FINAL REPORT

THE LIBERIAN CRISIS AND AN APPROPRIATE U.S. RESPONSE

A report prepared by Elliott Berg Associates
for the U.S. Agency for International Development

February, 1982

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Report to the United States Agency for International Development, Washington, D.C., prepared by Elliot Berg Associates, Inc., Alexandria, Va.

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PREFACE

This report is based on a mission to Liberia in September 1981, and subsequent discussions in Washington and elsewhere. A draft report was submitted to AID/Washington in November. Comments from the USAID mission were received in January 1982; these included reactions of Liberian Government representatives, especially from the Ministries of Planning and Agriculture. This Final Report incorporates and responds to many of the comments and criticisms contained in the country mission response.

The report is not intended to be a comprehensive survey of the Liberian economy. Its original purpose -- the main element in the terms of reference -- was to serve as the basis for preparation of a "plan" for Liberia, requested in particular by members of the U.S. Congress. The 1980 coup and the ensuing increase in U.S. aid to Liberia created a new situation. An overall review of recent economic trends, and an assessment of whether the aid program was in tune with Liberian needs therefore seemed necessary, both to AID/Africa Bureau officials and to responsible members of Congress.

The Draft Report presented in November in fact provided much of the input for a new plan for AID's Liberian programming. This Final Report, by incorporating and addressing criticisms of the draft report, can help sustain what should be an on-going debate about basic questions of policy and program direction.

SUMMARY

The crisis in Liberia is severe and will get worse. It has many dimensions and deep roots. But it can be resolved by the mid 1980's if the Liberian Government adopts the right policies and the U.S. provides the right kind of aid.

I. The Liberian Economic Crisis

The present difficulties have many sources, some long-term or structural, others more recent: shortages of trained people and an undeveloped system of administration; specialization in slow-growing exports; a rigid monetary system; heavy debt obligations due to recent borrowing on commercial terms, and high interest rates; high oil prices; massive political dislocations; unparalleled budget and foreign exchange stresses. The main economic elements are three: a public sector foreign exchange crisis; an intractable budget deficit; a stagnant economy. The Government has no foreign reserves and very limited lines of credit to finance its transactions abroad. This foreign exchange problem finds its most dramatic expression in the periodic scramble to pay offshore oil bills. It is explained mainly by the loss of confidence in the National Bank of Liberia, which is due in turn to Government's resort to drafts on the NBL to finance its budget deficits. The fact that Liberia uses the U.S. dollar as its national currency exaggerates the liquidity problem and makes control more difficult. But it's the budget deficit that is the main source of the trouble.

This deficit has grown sharply in the past two years. By IMF definitions it amounted to $88 mn. in 1979/80 and to $100 mn. in 1980/81, around 10% of that year's GDP and over 40% of locally -- raised revenues.

The budget deficit has its origin to some degree in poor revenue performance, reflecting slow-downs in major export industries. But it is mostly due to higher spending in the recent past; recurrent expenditures have grown by 18% a year since 1976. Some of this derives from higher debt service (more debt and higher interest rates) -- largely a legacy of the OAU 1979 conference -- but rising salaries are

the principle source, especially the increase decreed in May 1980, which raised the salaries of the lowest paid civilian workers in Government by 100% and those of the enlisted ranks in the military by 150%.

Since then the new Government has tried to control expenditures, but with indifferent success. Despite heavy new taxes and agreement with the IMF to hold down expenditures, spending targets for 1981-2 are being exceeded. Hence debt service will have to be renegotiated once again, foreign arrears and unpaid local bills are accumulating, the normal business of Government is crippled for want of supplies, the capital stock is eroding for want of maintenance, development spending is dwindling and new projects are being held up for lack of local cost financing.

Meanwhile, the economy falters. Output (GPD) fell in 1980 -- probably by more than 4%. It probably fell again in 1981. All of the country's major industries are negatively affected by adverse trends in the world economy. The iron ore companies are all losing money. The timber industry, highly dynamic in the late 1970's, is at a near stand still. Rubber prices are at a five year low. Coffee and cocoa prices have fallen a long way from their record highs of 1977-78.

It will not be easy to overcome this crisis. The external economic environment will probably remain uncongenial for several years. Iron ore prices are expected to move higher, but substantially so only after 1985, rubber price projections for the latter hal of the decade are also fairly good. In any case, a renewal of private investment will require a growth of confidence in the stability of the new Government.

In the public sector, meanwhile, three factors make improvement especially difficult. First, the Government has limited flexibility. It is sharply constrained by the monetary system (use of the U.S. dollar) in its short-term adjustments to liquidity problems. Moreover, it faces heavy fixed claims, which leave few uncommitted resources. Salaries in 1980/81 were $153 million, and debt service $32 million. Total locally-raised revenues were $218 mn. Thus, only $33 million (exclusive of foreign loans and grants) remained for non-salary domestic expenditures. Moreover, the May 1980 wage rises have left a vast legacy of wage anomalies; unskilled workers in Government are paid more than many nurses, teachers, skilled workers; highly skilled public employees are generally not paid much better than the nonskilled. Upward adjustments are inevitable.

Moreover, the instruments of control over spending are weak. The new Government has done almost everything the U.S. or the IMF has asked, in terms of formal steps to

tighten the budget process and institute closer expenditure controls. But implementation proves extremely elusive, largely because the system of budgeting and financial administration works imperfectly.

Finally, certain political factors slow down improvement. The political leadership is very inexperienced; the Liberian situation is unparalleled in this respect. There is also little political consensus, which hinders decisive action; the state is very soft. Moreover, there is an unusually large gap between the technocrats and the soldier/politicians, which makes for special difficulties in communication and exposes the economic decision-making process to great uncertainties.

This combination of crises and limited capacities is alarming to many Liberians, as it should be to Liberia's friends. The Liberian economy made great progress in the past 20 years. It succeeded in providing relatively high-income wage employment for over one third of the adult male population in the country - a higher proportion than in most low-income LDCs. It thereby created expectations among the young that jobs would continue to be available in the modern sector of the economy. These expectations persist, despite recent changes in job prospects: the modern economy now generates few new jobs and faces the likelihood of further retrenchment.

In addition, persistence of the present fiscal pressures will surely lead to an appalling waste of the country's existing capital stock. Without maintenance and repair, the roads, building and equipment so painfully built up in past years will deteriorate, even disappear. And finally there is the risk that the harassed political leadership will -- in the search for ways out -- make commitments which poorly serve Liberia's interests and which may mortgage its future and guarantee enduring crisis.

II. A U.S. Program of Assistance

An appropriate U.S. assistance program must be pertinent to Liberia's dual needs for stability and development. Three priorities stand out: helping the Liberian Government achieve fiscal equilibrium; helping the Liberians to use available public sector resources more effectively; assuring a continued effort to raise the incomes and welfare of the country's poorest people. To these ends, a three pronged program is suitable: budget support tied to development spending and to policy reform; training and technical assistance in ecomomic management; a continuing effort to help the rural and urban poor, involving a reassessment of present approaches to rural development, a rural road construction and maintenance

program, rural primary education and possibly health care, and expansion of Monrovia's sites and service housing project.

A. Budget Support

The first priority in Liberia is to reduce the budget deficit. The deficit is the main source of the confidence crisis which troubles the banking system and is the basic cause of the liquidity problems and its most notorious symbol -- the periodic rush to meet offshore oil payments. Given the Liberian economy's small size, its openness and the nature of its monetary system, fiscal equilibrium is a necessity if the economic system is to survive in anything like its present form. Fiscal balance is the lynch-pin of both the stabilization and development effort. Without it, the public sector's balance of payments crisis will grow more acute, domestic payments will be cut more and more deeply until soon payrolls will go unmet, and the internal and external credibility of the regime will be put more and more in doubt. This will mean new misery at least for urban people, and consequent threats of political turbulence. And it will delay that renewal of confidence which will encourage new private investment - the main motor of development in this ecomony.

Budget support, such as the U.S. is presently providing through Economic Support Fund grants and PL 480, is therefore in tune with Liberia's priority needs. The U.S. support helps narrow the budget gap, eases the public sector's offshore payments problem, facilitates Liberian efforts to meet IMF conditions and in general prevents an economic unravelling otherwise entirely possible.

Assistance in the form of general budget support is not without risk. It does little by itself to remove underlying obstacles to development. And -- more important -- it may be counterproductive, by relieving the pressures for expenditure control. How can those Liberians who urge belt-tightening and financial discipline on their countrymen retain credibility when the U.S. is in the wings, always ready to bail out the Government?

For these reasons, continuing budget support should not be a simple matter of writing checks. First of all, the counterpart resources generated by these aid transfers (ESF and PL 480) should be earmarked for covering local costs of development projects or other high priority activities. This is what was done last year: certain projects listed in the Development Budget were specified as recipients of ESF counterpart. So long as the Liberian Government budget contains appropriations for ongoing development programs which exceed the amount of counterpart available, this procedure will serve both desired objectives: reduction of

budget pressures and retention of development activities. This situation is likely to prevail through U.S. FY 1981-82 and conceivably beyond. After that time, the counterpart funds can and should be earmarked for new projects and other incremental development-related spending.

Use of counterpart to finance development programs is limited by the implementing capacity of Liberia's budget institutions. This problem is best dealt with by trying to strengthen the budget process. Other solutions, such as the setting up of special accounts, trust funds, etc. fracture the budget system and can delay or prevent positive institutional change. Also, as part of the general framework of conditionality to which budget support is tied, the U.S. can require that local commitments to development items in the budget be protected against cuts or transfers.

The conditionality issue is basic, and involves classic dilemmas. Unconditional budget support weakens internal forces making for fiscal discipline and economic reform and will make resolution of Liberia's crisis harder not easier. But making such support conditional on performance and at the same time making this conditionality credible, implies a U.S. willingness to accept some political risk. The level of risk can be reduced by a judicious approach to conditionality. The difficulties and constraints on the Liberian authorities should always be given serious weight and sympathy; we should not ask the Liberian authorities to do things which are beyond their political or administrative capacity nor should we demand quick results in areas where change can only come slowly. Put more positively, we should know what we want the Liberian authorities to do, and have a clear idea about how they are to do it. The essential point is that the U.S. might inflict a long-term disservice on the Liberian Government and its people if it provides pure budget support without considerable conditionality.

An important element of the structure of conditionality has to be tighter expenditure control. Here both the targets and the instruments are at hand -- in the IMF presence. A continuing IMF role is indispensible; no satisfactory bilateral substitute is conceivable. So strong U.S. support for IMF policies is a necessary part of the budget support package.

Continuing budget support should also be tied to policy reform. One candidate for dialogue is the parastatal sector. Another is the question of how to reduce the incidence of harassment, petty or larger-scale. Dialogue about these and other policy matters should be part not only of U.S.-Liberian relations but of the relationship between all donors and the Liberian Government.

Policy reform is part of a larger goal. Given the scarcity of public funds and the general economic stringency which are sure to prevail for some time, greater development or welfare yields must be extracted from the resources at hand. This means greater selectivity in allocation of incremental revenues -- e.g. spending more on development and non-salary recurrent items and less on salaries, allocating more to making existing projects work better, and more on maintenance. It means more careful project screening -- using appropriate criteria in project selection, such as productivity effects, impact on the poor, durability (future administrative and recurrent cost demands) and leverage (the proportion of total project costs which is foreign-aided). It means also that public sector resources should be concentrated on high priority areas where private activity is not feasible or desirable.

B. Strengthened Economic Management

Forward movement in these directions will require a serious and sustained training/technical assistance effort aimed at improved economic management. Five projects are proposed.

1. Some emergency operational assistance has already been requested -- one in customs administration and another in expenditure control. There has been discussion regarding payroll "auditors." Other operating personnel may be asked for by Liberian officials.

While the present emergency justifies some technical assistance of this kind, it should be used sparingly. Experience in Liberia and elsewhere indicate that there are grave deficiencies in resident technical assistance generally, and special dangers in this particular area of activity: (1) It is hard to find appropriate people ready when needed to relocate to Liberia. (2) Most local officials would naturally be wary of "watchdog" foreign technicians, which is how they would look to their Liberian co-workers. (3) Most of the problems which the emergency assistance is intended to remedy are systemic, not really amenable to significant improvement by a handful of foreigners. (4) The financial cost of resident advisors is very high, and there may also be political costs in placing more than a few U.S. citizens in sensitive economic positions. (5) Finally, the use of resident technical advisors in general often creates resentments among local staff, and only rarely leads to real on-the-job training.

For these reasons resident operational technicians should only be called in where shortage of special competence is a major cause of a particular deficiency, where the resulting need for critical skills can't be met from other donor sources and only when short-term (TDY-type)

assistance can't do the job almost as well. In fact, in all technical assistance efforts, the guidelines should be: liberal use of short-term TDY people for specific and focussed jobs; wide recourse to non-U.S. citizens and non-American sources of assistance; major stress on training.

In the four additional technical assistance programs outlined below, the trainer-technician should be the principal agent.

2. An assessment should be made of the Development Budgeting System. It should describe how it now works, assess its ability to undertake ESF counterpart-related functions, and recommend appropriate changes, including technical assistance needs.

3. Training in Policy Analysis. Technical assistance (trainers) should be made available to the Ministry of Planning and Economic Affairs, to enable it to train policy analysts for the public sector.

4. Stregthening Other Economic Agencies. The Technical Services Unit of the Ministry of Finance should be assisted to become a source of policy and planning advice for the Ministry of Finance. This is the unit now responsible for concessions policies. Also, the research unit at the National Bank of Liberia could benefit from the presence of a trainer-economist.

5. An Administrative Reform Advisory Group should be created, along the lines of the old Special Commission on Government Organization (SCOGO) to help Government make required administrative changes.

C. Helping the Poor

The present U.S. development assistance program is mainly aimed to helping the poor, and this is more than ever in line with Liberian Government needs. The building or rebuilding of political community is essential to the construction of a unified Liberia.

The question is how best to raise incomes and increase access to services for the majority of Liberians?

Certain general criteria can be set down as guidelines in thinking about the appropriateness of projects. Desirable projects should be productive and the quicker yielding the better; impact on the poor; be administratively simple; offer services which cannot be provided by the private sector; and be survivable -- in particular, involve future recurrent cost obligations which are low relative to benefits.

1. Reassessment of Rural Development Strategies.

The basic goal of agricultural policy at present is to stimulate rice and tree crop production among small holders via integrated rural development projects. These are basically agricultural extension efforts, though they have road, health and other components also. Under present plans of the Government of Liberia and their major external partners in rural development (USAID and IBRD) this is to be the central programming thrust in the next five years. According to the draft Second Development Plan, these programs will absorb over 80% of new Liberian development expenditure in the sector.

