (e.g. clerk). The Minister agreed to take the reclassification and retirement steps proposed by the CSA. However, nothing happened, and by the end of the year the number of employees on the account actually increased.

6. Revenue Encumbrances

Another major obstacle to the achievement of economic recovery was the large and growing level of encumbrances against future tax revenues. Such encumbrances, estimated at $8 million per month or 43% of average revenues, gave priority access to revenues to the recipients and reduced the availability of revenues for other purposes, such as the payroll.[10] Moreover, about 50 percent of these encumbrances were for unbudgeted expenditures. They also set an unfortunate precedent, as described below.

In April, a contractor requested OPEX endorsement of a Ministry of Finance guarantee to a private bank for a credit of $3.5 million to finance the construction of officers barracks. The bank would be repaid at a rate of $50,000 per week out of current tax revenues collected by that bank. OPEX rejected the idea of a guarantee as inconsistent with sound financial management. Ten days later the Minister of Finance received instructions from the Executive Mansion to issue the guarantee. Despite OPEX objections the Minister felt he had no alternative; he wrote a letter to the President outlining the unfortunate precedent this would set. He received no response to his letter, but the prediction bore out. Within the next few weeks all the major contractors, in one way or anther, managed to obtain similar instructions from the Executive Mansion to provide bank guarantees for their projects. Moreover, unlike the first example, some of the later projects were extra-budgetary.

7. Public Enterprises

The public enterprises in Liberia remain outside of MOF financial control. Three examples suffice. First, the revenues collected by the LPRC and FDA, estimated at $30 million per year, are controlled directly by the Executive Mansion and do not enter MOF accounts. Second, not all revenues from the sale of PL-480 rice, which had been donated by the U.S. to be sold by the Liberian Produce Marketing Corporation (LPMC) and the Agricultural Cooperative Development Bank (ACDB), were accounted for by LPMC. (The MOF made up the shortfall out of general tax revenues). Third, the audits of the public enterprises conducted by the GAO -- which received OPEX assistance -- came to naught, because the auditors had no enforcement authority.

The PL-480 problem led to a specific budget breaking situation. USAID had advised the GOL that no PL-480 rice would be made available to Liberia unless the outstanding obligations were paid in full. The unpaid obligations amounted to an estimated $7 million, and neither the LPMC nor the ACDB had the resources to pay. The options for the GOL were (a) forgo $10 million in imported rice (on a grant basis) or (b) provide financial assistance to the two inefficient institutions. The decision was to make the payments, and the MOF asked OPEX to work out the financial package. Although Liberia received the

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10 The mechanism of encumbrance is simple. Since the commercial banks collect Liberian tax revenues, banks and other creditors can claim government funds before they are ever transferred to government accounts.

$10 million of rice and $10 million in local currency allocated to development purposes as agreed to by the GOL and USAID, the cost to the GOL was another $7 million of extra-budgetary expenditures.

8. The Public Banks

The ACDB and the NHSB, the two major government owned commercial banks, provided a continuing financial drain on the budget during the year. These banks were periodically unable to cover their financial obligations with the other private commercial banks at the weekly clearing. When the other banks threatened to stop accepting their checks, the NBL would cover the shortfall by borrowing on the Government's account from the private banks. It should be pointed out that the GOL owed the public banks the amounts involved, $15 million to each public bank, as a result of borrowing in earlier years. However, the problem these transactions created for the budget was that they increased the GOL indebtedness to the private banks and thereby reduced the availability of credit for financing future payrolls. It clearly was not appropriate for the Government to repay its entire debt to the two public banks at a time of budget stringency.

9. The Financial Accounting System

The failure of the financial accounting system to generate timely and accurate expenditure and revenue reports contributed significantly to the budgetary problem. In the absence of timely data, the BOB's monthly allotment system could not take into account the extra-budgetary expenditures, nor could it take into account the fact that FDA, LPRC and some LPMC revenues were bypassing the MOF. During the course of the year the revenue data was improved and made available on a timely basis (with the exception of the FDA). But OPEX was never able to obtain timely and accurate information on total expenditures.

C. Foreign Debt Problem

Restoration of Liberia's credit-worthiness, domestic and foreign, was a major objective of OPEX. Even with the best possible effort to generate new revenue and to contain non-essential expenditures, the GOL could not generate adequate domestic savings to finance all of its infrastructure and other development requirements. If Liberia is to develop, it will need external financing -- which will only be forthcoming with the restoration of Liberia's credit-worthiness.

When OPEX arrived, the IMF representative was in the process of departing the country. The World Bank representative had already departed, and the African Development Bank had stopped lending. Only USAID and the EEC were in positions to assist Liberia with financing and technical assistance.

To improve relations between the GOL and the donor community, the OPEX objective was to develop a schedule of "good faith" payments to its major creditors. To this end, "good faith" payments to the IMF of $500,000 per month were made in the first few months of 1988. The IMF is Liberia's largest creditor (about $300 million) and has about half of total arrears. Token payments were made to the World Bank, ADB, and other major bilateral creditors. The U.S. PL-480 and Brooke-sensitive debts were serviced fully. In fact, the U.S. received 80% of total debt payments made by the GOL from January to November 1988.

Due to the level of payments to the U.S. in May and June, and general GOL shortages of foreign exchange, the "good faith" payments to the IMF and the Bank were stopped. The anticipated improvement in relations with these institutions did not take place.

