UNITED STATES GOVERNMENT

memorandum

DATE: 02/24/1989

REPLY TO ATTN OF: Colin Baenziger, DP

SUBJECT: Project Assistance Completion Report: Economic and Financial Management and Training, 669-0184

TO: Project Files

1. Introduction.

In the late 1970s, the Liberian economy began to stagnate as the world prices of its primary exports dropped. The government began to experience difficulties balancing it budget, difficulties which became more pronounced in 1979 with the large expenditures for the OAU Conference held in Monrovia and later with the 1980 coup. Over the period from 1976/77 to 1980/81, Government expenditures more than tripled while revenues had not kept pace. By FY 1980/81, the Government of Liberia (GOL) receipts were $242 million and spending was $357 million leaving a deficit of almost $120 million. One example of the factors contributing to the problem was the GOL's wage bill which had gone from $67.3 million in FY 1977/78 to $138.1 million in FY 1980/81. Clearly government expenditures were out of control. Accordingly, the US Agency for International Development (USAID) and GOL initiated the Economic and Financial Management and Training Project (669-0184) to help the GOL regain control. The project was divided into two components. A short-term effort recognized that help was needed immediately and was designed to bring TDY consultants in to target key areas such as payroll, expenditure control and public corporations. The long-term component recognized, on the other hand, that structural reforms also had to take place and that these would take time. Consequently, it involved installing a senior financial advisor in the Ministry of Finance and a budget advisor in the Bureau of Budget. These individuals were to work with the top management on a day-to-day basis and to assist other ministries in understanding/accepting program budgeting. In 1984 the project was expanded to include the development budget and to provide technical assistance to the Ministry of Planning and Economic Affairs. Two long term advisors were to work on improving the planning and management skills of the budget and agriculture divisions. Short term technical assistance was also to be provided. In August 1986, the project was again amended but the Liberian economy continued to deteriorate. In early 1987, Secretary Schultz, Administrator McPherson and President Doe elected to make one last attempt at improving government operations and negotiated a new program, the Economic Stabilization Support Project (ESS, also known as OPEX). This program incorporated and superceded the activities anticipated in the August 1986 amendment. The focus of EFMT then shifted to planning for ESS and the August 1986 amendment programs were implemented under ESS rather than EFMT.

2. Project Status as of August 18, 1988.

All of the advisors had left by August 1988 and the EFMT programs had been subsumed by the ESS project.

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3. Summary of Contributions.

The Project Agreements called for the USG to provide advisory services and training (both in Liberia and in the United States). The total value of these inputs was estimated to be $7,089,000. The Government of Liberia (GOL) was required to provide counterparts to the advisors, individuals to be trained, clerical support to the advisors, office space and use of computer equipment. The total value of these inputs was estimated to be $2,495,100. The USG provided resources with a total value of $ 4,883,000 (through December 31, 1988). The relatively large amount of unspent funds is due to the fact that the August 1986 contract amendment was overtaken by events. ESS, which incorporated the EFMT programs, superceded EFMT before the procurement actions anticipated in the August 1986 action could be completed and consequently the funding was never utilized. The GOL provided the counterparts, trainees, office space and computer equipment although not always promptly as one might have liked.

4. Project Achievements.

While the GOL did not regain control of its finances, the project did have a positive impact in a number of areas. These were as follows.

(A) Automated GOL Payroll

Payroll programs were written, files converted and pay checks issued through a new, automated payroll system. The Wang minicomputer system on which the application operated, unfortunately, proved difficult to maintain and ultimately, under OPEX, the payroll was moved to personal computers (a technology not available at the time the payroll was automated under EFMT). The experience gained operating the EFMT payroll system was, however, extremely valuable and the EFMT payroll software formed the basis for the OPEX pc payroll application.

(B) Chart of Accounts, Cash Management System and Accounting System

The finances of the GOL were brought into a more orderly state. First, a chart of accounts for budgeting, revenue recording and other financial functions was implemented. Secondly, an automated cash management system was developed and implementation was completed under OPEX. Finally a new accounting system was introduced although not fully automated as was originally hoped.