Given the priority and importance of these programs, it would seem desirable to resolve certain ambiguities in their underlying economic rationale. All available studies agree that substantial import substitution in rice is not economic; local rice can only be substituted for imported rice sold in Monrovia (the main market) if it is heavily subsidized. The objective of the rice programs therefore must be to increase productivity in rice so as to free resources (mainly labor) for other activities. But, rice extension operations may be a very expensive way to obtain increased rural output; it's not clear how this will increase rice marketings. And in any event there is reason to doubt whether an expanded agricultural extension effort will have significant impact. There must be something substantial to extend -- a tested, profitable package; there are differences of opinion about whether such a package exists now. Policies should be right -- especially prices and marketing arrangements. And the extension agency should have the administrative capacity to deliver its message -- which is not now the case.

Also, the extension program in tree crops is based on the assumption that lack of knowledge is the critical constraint blocking expansion of smallholder cocoa and coffee production. But this may not be so. In the relevant counties (Lofa, Bong, Nimba) 50-75% of farm households already plant some coffee and/or cocoa. The key constraints may be rather in labor scarcity or transport costs.

In addition to these questions about fundamentals, there is a problem of divergent and sometimes inconsistent policies by major aid donors. Thus the U.S. and the Ministry of Agriculture are planning to build up the Ministry's agricultural extension capacity. At the same time the IBRD integrated rural development projects are organized with autonomous project units. The managers of the German-financed Nimba County rural development project have decided not to encourage tree crops at all; everywhere else tree crops are stressed as the main income-earners.

To sort out the unanswered questions and better coordinate rural development policies, a special approach is needed: the creation of a formal structure within which sectoral strategies and policy issues can be systematically addressed. A special working group should therefore be set up as soon as possible, bringing together technicians from the concerned Liberian agencies and from donor agencies active in Liberia's agricultural sector. The objective would be to bring about a more clearly defined sector strategy, a better consensus on appropriate actions and more structured dialogue with the Liberian government on agricultural policies and programs.

2. Other Programs

Other programs worth considering as possible candidates for future use of ESF-generated counterpart financing or development assistance grants include the following: expansion of the Monrovia sites and service project to improve urban housing for low-income people; the application of the programmed learning experiment (IEL project); experimentation with rural-focused programming for the new rural radio project. Two bigger programs which should be considered are rural road construction and especially maintenance; and a limited expansion of rural primary schools. There may also be some room for limited experimental efforts in primary health care.

CONCLUSION

There are clearly great perils in the present period. Severe political and social stresses are likely to be present for several years to come. There is a high risk that the economic gains of the past will be dissipated and future growth sacrificed.

The U.S. role should be to help the GOL and the Liberian people through this period of crisis by providing appropriate levels of budget support and development assistance designed to bring about (i) productivity-raising policy reforms; (ii) the improvement of economic management; and (iii) greater economic opportunities for large numbers of people which can smooth the path to political integration. Suitable assistance now will make permanent crisis less likely later.

It is important to stress that the indicated dangers are essentially short and medium term. Liberia is a resource-rich country, which will continue to attract outside investment, provided the political and economic

environments are right. The prices of iron ore, rubber and timber should soon turn upward. With help from outside, good domestic policies and a little luck, Liberia's economic prospects should be much brighter by 1985, and its need for outside assistance much reduced.

I. THE PRESENT CRISIS

The crisis in Liberia is severe and will get worse. It has many dimensions, and deep roots. But it can be resolved by the mid-1980's if the Liberian government adopts appropriate policies and the U.S. provides enough aid of the right kind.

A. The Dimensions of the Problem

The present difficulties in Liberia arise from a variety of sources. Some are structural or long-term: shortages of trained manpower and a poorly developed administrative system; a specialization in slow-growing exports -- particularly iron ore -- a U.S. dollar-based monetary system which involves special rigidities. Others are more recent and partly cyclical: heavy and rising debt service obligations due to past government borrowing on expensive commercial terms, mostly for non-productive purposes; high interest rates; the high price of energy; the immense dislocation of a revolutionary change in political leadership; budget and foreign exchanges strains without parallel in the country's history.

The main economic aspects are three: a scarcity of foreign exchange in the public sector; a large and growing budget deficit and a slowdown in the growth of the economy.

TABLE I

SUMMARY
BALANCE OF PAYMENTS
1977-1980
($mn)

	1977	1978	1979	1980[1]
Exports	459	500	554	614
Imports	522	549	587	614
Factor Payments	-104	-139	-136	-140
Unrequited Transfers	27	30	35	36
Balance on Current Account	-140	-158	-136	-104
Capital Account	132	136	87	40
Surplus/Deficit	-9	-23	-48	-64

[1]Provisional

1. The Public Sector Foreign Exchange Problem

The foreign exchange crisis has been the most visible and dramatic aspect. It's not a typical balance of payments situation. The summary of the balance of payments in Table I shows some deterioration in recent years, but no deep overall deficit, at least until 1981.[1] The problem is mainly found in the public sector. The National Bank of Liberia, i.e. the government, has no foreign reserves and very limited lines of credit to finance its foreign transactions. At the same time foreign liabilities have soared. Table II shows main trends up to 1980. The 1981 figures will presumably be even less cheerful.

TABLE II. FOREIGN RESESRVES OF NATIONAL BANK OF LIBERIA

	1976	1977	1978	1979	1980
			($Million)		
Foreign Assets	17.2	27.3	18.0	55.0	4.0
Foreign Liabilities	-3.6	-019	-5.0	-67.4	-75.9
Net Reserves	13.6	26.4	13.0	-12.4	-71.9

The basic reason for this foreign exchange crisis is the loss of confidence by the private sector in the National Bank of Liberia (NBL), which is in turn due mainly to Government's resort to borrowing from the NBL to finance part of its budget deficits. Three factors have been at work:

(a) The post-coup decline in business confidence led to a sharp fall in domestic money supply, expressed in dwindling private deposits. Concessionaires and merchants began to deal directly with foreign banks, behavior possible because of Liberia's use of the U.S. dollar as its national currency and its limited control over external transactions.

[1]Depressed market conditions in 1980 did not prevent an increase of export earnings of 12%, compared to 1979, despite declining iron ore sales (down 15%) and sluggish rubber sales (up 2%). Unit prices of both iron ore and rubber rose in 1980 (iron ore by 26% and rubber by 15%). But oil payments increased by almost 50% -- from $103 million in 1979 to $152 million in 1980. The share of oil in total imports rose from 20 to 29%. And food imports rose by 18% -- from $63 million to $74 million. The net result in 1980 was a considerable improvement in the current account, as Table I shows. Preliminary data for 1981 suggest some deterioration in the overall balance, due to lower unit values of exports and rising debt service charges.

(b) The government's decision to help a failing commercial bank (Bank of Liberia) involved $22 million in support costs. This had a strong adverse effect on the NBL's foreign exchange position.

(c) External claims on Liberia have mounted because of oil price rises, larger debt and higher interest rates, and the need - created by government's budget deficit - to import dollar notes for paying government salaries.

2. Budget Deficits

A fiscal crisis parallels the public sector foreign exchange problem. The government budget is experiencing growing deficits and extreme pressure. The deficit can be defined differently and hence its size variously estimated; Table III is based on IMF definitions.

The table shows that in the mid-1970s the Liberian fiscal situation was quite healthy; overall fiscal balance was achieved, and recurrent revenues grew faster than recurrent expenditures, allowing the financing of public spending out of public savings. In fact, this pattern prevailed for more than a decade - from 1964 to 1975 - making Liberia one of the fiscal success stories of the LDCs during these years. After 1976 things went awry. Total government spending rose faster than revenues and grants, due mainly to higher capital expenditures (much of it associated with the OAU Conference of 1979), higher salaries, growing public sector employment and higher transfer payments to public corporations. The budget deficit rose from $27 million (3% of GDP) in 1976/77 to $140 million (14% of GDP) by 1978/79. As OAU-related spending fell, the deficit shrank in 1979/80 to $88 million, or 8% of GDP. By 1981 it was rising sharply once again. Recurrent spending rose especially fast during these years - by 18% per annum - much faster than money GDP (11%p.a.) or total revenues and grants (7%). A rising wage bill and higher debt service are mainly responsible.

The deficit figure above gives only a very partial picture of the severity of the crisis. Other, more dramatic indications abound.

(a) Under the pressure of blanket prohibitions on new budget spending, government agencies have been running up bills at a record rate. In mid-1981, overdue payments to foreign banks amounted to $8 million and unpaid bills to domestic suppliers to $10 million. (In 1980 there were no foreign arrears and outstanding payments to domestic vendors were smaller.)

(b) Debt service was stretched out in 1980 and will have to be renegotiated again soon. The growth of debt

has been very rapid; disbursements tripled between 1975 and 1980 -- from $176 million to $530 million.

(c) Government's budgetary stringency is such that ongoing public sector activities and even development projects in process are being starved for funds. The numbers are eloquent. Total locally-raised revenues were $218 million in FY1980-91. Salaries took 155, the debt service (after rescheduling) took 32, which leaves a little over $30 million for everything else; external loans and grants are not included, but these are mainly for capital expenditures.

(d) It's no surprise then that the government spends little on real development, i.e. on activities that will generate future incomes. The total Development Budget this year (1981-1982) is $130 million ($63 million in local resources and $67 million in foreign aid), of which much cannot be regarded as truly developmental.[1] The Development Budget appropriation grew by 5% in money terms in 1980/81; in real terms it declined by about 10%.

The situation that arose in late 1981 graphically illustrates the intensity of the fiscal crisis. The revenue projection for 1981/82 proved optimistic during the first quarter of the fiscal year -- August-October 1981. A shortfall of some $7 million was evident -- total receipts by early September were $55 million, compared to the estimated revenue of $62 million. Expenditures, meanwhile, continued to rise; restrictions on new vehicle purchases and foreign travel -- proved especially difficult to implement. By the end of October Government expenditure was well above the IMF expenditure ceiling and additional debt service payments were needed tto meet the ceiling on external debt arrears. The government then had to take extreme measures to contain spending: all government expenditures except salaries were halted for the month of November; all foreign payments were stopped for three months, except payments for oil, debt service, embassy salaries and student scholarships; all vehicle purchases by government and public corporations were prohibited.

3. Economic Stagnation

The crisis obviously has economic dimensions, as well as financial and fiscal. As Table III shows, GDP fell by around 4% in 1980. It has fallen further in 1981.

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[1] For example, over $30 Million of the total is for military barracks construction, ($13 million GOL, $17.4 million foreign financed), and close to $15 million more is for transfers of various kinds. So about half of the $63 million Liberian appropriation is only remotely "developmental.

Per capita income has fallen much more -- by close to 9% in 1980 -- if we take into account a 3% rise in population and worsened terms of trade. New foreign investment, the main engine of development in Liberia, has dried up. Though iron ore output rose in 1980, it is still 10% below the 1975 peak and the iron ore concessions are all losing money. They are preoccupied with cutting costs, with shrinking their payrolls, not creating new jobs. Rubber production is stagnant and prices are at a five year low. The timber industry is prostrate. Table IV below gives some key aggregates.

Table III. Central Government Budget Deficits, 1976-81 1/

	1976/77	1977/78	1978/79	1979/80	1980/81
Revenues & Grants	183	202	225	226	253
Revenues	167	186	202	203	223
Grants	16	16	23	23	30
Expenditures	209	274	366	314	351
Recurrent	109	122	153	180	242
Wages & Salaries	60	67	78	94	144
Other Services	27	33	44	43)	98
Subsidies & Grants	17	12	12	15)	
Interest on Debt	5	10	18	28)	
Development	101	152	213	134	107
(of which transfers to public corporations	(29)	(54)	(40)		
Overall Deficit	-27	-72	-141	-88	-97

1/ Based on 9 month actuals

TABLE III. TRENDS IN OUTPUT AND EXPENDITURE, 1975-80
(Growth Rates in %)

	1975	1976	1977	1978	1979	1980	Average 1975-1980
Export-Oriented Sectors	-8.4	-1.6	-9.9	2.7	5.7	4.3	1.2
Agriculture	5.3	10.4	-0.7	9.1	4.8	3.5	5.4
Rubber	(-6.5)	(2.5)	(-7.2)	(-5.2)	(-7.8)	4.0	(-3.4)
Forestry	(66.7)	(37.2)	(-0.3)	(29.3)	(9.9)	(-1.3)	26.6
Mining (Iron Ore)	-11.8	-5.8	-13.7	-1.6	6.7	5.1	(-3.5)
Domestic Services	1.3	9.2	5.9	4.9	5.6	-10.6	2.7
Manufacturing	(-11.2)	(21.2)	(4.3)	(5.1)	(7.5)		
Total GDP (1971 Market Prices)	-3.5	5.3	1.6	4.8	4.2	-3.8	1.7
Gross Fixed Investment	11.0	31.3	-8.8	16.2	6.4	-22.0	5.7
Consumption	-3.8	13.6	11.6	0.4	-3.0	-7.6	2.4
Government	(1.0)	(6.1)	(10.6)	(4.7)	(6.7)	(4.7)	5.6
Private	(4.8)	(15.1)	(11.8)	(-0.5)	(-4.8)	(-10.4)	0.2
Exports	-24	8	-11	17	-1.3	-5.4	-2.7
Imports	2	18	-0.9	2.0	-7.5	-9.7	0.6

B. Risks

Although numbers are not at hand to show it, there has been an unquestionable fall in wage employment, especially in Monrovia. Increasing unemployment is one of several implications of economic stagnation. In the past 20 years the growing modern sector drew into wage employment over a third of Liberia's adult men -- a very high proportion compared to other low income countries. During these years of rapid growth, most young people who left their villages for work outside were fairly sure to find a job. Now the modern economy generates few new jobs and many firms are cutting back. But despite the change in job prospects, high expectations persist -- a politically explosive formula.

The political risk inherent in an abrupt drying up of job opportunities is only one consequence of economic stagnation and the related fiscal crisis. Also at risk is the survival of much of the country's capital stock; without maintenance and repair -- for which there will be very little money in the coming years - roads, buildings and equipment will deteriorate, perhaps even disappear. And the country may not be able to build new income-generating assets for the future, creating a possibility of permanent crisis. Finally, there is a high risk that the political leadership, in desperate search for ways around today's austerity and the predictions of more of the same for the future, makes commitments which poorly serve Liberia's interests and which may mortgage its future. A noted economist once wrote that in development, crisis stimulates creative responses.[1] He should also have pointed out that crisis easily breeds further crisis. A scenario, in which desparate and ill-considered responses to crisis lead Liberia into deepening difficulties, is certainly imaginable, even probable, and should be troubling to all those concerned with Liberia's future.

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[1]Albert Hirschman, Development Projects Observed (Brookings, 1968), and The Strategy of Economic Development (Yale University Press, 1958).

II. THE LIBERIAN RESPONSE

A. Political Consolidation

The first preoccupation of the new regime after the April 1980 coup was the consolidation of its political authority. Despite many shifts and early uncertainty about the direction of change, the government has made some efforts to reconcile all elements in Liberian society and thereby build a new political consensus. Virtually all political prisoners have been released. A constitutional commission is meeting regularly and plans to have its recommendations out in mid-1982; civilian rule could come in the near future. The government has also sought to re-integrate technical and professional people formerly identified with the old regime.