D. Foreign Exchange Problem

The third major problem area addressed by OPEX was the foreign exchange system. The existing de facto dual exchange system distorts the exchange transactions and creates an unparalleled opportunity for corruption. One OPEX objective was to move toward a market-determined unified foreign exchange rate (see below).

In late 1988, the parallel market rate was approximately Lib $2.40 to US$1.00, while the official rate remained at 1:1.[11] Those individuals and firms which had access to official exchange from the National Bank received extraordinary benefits. Surrender funds from the National Bank (see above) were being allocated on the basis of personal relationships while the legitimate needs of the Liberian financial system and economy were not being met. Even the foreign exchange in the Government's account at the National Bank was being diverted to non-official purposes. There were innumerable cases of individuals receiving foreign exchange allocations from the National Bank who then sold the exchange in the parallel market for an immediate profit. At the same time, hospitals were not receiving adequate foreign exchange to cover needed pharmaceutical and hospital supplies. Businesses, whose products came under price controls, i.e. cement, tobacco, beer, and others, were expected to buy foreign exchange at the parallel market rate, at the same time as prices were kept low.

OPEX inability to achieve a degree of control over the foreign exchange operations of the NBL contributed significantly to the diversion of Liberia's limited foreign exchange. The NBL received many directives from the Mansion concerning the allocation of foreign exchange, which bypassed OPEX endorsement.

One area in which OPEX was able to contribute was in the area of export surrender requirements. The Surrender Law requires that exporters surrender 25 percent of their export proceeds to the NBL, which the NBL purchases with local currency at the official exchange rate of 1:1. With a parallel market rate in excess of 2:1, access to this foreign exchange was highly beneficial to government finances. OPEX led the MOF and the NBL in a joint effort to improve the enforcement of the surrender law and to ensure that the maximum amount of the surrender funds were made available to the Government for debt service and other legitimate official purposes, such as payments of embassies and missions abroad. Meetings were held with each of the major exporters to ascertain the precise amounts due and the timing. Some progress was made initially; but as soon as the additional foreign exchange was identified, the NBL officials (in some cases in consultation with the MOF) committed them for purposes other than originally designed.

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11 The dual rate system arose over time. Liberia had maintained the U.S. dollar as its medium of exchange for many years. In 1982 the Government began issuing $5 coins, in addition to the traditional small coins. As late as 1985 these $5 coins were being traded at a 1:1 rate. But with the growing issuance of coins to finance the budget deficits, Gresham's Law began to operate, with the bad money driving out the good. By the end of 1988, about $122 million of coins had been issued by the NBL, compared with only $18 million in 1982.

By November most of the foreign exchange available to the Government and the NBL had been committed, not only for the balance of 1988, but through mid-1989. This situation portends a foreign exchange crisis in early-to-mid 1989.

The exchange rate was a sensitive political and economic issue which few Liberians were willing to touch. With the cooperation of the Minister of Finance and the Governor of the NBL, OPEX organized a small committee to study the problem and come up with recommendations for establishing a realistic unified foreign exchange rate. Recognizing the political attachment to a fixed US dollar rate, the committee recommended a phased move toward a unified rate. The proposal provided for legalizing the existing dual exchange rate system; continuing the l:l exchange rate for government transactions and for rice imports; applying a market determined rate to all other transactions; continuing the existing 25 percent surrender requirements until all existing irrevocable commitments were satisfied, and then phasing it down for elimination by June 1989; and all excess surrender funds would be sold by the National Bank to the commercial banks at a market determined rate.

The Minister and the Governor accepted the recommendation to legalize the parallel market and discussed it further with the President, who authorized them to proceed along those lines in cooperation with the IMF. During the course of the annual Fund/Bank meetings in Berlin, the Finance Ministry invited an IMF team to Liberia to assist in implementing the exchange reforms approved by the President. The IMF did send a team in October. However, instead of assisting in the implementation of the dual rate system already agreed upon, the team once again recommended an immediate move to a unified exchange rate and price increases for some essential commodities such as gasoline, rice, coffee and cocoa. These recommendations were not accepted by the Government, and they effectively derailed the OPEX/MOF/NBL proposal. This setback will seriously delay the implementation of the measures which had already been approved by the President.

Chapter IV -- The Political Dynamics of OPEX

The above description of OPEX economic activities touches on, but does not fully elaborate, the environment within which OPEX was working. This chapter attempts to describe in a more qualitative sense the dynamics of the OPEX working relationships within the GOL.

A. Decision-Making within the Liberian Government

How were economic and financial decisions made within the Liberian Government? How did OPEX fit in with the key decision-makers? And, equally important, what were the conditions prevailing in Liberia which permitted, even necessitated, the business community to avail itself of special relationships with the Executive Mansion? These special relationships form the basis for the majority of the graft and corruption which prevails in Liberia. In terms of the magnitude of funds involved, the amounts are relatively small. But the consequences of the resulting mismanagement for the budget and the economy are immense.

From the side of the Government, the key economic decision makers and those with access to them constitute the main participants in these special relationships. Included in this group are the friends and associates of the Executive Mansion, including both high officials with financial authority (i.e. senior officials at the Finance Ministry, the National Bank and other public institutions) and others who are not government officials.

This group has undoubtedly used its political influence for private gain, both directly and through selling their influence to special interests. The main participants purchasing political influence appear to be construction companies and vendors of goods and services, plus a few other -- primarily expatriate -- businesses and individuals.

Many of the expatriate construction companies had arrived in Liberia under contracts from the African Development Bank, World Bank, USAID and other major international or bilateral creditors. With the loss of these credit sources, the construction companies had the option of pulling out completely or developing GOL support for their projects. Although the GOL could only finance these projects out of current revenues -- since the capital budget and long-term borrowing had disappeared -- the expatriate companies had strong access to the Mansion. Financial deals followed, which overrode the budget process and OPEX endorsement.