(C) GSA Procurement System

A new GSA purchasing system was implemented in 1985. Its effectiveness was, however, hampered by three factors. First, the GOL's poor payment history discouraged vendors from bidding. Second, many firms preferred to do business on a basis other than the competitive bidding process. Finally, it is thought that the GSA purchasing agents sometimes used criteria other than those specified by the system when selecting the winning bidder. The result was that procurement was one of the areas OPEX was designated to focus on when it started work in 1987.

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(D) Training

Training was provided to over 225 employees in one or more of the following areas: management, budgeting, government accounting, purchasing and payroll. Although a significant amount of training was provided, frequent changes in key ministry personnel lessened the lasting impact.

(E) Policy Analysis and Dialogue

The Economic and Financial Management Committee was established as the mechanism for developing and coordinating economic policy. It is composed of Minister of Finance, the Minister of Planning and Economic Affairs, the Minister of Commerce and Industry and the Director of the Bureau of the Budget. The Committee also has a staff dedicated to it to do the necessary background work to facilitate informed discussion of the issues. While it has been helpful in exploring issues, it has not yet achieved the level of influence originally envisioned and hoped for.

(F) General Technical Assistance

The advisors at both the Ministries of Finance and of Planning and Economic Affairs, as well as at the Bureau of the Budget, were valued as a source of general technical guidance. While the impact of such assistance is difficult to measure, it did help bring order to the way business was conducted at these agencies. The experiences of these advisors were also of great value in designing the ESS (OPEX) effort.

4. Extent to Which the Project Solved the Original Problem.

The underlying problem was that GOL spending bore little relationship to revenues and/or budgets. The result was extremely large budget deficits. The technical assistance provided order to the process but was unable to instill a commitment to fiscal responsibility. Ultimately the project was overtaken by events and the OPEX project eclipsed EFMT as the primary mechanism for implementing policy reform.

5. Final Project Adjustments.

No changes in the project design are warranted or appropriate at this time. The project infrastructure from EFMT (and OPEX) is in place and it remains for the GOL to utilize it.

6. Appropriateness of Remaining Conditions and Covenants.

The conditions and covenants of the Project Agreement were met with one significant exception. It required the GOL to adhere to the IMF Stabilization Program. At this point, it would benefit the GOL to reverse itself and work out a new agreement with the IMF. However, in view of the recent experience of OPEX, it is unrealistic to think the GOL will undertake such a change in the near future.

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7. Remaining Reporting Requirements.

None. USAID plans to continue to collect data from the GOL concerning government expenditures.

8. Continuing/Post-Project USAID Monitoring.

USAID will continue to monitor the progress of the project through its Office of Development Planning. It should be noted that USAID has largely disengaged from macroeconomic programs with the GOL and consequently the monitoring will be at arm's length.

9. Review of Data Collection Results and Evaluations.

No significant data collection efforts were conducted under the EFMT project.

During the course of the project USAID conducted one evaluation. It occurred in late 1983 and early 1984. Its key recommendations were as follows. First, short term consultants had a role to play but the types of activities they were selected to perform needed to be carefully selected. Any effort, for example, that required significant follow-up in order to be successful should be done by long term staff. As a result, some of the project's resources were redirected from short term to long term efforts. Secondly, it also felt the advisory efforts needed to be more focused. Instead of undertaking a wide variety of activities, the advisors should concentrate on a few significant, achievable projects. Finally, the evaluation suggested the advisors should act a bit less like advisors and assume a more active, operational role. It felt the opportunities had been missed because the advisors had been too passive. Further it felt the Liberians were willing to accept a more active role from the advisors.

10. Summary of Lessons Learned.

The key lessons learned in the EFMT project are:

(a) The institutional changes needed to improve the expenditure picture in Liberia can only come if supported at the highest levels of government. In many cases during EFMT, the advisors felt that when a GOL official attempted to introduce fiscal restraint, he was removed for rocking the boat. Technical advisors cannot initiate changes if the GOL does not have the will to implement them.

(b) No "quick fix" solutions exist that will improve GOL expenditures. The problems are not difficult to identify. Successful solutions to these problems, however, require careful planning, training, long term monitoring and management commitment.