B. Fiscal Austerity

The new government's other major preoccupation has been the budget deficit and the associated problem of financing government's foreign transactions. Some extremely hardy steps have been taken. At least on the formal level, and to a very considerable degree in reality as well, the new authorities have done almost everything their creditors and partners have asked of them. Faced with the prospects of a huge budget deficit in 1980/81, their first year in power, they adopted the following measures:

On the revenue side:

- A surcharge was imposed on all non-essential dutiable imports; and to get around the abundant duty-free arrangements enjoyed by concessions, stamp fees (5-7%) were levied on selected imports.

- Excise taxes were raised.

- New taxes and fees were introduced - e.g., on international air travel and movie tickets.

- Income tax rates were raised and personal exemption limits lowered from $1,500 to $1,000.

Altogether these measures were intended to raise $67 million, or about 25% of existing revenues.

Measures were taken on the expenditure side also.

- A near freeze was put on hiring; new hirings were authorized only in exceptional cases; reallocations of lapsed salary appropriations were prohibited.
- Publicly-held external debt was rescheduled.
- An instruction went to all ministries that no new spending requests would be accepted.
- Strict rules were imposed on budget transfers.
- A freeze was put on all equipment transfers.
- Allotments were cut to all budget items except salaries.

In November 1980, a compulsory saving scheme was introduced. All wage employees earning more than $50 a month had to contribute one month's salary; those earning more than $750, two month's salary.

Despite all these efforts, the budget deficit in 1980/81 was close to $100 million, a little larger than the year before. Some of the revenue measures didn't work (e.g. the stamp fees on non-dutiable imports). Revenue performance was generally weak, reflecting poor economic conditions as well as inadequacies of implementation. Expenditures, meanwhile, continued to rise. Control of expenditures proved to be the most difficult part of the problem. One response to spending limits was the growth of unpaid bills, domestic and foreign. By May 1981, unpaid bills to domestic vendors accounted to some $10 million; external arrears were $18 million.

At rates of taxation and expenditure prevailing in the summer of 1980 (i.e., after the May 1980 salary increases for soldiers and civilian government workers but before the start of the new 1980/81 fiscal year in October)[1] a budget deficit of almost $125 million seemed likely - about 50% of locally-raised revenues. In line with an IMF stabilization program, the government made further adjustments for the 1981/82 budget, including additional draconian fiscal measures.

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[1]Enlisted soldiers' wages were raised by 150%, and unskilled government workers wages by 100% immediately after the coup. This increased the government's wage bill by 36%; in absolute terms, it cost $34 million.

- Instead of the compulsory savings scheme, a national reconstruction tax was imposed on all salaries and income of the self-employed, beginning August 1, 1981. The tax is 2% on earnings up to $200 a month, 5% for earnings of $200-$500, 8% for $500-$1000 income and 10% for those earning about $1000 a month.

- Gasoline prices were raised by 20 cents, to $3 a gallon.

- The tax on beer was raised by 59 cents to $1.10 a liter.

- The explosive issue of subsidies on imported rice was addressed. The official retail price of the popular grade of rice in Monrovia was allowed to rise from $20 to $24 per 100 lb. bushel.

In addition, the Chief of State issued a strong Executive Order (#16/81) edicting once again harsh measures of expenditure control.

- Ministries were prohibited from making any request for new expenditures "since in fact there are no reserves or other resources from which such requests could be accommodated."

- In order to deal with overdrafts, rigid budget guidelines were again set down. Government ministries were exhorted to stop violating budget procedures and guidelines.

- Budgeted travel ceilings had to be adhered to.

- A recurrent wage and salary ceiling of $157 million was set down.

- All agencies (except the armed forces and security services) were required to present lists of names of personnel occupying budgeted positions.

- Unexpended quarterly salary allotments will lapse.

- Ministries will explain their spending on utilities and pay utility bills.

- Budget transfers between major items have to be approved by the Budget Bureau.

These measures failed to stem the expenditure tide. But they reflect a genuine commitment to tighter budgeting and control. And they are part of a pattern of positive and significant efforts by the new government. For example, the

new leadership is trying to restore international confidence and rebuild domestic political community. The Government has reassured foreign investors by exhibiting solicitude for investor interests; examples are the aggressive pursuit of the NIOC loan and renewed dialogue with LAMCO, which included new departures on policies toward hiring and firing.

C. The Sources of Slippage

If the Liberian authorities have done most of what has been asked of them, they have not done everything. They refused - until very recently - to sell the expensive Presidential Boeing 737 inherited from the Tolbert regime. They have repeatedly spent more on foreign travel than budget allocations permitted, and new vehicles are purchased despite the rules against it. Spending ministries have continued to violate budget prohibitions on new hiring, on transfers, on running up bills with local merchants. The fact that IMF-negotiated expenditure ceilings are threatened, that budget deficits continue to grow, that for the third time in two years the Chief of State has ordered salary and hiring freezes, ruled out new funding requests and virtually excluded budget transfers - all of this is indicative of slippage in the fight for control of expenditures.

There is in some quarters a tendency to impute this "backsliding" to deficiencies of political will or lack of commitment to good government. This may be true to some extent. But there are many other factors which explain why it has been so difficult to close the budget gap, and why some slippage will continue.

(a) The external environment has certainly not helped. Revenue growth has slowed markedly, because of reduced prices, employment, and profits in iron ore mining, forestry, rubber, and because of deteriorated revenue collection capacity.

(b) The public sector operates in a liquidity straitjacket because of the inflexibility inherent in use of the U.S. dollar and lack of control of capital movements or indeed currency exports. The financing of budget deficits by borrowing from the banking system leads quickly to reduced deposits in commercial banks and declining public sector foreign reserves, as is now evident.

(c) Pressures to spend are intense.

(i) The wage anomalies created by the May 1980 salary decisions are recurrent expenditure time bombs; the massive increase in unskilled civil service and army wages has created an untenable pay situation. Many nurses, teachers, technicians now earn less than laborers.

(ii) The post-coup political environment has bred some predictable propensities. Patronage, the right to distribute jobs is highly valued by new and inexperienced leaders who see it as one of the main fruits of office. The right to travel abroad on government business is another highly-regarded perquisite. Moreover, the post-revolutionary situation has created two sets of claimants for travel and other privileges - the PPC and the regular bureaucracy.

(iii) There exist many "legitimate" demands for public resources. For example, newly-completed development projects have created facilities which need incremental recurrenc financing - new schools need teachers and equipment; new health centers need generators, pharmaceuticals, new staff. With a hiring freeze, an equipment freeze, an absolute prohibition on requests for increases above the previous year's budget, there is no way to provide for these legitimate, even priority needs, without skirting the rules.

(iv) Some of the institutional changes which followed the coup have generated new claims on resources or reduced old sources of revenue. For example, the Mesurado group of companies was nationalized after the coup. Once a profit maker, it now requires a subsidy from the government budget.[1] Similarly, the Port of Monrovia, which was for many years a thriving enterprise, generating considerable surplus, is no longer profitable.

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[1]This is partly due to management problems, and partly to government's practice of fixing prices of Mesurado's products at unreasonably low levels.

On the one side then, are all these powerful forces making for increased spending. The institutions which are responsible for containing these forces, and for sorting out high and low priority claimants, are feeble by comparison.

The political system, first of all, is "soft"; consensus is limited, even at the top, and loyalties loose and uncertain. It is not a political environment conducive to decisive applications of authority.

Secondly, the coup in April 1980 swept away much of the old political leadership and left many of the former political-economic elite alienated, which has had profound effects. The new leadership is inexperienced, unaccustomed to political power and the access to resources it entails, innocent of the bureaucratic and administrative rules of the game, highly unfamiliar with economic matters. In this respect, the Liberian experience appears to be without historical precedent; never has a group of men so young, so little-educated, so junior in rank, so inexperienced in government seized political power so completely.

Also, the coup has diluted the sense of political community in Liberia, which was never very strong to begin with. Whether country people identify more with the new regime than they did with the old is not clear. Nor is it clear what public ethic prevails among servants of the state. The old rules, weakly observed though they were, provided some framework for political and administrative behavior. Even this may now be gone.

Finally, there now exists a deep separation and much distrust between technocrats and soldiers, between those who man the bureaucracy and those who hold political power. So, precisely at a time when reasoned dialogue between technocrats and political leaders is most essential, it is more difficult to achieve than ever.

The administrative institutions of the Liberian state are hardly in a position to give bone and muscle to the new and unstructured political system. They are extremely ill-equipped in fact, to control the expenditure pressures in the public sector. The budget system has grown stronger over the past two decades, but it remains a very crude indication of what government does or how money is spent. The programs in the budget are very roughly costed; there has always been a strong tendency in most ministries for each year's budget to repeat last year's with new programs tacked on. Each minister struggles to meet his goals with the budgetary resources at hand, but does not regard the particular line items as sacrosanct. Ministers tend in fact to regard their appropriation as a kind of general fund, drawn on as needed. Indeed, if it were otherwise, it would often be impossible for many of them to do basic tasks, from fixing broken windows to supervising field staff.

Adding to the problem is a thinly spread system of auditing, an intense scarcity of accountants, a cumbersome, highly centralized system of financial administration, and a budget divided into recurrent and development components, adminstered partly by different agencies but comprising many similar activities.

These elements of weakness in the administrative structures responsible for expenditure control are obviously critical factors in explaining the difficulties the Liberian Government has had in imposing controls and in implementing these controls.

III. A U.S. PROGRAM OF ASSISTANCE

A. General Priorities

This diagnosis suggests that an appropriate U.S. assistance program for Liberia during the next three to five years must be pertinent to that country's two major goals -- financial and fiscal stabilization and renewed progress in improving the conditions of life of the mass of Liberians. Three general U.S. priorities follow: (a) helping the Liberian government achieve fiscal equilibrium; (b) helping the Liberians to use available public sector resources more effectively; (c) assuring a continued effort to raise the income and welfare of the poor.

(a) Fiscal Equilibrium. The first priority has to be the narrowing of the budget deficit by tighter control over spending. The deficit is the main source of the confidence crisis which troubles the banking system, induces transactions outside the authority of the National Bank of Liberia and reduces liquidity, and is the underlying factor in the offshore payments crises which arise periodically. Moreover, the imperfect control of spending leads to escalating claims--often poorly-vetted--against available public resources, and hence to distortion of priorities. The day-to-day efficiency of government operations suffers, as bigger and bigger shares of available fiscal resources go to salaries and smaller shares to everything else. Physical capital is quickly run down, as money for maintenance shrinks. Available offers of official development assistance cannot be fully exploited because of lack of matching local costs, and even completed development projects cannot be put into operation because of lack of recurrent budget financing. So the pace of development slows.

Given the nature of the monetary system, there is no possibility for financing larger budget deficits by government borrowing from the banking system. If Liberia had an independent currency she would have greater flexibility in monetary and fiscal policies, but the economy's small size and openness imposes sharp constraints in any case; deficit financing quickly leads to a drawdown of foreign assets and if it persists, to an offshore payments crisis of the kind now prevailing. However this may be, there could be no worse time to comtemplate basic changes in monetary arrangements than the present, given the political uncertainties, the presence of a new and

inexperienced political leadership, the elusiveness of expenditure control, and the importance of maintaining external confidence. So there is no acceptable alternative to the restoration of budgetary equilibrium.

The reduced deficit cannot come from increased revenues, except to a very slight extent. Improvement in collections might raise tax yields in some areas, particularly customs, but most tax rates are already high, the increased excise taxes imposed in 1981 have in fact proved not to be sustainable. Some improvement in tax administration is possible but basic administrative deficiencies are involved, not amenable to quick change. The main approach must therefore be to give unremitting effort to the control of expenditures.

(b) More effective use of existing resources. Many local officials and outsiders know that Liberia's existing resources could have much greater impact on development and welfare if they were used better. Even marginal reallocations and relatively simple improvements of existing practices in the public sector could have significant output-and/or welfare raising effects.

(i) Greater selectivity in allocating incremental revenues would be a big help--e.g., relatively more to development spending, and to non-salary recurrent spending; relatively less to new projects and more to making existing projects work better; more maintenance money. More deliberate project screening is also feasible, by use of using rough and ready criteria such as the expected productivity effects of projects, their impact on the poor, their durability (future recurrent cost and administrative demands), their "leverage" (the proportion of total project costs which is foreign-aided).

(ii) Reduction of obstacles to further development of private sector activity, including divestment of parastatal functions where appropriate and acceptable.

(iii) Improvement of parastatal operations and reform of policies.

(c) Helping the poor. To raise the incomes of the poorest people, diversify the economy, broaden the impact of development and build political community, outreach programs of various kinds are given high priority by the new Liberian government and warrant support by the U.S.

The U.S. program, then, should have the following main elements:

- budget support via ESF and PL480, as at present;

- o use of budget support and other assistance to encourage continued development spending, increased productivity of resource use, and resource-saving policy reforms;

- o training and technical assistance in economic management, with both short and long term objectives; not only should the capacities of the main economic ministries be reinforced to help Liberia deal with immediate problems of expenditure control and revenue generation, but it is essential at the same time to begin the longer-term process of rebuilding economic cadres and building stronger decision-making institutions.

While programs designed to help the rural and urban poor should continue to be the central theme of U.S. Development Assistance, the deteriorating financial situation and the dim economic prospects in the near-term require that the components of the D.A. program should be reassessed. Whether their economic justification is strong and whether they will excessively burden the public sector (administratively and in terms of future/recurrent costs) are among the criteria which should be used in shaping this part of the U.S. program in Liberia.

B. Budget Support

Budget support such as the U.S. is now providing through Economic Support Fund and P.L. 480 grants, meets Liberia's most urgent needs. The U.S. support helps close the budget gap, eases the public sector's offshore payments problem, facilitates Liberian efforts to meet IMF conditions and in general helps the Liberian government meet its basic obligations.

Ongoing budget support of this type raises some fundamental policy issues, however, which must be addressed. How would the ESF-generated "counterpart" funds be used? And (a related question), how much "conditionality" should be attached to the use of these funds?

1. The Counterpart Issue

When the Liberian Government sells oil bought with ESF money, or when it sells P.L. 480 rice, domestic resources (Liberian dollars) are generated for Government use.[1] The question has arisen as to whether the counterpart funds so generated should be used for new development

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[1]There's nothing new or special about this; only the fact that the U.S. dollar is the local currency makes it unusual.

spending by the Liberian government, or whether they should be used only for already budgeted activities in the development budget or elsewhere. The issue can be described, for convenience, as the "additionality" question -- whether ESF/PL 480 assistance is to be used for additional development projects or only as offsets to already budgeted items.

The main argument put forward in defense of "non-additionality" is that the overarching priority at present is fiscal stability - reducing the budget deficit. The primary purpose of budget support is to contain spending, not to generate new spending, even for development programs.

The counter-argument has two elements (1) without spending for development, Liberia may be mired in the same crisis five years from now (2) The provision of general budget support can be self-defeating: it tends to loosen local discipline regarding expenditure control. Why should local authorities belt-tighten when the U.S. seem to be always waiting in the wings, ready to bail out the government?