Lebanese contractors were among the most influential at the Mansion. A Lebanese-owned construction company obtained the first loan guarantee that specifically bypassed the MOF and OPEX. This deal established a precedent for the other construction companies. In addition to a number of Lebanese contractors, other foreign-owned companies followed suit. An Israeli firm obtained payments for the construction of a new Defense Ministry directly from the Mansion, financed by diverted forestry revenues collected by the FDA. A Finnish firm undertook a large renovation project at the Executive Mansion, and was paid entirely in foreign exchange, with specific instructions to the NBL. An Italian firm obtained Executive Mansion support for a loan guarantee for a highway construction project.

While each of these construction projects might have been justifiable, the totality exceeded Liberia's resources. In the process, the Executive Mansion established no sense of priority: it was payment on a first come first serve basis.

The vendor community in Monrovia, dominated by the Lebanese and Indian businessmen, also contributed to the budgetary problem. The vendors who provide goods and services to the GOL often overcharge by two to three times the normal price. The GOL was in arrears to most of them, dating as far back as 1984, and the vendors rationalized the over-billing as compensation for lost interest and for the risk of not being paid at all. In this environment, vendors have a strong incentive to offer bribes to get early payment. OPEX protested, with little success, occasions in which approvals had been given to pay select vendors over twice the value of the goods delivered.

Other foreign-owned companies operating in Liberia would be used as conduits for access of the Executive Mansion to foreign exchange. In return, they would receive preferential access to foreign exchange for the repatriation of local earnings, and/or preferential tax treatment. OPEX had insufficient authority to block these preferential tax offsets (see Section D). (Although one large offset was confirmed to be a legitimate offset against old claims, its approval gave the beneficiary company unfair and highly profitable advantages over all other domestic creditors of the GOL.)

B. Economic Management within the Liberian Government

In addition to these special relationships, other characteristics of the Liberian decision-making process contributed to the mismanagement of government resources. These included a crisis management orientation, a lack of long term planning, the inadequacy of staff work, and the lack of adequate financial data for decision making. Moreover, when OPEX provided new information in the course of doing GOL staff work, the information was often used at cross purposes. For example, OPEX forecasting of future foreign exchange tax receipts did not lead to better foreign exchange budgeting. Rather, it opened up a new process of officials attempting to lay first claim on these receipts.

Another important facet of the working environment for OPEX was the locus of decision-making processes and authority. The project was designed on the assumption that the major financial decisions would be made at the Finance Ministry. The Minister of Finance is not only the chief financial officer of the Government with responsibility for controlling all revenues and expenditures, but he is the Chairman of the Economic and Financial

Management Committee (EFMC) with responsibility for coordinating all economic and financial policies of the government.[12]

As it turned out, neither the EFMC nor the Minister of Finance had authority commensurate with this responsibility. It was clear early in the project that all key economic decisions were made at the Executive Mansion. Throughout the project, OPEX did not have meaningful access to key officials within the Mansion.

In this environment, OPEX was severely handicapped in effecting changes in economic policy and in implementing needed administrative decisions. While OPEX might persuade the Minister of Finance, and even the EFMC membership of a need for certain decisions, OPEX and the EFMC were routinely overridden.[13] Furthermore, the Mansion never responded to OPEX protests, and gave no opportunity for OPEX to discuss reasons for the recommended policies or the consequences of inaction.

One lesson here is that without stronger ties to the highest levels at the Mansion, OPEX was doomed to fail. (Of course, OPEX may still have failed even if it enjoyed better access.) Efforts to cultivate better working relationships with President Doe, Minister of State Jones, and other Mansion executives, were largely conducted through the office of the U.S. Ambassador. In retrospect, greater efforts could have been made directly by the OPEX team.

C. How OPEX was Circumvented

The configuration of interests between the Mansion and outside businessmen, many of which were foreign, led to frequent circumvention of OPEX controls. There were eight ways in which OPEX was often bypassed:

1. direct letters of assignment to commercial banks, issued by the Mansion, which replaced checks that required OPEX endorsement.

2. tax offsets, authorized by the MOF without OPEX endorsement.

3. bank guarantees, issued by the Mansion, whereby GOL revenues were encumbered to repay loans to private contractors.

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12 The EFMC is composed of the Ministers of Finance, Commerce, Planning, the Governor of the National Bank of Liberia, and the Director of the Budget Bureau. Other agencies would attend meetings as needed.

13 Executive Order #3, an important policy document drafted by OPEX, was unanimously endorsed by the EFMC, but not acted upon by the Mansion.

4. diversions of funds located in public corporation accounts that are never recorded at the MOF. The accounts at the Forestry Development Authority, Liberia Petroleum Refinery Corporation, and the Liberia Produce Marketing Corporation, were largely controlled directly by the Mansion.

5. diversions of funds in the public banks (ACDB, NHSB, and NBL).

6. favorable transactions involving foreign exchange, such as loans in domestic currency repayable in foreign exchange. These transactions would be ordered down to the NBL, without OPEX endorsement.

7. the GOL entered into contracts without OPEX review or endorsement, most often in construction projects for the Ministry of Defense.

8. "Special Accounts" were opened within the MOF that were used for purposes previously rejected by OPEX.

The foreign business presence in Liberia, including the commercial banks, construction companies, and resource-based companies, had long adapted themselves to the business climate. Apparently, they did not much benefit from OPEX, and would deal with OPEX, or with the Mansion directly, depending on circumstances. The typical sentiment was that "We will be here long after OPEX leaves." During the OPEX tenure, the deal-making between business and the Government did not change.

D. Effectiveness of the OPEX Team, and Counterpart Relations

In terms of the effectiveness of OPEX members themselves, their level of authority, and the competence and degree of cooperation of their counterparts, there were relatively few obstacles to the success of the project. Without exception, OPEX members were qualified for their positions, and their level of authority, with three exceptions (see below), was adequate. In the Ministry of Finance, OPEX took authority over the financial accounts of the Ministry, the bank accounts, check writing, and payroll. In March, an OPEX team member was appointed Acting Director of Data Processing, which lasted through most of 1988. At the National Bank the OPEX was given adequate authority over foreign exchange allocations following the change in governors in March 1988.[14] At the General Auditing Office, Budget Bureau, Civil Service Agency and Ministry of Commerce and Industry, OPEX enjoyed influential positions and good counterpart relations.

The three cases in which OPEX did not have adequate authority were:

14 As at the MOF, OPEX endorsement authority at the NBL was circumscribed not by NBL management, but by intervention from above.

1. On the revenue side of the MOF, OPEX had no authority to stem tax offsets granted by the Ministry. OPEX protests of these offsets went unanswered. Also, OPEX was unsuccessful in implementing organizational reform and making staff transfers.

2. At the Liberia Marketing Company (LPMC), OPEX was given operational authority commensurate with the project agreement for only one month. This came late in 1988 when Citibank was considering a credit to the company on condition that OPEX had full operating authority. When Citibank later rejected the credit, LPMC withdrew the OPEX authority.

3. At the General Services Agency, OPEX received little counterpart cooperation. Executive Order #1, drafted by OPEX and signed by the President, and designed in part to provide information to the OPEX/GSA, went largely ignored.

In all three of these cases, OPEX presence appeared to directly threaten the ability of key officials to continue profiting from their positions.

While the effectiveness of OPEX counterparts varied widely, they generally had sufficient background for their jobs. However, they themselves were cut out of the decision making process, especially in cases involving extra-budgetary expenditures, revenue encumbrances and foreign exchange allocations. Changes in counterparts complicated matters. In March, just as the project was getting underway, the President fired the entire senior staff of the Ministry of Finance and the Governor of the National Bank. In payroll, OPEX had four different counterparts during the course of the year. Most counterpart replacements represented an improvement. But in all cases, the time involved in getting acquainted and developing working relationships with the new counterparts delayed progress.

Finally, working relationships between OPEX and their counterparts were harmonious. Most of the counterparts appeared sincerely concerned about improving the financial conditions of their country and looked to OPEX as a shelter from the political forces that undermined that progress. Certainly there was no indication of ethnic or racial bias on the part of either OPEX or their counterparts. It may be that the multinational composition of the OPEX team contributed to its ease of acceptance.

Chapter V -- Why OPEX Failed

The simplest explanation why the OPEX project failed was that the President was not committed to the objectives of reform and recovery. Although he consistently praised OPEX publicly, his policy and fiscal actions were not consistent with the objectives of economic recovery. The lack of support was clearly evident in that:

1. OPEX financial controls were frequently circumvented (see Chapters III and IV).

2 The policy reform measures contained in the project agreement were not implemented.[15]

3. OPEX communications sent to the Executive Mansion were almost never responded to, and the dispute resolution mechanism did not function.

Evidence of President Doe's lack of support for the project has been clearly identified, but this does not explain why he chose not to support it. While our comments on this topic are necessarily conjectural, they are based on our observation of the daily functioning of the Government of Liberia.

First, the country was managed with far greater priority given to short-term political survival and deal-making than to any long-term recovery or nation-building efforts. There could be several reasons for this:

- The President's primary concern is for political and physical survival. His priorities are very different from and often inconsistent with economic recovery. There were reportedly two coup attempts during 1988.

- President Doe has great allegiance to his tribespeople and his inner circle. His support of local groups on ill-designed projects undercut larger social objectives, and was often at taxpayers' expense. They were also often spontaneous, i.e. not given to bureaucratic budgeting, review, and control.

- It was repeatedly clear that there was little understanding of "the big picture" at the Mansion, i.e. the linkage of responsible financial management with economic recovery, employment, and development. Since the big picture was not understood, it had no importance. Policy discussions made no impact, and the EFMC (the forum for such discussions) had no influence. Efforts to achieve long-term growth for the country at large were minimal.

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15 e.g. "Halt extra-budgetary expenditures." "Place all salaries in the budget." "In executing the budget, the GOL will permit no net budget overruns, nor permit extra-budgetary expenditures to occur." "Develop a budget for all offshore revenues, which will include a priority list for external debt payments."

While this statement sounds harsh, it must be emphasized that due to profligate spending and mismanagement, there were arrears on local obligations for education and health, no development effort in agriculture or industry, and no improvement in public efficiency to reduce corruption and privileged profit-seeking.

- The President evidenced little willingness to think in terms of the long-term. Many reform activities that required a long-term commitment, such as changing the budget system, enforcing follow-up on audit findings, reducing the civil service payroll, and rescheduling domestic arrears, received no priority. The political interests at the Mansion are short term.

- The President was heavily influenced by his "kitchen cabinet", which may have favored special business and ethnic interests even more than he did.