At first blush these two positions seem easy enough to reconcile. So long as the Development Budget contains local cost contributions to on-going projects which exceed the level of counterpart generated by ESF and PL 480, the issue need not arise, at least in principle. The counterpart in question can be absorbed by supporting projects already on-going and incorporated in the Development Budget. (It could also be used for priority recurrent budget items.) This can reduce the budget deficit at the same time that it maintains development-related activities which might otherwise be underfunded or not funded at all. Thus, in FY 1981-82 (Liberian FY, i.e., July to June) there appears to be no problem; the total local cost requirement for on-going projects in the Development Budget is $63 million, while the level of counterpart (for U.S. Fiscal Year 1981-82, Oct. to Sept.) is no more than $45 million - $35 million ESF aid $10 million PL 480.

The problem, however, gets more complicated. First, the total of ESF and PL 480 could conceivably exceed the amount budgeted for development projects. Even in FY1981-82, for example, it may be difficult to spend all the counterpart on "true" development projects.[1] This means that the spending of counterpart on development-related components of the recurrent budget may not only be

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[1]For example of the $63 mn of local resources budgeted for "development" almost half are not for "project;" $12 mn for military barracks, $2 mn in cash grants to the regions and countries, $4 mn for subscriptions to multinational organizations and $8 mn for subsidies to LEC, LWSL and NIOC.

acceptable but necessary, if counterpart is to be ussd to sustain income-generating or welfare-increasing activities.

Second, the non-trade off situation, whereby the twin objectives of fiscal stability and continued development spending are met at one stroke, is achievable only in limited circumstances: when the budget/expenditure process is working relatively well; and in the short run, when there are on-going development expenditures to put counterpart next to, so to speak.[1]

In reality, the budget/expenditure process cannot be counted on to work so well in the next few years. The 1981-82 scenario is typical of what is to be anticipated. There is extreme presuure on available resources from two sources. First, during the budget-making process there is some tendency to overestimate revenue, stimulated by the need to make the expected deficit look smaller. Secondly - and more important - expenditures are underestimated partly for the same reason but mostly because of weak expenditure controls. During the year, the budget is cut back by making allotments which are below appropriations. But since the major part of the budget, salaries, are virtually untouchable, the burden of cutbacks falls heavily on what's left: supplies, maintenance, development. The problem in this case is thus that counterpart funds which were in principle to be used to finance local contributions to on-going development projects, end up being used to meet other budget needs judged by spending agencies or by the political authorities to be of higher priority.

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[1] In the long run, it would require a public sector development program with well-considered projects and priorities; a tranche of the expenditure program might then be financed out of the counterpart funds.

Another complicating aspect, finally, has to do with time. The principle of using counterpart to absorb development budget items is fine so long as there are genuine development expenditure committments for on-going projects which can be picked up by the ESF- and PL480-generated counterpart. But this is true only in the short-run - this fiscal year for example, and as noted earlier, it may not even be true this year. In the longer term the additionality issue will surely arise in more complex form. It is likely that in FY 1982-83, for example, the level of ESF and PL 480 assistance will exceed the local costs of on-going "genuine" development projects. In that case decisions will have to be made about how to allocate the "surplus" counterpart. If maintaining a development momentum is our concern, it would make no sense to finance the non-development items in the Development Budget. One better solution that comes to mind is to finance some projects in the new Development Plan, presumably some of those selected for inclusion in the Development Budget of 1982-1983, or 1983-1984 if the problem does not arise until then. Or more development-related items in the recurrent budget might be financed. At that point, in any case, the deeper additionality question will have to be faced: does the counterpart go toward support of "regular" recurrent expenditures in the general budget or for new development-related expenditures?

2. The Question of Conditionality

The argument that budget support weakens the discipline needed to make expenditure controls more effective has to be taken seriously. It is already clear, and will surely become clearer over time, that a significant degree of conditionality is required to strengthen the forces in Liberia making for better control over spending and better economic decisions. Otherwise the stabilization effort will almost surely fail.

Tying the level of support to Liberian performance is also a potentially powerful instrument of economic reform, a way to help bring about better use of existing resources by institutional adjustments and/or policy changes.

To invest budget support with these higher purposes raises a classic dilemma. Unconditional budget support leads almost surely to reduced local fiscal discipline and to deeper dependance on continuing support over time. So budget support without strings is self-defeating. But making such aid conditional on performance will only work if the threat inherent in true conditionality is credible. And it will be credible only to the extent that there is some U.S. willingness to accept political risks. While in practice this dilemma may not be quite so stark, it is still real.

The complexity of these issues of additionality and conditionality rules out simple recommendations. The following considerations may help define the main lines of a suitable U.S. posture.

3. Some Guidelines

(a) As noted earlier, earmarking of counterpart to finance development programs is hindered by the weak implementing capacity of Liberia's budget institutions. This problem often spurs donors, including the U.S., to find ways - formal or informal - to guarantee that local resources for "their" projects will be first adequately budgeted for, and then "protected" in the spending process. The formal instrument to these ends is the earmarked special account - a trust fund, for example, which can be used only for the earmarked purpose.

These end runs around the regular budget process may be good for the donor but they are bad for Liberia. They make it harder to control expenditures; the creation of multiple accounts magnifies the complexity of the budget process. They make it easier for spending ministries to elude controls, and harder for the controlling agencies to impose them. Perhaps this would not be so damaging if only one (major) donor did it. But special accounts tend to spread to all donors when one donor benefits from the device. The resulting diffusion of the budget process would complicate expenditure control, and delay--even prevent--long-term institution-building. In the specific case of ESF/PL480 counterpart, the setting up of a separate account would create special problems, given the relatively large amounts involved (around $50 mn, or about 25% of the amount raised locally) and the weaknesses of accounting and auditing capacities and of the general financial system.

For these reasons, the problem of protecting ESF-generated counterpart which has been earmarked for specific projects is best dealt with by continuing to work through the existing budgetary procedures, and attempting to improve them. In the section below on economic management, a proposal is put forward to assess the present system of development budgeting, and to make recommendation as to how it can be improved to better perform the counterpart-related functions. Meanwhile, as part of the general framework of conditionality within which budget support takes place, the U.S. can insist that local commitments to earmarked development items in the budget be protected against cuts or transfers.

(b) On the key issues of when new projects can be financed using the ESF-generated counterpart, and how much financing can be anticipated, no precise answer is possible at this time. For FY 1981-1982 (Liberian) there's

no problem, at least with the ESF money: the available counterpart can be absorbed by offsetting ongoing projects in the Development Budget. Given budgetary trends in recent months, it is likely that Liberian FY 1982-83 will not permit additional spending either. But it should be possible to begin counterpart-funded new projects by June 1983, so planning for project starts around that time would be in order. The country mission should make clear to the Liberian authorities that if PL480 and ESF is available in 1983, at least some of their counterpart in Liberian resources will be earmarked for new development spending. More precisely, it should be understood that as the level of local contributions to ongoing projects declines, the Government cannot expect that ESF counterpart will be available for equivalent amounts of recurrent funding.[1]

(c) This position, essential if budget support is not to be eaten up by expanding salary costs, must be reconciled with the fact that the "pure" fiscal equilibrium function of budget support is of the highest priority. This is so even when the importance of maintaining a development momentum is recognized, along with the related need to assure that there is money for new development projects.[2]

The relevant point is that fiscal equilibrium is the lynchpin of the stabilization and development effort together. Without it, the confidence crisis will persist, IMF support will be threatened and the internal and external credibility of the regime put in doubt. Since renewal of development momentum must come, at least in the near term, mainly from foreign private investment, these are critical factors.

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[1]This should not be interpreted to mean that recurrent spending is necessarily less productive than "development spending." In fact, as already noted, much of the "Development Budget" consists of capital expenditures which can hardly be regarded as creating assets which will generate future output. And some items of expenditure normally regarded as "recurrent" (e.g. road maintenance, irrigation rehabilitation, etc.) can clearly have substantial effects on output. So there should be no reason in principle why counterpart funds shouldn't be used to finance these kinds of high-yielding and quick-yielding activities.

[2]The assumption here is that the projects in question are "sound" - i.e., they will in fact raise future output and/or welfare. This may or may not be true. To the extent that it is not true, the argument against pure budget support loses force.

(d) The U.S. should give close attention and support to the present effort by the Ministry of Planning and Economic Affairs, working with World Bank assistance, to distill from the draft Second Development Plan (1982-1985) a medium-term public investment program. To the extent that the investment program will determine actual choice of projects to be financed in the coming four years, all donors have an interest in seeing that its size is appropriate and its projects well selected. The chief constraint on development spending in the next plan period will be the availability of local resources for counterpart contributions to foreign-financed projects and ultimately for recurrent expenditures of completed projects. It is to no donor's long-term advantage and certainly not in Liberia's interest, if donors use up these scarce resources by competitive project pushing. Nor is it in Liberia's interest to propose a plan that is financially unrealistic.

(e) On the question of conditionality, one element of immediate priority is of course the maintenance and tightening of expenditure control. Here both the targets and the instruments are at hand - in the IMF presence. A continuing IMF presence is indispensable; no satisfactory bilateral substitute for the IMF resident representative is conceivable. So strong support for IMF policies is a necessary part of the structure of conditionality surrounding the transfer of resources via budget support. This does not of course rule out differences of emphasis, particularly in such matters as the weight to be attached to development spending. Nor does it rule out complementary efforts by the U.S., as a major donor, to bring about desired changes. The limitations of conditionality by bilateral donors, especially the U.S., suggest however that the major thrust should come from the IMF and the IBRD.[1]

(f) Continuing budget support should also be tied to policy reform. Unlike many countries, there are few outstanding deficiencies in the policy framework in Liberia, hence few immediately obvious targets for improvement. One likely candidate is the parastatal sector. Recent trends suggest a growing need to reconsider the size, policies and operations of this important group of 20-odd enterprises. A baseline World Bank study already exists, so it should be possible to readily define a reform program for the sector.

[1]The importance of support to the IMF is worth special emphasis: The expenditure and credit ceilings imposed by stand-by agreements are a strong and relatively enforceable form of conditional assistance, one which is understood and accepted by the Liberian authorities. Despite slippage in implementation at the "micro" level, the IMF's continuous and heavy pressure on aggregate performance can force necessary changes in the pattern of expenditure as well as in its level.

Another target for reform should be the reduction of harassment, petty or large-scale. It would be a major improvement in the daily lives of ordinary people if the incidence of petty harassment could be reduced significantly and the renewal of confidence by private foreign investors would be accelerated were existing enterprises relieved of the exactions put on them by undisciplined troops or officials.

Dialogue about these and other policy matters should be part of the overall relationship between the U.S. and Liberia, and indeed all donors should be so engaged.

(g) The level of risk involved in making budget support conditional on performance can be reduced if the conditions imposed are realistic. The constraints on the Liberian authorities - administrative and political especially - should be given due weight and sympathy. We should not ask the Liberians to do things which are beyond the reach of their present political or administrative capacities. Nor should we expect quick results; intractable technical matters are frequently at issue, as well as politically sensitive ones, so change and reform will only come slowly. It will also demand careful preparation. We should know what we want the Liberians to do or stop doing, and have good and detailed ideas about how they should proceed. And finally, effective conditionality requires closer collaboration among donors. In bringing abouut such collaboration, the active cooperation of the IMF and the World Bank is important, given the weight of their presence in Liberia. The Bank has special experience and competence in matters of consultation and other forms of donor coordination, and so should have a special role in this matter.[1]

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[1]This of course does not mean that the U.S. should not have an independent role in dialogue with the Liberian authorities over expenditure control, policy reform and related matters. But in circumstances such as now prevail in Liberia, there are both technical and political reasons to allow a leading role to the Fund and the Bank. On the technical side, the centerpiece of the recovery effort is expenditure control and economic stabilization. The IMF expenditure ceilings are the most effective available form of pressure in this direction. On matters such as public enterprise reform, the Bank is particularly knowledgeable.

The political advantages of following the international financial institutions, are obvious. They can take up explosive issues difficult for bilateral donors, such as wage and employment policy and divestment of public corporations.

C. Strengthened Economic Management

The economic management capacities of the Liberian public sector, which had been gradually built up during the past 20 years, have been severely weakened in recent years, as indicated above. They must now be restored and moved forward for without better, more structured economic decision-making, more effective resource allocation will be impossible. Nor can better results be obtained from existing public expenditures without major improvements in economic administration. It is worth underlining the fact that more than the immediate crisis is involved here; programs and policies adopted today will have important consequences a decade from now and beyond. Adoption of ill-considered programs, for example, can mortgage future government revenues to low priority uses, and unwise tax or concession policies will sacrifice future gains in revenues and/or other benefits. A world of high interest rates is especially unforgiving of mistakes; so a bad economic decision today becomes tomorrow's economic albatross, a source of enduring fiscal burden.

Five projects, (or five programs in one broad economic management project) are proposed below.

1. Emergency Operational Assistance

The present crisis is partly rooted in scarcities of trained manpower. On the fiscal side, for example, better revenue collection and closer implementation of expenditure controls is hindered because so few trained Liberian technicians and managers are available. This has generated demands among some Liberian officials - demands sympathetically received by many donors - for emergency technical assistance designed to reinforce the Liberian government's caapacity to deal with its present financial and economic problems. Thus USAID has agreed to provide someone to work in customs, and Liberian authorities are trying to define precise terms of reference for a technician to help with expenditure controls. Other needs of this type are present and could conceivably be filled by U.S. technicians. The IMF and the U.K. have also been approached.

Resident technical assistance people, given operational responsibility and full cooperation by their Liberian colleagues, can undoubtedly contribute to stronger economic and financial management.[1] However, experience with

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[1]Because of misclassification and other problems, customs duty collections have been seriously below projections. This is one widely-acknowledged priority for technical assistance. Stumpage fee arrears grew from $6 mn to $15 mn between 1979 and 1981. Help in this area could also have high yield.

technical assistance of this kind in Liberia and elsewhere, and with resident long-term technical assistance in general, as well as analysis of the nature of the problem at hand, suggest that technical aid of this kind should be used only to a limited extent.

1. It is extremely difficult to find good people who are available when needed and who are willing to take up residence in Liberia.

2. Most of the older Liberian technocrats who remain in place, and the bulk of the new political leadership, do not want foreigners in sensitive positions. The chances are very high that any foreign advisors or operating people in key jobs in such agencies as the Finance Ministry or the Budget Bureau would be kept away from important policy matters, or ignored more generally. Most local officials would naturally be wary of these foreign technicians, who they would tend to regard as "watchdogs" sent in from outside to tighten up inefficient-conceivably shady-financial and economic operations. Nor would they be misguided in this perception.