Second, it was also clear that President Doe had a healthy distrust of the government bureaucracy. He and his closest advisors control some sources of public funds away from the eyes and ears of the MOF. This is the basis of power, patronage, and wealth -- none of which were they willing to give up under the rubric of OPEX.

Ironically, many of the expenditures made from the Mansion are for budgeted items. One cannot say that all expenditures made from the Mansion are corrupt. Control of funds is as likely an important factor in the channelling of money through the Mansion as is the misuse of funds.

Finally, it is clear that those at the Mansion did not feel that the consequences of not supporting OPEX were dire. In their calculation, non-compliance with the project agreement seemed to have little cost. Certainly, any down-side cost in terms of reduced aid flows was an insufficient "stick" to prompt greater support for the project. Similarly, any "carrot" was probably both insufficient and too intangible (long-term) in nature. This issues is developed at greater length in Part Four.

PART THREE -- OVERALL PROJECT IMPACT

Chapter VI -- Project Achievements and Failures

This chapter discusses the success of the project in terms of the objectives laid out in the project agreement, i.e. the six objectives listed in Chapter II.

Over the life of the project, OPEX became involved in a wide range of economic and financial policy issues. The most important of these were budget control, off-budget encumbrances, deficit financing, debt management, debt management, foreign exchange surrender requirements, savings bonds, currency reform, tax exemptions, civil service reform, price controls, audit function, resolution of PL-480 rice debt problems, preparation for various bank/fund missions, and strengthening EFMC.

This list covers the range of recurrent issues that constantly appeared in the crisis management atmosphere of the GOL's daily operations. Every policy decision had to go to the President, not necessarily by law, but more by custom. The EFMC was the GOL institution which was supposed to formulate and recommend economic and fiscal policies to the full cabinet and President. OPEX worked well with the EFMC -- OPEX policy papers were generally accepted as given with little critical review -- but the EFMC was an ineffectual committee. Its members were generally uninterested, and its staff was of modest competence. The policy breakdown usually came because the President did not respond, or, if he did, implementation bogged down because of lack of follow-up from the Mansion.

OPEX contributed to identifying the problems for their counterparts, assisted with staff work analyzing alternative policy strategies, and in some cases actually assisted in their implementation. In a sense it may be less important that the reforms were implemented than that a basis was laid for future implementation by the Liberians themselves. But even though a basis may have been laid for future reform decisions, in the absence of OPEX the counterparts will probably be less likely to press for solutions, and consequently, those decisions will be less likely to be made.

Given the crisis management orientation of Liberian decision makers, one could argue that OPEX has laid a foundation for proper decisions when a crisis forces the decision. This may be most true in the areas of exchange rate reform and the preparation of the 1989 budget, areas where the most OPEX and EFMC staff work was completed. OPEX assisted the Bureau of the Budget in preparing perhaps the most realistic budget in recent years, and a strong effort was made at incorporating all extra-budgetary expenditures and recognizing encumbered revenues.

Objective 2: Develop Budget and Control Expenditures and Revenues

OPEX came on board too late to become fully involved in the development of the 1988 budget. This budget (see Chapter III) over-estimated revenues, and was gutted by extensive expenditure on extra-budgetary items. Six months into the fiscal year there was only $20 million left to allot, and the budget had become a fiction.

In Liberia, the budget is usually accompanied by an Executive Order which directs certain reforms. In the case of FY 1988, the Executive Order #1 called for ten reforms running from civil service reform to a freeze on the purchase of new automobiles. By mid-year, the Executive Order had been largely forgotten, and none of the reforms were ever implemented. What made it easier for the bureaucracy to ignore the Presidential order was the lack of follow-up from the Mansion.

Control of expenditures and revenues in many ways was meant to be the backbone of the project. The fact that OPEX was given absolute control of Ministry of Finance checks from the very beginning was encouraging. However, it was soon established that these checks could only be written for about 60% of GOL revenues.

In March, the President personally fired the entire staff of the MOF payroll section and the Bureau of General Accounting (BGA). There was some optimism that this would make it easier to make rapid improvements in personnel automation and procedures. While OPEX completely controlled the payroll section from March to the end of the project, there was no comparable situation in BGA. Many of the originally fired people were rehired and resistance to change was quickly re-established.

By mid-year, the successes of keeping payrolls current, having GOL checks clear the banks, solving PL-480 arrears, and reducing domestic arrears, were counterbalanced by growing extra-budgetary expenditures, tax offsets, special guarantees and irregular loans. By project termination, there were not even enough revenues coming through the MOF to meet the payroll. The December payroll had to be financed heavily through loans and advances on future taxes.

The GOL reaction to U.S. concern about the numerous violations of the project agreement was usually to say that it was ordered by the Mansion. This became such a commonplace excuse that by the end of the year OPEX got a new excuse: we were told by the President himself that, although he may <u>sign</u> many orders and payment directives, he did not <u>intend</u> that the MOF pay out against them if there was no money or if the items were not in the budget. Of course, this sentiment had not ever been expressed to the MOF.

It seemed not to concern the leadership of Liberia that there was no fiscal accountability in government. Bank accounts were never reconciled unless by OPEX, audit recommendations were never implemented, planning for tomorrow's financial problems was never undertaken.

Objective 3: Computer Reporting Systems

One of the more successful areas of work for OPEX was in computer applications. In all, about 35 micro computers were procured. The original project concept called for a large centralized computer operation in the Ministry of Finance. Early on, the decision was made to switch to micro computers as being more appropriate for the Liberian situation.