3. The problems which the technical assistance is intended to remedy are systemic. The whole system of program selection, budget-making, program implementation, and financial administration is extremely weak, and especially fragile now due to factors mentioned earlier. A handfull of foreign technicians, even four handfulls, can't significantly change this. Certainly this is one of the lessons of the past 100 years in Liberia, a period marked by repeated foreign attempts to put order into the country's financial system or customs administration by inserting a few men in key places. These early adventures had few positive effects even in the short-run and no lasting institutional impact.

4. The financial cost of advisors is very high. Since clear limits exist on the overall Liberian aid allocation, the best assumption is that the advisors will be paid for by reduction in other aid to Liberia. The financial opportunity costs may therefore be significant.

5. So too may be other costs. At least some of these technicians would be in financially sensitive hence politically delicate positions. They might therefore be able to help their Liberian counterparts in the struggle for more orderly decision-making and more effective implementation. But by this fact they would be forced into an adversary posture with respect to the political authorities. Their presence could become a major irritant in U.S.-Liberian relations.

a. Some Ministers use their foreign advisors eagerly and fully. Often they tend to turn to them more than to some of their Liberian staff. This leads to alienation of Liberian staff and reduces their commitment to the work of the Ministry. Other Ministers don't rely on the foreigners enough, tending to alienate them.[1]

b. "Conventional" technical assistance usually leaves little behind in the way of better-trained local people. The "counterpart" concept, according to which each advisor trains local counterparts, almost never works in practice. The advisor is older, more experienced, immensely better paid, and usually not paid to train but to do a job. He tends in most cases to treat the local counterpart like a clerk or a junior research assistant.

c. Foreign technicians often have little sympathy with the local people and the idiosyncracies of the local system. They tend to develop the view that their local counterparts don't care about their own country, and that local politicians are uncommitted to development. There's often little sympathy in their views; technocrats tend to haave little patience for cultural or political constraints. Local people meanwhile, often see the foreign technicians as mercenaries, grossly overpaid, often of modest competence, and generally unsympathetic to the problems of the country and its people.

None of this is calculated to produce the presumed outputs of technical assistance; more productive work and enhanced local learning.

For these reasons, resident American operational technicians should be called in sparingly, in situations where shortage of special competence is a major cause of a particular deficiency, where the resulting need for imported skills can't be met from other donor sources, and only when short-term (TDY-type) assistance can't do the job almost as well. Indeed, in all programs which entail technical assistance, the guidelines should be: liberal use of short-term expertise for specific and focussed jobs; encouragement of non-Americans and non-American sources of assistance; and major stress on training except where genuine emergencies require full operational involvement. In the programs discussed below, the stress is on technical assistance in the form of "trainers" -- technicians whose primary task will be to help develop long-term

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[1] Proponents of large-scale use of operational technical assistance would profit from a look at the experience with IMF-provided staff in the National Bank of Liberia.

institutional capacity but who will at the same time be available to help with immediate needs.[1]

2. Development Budgeting

In earlier discussion of the importance of "protection" for budgeted development expenditures which are to be financed out of ESF counterpart, we concluded that it was best to work through the existing development budget process, while recognizing that the existing system of development budgeting may not have enough capacity to perform adequately this function. It would therefore be useful to have an expert review of the development budget process to see how its capacity can be augmented. The study should describe how the system now works, assess its capacity to undertake the ESF counterpart-related functions, and recommend appropriate changes, including possible technical assistance needs. The Fiscal Affairs Department of the IMF would perhaps be willing to do such a study, should the Liberian government request it, and this would be the best source. If this proves infeasible, A.I.D. should itself finance it, assuming of course that the Liberian agencies concerned (Planning and Finance Ministries and Budget Bureau) are in agreement.

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[1]Some U.S. and Liberian officials have proposed that a group of foreign "auditors" be employed to assist in uncovering "phantoms" on the government payroll. This proposal requires clarification. The dimensions of the "phantom" problem are not well known; some casual estimates suggest that $2-5 million in savings might be possible by effectively suppressing the practice. While this suggests that an effective effort could bring some savings, the impact on the total payroll ($155 mn) would in all cases be small. Moreover, it is not clear how the "auditors" could identify the phantoms, particularly if local cooperation is only lukewarm.

The phantom phenomenon is very widespread in LDC's. It has been directly addressed in only a few cases; recent experiences in Zaire and Sierra come to mind. In these cases, it has proved to be extremely complicated and not very tractable. Sierrra Leone appears to have had some success, but little is known about its experience.

It would therefore seem to be imprudent to make a frontal assault on the phantoms question without further exploration of the nature and dimensions of the problem and better definition of strategies for attacking it. Present discussion gives the impression that the phantom problem is an auditing problem -- comparing names on checks with names on the payroll -- or a straightforward problem of checking names on checks with faces of those who receive those checks. It is undoubtedly more complex than this.

3. Strengthening the Ministry of Planning's role as training agency for economic analysts.

The Ministry of Planning and Economic Affairs has in the past provided some training for economic analysts throughout government - seminars in budgeting, in project analysis, etc. This traditional and useful function should be systematized and expanded very substantially, making training a major activity of the Planning Ministry. Technical assistance should be provided to help with the training, and secondarily with the other work of the MPEA.

The effort might be designed along the following lines. The MPEA would take in 10-20 trainees a year, mainly recently-hired officers in the various ministries, but some new university graduates also. The U.S.--and perhaps other sources--would provide the technical assistance required: a group of two or three economists (or others) with interests and skills in policy analysis. The training would consist of some formal classes and seminars in the MPEA, but mainly of closely-supervised practical exercises: writing of policy papers, project appraisals, studies related to policies and programs. Some of the formal training might be done in special classes at the University of Liberia or the Institute of Public Administration. At the end of one year, several of the trainees would be selected for further training overseas or in neighboring countries, some might be retained by MPEA, the rest would return to jobs in the public sector or find new jobs elsewhere.[1]

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[1] In its comments on the first draft of this Report the USAID Mission indicated disapproval of this proposal, on the ground that MPEA "cannot itself take on the additional responsibility of training. Various alternative arrangements were mentioned -- use of the University of Liberia, or the Institute of Public Administration (...in a revitalized incarnation...) in consultation with the Civil Service Agency.

There is certainly room for disagreement on how to proceed with a training effort. The rationale for the proposal here is: (1) it is a way to bring a relatively quick infusion of analytic strength to the MPEA; (2) in-house, on-the-job training is normally more relevant and intensive, and is especially necessary for young economists; (3) the training activity could and should result in a significant and relatively quick reinforcement of government's capacity to analyze, study, and decide on programs, projects and economic policies.

4. Building Analytic Capacity in Other Economic Agencies.

Technical assistance/training efforts of a related kind should be launched in other economic ministries, particularly the National Bank of Liberia and the Ministry of France.

i) The National Bank of Liberia has a four person research and analysis wing which is so burdened by ongoing responsibilities in basic data gathering and routine report presentation that it can contribute only marginally to discussions of NBL policies and general financial questions. One resident trainer/advisor, experienced in the research and analysis activities of a central bank, might make a sizable difference in the present and future effectiveness of NBL staff work.

ii) In the Ministry of Finance, the former Concessions Secretariat has been merged into a larger bureau called the Technical Services Unit. This Technical Services Unit is the obvious place to begin strengthening the analytic capacity of the Finance Ministry in such critical areas such as concessions policies, tax policy and revenue projections. The development of the Technical Services Unit into an effective policy analysis body would be accelerated by the presence of one "trainer-advisor," perhaps supplemented by short-term technical assistance.

iii) The Bureau of the Budget is another key economic agency at the center of governmentt. For various reasons I was not able to visit with relevant Budget Bureau Officials, nor arrive even at a quick assessment of its possible needs in terms of reinforced capacity. In the design of any overall economic management project, the Budget Bureau's needs should be explored.

5. An Administrative Reform Advisory Group

To help the Government make the administrative adjustments required by the new political structures and by the exigencies of economic austerity, a special staff unit on administrative reform should be created and put as close to the Mansion as is possible. The unit would be available for studies of administrative reform, along the lines of those made in the 1960's by the former Special Commission on Government Operations (SCOGO); an assessment of the work of SCOGO and a review of experience with similar administrative reform units in some other developing countries, should indeed be the first step in the design of this project. In structure, this unit should consist of representatives of the PRC and of key economic ministries, with a small professional staff, expatriates if necessary, and with financial resources for short-term consultants and the

commissioning of special reports. It would consider, among other questions, pay and incentive systems in the public sector; decentralization possibilities in such areas as financial administration; economic and administrative aspects of user chargers for public services; the functioning of parastatals; and the wider use of private sector agents in meeting public needs.[1]

These proposals are of course not meant to be comprehensive; much of the economic management structure is not addressed. Only part of the MPEA role is addressed. And, strengthening of financial administration and the operation of the Ministry of Finance and the National Bank of Liberia are by-passed; only the policy formulationand analytic capacities of these agencies have been considered. It would be appropriate to explore with these agencies their needs for training and operational help in the broader area of general administration. A large and complex set of issues is involved,which are perhaps best addressed by specialists from international financial institutions, notably the IMF.

D. Helping the Poor

The second major objective of development assistance should be to help Liberia's poor reach higher levels of income and welfare. This objective necessarily means a strong involvement in rural development. This is partly for economic reasons: increased smallholder production and higher productivity among smallholders can, for example, quicken economic growth and broaden its

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[1]The USAID mission's response to this proposal was that SCOGO was a failure and that rather than a new organization, "the research and consultancy capability of an existing but reorganized institution be strengthened." Again, there is no tried and true formula in this matter. In fact, almost all efforts at LDC administrative reform in the past two decades have had small results. It's not hard to think of many objections to the resuscitation of an existing organization, as proposed by the mission. In any case, the record of attempts elsewhere in Africa to introduce changes via "training-research-consultancy" institutions is not encouraging. In the proposal here, one important function could be performed which is not so easily performed elsewhere--bringing together PRC people and technicians for ongoing and systematic consideration of administrative and policy issues.

impact.[1] But it is especially important in political terms: long-term political consolidation requires continued action to improve the welfare of the rural (like the urban) poor even as Liberia struggles with financial and economic crisis. It's not possible, nor would it be appropriate after so short a mission, to recommend specific projects for priority attention. But general criteria can be set out, and general program directions indicated.

1. Criteria

(a) Impact on income. The best way to meet human needs is to raise incomes, so projects which generate higher incomes for deprived people are obviously a high priority.

(b) Quickness of yield. Projects (or non-project expenditures) which utilize existing capital stock or build on existing programs, will have quick and high yields: rehabilitation, maintenance, and completion of existing projects, for example. There is much evidence that rates of return on road maintenance expenditures are often higher than new road construction.[2]

(c) The degree and quality of impact on the poor: the number of people affected; and their income levels the extent to which they are denied access to services; and the cost per person affected.

(d) Administrative/institutional factors. Preference should be given to projects which are administratively simple (i.e. require relatively little in the way of skilled people, new structures, coordinating capacities, etc.), and do not require much incremental local cost financing. Also, the question should be asked when identifying or appraising any new project: can the service or other benefits aimed at be achieved by private sector alternatives?

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[1] In resource-rich Liberia this role is perhaps less central for economic growth than in many other LDC's. Liberia's so-called enclave sector can be the main engine of growth in the future as in the past. So it is not altogether accurate to regard the public sector investment program as the critical element in an economic expansion, though it is an important factor in it, and can widen its spread.

[2] cf. IBRD, The Road Maintenance Problem (1980).

(e) Durability. The final point is related to (d) above. Future recurrent cost impacts have to be given heavy weight; projects which involve Liberian government assumption of new costs within the next five years are especially undesireable. Project appraisal should include realistic assessment of project survivability after withdrawal of foreign finance and technical assistance and the flexibility they provide.

While these criteria can be helpful in thinking about new projects and assessing old ones they do not of course lead to a ready consensus on the appropriateness of specific projects or programs. This is partly because the various criteria can be weighted differently. And it is partly due to disagreements about underlying economics - whether the benefits of a program are big enough relative to cost. In Liberia this latter problem arises especially clearly in the agricultural sector and this means that present rural development programs require re-examination.

2. Rural Development Programs: Reassessment and Coordination.

The major thrust of agricultural policy and programming is the stimulation of rice production and smallholder tree crops. The organizational instrument harnassed to this task is the Integrated Agricultural Development Project (e.g. in Lofa, Bong, Nimba counties), which consists mainly of agricultural extension but has other components (roads, wells, etc.).

The rice/tree crops-focussed integrated project is not the only component of public policy in agriculture. Oil palm plantations with associated outgrowers make up another element; and the Draft Second Development Plan (1982-1985) recommends new efforts in large-scale rice cultivation -- notably the proposal that in each county 1000 ha. of rice be cultivated collectively. Nevertheless, the dominance of rice/tree crop-based smallholder-focussed integrated projects is clear, as spending patterns show. The 1981-82 Development Budget, for example, appropriates $33 million for agriculture, out of which the Lofa, Bong and Nimba county ADPs take over $10 million.[1]

The stress on the IADP/extension approach is even more evident in the new Development Plan. Table I, from the Draft Second Development Plan (1982-85), shows that $187 million in spending is envisaged.

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[1]Out of a total foreign assistance to agriculture of $21.2 million in this Development Budget, $5.9 is for the three integrated ADPs.

Table IV

Summary of Planned Agricultural Expenditures, 1982-1985

($ mn.)

On-Going Projects	GOL-Financed	$58,9
	Foreign Aid	68,8
	Total	127,7
New Projects	GOL-Financed	14,2
	Foreign Aid	44,8
	Total	59,0
Total	GOL-Financed	73,1
	Foreign Aid	113,6
	Total	186,7

Of this $187 million, the rice/tree crops extension program will claim $75 million. More strikingly, this program will take $52 million of the planned $59 million in new agricultural project expenditures through 1985.[1]

[1]Draft Development Plan 1982-1985, p. 143

The division of expenditure between extension, roads, health, etc. varies in the different IADPs, but extension takes the major share. It's hard to know exactly how spending is divided between crops, but most goes to rice. Rough figures from the Lofa county IADP show that at least 50% of direct costs are on rice.

The concentration on expansion of rice production is understandable. Rice imports grew from 30,000 tons annually in the early 1960's to 85,000 tons last year. Greater self-sufficiency in food is a major political objective in Liberia, as in many other countries. It is moreover in tune with aid donor priorities which stress rural development and help for the poorest people.

However, questions have to be asked about the suitability of this agricultural strategy--first, whether the focus on rice is right, and second, whether the dissemination of rice and tree crop technology by extension services is cost-effective and organizationally practicable.

a) Focus on Rice?

First of all, the objectives of the present strategy are not altogether clear. The major objective cannot realistically be self-sufficiency in rice; the cost would be too high in terms of lower national income. Virtually all studies of the economics of rice production in Liberia are in agreement that with existing technology it is not socially profitable to substitute locally-produced rice for the imported rice consumed in urban areas, mainly Monrovia. According to the recently-published Stanford WARDA Study,[1] locally-grown rice cannot be delivered to Monrovia without heavy subsidies to the producers; the estimates of how big a subsidy might be involved, based on mid-1970's price relationships, vary from $114 a ton (for rice grown in "improved swamps") to $231 a ton (for upland rice).[2] These figures are in line with a more recent (1981) estimate that a $120 per ton subsidy would be required to make local rice competitive with imports in Monrovia.[3]

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[1] S. Pearson, J.D. Stryker, C. Humphrey, Rice in West Africa, Policy and Economics, Stanford U. Press, 1981, especially E. Monke, "Rice Policy in Liberia" and "The Economics of Rice in Liberia."

[2] Ibid. p. 158-60.

[3] IBRD, Smallholder Rice Production Improvement Project, Appraisal Report, March 1981, p. 29.

Since 85,000 tons of rice were imported in 1980, import substitution would have required a minimum of $10 million in subsidies. The feasibility of import substitution is in any event dubious for other reasons - among them the likelihood that subsidization of rice production on this scale would almost certainly make rice an attractive (smuggled) export to neighboring countries.

It is true that greater self-sufficiency in rice is an important government objective. The price government would have to pay to meet this objective (the national income and government revenues sacrificed) is however much more burdensome now, in a time of economic recession and budget crisis, than it was during the fatter years of the early 1970's.

If the rationale for a rice-focused strategy is not production of rice for urban consumption, then what is it? The usual argument is that since rice is the main subsistence crops in rural Liberia, any effort to raise farmer incomes "must start with improvements in the efficiency of existing rice production. An increase in efficiency would either raise output from given resources or release resources for cultivation of more profitable cash crops such as coffee, rubber and cocoa. Either outcome would benefit the poorest of the population and would improve income distribution..."[1]

There is no doubt that improved seed and better extension efforts, plus subsidized inputs, can stimulate rice production. The question is by how much, and at what cost? There are reasons to fear that the answer may be: not much, and at high cost.

First of all, without any projects or public intervention, rice production for own consumption will presumably continue to grow in line with rural population growth - i.e. by 2-3% a year - over the next decade or so in any case. This is so because land is not yet scarce, despite some pressure on fallow periods in a few places.[2]

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[1] IBRD, Smallholder Rice Improvement Project, Appraisal Report, March 1981, pp.5-6.

[2] Very few farmers report any land constraint to development of larger farms. (W.D. McCourtie, Traditional Farming in Liberia), (1973). Population densities remain very low almost everywhere, and permission to farm is readily granted by most village authorities. (See Rice in West Africa, p. 157).

With the present rice programs, rice marketings are expected to increase enough to replace some of the imports consumed in rural areas.[1] But the likelihood of significant increases in rice marketings, even for up-country sale, is not great. Under existing technologies, first of all, rice is not as attractive to farmers as competing crops. Study after study has shown that coffee, cocoa, sugar cane, and vegetables, generally offer much higher returns per day of labor than rice.[2]

	Gbarnga District (Bong)	Foya District (Upper Lofa)
	Returns per man-day	
Cocoa	$3.75	$3.75
Groundnuts	2.50	2.50
Sugarcane	2.70	1.21
Coffee	2.14	1.56
Vegetables	2.00	2.00
Upland rice	1.30	.55
Swamp rice	-	.72
Irrigated rice	-	1.81

The USAID/Liberia Agricultural Sector Survey (1979) reported similar figures.

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[1] Rural consumption is presently thought to absorb about one-third of imports, but is probably less since some, perhaps much, of the imported rice flowing to the interior undoubtedly flows right across the frontiers. In recent years rice prices over the border have been much higher than in Liberia - three times as high in Guinea, for example.

[2] See McCourtie, op. cit. Gerald Currens, The Lofa Farmer: A Study of Rice Cultivation and the Use of Resources Among People of Northwestern Liberia, Ph.D. Thesis, of Oregon, 1974; C.C. Van Santen, Smallholder Farming in the Foya Area, 1971; Smallholder Farming in the Gbarnga District, 1972. Sample data for Bong and Lofa in the mid-1970's are as follows: (from IBRD, Basic Economic Report on Liberia, Volume 5, The Agricultural Sector, (Aug. 1974, p.15)

Secondly, much of the push in rice policy is to expand swamp rice production. The present efforts are only the most recent and most extensive in a long series of swamp rice programs, beginning in 1959. Yet only a few thousand hectares of swamp rice are now in cultivation; 92% of Liberia's rice is in upland. Liberian farmers have generally resisted moving into swamp rice, for well-known reasons. Farmers say that is is uncomfortable, cold, unhealthy. In fact it is very unhealthy. In addition to exposure to colds and other humdrum illness, schistosomasis afflicts many of those who work in the swamps. Moreover, unlike upland production, wet rice cultivation rules out intercropping of vegetables and other foodgrains - a highly profitable and appreciated aspect of upland production.[1] Finally, competing demands for labor discourage shifts into labor-intensive swamp rice cultivation. Labor can be allocated to other cash crops, to traditional jobs (hunting, tailoring, blacksmithing, carpentry, etc.) or to "modern sector" jobs. Surveys indicate that at least half the smallholders in Liberia work on other cash crops and the same proportion engages in traditional off-farm jobs, part-time. About 2/3 of all adult males in the villages have worked for wages outside the villages.[2]

The labor question is critical. As demonstrated in Rice in West Africa, Liberia is the highest-cost rice producer in the region. Partly this is due to poor transport facilities and weakly developed marketing and input supply institutions. But mainly it is due to the high wage rates prevailing there, which in turn reflect an overwhelming demographic reality, too often misunderstood: because of low population densities and relatively substantial growth of modern sector employment; there are not many working-age males left in much of rural Liberia.

We can use the 1974 census data to illustrate the point. That census showed a total population of about 1.5 million. About half are under 14 or over 65, and another half are women. This means that in the mid-70's, there were about 380,000 working-age adult males in Liberia.

If the rate of population increase is the same in Liberia as in most of Africa (2.7% a year in the 1970's) then the country's total population has grown by roughly 20% since the 1974 census. This suggests that in 1980 the working-age male population was about 450,000. But

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[1]The USAID mission observes that vegetables can be grown on swamp rice plots and otherwise.

[2]C.E. Van Santeen, "Some Notes on Smallholder Rice Production in Liberia", in WARDA, Socio-Economic Aspects of Rice Cultivation in West Africa, Feb. 1975, pp 36-39.

employment data indicate that in 1979 some 175,000 people were employed outside of subsistence agriculture. Probably about 135,000 were employed for wages in the modern sector, and another 40,000 in informal sector employment.[1] Some of these are women, and some are migrants from nearby countries, but these are probably balanced by underestimates of the number of males in informal sector employment. So it is probably not too far from reality to estimate that 35-40% of the adult male population is working more or less permanently outside the villages. This is a far higher percentage than is common in Africa. In Liberia's demographic circumstances, it means there are relatively few able-bodied males left in rural areas.

The 1974 census data bear this out. Maryland, Grand Gedeh, and Sinoe counties (which with Grand Bassa make up much of the eastern half of the country) each had only about 15,000 adult males in rural areas in 1974; Grand Bassa had 34,000. The numbers are higher in Lofa (53,000), Bong (45,000) and Nimba (64,000). But these figures still indicate a generally sparse adult male population (over 14 years old) in the countryside; these indeed numbered only 300,000 as compared to 157,000 in urban areas.[2]

Given the sharp labor constraints implicit in these figures, and the many income-earning altenatives open to villagers, it is not surprising that swamp rice production makes slow progress.[3]

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[1]Republic of Liberia, MPEA, Economic Survey of Liberia, 1979, Monrovia, September, 1980. p. 11.

[2]Republic of Liberia, 1974 Population and Housing Census, Final Population Results, PC-1. Table 14, pp. 95 ff. The census revealed a total urban population of 438,000, of which 233,000 male and 205,000 female. The rural population was 1,065,000 of which 526,000 males and 539,000 female.

[3]A recent article on Sierra Leone argues that transplanting of rice, in conditions very similar to those in Liberia, requires more labor than many households can provide. (See M. Johnny, J. Karimu and P. Richards, "Upland and Swamp Rice Farming Systems in Sierra Leone: The Social Context of Technological Change", in Africa (London) 51, (2) 1981 p. 164.) Liberian surveys indicate a rapid increase in the use of hired labor in rural areas. A 1973 country-wide sample showed that almost one-quarter of adult male labor inputs were hired from outside the household. (Republic of Liberia, MPEA, Smallholder Farming in Liberia. A report of the Current Agricultural Survey, 1973, in Bong, Lofa, Montserrado, Nimba and Cape Mount Counties, Bomi and Marshall Territories, (mimeo), p. 20.

What about expansion of upland rice production then? The question here is whether a viable technological package exists. At present, the only improvement in upland techniques is the use of higher yielding seed--notably LAC 23. The proposed new seed multiplication project (IFAD/IBRD) doesn't recommend fertilizer use with LAC 23; it says more location-specific experience is needed. Some observors say that fertilizer applications have proved inappropriate with LAC 23 mainly because ensuing weed growth imposes severe burdens on available labor. Others say that this is so only where LAC 23 plantings are poorly done--i.e. the seed is not well established. In any case the "package" for upland rice is certainly thin.[1]

The labor factor may account for the failure of at least some farmers in the Lofa County ADP to continuously operate their swamps or to operate smaller areas than developed. Of the 74 ha. developed in year I of the project (1976-1977) only 71, 56 and 41 ha. were operated in year 2, 3 and 4 respectively.[2]

b) Agricultural Extension as the Major Vehicle

As is pointed out in the World Bank's report, Accelerated Development in Sub-Saharan Africa, three prerequisites exist for an effective agricultural extension effort -

a) There must be something to extend - a tested, profitable technical package;

b) The incentive structure must be congenial - i.e. prices of the output in question must be attractive and marketing facilities encouraging;

c) The extension organization should have the capacity - the administrative ability - to deliver advice (and other inputs where these are provided) on a continuing basis.

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[1]The experience of the Lofa County project is illustrative. The project has distributed less than one-quarter of the amount of fertilizer planned for in the design of the project. (LACDP, Key Indicators, 1980, mimeo, p. 5).

[2]Loc. Cit.

As the Bank Report notes, these three necessary elements are rarely found together in African countries. And they do not appear to be present in Liberia now. The technical packages are very light, not only in rice, but in tree crops (coffee and cocoa) as well. The available technologies (mainly better seed) have been around for some time. Agricultural surveys in the early 1970's showed that coffee and cocoa were widely planted in Lofa, Nimba and Bong counties.[1]

In these circumstances the relevance of a major extension effort is doubtful. It is not apparent that the technical basis of the extension effort is strong enough to promise much in the way of results. Nor is it evident that lack of information-which is what extension is all about-is a significant factor retarding the growth of either rice or tree crops. These uncertainties about the appropriateness of a major effort in extension are magnified by concern about the durability of the institutional base of the extension program. The extension programs in the ADPs function relatively well partly because they are autonomous adminstratively but mainly because they enjoy relatively large inflows of external assistance. But the Ministry of Agriculture is not known for its efficiency, and the "cooperatives", which are supposed to play an important role in marketing and in input supply, are with very few exceptions phantom organizations with extremely little capacity to perform. Given the present poor performance of GOL public administration, and the likely crunch on non-salary resources during the next few years, it is hard to see how an agricultural extension operation run by the MOA, relying on an artificial cooperative structure and dependent on local financing, can be expected to function adequately. Finally, there's room for doubt about the

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[1]One sample survey, covering much of the country, found that 39% of all agricultural holdings had some acreage in coffee and 25% in cocoa. (Agricultural Statistics Unit, MPEA, Smallholder Farming in Liberia, June 1974, (mimeo) p. 15.) Another survey (1973) in Lofa county indicated a much higher percentage of farmers growing some cocoa or coffee: about 3/4 had coffee trees and 60% cocoa trees. (Ibid.) In Nimba County, a 1979 report concluded (using 1975 data) that out of a total of 32,100 agricultural households, 16,600 grew some coffee and 6,500 some cocoa. In a sample of ten clans in Nimba, 84% of those interviewed said they intended to plant more coffee and 61% planned more cocoa. (Agrar-Und Hydrotechnik GMBH, Pre-Feasibility Study: Nimba Integrated Rural Development Project, (Essen: Germany, 1977) pp. 41-44.

incentive structure. Farmers benefiting from the agricultural development projects are supposed to sell their rice to the "cooperatives" at prices far below market prices. For coffee and cocoa, LPMC has a monopoly; over most of the past 15 years they have used that monopoly to tax growers of these cash crops, offering relatively little in the way of services in return.

These concerns lead to some fundamental questions about policy directions. First, should not greater emphasis be placed on research, or the expansion of available technological options, rather than on extending what is now at hand?[1] The research need is especially acute since so much of the technology in rice is Asian in origin, hence biased in favor of land-saving; it is clearly labor-saving technology that is needed in Liberia. Secondly, organizational approaches should be sought which rely less on the delivery capacity of public institutions. Aside from the need to avoid recurrent cost burdens down the road, when donors turn projects over for local funding, the lessons of the past two decades indicate that the "standard approach" to stimulating agriculture, which is based on government extension organizations, on cooperatives created from above, on subsidized credit and on monopoly provision of inputs, has an extremely poor record in most LDCs. There is nothing in the Liberian case which promises better outcomes there. It may also be that by persistent use of this model we prevent the development of decentralized competence elsewhere in the economy - for example among private African traders. A recent survey of the experience with cooperatives in Liberia concludes that one factor in their disastrous performance is the existence of Mandingo traders, to whom farmers persist in selling their marketings of rice.

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[1]Monke concludes his analysis of rice economics in Liberia with the following statement: "The results of this study provide arguments against import substitution through an expansion of available production techniques and in support of the development and dissemination of new technologies of rice production for home and local consumption...In the absence of significant technological changes in rice production, greater potential economic gains in cash crop agriculture lie in the production of other commodities, such as tree crops..." p. 171.

The study concludes that unless the private traders are somehow suppressed, the cooperatives are doomed.[1]

They recommend such suppression despite their devastating analysis of coop performance, the lack of acceptance of coops by most farmers, the widespread abuse of financial responsibilities by coop managers, and the profound reasons for this poor coop performance.

(c) The Need For Better Coordination

In addition to these basic questions about the overall direction of agricultural strategy, there is evidence of a certain incoherence in policy and programming.

a) In spite of Liberia's consistently unhappy record with large-scale rice-growing schemes, which is documented in the Planning Ministry reports and elsewhere,[2] the Draft Second Development Plan refers to a program of cooperative rice farming (1000 ha.) in each county.

b) The MPEA (in its Draft Second Development Plan), the Ministry of Agriculture and the USAID Mission are on record as favoring absorption by the Ministry of Agriculture of the autonomous integrated rural development projects in Lofa and Bong counties. The World Bank is proceeding with Lofa II (and a new Southeast Liberia project) on the "autonomous project unit" model; USAID has been developing a new project based on different assumptions.