The main applications areas were central accounting, payroll, customs, revenue, and the Ministry of Foreign Affairs (passport control and corporate registration). The most ambitious, and hopefully most successful, of these applications was payroll. The new GOL payroll system began operation in January, 1989. The biggest problem area was in central accounting, where OPEX achieved less concrete results. A large amount of programming time was invested in trying to develop a governmental general ledger, but because the project came to a close early and also because of bureaucratic resistance within BGA, installation was not possible.

The Liberians were very enthusiastic about computer training. It became the most popular thing OPEX did, after our efforts to always meet the monthly payroll. In order to ensure that computer maintenance would not be a problem after OPEX left, a one-year contract for that purpose was let at the end of the project. Also, the computer operations were placed under the control of a young and competent technician reporting directly to the Minister. The Minister himself took quite an interest in computers, and the Deputy Ministers also attended our training courses and quickly became computer literate.

Objective 4: Effective Tax Department which Increases Revenues

The OPEX effort in the revenues area followed on a number of long term technical assistance projects by the U.S. Internal Revenue Service and the U.S. Customs Service. In the MOS Revenue Department, the Liberian counterparts were accustomed to having foreigners in the midst of their operations, but only as advisors. The senior tax collection and audit expert was never able to become truly operational. The Ministry granted a large number of tax offsets without reference to OPEX. Also, about 40% of GOL tax revenues were diverted before they got to the MOF.

Work in customs was basically a continuation of what the U.S. Customs advisors had begun. The Customs advisors had become much more operational than planned, and OPEX continued their activities in document processing at the customs house, manifest control, and control of bonded warehouses. This work tended to become operationally time-consuming on a daily level, and few longer term management improvements were made.

Despite these problems, OPEX efforts on the revenue side were probably more successful than its expenditure control activities. Revenues in the first three quarters of 1988 were 13.5% higher than for the same period in 1987. Income taxes were 24% higher than in 1987, and customs, excise, and indirect taxes were up about 10% over 1987.

Within the Direct Taxation Bureau of the MOF, OPEX worked to improve tax return auditing, tax reporting capabilities, tax collections by out-station collectors, and future tax estimations. Detailed reporting on total receipts, including tax offsets against direct taxes, was improved.

The Deputy Minister for Revenues was particularly concerned when the project stopped and made numerous personal appeals to USAID to continue at least activity in this area.

Objective 5: A Functioning Bank Examination Department, National Bank of Liberia

Very little was accomplished by OPEX in this objective. The existing bank system was made up of foreign commercial banks, government owned banks, and the National Bank of Liberia. The foreign commercial banks far and away dominate the situation. They collect most GOL revenues and are a major source of credit for government, particularly for meeting payrolls. They do not engage in productive business or development lending, but rather are content to serve as money changers, recipients of export proceeds, writers of import letters of credit, and tax collectors. Through oligopolistic practices, they were able to charge high fees while taking little or no risk.

The government owned banks had been drained of their capital and liquidity by sizeable extensions of credit to the GOL. Since the NBL was virutally illiquid, it could not play its proper role in the banking system, thus further strengthening the hand of the foreign commercial banks.

The Bank Supervision Department was ill-prepared to deal with the situation. Many of the staff were inexperienced and untrained. The data collection and monitoring systems were not adequate. Banking laws and regulations were inadequate to ensure safety and soundness of the banking system. OPEX was able to make little progress in overcoming these obstacles. Time was certainly a constraint because a lot of training, regulation revision, and system improvements were needed. Also, NBL management was at times supportive and at other times not. With hindsight, the banking system was much more of a mess than the project design anticipated.

Objective 6: Establish Financial Accountability in LPMC

LPMC was the only public corporation in the project. It was the channel for PL-480 rice into the domestic market and had been an important foreign exchange earner for government through sales of coffee and cocoa. It also provided cash to a large segment of the rural population by its purchases of the two products.

The principle problem for OPEX in LPMC was the negative attitude of LPMC's Senior Management. OPEX was only operational from September 28 to October 17, 1988. The rest of the time OPEX was forced down to mid-management level. The Managing Director had very strong ties to the Mansion and was able to overcome objections from OPEX, the Minister of Finance, and USAID about the status of OPEX in LPMC.

OPEX participation in financial management control was not wanted from the very beginning. During project design this might have surfaced if the Managing Director had been more involved at that stage. Also, when confronted with such early resistance, perhaps OPEX should have withdrawn from LPMC.

Another option for handling the situation would have been to negotiate a specific management contract for financial management of the corporation. This would have made the OPEX presence more of a business arrangement.

Chapter VII -- The Political Impact of OPEX

The project was initially described as a last ditch effort on the part of the U.S. to assist Liberia out of its financial crisis. It was also described by some observers as a high risk project. The perceived risks were that: (a) it could provoke a ground-swell of "neo-colonial" anti-American sentiment in Liberia, particularly if OPEX were perceived using its authority contrary to Liberian interests; (b) the Liberian fiscal affairs, or the economy at large, could have collapsed during the OPEX tenure, and the U.S. could have received (some of) the blame; and (c) if the OPEXers successfully challenged the illicit income of Liberian officials or businessmen, their personal safety could be threatened.

As it turned out, these down-side risks did not materialize. In terms of the three risks noted above, (a) there was considerable "neo-colonialist" discussion in the pan-African press, but relatively little reverberation in Liberia; (b) the Liberia economy continued to grow in 1988; and (c) with one exception, OPEX personnel were not personnally threatened.