[1] "The sub-agent problem must be confronted head-on. It is possible to develop methods and techniques for easing them out of the picture. It will take time, of course, but the middlemen have to go or there is no possible way small farmers will receive adequate benefits for producing cocoa and coffee. At the same time readers should recognize that what we recommend is a difficult task. There will be many palavers and sub-agents will doubtless carry their complaints to the Head of State. So what is needed are some creative and imaginative plans that are practical and feasible in terms of the local setting." (M.H. Simpson, J. Kreag, and P. Wrobel, Cooperatives in Liberia: A Look at the Present and Recommendations for the Future. USAID, June 1980, (mimeo), p. 50.

[2] See E. Monke, in Rice in West Africa, p.

c) Project management in the different projects are following policies which are sometimes contradictory in other ways. The Bong county project, for example, appears to be based on the the belief that soil erosion effects of upland rice production are significant and that the main rationale of the rice component of the project is to move rice farmers off the slopes into the swamps.[1]

This however is not the thrust of the IFAD/Bank seed multiplication project paper, which concentrates on upland rice;

d) The management of the Nimba county ADP is not encouraging coffee and cocoa plantings, on the grounds that price prospects are unfavorable. This presumably means that they see the project as a rice production project alone, which is not the way the Lofa and Bong projects are conceived.

e) There is afloat a proposal to radically "decentralize" the extension operations of the MOA, as noted in (b) above. This proposal was shaped under the previous regime; it was mainly developed by the late Cyril Bright. It has strong backing in USAID; the proposed U.S. agricultural extension project is in line with the decentralization proposal, which is also put forward in the Draft Second Development Plan. This proposal is of great importance and has attractive features, but leaves unanswered questions. It is first of all unclear how the ongoing and planned autonomous projects in the agricultural sector would be affected by this proposed reorganization. But more importantly, is real devolution possible for one ministry as

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[1]This is clearly the argument presented in a newly-produced film about the Bong project, shown by project staff to visitors. This doesn't mean that the project has in fact developed much swamp rice production. In 1980, only 129 acres of new swamps were brought into production.

long as the rest of government remains centralized - and especially the financial network? Is it a good idea to impose new demands for money, skilled manpower, coordinating capacity during a period when all these resources are particularly scarce?[1] In the light of such questions and the far-from-reassuring results of experience elsewhere,[2] should not moves along these lines proceed more gradually or at least in pace with such general administrative changes as may follow the report of the Constitutional Commission? And there remains in the background the question raised earlier: what kind of agricultural extension effort is appropriate at this time, given the uncertainties about the direction of policy which were registered above?

(d) A Proposal: A Joint Working Group

The analysis indicates that there are many unanswered questions about agricultural policy, many uncertainties about its economic foundations and the solidity of its institutional assumptions. It is certainly possible that more appropriate alternative approaches exist. It is not difficult to envisage, for example, a strategy featuring concentration on rural roads; improvement of the incentive structure (particularly rice and tree crop prices); an accelerated research program with a labor-saving farming system focus and perhaps with some new emphasis on supplementary staples (cassava for example); a much lighter extension effort combined with expanded rice seed production

[1] A recent survey of the literature listed factors making for effective decentralization as follows: able personnel; adequate incentive structures; cooperative relationships among levels in the organization; "value integration" among levels; capacity for higher levels to control lower levels; interprogram coordination at the regional level; professionalism; adequate resources; availability of technical/information assistance for decentralized units. (Development Management Research Series, Report No. 1, Managing Decentralization: An Annotated Bibliography, Maxwell School, Syracuse University, 1977, p. 8.

[2] See Dennis Rondinelli, "Government Decentralization in Comparative Perspective: Theory and Practice in Developing Countries," in International Review of Administrative Sciences, Vol. XLVII, No. 2, (1981), pp. 133-145.

and subsidized production and distribution of cocoa and coffee seedlings; and encouragement of private sector solutions (use of larger farmers as seed multiplication contractors, encouragement of private traders' participation in input supply, consumer goods sales and crop marketing; encouragement of private contracting capacity in rural road maintenance). And if labor scarcity is as crucial a constraint as it seems to be, Liberia could consider further encouragement of the flow of migrants from neighboring African countries - in this respect following the path traced earlier by the Ivory Coast and Ghana.

This is not offered as the outline of an alternative strategy for rural development, but only to suggest that alternatives may exist which are not unreasonable and which may be in harmony with the economic and institutional circumstances of Liberia today.[1] Close and systematic assessment of these alternatives is needed, and serious analysis of the questions raised earlier. After all, the present programs were formulated in the early and mid-1970's, when Liberia's economic and fiscal situation was much rosier than it is now. What was possible then (e.g. extensive subsidization of rice import substitution) is not thinkable now. It is the same with the proposals to bring agriculture extension into the Ministry of Agriculture and to decentralize the MOA's extension operations down to the county level. Those ideas were sponsored by Liberian officials no longer present, and at a time when the cost and other constraints were less imperative.

There is also the matter of coordination, the need to avoid contradictory approaches to rural development. Informal discussions among donors do take place of course, but this has not prevented donors from working at cross purposes in key respects.

The importance of the agricultural sector, the large investments planned for rural development, the ambiguities about sectoral development strategies and the urgent need for better coordination - all these considerations argue for the adoption of a special approach. What is needed is the creation of a formal structure within which sectoral strategies and policy issues can be systematically addressed. A special working group should therefore be set

[1]That such is the case is suggested by preliminary discussions in the World Bank indicating that the Lofa II project may involve some redirection - toward a lighter agricultural extension component, for example.

up as soon as possible, bringing together, at the technician level, representatives of the main Liberian government agencies responsible for rural development and donor agencies active in the agricultural sector. The objectives of this joint working group would be to bring about a more clearly defined sector strategy in agriculture and a better consensus on appropriate actions consensus within the Liberian government, within the donor community and between the two groups. The working group should be given an "enabling grant" to finance a small secretariat and finance initial studies. It should meet regularly every few months at the outset, less frequently later. Out of its deliberations and studies should come answers to some of the questions raised earlier, and perhaps a more solid foundation for programs than is now the case. Coordination between all the concerned parties should certainly be enhanced.

Formation of this sectoral mechanism for program analysis and coordination need not hold back the evolution of ongoing rural programs or the introduction of some new activities. Non-project assistance can be made available to the sector. The build-up of research capacity at Suakoko is underway, and might even be accelerated. Rural road construction and maintenance could be expanded - or at least maintained at existing levels in the face of threatened cut-backs. The design of new agricultural projects (Lofa II, the USAID/MOA extension project, etc.), will presumably proceed, their design reflecting the deliberations of the working group. For USAID, in any event, new project commitments in this sector will probably not be possible until Liberian FY 1983-1984. This gives time for the necessary sorting out of issues and the establishment of better coordinated approaches to rural development.

Annex: Response to USAID Critique

This section on agriculture is the most contentious part of the report and has provoked extensive comment from the country mission. The USAID critique argues that there is no need for a reassessment of agricultural strategy, that the present and planned programs are on target, as defined for example, in the Africa Bureau's Food Sector Assistance Strategy paper of October 1981. They conclude their agreement with the following summary:

...major agricultural development in Liberia will reqeuire: A) Improved decision-making capabilities, based on a better data base; B) Policy change and policy conflict resolution; C) Development of more productive technology adapted to local conditions, through agricultural research; D) An effective extension system for disseminating the best known technology; E) Effective institutional support systems for training, credit, input supply, storage, marketing and transport; F) Farmer participation and involvement.

All of the above are being addressed by USAID in its current and projected program, which is fully supportive of GOL sector priorities and policies. GOL and USAID will ensure that all of the requirements are coordinated and will continue to be addressed. There is therfore no need to reassess rural development programs."

The main thrust of the mission's analysis is that the economics of rice production in Liberia is more promising than indicated in the draft report.[1] This is so for three rasons. (1) The imputed wage cost in Eric Monke's calculations--on which I rely heavily---are grossly overstated. Women are mainly involved in rice production, and they have little or no alternative income-earning options, hence a "very low" opportunity cost.

(2) Relative prices of rice, coffee, cocoa and other cash crops have shifted in favor of rice since the early 1970s--the period from which my data come.

(3) New technology, in the form of no-tillage approaches, can make upland rice production more profitable than any other crop except cocoa (at 1981 prices).

This is not the place to discuss the many technical and analytic issues raised by the mission. Their programming conclusion is that the focus on rice is correct, and the

[1]They also point out a number of places where assertions are based on dubious or misleading evidence. Many of these are changed in this version.

present program thrust therefore right. The policy conclusion of the rice analysis is less clear. The mission seems to be saying that subsidization of rice production is economically justifiable (because the true opportunity cost of the female labor involved is virtually zero). Every analysis available to me indicates that the aggregate cost of a rice subsidy capable of reducing rice imports to zero would be in the neighborhood of $8-10 mn. Whatever its political appeal, subsidized large-scale import-substitution of rice would be a bad idea almost anytime; it is an unthinkable policy option now, when tax capacity is already strained to the limit and the need for expenditure containment is such a high priority.[1]

On the question of the appropriateness of the present program, part of the difference between the views in this report and those of the mission derive from matters of definition. Take the question of technological packages, for example. Everybody agrees, it seems, that in the mission's words: "There are currently no packages of technology adapted for the Liberian situation in upland rice cultivation." But this conclusion, on the surface so devastating for the extension-based approach, is hedged by its supporters, in various ways. First, there are, it turns out, many known techniques which could substantially raise output -- better seed,[2] better weeding, closer spacing, etc. The divergent assessments of the present program are also based on different understanding about timing and priorities. Thus, the absence of technological packages at present is not a reason to question the wisdom of assistance to the extension agency, since: (1) new technology is being

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[1]The mission's cable places the subsidy argument in the context of substitution for consumer subsidies. "...if one is trying to increase domestic rice production, wouldn't it be more reasonable to subsidize the farmers by means of an increased official farmgate price than to subsidize urban consumers (and thereby further stimulate rural-urban migration).? The answer is yes, but it is better not to have any subsidies at all and to focus on relaxing the economic and technological constraints at hand via roads and research. (The official rice price, incidentally, is of limited significance; most rice sales take place at free market rates, which are already much higher than the official price.)

[2]The mission cites, for example, the 1981 report of the Lofa County Agricultural Development Project, which notes an average increase of 21% in yield for farmers using improved seed. So there is after all something profitable to extend, hence a justification for strengthening extension agencies.

worked on[1]; (2) strengthening extension agencies is institution-building; it takes a long time. If extension capacity is to be ready when new technology emerges from Suakoko or elsewhere, they have to be strengthened now. So it is that in this view, the present program hangs together. Extension is based on research; both are needed now along with other inputs and policies: training, credit, seed, fertilizer on the production side, improved storage, price, marketing and transport on the marketing side.

The position taken in this report is not that the general argument just outlined is necessarily wrong. It is rather that there are enough uncertainties about the present direction of policy and programming to call for a reassessment.

1. Doubts about the cost-effectiveness of present extension methods for rice farmers are not removed by the mission's observations. In the absence of markedly superior technology, such as a tested zero tillage approach or a new breakthrough, in seed varieties, it is not clear that large enough and sustainable yield increases can be attained to justify the present outlays. This could easily be wrong. But it should be looked at before proceeding with expanded programs along present lines.

2. The "spread of best practice" justification for aid to an extension operation in the absence of a firm technological package assumes that lack of knowledge prevents most farmers from doing what the best farmer does. This is probably wrong, not only in Liberia but everywhere. Inter-farmer differences in competence, health, and family size, access to hired labor, and transportation, and other factors are probably much more important.

3. The notion that an extension service should be developed before appropriate technology is at hand may be OK in principle, but it is an expensive and risky way to proceed. According to many agricultural specialists, it often takes 10 years before an innovation can move from its development on a research station to the extension agents.[2] The timing of the present USAID program is thus optimistic

[1]Thus, the mission's cable says: "This (absence of technological packages) is being addressed at the USAID-assisted central agricultural research station at Suokako and as part of the zero tillage project."

[2]The argument that the extension agent should become part of a properly-organized research effort assumes an organizational capacity in extension services which is not present in Liberia, or in most LDCs.

to say the least, and thus the resulting division of financing between extension and research is too tilted in favor of extension.

4. The Ministry of Agriculture now employs over 1300 people, 824 of them extension agents. The Ministry's payroll is $5.4 mn, 82% of its recurrent budget. The agents are poorly-trained, poorly supervised and equipped, usually without transport. They are, in fact, virtually unemployed most of the time. The USAID agricultural extension project proposes to train these agents, and give them logistical support. This is to be done mainly by bringing in U.S. extension advisors, and money for vehicles, equipment, buildings, training.

It is the institutional or organizational aspect of the present USAID approach that is perhaps the most unsettling, and the major reason why another look at what we are doing would be useful. The present effort represents a distillation of those familiar approaches to rural development which evolved during the past decade. These involve attempts to resuscitate and massage decrepit public sector agencies: the planned agricultural extension project just mentioned; assistance to a recently-formed The Cooperative Development Authority; assistance for an agricultural cooperative and development bank.

For well-known reasons these institutions do not function well: lack of trained management, over-staffing for political reasons, very small non-salary budgets, budget uncertainties, and ponderous financial systems, transport deficiencies, lack of supervision. The cooperative structure, for which a central role is enviseaged as seller of inputs and buyer of outputs, is practically non-existent, except in a few places. Also, cooperative leadership has a long, unhappy record of mishandling money; in addition where they work at all, there is a tendency for the cooperatives to become the instruments of powerful local figures. Moreover, there is a fundamental contradiction. The cooperatives in integrated projects pay less for the marketed crop than private merchants, because they have to deduct costs of subsidized inputs and because they are less efficient than the private traders. So these arrangements tend to require monopsony power, if they are to survive, and such power can rarely be enforced even if it is granted by law.

For all these reasons, and the other factors mentioned in the text, these rural development institutions have almost everywhere failed in their mission. In many cases created by the aid donors, and in almost all cases substained by them, few of these public sector rural institutions can carry on when donor support falls away.

Yet donors repeatedly turn to these ailing institutions, always with fresh hope that new infusions of money and people can make them work better. It is time we recognized that they won't do better, or at least significantly better, until conditions are riper for effective public sector performance of these difficult tasks -- i.e., when trained people are more abundant, transport and communications more accessible, budget and financial systems more dependable and effective. It is time to recognize that failure to take into account these institutional shortcomings is one of the major factors explaining the poor agricultural record in much of Africa in the 1970s.

After all, between 1973 and 1980, some $5 bn worth of economic assistance went to rural development projects in Sub-Saharan Africa. Almost 85% of this aid was for food production projects, most of which were organized along the lines of the present USAID program--notably a heavy emphasis on building up extension services, cooperatives and other public sector institutions. Yet per capita food production has been falling and noteworthy successes are rare. Institutional factors are not wholly responsible of course. But they surely entered in a significant way. It is time to search for modifications and new departures which might have better prospects. In particular, it is time to focus more intensively on the utilization of private energies for the provision of needed rural services. Liberia offers a more receptive environment for efforts along these lines than most African countries, yet the present USAID program neglects it. There is, finally, the more specific matter of the decentralization aspect of the planned AID agricultural extension project. However desirable in principle, the list of prerequisites for successful decentralization is long, and most of the items on it (noted earlier in the text) are not present in Liberia now. It is unlikely, to say the least, that the devolution of financial and operating authority to county officials can work without some devolution of general financial authority and there is little reason to be optimistic about the capacity of existing financial institutions to control the use of funds at the local level. It may be that with decentralization as with other objectives a start has to be made sometime. But a period of general financial stringency and political uncertainty hardly seems the right time.

The thrust of all of this, once again, is that there are unanswered questions about fundamental issues--basic uncertainties about how to proceed--which warrant the recommended reassessment. Some donors stress swamp rice and others upland, some discourage planting new planting in tree crops while for others it is the main purpose of the extension program. These differences reflect not only lack of communication but substantive disagreements as well. At

the same time, some Liberian officials push for large-scale rice projects. And in all present programs the public sector institutional emphasis prevails. A reassessment, particularly if structured along lines recommended in the report, will stimulate dialogue on the basic issues and would allow exploration of modified approaches such as lighter systems of extension, increases in research activity and rural roads, ways to utilize and encourage private sector capacities--and others. The point is that there is much that we do not know how to deal with in Liberian rural development and it would be better to recognize it, than to rush on with inherited approaches, which we know from experience have high risks of failure.

3. Other Programs

There is no long list of programs which will benefit the lowest income people in Liberia and at the same time satisfy most of the criteria set out above. For the urban poor, extension of the present sites and services project in Monrovia seems suitable. The project appears to have avoided most of the common problems that characterize these projects almost everywhere. (Mainly, too-high "standards" and too-limited participation by poorer people in the benefits) though this judgment is based only on very brief and superficial examination of the Monrovia project. Still, the Monrovia sites and service project appears to be off to a good start, and much is now known about how to reduce cost and increase equity in these types of projects, so there is promise in this program area.

In rural areas, several promising smaller programs are now underway and are candidates for expansion should they continue to develop well. One is the "Improved Efficiency of Learning" Project, which is devising programmed materials for the elementary schools. Though still in a very early stage, follow-ons to this project could make for significant improvements in primary school quality, at relatively low cost.

A second program, now about to begin, has similar potential for later enrichment: the rural radio project, which will open up new avenues of communication for rural areas now out of reach.

Bigger, more basic programs to help the rural poor raise problems of future recurrent costs and organizational capacity and hence durability. There appear nonetheless to be three program areas in which new activities should be considered: rural roads, extension of rural primary schooling, and health.

Rural roads. In the absence of special assistance for rural road construction and maintenance there is grave

danger that many of the extraordinary transportation achievements of the past two decades will be soon wiped out. Indeed, this is likely, given the special demands of effective road maintenance, the organizational disarray and fiscal crisis which will prevail for some time in Liberia.

Three approaches are conceivable: (1) A continuation (enlargement) of past efforts by various donors to strengthen the force account capacity of the government. (2) An effort to nurture private road contractors for some construction and most maintenance - privatizing road maintenance. (3) An enclave-type crisis operation, whereby USAID, alone or with some other donors, takes on full organizational and financial responsibility for a rural road program; training and institutional development would be distinctly secondary to keeping the roads open while the Liberian economy passes through the storm.

There are pluses and minuses in each approach; a big enough program could combine all three. The main point is that a rural road program has much in its favor: it is an indispensable input for agricultural progress, whatever the outcome of the rural development strategy review proposed earlier; it is a highly visible expression of government's concern for rural welfare, since physical access is highly valued by villagers; it can have positive longer-run institutional effects, to the extent that it nurtures contractor (or public sector) capacity; it need not be very expensive.

Rural Primary Schooling: about 50% of school-age rural children now attend primary schools. Schooling continues to be a most intensely demanded good. Its wider provision would be another concrete demonstration of government's concern for rural welfare. And a more widely educated rural population might mean that more rural people could take better advantage of unfolding options for economic and social improvements.

What could be enviseaged here is a commitment to finance primary schooling to cover two-third of rural children, from the present 50%. The financing in question would have to include not only school buildings, but teachers' salaries and other local and recurrent costs, for a specified period, perhaps five years. It might be part of a larger donor effort in the education sector - sponsored perhaps by the World Bank which has been the lead donor in this sector.

Health. Some activity in rural health care can also be enviseaged. One clear priority is to assure utilization of facilities which are now being completed but which will

surely be underutilized for lack of budget resources and, perhaps, skilled manpower.[1]

The Liberian Government is anxious to set up a rural primary health care network countrywide, and USAID has produced a draft project in response. I have not been able to examine this proposal in detail, but several observations emerge from even a quick analysis. The first is that the project is probably too ambitious and complex. It aims at establishing primary health units throughout the country, with little regard to population densities or existing programs. Thus, much effort will go to Maryland, Grand Bedeh, and Sinoe counties, where population is very thin, and where in some cases (e.g., in Maryland) a primary health care project already exists. One consequence is that cost per person effected is relatively high, which implies heavy consequences for future recurrent spending.

A second consideration is that the needs to be served are not so clear. If primary health care serves mainly to distribute the major drugs (aspirin, an anti-malarial and sulfa), this "market" is now widely served by a private sector - the so-called "black-baggers". These private traders, sellers of drugs and other medical services, are ubiquitous. Very few outside observors have anything good to say about the "black-bagger," but he supplies pharmaceuticals to people in need, when these drugs are not available elsewhere - e.g. in the government dispensaries or health centers - and he provides the only service many villagers can find, outside of traditional practitioners. Rather than encourage the unremitting hostility these traders face in the health establishment, ways might be found to recognize the constructive aspects of the "black-baggers" role, and harness their energies more effectively for social purposes.[2]

[1]The most striking case is that of the four rural health centers constructed with grants from the European Community. The EEC rules do not permit recurrent cost financing. So the health centers they have financed may not be able to open, since the ceiling on government spending may make impossible local financing of these centers.

[2]One observer has written as follows: "In striking contrast to the compatability of the traditional and modern Lofa county health providers stands the "black bagger", a pervasive force in the rural setting who although untrained and illegally operative has presented a direct challenge to Lofa County facilities in many areas in attracting patients. A key element in the success of this provider has been his reliability in providing drugs." (Karen Lashman, An Evaluation of the Lofa County Rural Health Project, Liberia, Office of International Health, U.S. Dept. of Health, Education and Welfare, Washington, February 1979.)

A final consideration is more general: primary health care projects make great demands on organizational capacity - good general administration, flexible and reliable budget systems, relatively plentiful coordinating capacities, good transport and communications facilities. These conditions are not present in Liberia and indeed are rarely present in LDCs generally, which accounts for the poor record of most primary health care projects in the Third World.

In this regard, the record of these kinds of projects in nearby countries is sufficiently unhappy to counsel caution and a gradual approach for Liberia. The Senegal Sine-Saloum project, which was at one time hailed as a model for West Africa, saw one-third of its health posts closed after nine months of operation, and has been the victim of numerous difficulties not yet resolved.[1] In Liberia itself the Lofa County Rural Health Project, while different than the new proposal, had a short and largely futile life; it was terminated only a little over a year ago.[2]

New rural primary health programs therefore might best be very carefully planned and begin gradually. Any health sector activity should also give priority to the financing of local costs for utilization of existing capacity.

[1] cf. A.I.D., The Sine-Saloum Rural Health Care Project in Senegal, A Project Impact Evaluation, April 1980, Washington, D.C. (mimeo).

[2] The project began in 1975. Its purpose was to eatablish a health/family planning delivery system in Lofa County with both preventive and curative facilities and using paramedical staff. The project ran into deep trouble from the start - its conceptual basis was unclear, staffing problems were severe, logistic and administrative difficulties enormous. Its goals were highly unrealistic. (Lashman, op. cit.)

Annex: Response to USAID Critique on New Programs

The USAID comment on the draft report generally rejects the report's suggestions for new program directions, principally more emphasis on rural roads, and additional help to primary education. The mission expresses some concern about the Improved Efficiency of Learning Project and the rural broadcasting project. It reaffirms its stress on primary health care.

As noted earlier, the project ideas in the report were no more than ideas; my mission was not intended to evaluate old projects or propose new ones. The following observations are in order.

1. The proposals -- especially rural roads and primary schooling were put forward because they are highly demanded by rural people, we know how to provide them, and they may allow villagers to capitalize on future opportunities whatever these might be. The underpinning of these suggestions is that at the margin, money spent on roads and schools will have greater impact on rural incomes and welfare than money spent on the extension service.

2. As the mission observes, many of the existing projects were shaped at a time when recurrent cost constraints were less severe. The mission rejects the idea of expanded primary schooling on this account. To be consistent, the rural broadcasting project should also be re-shaped in the light of the budget crisis. The project originally aimed at accelerating a general move to decentralize public sector activities. This explains why the broadcasting stations are located at county level. But this formula substantially raises the construction cost and logistical difficulties of the project and indeed it's likely survivability once foreign assistance is withdrawn. It might be advisable to re-work the project, reducing the number of county stations or eliminating them altogether.

3. The USAID mission's critique of the draft report makes some interesting and pointed criticisms of the health recommendations.

A. The Possible Use of Private Drug Salesmen

In particular, the mission vigorously denounces the idea that the "black baggers" might be made to play a constructive role. They say the black baggers:

"...are illegal salesmen, untrained and largely unfamiliar with the drugs they carry and sell; they often end up selling the wrong medicine or wrong dosage. Their sole motive for being in the rural areas is to make an exorbitant profit by preying on the people's perceived needs and their lack of sophistication..."

This provokes a number of observations: (1) It is highly unlikely that the statements about what "black baggers" sell and how they operate could be backed up by credible evidence, since there has been to my knowledge no study of what they do. (2) The black baggers are criticized because "their sole motive for being in rural areas is to make an exorbitant profit..." etc. The medical bureaucrat's motives, by implication, are presumably purer--to do good. The advantage of a functioning market is that consumers are offered alternatives and some protection by competition. Though there are special features of pharmaceuticals markets which call for special public regulations, there is no fundamental reason why drug salesmen need be different than butchers or bakers. Since the vast majority of rural people have little or no access to other sources of modern pharmaceuticals, what is to take the place of private vendors--a public sector distribution system? (3) So long as donors persist in proposing public sector solutions for problems such as this, rural people will have to wait a generation or more for improved access to pharmaceuticals. Moreover, so long as donors turn with distaste from manifestations of private initiatives like those of the black baggers, we risk obstructing the emergence of indigenous, decentralized competence necessary for the development of an autonomous society. It may be that the health area is not the right place to start, that there is no way the activities of the black baggers can be directed into more socially useful welfare channels--no way they can be trained and licensed, for example. But surely these possibilities should not be dismissed out of hand.

B. Primary Health Care

The mission notes "the primary health care project is being reviewed by MPEA for possible scaling down..." so there may be no difference of view on this issue.

There is however an indirect issue which should be addressed: the responsibility of USAID and other donors in the shaping of health sector strategy.

Rural people in Liberia have very limited access to health care. The official position of the Ministry is that primary health care should be available for 90% of Liberians by the year 2000. To meet this goal would require extremely large efforts in construction of additional health posts and health centers, as well as renewal of regional facilities. Also, vast training efforts would be required and the elaboration of whole new organizations for drug delivery, supervision, training, etc. The precise model of primary health care which will be the vehicle for the program is yet to be defined; the matter is under study by a WHO advisor.

The trouble of course is that this rapid expansion is incompatible with the financial and organizational constraints of the present and the near-term future. There are in fact great difficulties in maintaining the present health infrastructure. The JFK Hospital absorbs some 40% of the total MOHSW budget. While its main facilities have on the whole been adequately maintained, the ancillary facilities are in bad shape--the kitchen, laboratories, laundry, etc. The power equipment needs replacement and the paramedical training center needs a new building. Existing health posts and centers are seriously understaffed. The government's supply system needs major attention--additional warehouses, vehicles, drugs are all needed; many of the existing facilities in fact require major rehabilitation.

In these circumstances the direction of strategy is clear. Available aid resources should go, as a first priority, to maintenance and rehabilitation of existing infrastructure, and to staffing of existing facilities now without adequate staff. It is not in Liberia's interest, nor in the U.S. interest, to encourage ambitious and difficult new programs when the ongoing activities are so much in need of assistance.

This is the rationale for the recommendation to proceed slowly and cautiously with PHC extensions. The implication is that USAID's responsibility is to encourage the adoption of GOL spending priorities in line with these conclusions.

IV. CONCLUSIONS

Liberia is passing through a perilous time. A new and inexperienced political leadership is beset by crises of many kinds, and is possessed of weak political, administrative and economic instruments for dealing with them. Severe social and political stress is likely for several years to come. There is high risk that the economic gains of the past will be dissipated and future growth sacrificed.

It should be clear even from the brief survey of the nature of Liberia's present crisis that its roots lie to a very considerable extent in history and in an unfortunate turn in the world economy. The historical legacy is well-known: a crushing debt burden mainly because of OAU Conference-related expenditures financed by commercial loans at high interest rates; a deteriorated capacity to control government expenditures; a rising salary bill; a set of 20 or more public corporations, few of them well-run. History enters too in a structural way - through the imposition on the new regime of a monetary system permitting minimal flexibility in response to fiscal strain. Similarly, trends in the world economy have exacerbated the problem of the new regime: recession in the world iron ore market; low rubber prices; declining prices (after 1978) for coffee and cocoa; a sharp swing in timber markets; high interest rates; the second oil shock in 1978. The new government exacerbated its problems by one imprudent (though understandable) act: raising salaries of military personnel and the lowest paid government employees. It has also continued to overspend on items such as foreign travel. These are significant factors, but the fact remains that the crisis derives much more from history and the economic environment than it does from the policies of the new regime.

The Liberian authorities have made and continue to make very substantial efforts to overcome their fiscal problems, but these continue to threaten the country's present well-being and future development. In these circumstances, the U.S. role should be to help the Liberian government and the Liberian people through the present period of crisis by providing appropriate levels of budget support and development assistance designed to bring about (i) fiscal equilibrium; (ii) productivity-raising policy reforms; (iii) the improvement of economic management; and (iv) greater economic opportunities for the poor, which is not only desireable in itself but can smooth the path to political integration. Suitable assistance now will make permanent crisis less likely later.

It is important to stress that the indicated dangers are essentially short and medium term. Liberia is a resource-rich country, which will continue to attract outside investment, provided the political and economic environments are right. The prospects are good, for example, for further expansion of iron ore production after 1985; discussions between LAMCO and the relevant Guinean parties are far-advanced. The entry of the Guthrie Company in rubber and its involvement in oil palm symbolizes Liberia's attraction for new foreign investors. It is probable that Liberia's off-shore explorations will one day yield crude oil.

With help from outside, good domestic policies and a little luck, Liberia's economic prospects should therefore be much brighter in the second part of the decade and its need for outside assistance much reduced.