In fact, the project commenced with a moderate degree of fanfare and favorable press, and ended on the same note. President Doe consistently gave OPEX favorable reviews, up to the point of departure: in his January 12, 1989, Annual Address, he noted that while the project was envisioned as a two year project, the USG and GOL decided after a year end review[16] not to continue it for the second year as, "it was felt that it had laid a firm foundation for sound financial management in the public sector, and only we, as Liberians, can now build on that foundation." He also expressed thanks "to each and every member of the OPEX team for their services rendered here."

The OPEX project was described by some as a bill collection project for the United States, given its success in securing timely repayment of Brooke-sensitive debts. It is probably true that due to OPEX the financial flows back to the U.S. were higher than they otherwise would have been. However, this is equally true for the other creditors who received payments due to OPEX efforts. It is also true that these financial flows were more than compensated by the release of higher aid levels and rice shipments during the same period.

The OPEX project was originally conceived as "a last ditch effort" to salvage the U.S. aid program in Liberia. In fact, USAID aid levels appear to be only indirectly tied to OPEX performance. While the political impact of the failure of OPEX is less than originally alleged, it will nevertheless probably be a factor in determining reductions in future AID flows.

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16 In fact, there was no such year-end joint USG-GOL review.

PART FOUR -- LESSONS LEARNED

Chapter VIII -- Recommendations on the Design of "Operational" Projects

There is increasing interest in the operational type of assistance to LDCs, although not necessarily on the sweeping scale of OPEX. On a more modest scale, donors may be interested in financing operational assistance to a failing parastatal corporation (such as LPMC or NHSB), to a central bank, or to an agency such as Civil Service or General Services. Recognizing that OPEX cannot be considered typical of operational projects, there are, nevertheless, lessons that can be drawn from the OPEX experience. Among these are:

1. If the basis for a project is high level commitment, make sure that commitment is built into the project, i.e., periodic meetings, review, public endorsement, support.

2. Project benchmarks should be agreed upon and periodically reviewed with the host government. The establishment of targets is important. Targets should be grouped into short-term and long-term objectives, and concrete actions that indicate progress in both groups should be identified. In Liberia, the implementation phase of policy and management measures -- even after full executive approval -- was often the most difficult and least successful phase.

   In Liberia, it may have been beneficial to tie AID flows, including those already approved, to the objectives of the OPEX project. This would have been consistent with the project's initial characterization as a "last ditch" effort. More importantly, it would have provided a more tangible and short-term incentive for the GOL to act on OPEX reforms. For example, $2-3 million in USAID assistance, including PL-480, could have been made conditional to progress on explicit quarterly OPEX benchmarks.

3. OPEX project violations were numerous, and the dispute resolution mechanism did not work. (OPEX protests to the Mansion were never responded to.) Yet there seemed no way to deal with these violations short of stopping the entire project. Some intermediate stage of reduction or penalties should have been designed. (This lesson complements #2, which recommends more explicit performance incentives.)

4. The specificity of job descriptions may not remain congruent with what is actually done by individual experts. A fine tuning a few months into the project would be helpful.

5. Timetable issues and measurements of project success are more controversial, and therefore less predictable, than with more traditional technical assistance projects. Given that operational projects may terminate relatively suddenly, each year's work should be designed as a stand-alone effort. Any succeeding years would then become building blocks. (For instance, in OPEX, the computer effort was too dispersed.)

6. Within the MOF, OPEX achieved a "critical mass" of experts, by which an active policy dialogue, information exchange, and management influence was easily established. By having only two experts at the NBL, an equally important entity, a critical mass was probably not achieved. The notion of critical mass should be remembered as a valuable asset to operational projects.

7. Management of press relations is important in such a project. This should be thought out in advance of project start up.

8. OPEX counterparts were very receptive to formal training sessions. Much more should have been done early on in this area. This would have not only increased their technical skills, it would have involved them more in shaping project initiatives, and would have generated increased good will. The incorporation of training activities into operational projects is very useful.

9. Design of reporting systems, information systems and computer programs should be done with a greater involvement of counterparts. There is a tendency to "let the expert do it" that may result in little commitment by the bureaucracy to implement the systems.

10. OPEX uncovered a multitude of management and information system problems that impeded the ability of the GOL to effectively manage itself. To solve these problems, given the daily work load of the OPEX team, required more short-term (TDY) assistance than was originally planned.

    This may be a characteristic of ambitious operational projects that try to attack broad-based problems in a relatively short period of time. In this situation, a formal reassessment should be undertaken every 6 months of the project.

11. At times, some experts spent too much effort trying to perfect systems procedures or programs when more modest solutions would have been better accepted and still made some progress. The saying "The best is the enemy of the good" is appropriate. Modest solutions are not only easier to implement, they have a longer expected life span.

12. Relatively little thought was given at the beginning of OPEX on how to terminate the project, whether as a success or as a failure. As it turned out, it was terminated

very discretely, and without rancor. "Spin control" planning in winding down the project was crucial. Without it there could have been negative political and diplomatic consequences.

If, on the other hand, the project had worked, a major problem would have been -- at some future date (2, 3, 5 years?) -- how to extract the experts from management of GOL finances and still have the systems work. There was little thinking in the project design stage about this. Future operational projects should prepare for this eventuality.

13. Questions concerning the operational scope of OPEX repeatedly came up, given that the project ended up controlling perhaps 60% of expenditures and witnessed vast leakages of the other 40%. The issue was whether (a) OPEX should have contented itself with attempting to control the first 60%, or (b) OPEX should have asserted that the other 40% invalidated the whole project.[17] The lesson to be learned is that careful definition of project objectives is essential in any operational project, in order to clarify the scope of the project mandate.

14. A comprehensive monthly and quarterly reporting schedule was maintained throughout the project. The report were prepared entirely by OPEX but given to counterparts. They were very candid. In such a project it is crucial that the experts be willing to honestly assess issues and problems at planned, short intervals.

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17 As a result, the lack of support even for the first 60% invalidated the project. Given the experiences at the LPMC, additional OPEX at other organizations would not have made a significant difference -- in the absence of a full commitment from the Executive Mansion.

Chapter IX -- Successes and Failures in Policy Reform

The policy reforms undertaken and completed by the Government of Liberia during the project period did not justify the continuation of the project beyond its first year. Given this, what lessons can be learned about the nature of the policy reform process, and the ability of foreign donors to guide and/or accelerate that process?

From the outset, OPEX operated on two levels. The first was to assist in the implementation of fundamental fiscal and monetary policies, the outlines of which had been approved by President Doe and incorporated into the original project agreement. The second was to focus on accounting, management information systems, and administrative practices on a sufficient level of detail as to permit the above policies to be efficiently implemented. The first level was high-level policy reform; the second level was operational management and accounting.

It was learned that progress on the first level is completely dependent on the commitment to policy implementation by the political leadership. Agreement in principle, without support during the ongoing months of actual implementation, is meaningless. Furthermore, no degree of technical assistance at the policy and/or management level can overcome this lack of support.

On the other hand, progress on the second level depends on active ministerial and deputy-ministerial involvement. Technocrats within the various ministries are generally supportive of administrative reform efforts, but must be convinced that the changes do not adversely impact their standing within the Ministry (in terms of power, autonomy, access to money, or future job path). The OPEX experience was that the speed of administrative reforms can far outpace the speed of policy reform. In several cases, the administrative reforms succeeded well until they required executive policy directives, which were never forthcoming.[18]

There remains some debate within OPEX as to whether efforts on level two were warranted in the absence of political commitment to level one. In general, progress on level two -- improved management efficiency in LDC governments -- is always desirable. There may be occasions where such progress is an end in itself, such as donor involvement with a national planning ministry, or a failing public corporation. However, OPEX did not have the limited aspirations of improving the management of single organizations. In the context of OPEX, progress on level two alone was considered inadequate to warrant the continuation of the project.

OPEX was designed to bring two new elements to the policy dialogue in Liberia. First, it brought valuable expertise to the analysis of fiscal, debt, and monetary issues. Second, it

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18 For example, skills testing and job reclassification of individuals on supplementary payroll accounts was completed, but never implemented. Foreign exchange budgets were drafted, but never used. Centralized procurement regulations were approved, but never implemented.

brought a certain incentive for Liberia to implement reforms, principally the promise of access to increased future aid flows, from both the U.S. and other donors. In the end, both of these elements were insufficient to either guide or accelerate policy reform in Liberia. In Liberia, as for all policy reform projects, policy reform will not happen without the support of the political leadership. In most cases, the incentives offered by donors will always be inadequate, if that leadership is not already fundamentally disposed towards the need for reform.

Appendix -- OPEX Team, Affiliations, and Counterparts (as of Nov. 1988)

-- Team Leader	Frank Kimball
1. Sr. Financial Expert/Expenditures Deputy Minister for Expenditure and Debt Management and Chief of Party Ministry of Finance	Donald Syvrud Pewu Subah
2. Sr. Cash Expert/Disbursement Comptroller and Deputy Chief of Party Ministry of Finance	Mike Loyco Morris N. Nyanway
3. Financial Expert/Pre-Audit Control Director, Bureau of General Accounting Ministry of Finance	John Chupp James Telar
4. Sr. Tax Collections Expert Deputy Minister for Revenue Assistant Minister for Revenue Ministry of Finance	John Ramos Matthew Zarzar Ms. Leona Bernard
5. Sr. Customs and Excise Expert Deputy Minister for Revenue Commissioner of Customs and Excise Ministry of Finance	Jack Evans Matthew Zarzar Thomas Garlo
6. Sr. Duty Expert Deputy Minister for Revenue Commissioner of Customs and Excise Ministry of Finance	Gerald Doherty Matthew Zarzar Thomas Garlo
7. Internal Audit and Training Auditor General, General Auditing Office	Jose Rojas Andrew Redd
8. Sr. Systems Expert Director of Data Processing Ministry of Finance	Charles Harrington (vacant)
9. Sr. Systems Manager Director of Data Processing Ministry of Finance	David Smith (vacant)

10.	Sr. Central Bank Expert Governor National Bank of Liberia	Haim Duvshani Thomas Hanson
11.	Bank Supervision Expert Manager for Bank Supervision National Bank of Liberia	Ed Nolan George Marshall
12.	Sr. Budget Expert Deputy Director Bureau of the Budget	David Nathan Moses Wreh
13.	Sr. Job Control Expert Director of Civil Service Assistant Director, Bureau of the Budget	Ray Carrier Lawrence Bestman Alex Nyekan
14.	Sr. Procurement Expert Director, General Services Agency	Alan Berenson Clarence Momolu
15.	Sr. Import/Export Expert Minister Ministry of Commerce and Industry	Don Marsden Wisseh McClain
16.	Public Corp. Finance Expert Comptroller Liberia Produce Marketing Corporation	Gordon Kunde M. Nyei
17.	Administrative/Executive Officer	Gilbert Penner
18.	Training Director	Luesette Howell
--	Home Office Project Coordinator	Carter Brandon