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Country Development Strategy Statement

FY 1984

Liberia

January 1982

Agency for International Development
Washington, D.C. 20523

BEST AVAILABLE

LIBERIA

COUNTRY DEVELOPMENT STRATEGY STATEMENT

FY 1984

March 1982

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Republic of Liberia
COUNTY MAP
N
Lofa
Gr.
Cape
Mt.
Bong
Nimba
Mont.
Grand Bassa
Grand Gedeb
Sinoe
Maryld.
0
50
100
Miles

EMBASSY OF THE
UNITED STATES OF AMERICA
Monrovia, Liberia

March 26, 1982

Mr. Francis Ruddy
Assistant Administrator
for Africa
Agency for International Development
Washington, D.C. 20523

Dear Mr. Ruddy:

The Country Development Strategy Statement (CDSS) has been reviewed and endorsed by the Country Team. It is consistent with overall United States policies and interests in Liberia. Given the fluid situation in Liberia, however, the CDSS will require frequent review and revision.

During the three year period we will increasingly concentrate on direct budget support, fundamental policy reform, institution building, and private investment to assist in the resolution of Liberia's economic crisis. We also will encourage greater involvement by other donors in assisting the country to address effectively its financial and economic problems, meet basic human needs of its population and overcome some of its development problems.

We believe that the three year plan, FY 83-FY 85, is realistic. In order to implement this plan, it will be necessary to increase aid levels. The proposed minimum requirements for this timeframe are: $125 million in Economic Support Fund assistance, $40 million in PL 480 Title I, and $75 million in Development Assistance. If the U.S. is to contribute to the realization of civilian rule and a healthy economy in Liberia by 1985 and continue development, such levels are indeed necessary. The pace of economic recovery and development in this three year period and in the first years of civilian rule must be quickened with more, not less, U.S. assistance.

Sincerely,

Bill

William L. Swing

TABLE OF CONTENTS

		Page No.
I.	Physical and Social Characteristics	1
II.	Economic Characteristics	2
III.	Institutional and Administrative Setting	22
IV.	Analytical Description of Target Groups	24
V.	Causes of Lack of Development and Obstacles to Broadly-based Growth	29
VI.	Three Year Action Plan	42
VII.	Proposed Assistance Levels	60

I. Physical and Social Characteristics

A. Physical

Liberia is a relatively small country of approximately 37,743 square miles. Much of the country is covered with inhospitable rain forest. Rainfall ranges from 80 inches per year in the interior up to 200 inches along the coast. Most of the rainfall occurs between June and November. The climate is warm and humid. Temperatures extend between 65 to 85 throughout the country.

The topography of the land is predominantly hilly, with very limited areas of flatland or fertile valleys. A high degree of leaching has left the soil strongly acidic and deficient in plant nutrients, while in certain areas iron toxicity adds to soil problems.

Liberia's many rivers run perpendicular to the coast. River basins are narrow and do not lend themselves to agricultural use. The major streams are spaced at regular intervals across the country. There are no well-developed valleys or flood plains. Except close to the coast, gradients are fairly steep and irregular, which makes rivers of little use for transportation, but does constitute a considerable potential for hydro-energy generation.

The country has a limited network of all-weather roads, estimated at 6,400 miles of which only 360 are paved. The main roads are unusable during the heavy rains and make portions of the country completely inaccessible by surface transport. Due to recent fiscal constraints, many roads are deteriorating for lack of maintenance.

B. Social

The population of Liberia is estimated at 1,900,000. Of this number, more than 94 percent identify themselves with one of the 16 different socio-linguistic groups. The rest are descendants of the original settlers, detribalized Africans, foreign national Africans and non-Africans. Most transcend international boundaries, with kinfolk in Sierra Leone, Guinea and Ivory Coast. The regional distribution shows that 45 percent of the population is located in three coastal counties: Grand Bassa, Cape Mount and Montserrado; the latter includes Monrovia.

The extreme socio-cultural fragmentation in a small society of less than two million persons is believed to be one of the causes for lack of national unity or a shared feeling of nationhood. In another dimension, it partially explains why Liberians find it difficult to work together toward common goals, and exhibit a pronounced lack of trust among individuals and groups. Historical socio-economic stratification, widely condoned greed, and long term neglect of tribal people in the interior add to problems in intergroup and interpersonal relationships. Two years after the coup, these relationships have not improved; ethnicity has become more prominent.

II. Economic Characteristics

A. Structure of the Economy

Liberia has a dual economy, in which a largely foreign owned and controlled export-oriented concession sector (rubber, iron ore, timber enclaves) has few linkages to the general economy. They make relatively few purchases from local firms, importing the bulk of their physical inputs from abroad and exporting their commodities in crude or semi-crude form. Virtually the only multiplier effect generated is through salaries paid to their workers. Aside from rubber tapping and processing, the concession operations are capital-intensive. The concession sector contributes one third to the value added in the economy and employs 60,000 workers or 32 percent of the modern sector work force. Of the total, 14,000 work in iron ore concessions, 7,000 work in timber concessions, while the bulk of the remainder are employed on the rubber plantations and with associated service industries.

The modern sector of the economy, including concessions, accounts for 79 percent of GDP, while the traditional sector, largely represented by subsistence agriculture and village crafts, accounts for 21 percent.

The structure of Liberia's monetary economy, based on each sector's percentage contribution to 1980 Gross Domestic Product ($372.0 million in real terms, $830 million at current factor costs) is represented in the following manner:

1. Export Sector		45.4
Agriculture	17.5	
Rubber	(5.7)	
Forestry	(6.2)	
Other (coffee, cocoa)	(5.6)	
Mining	27.9	
Iron ore	(26.6)	
Other (gold, diamonds)	(1.3)	
2. Domestic Sector (modern)		54.6
Manufacturing	8.0	
Construction	2.2	
Government	12.1	
Services	32.3	100.0

3. Domestic Sector (traditional) Growth in the traditional sector, composed primarily of subsistence agriculture and village crafts, appears to be slowing from annual growth rate of 3.5 percent to one percent.

II. B. Performance of the Economy

The Liberian economy experienced a difficult period, most of the decade of the seventies. During 1977-1981, the growth of the economy declined significantly. Total output, that is, gross domestic product at factor cost, increased at an average annual rate of less than two percent, compared to an average growth rate of six percent during 1964-1970 and four percent during 1970-1974. In 1979 the economy stagnated; in 1980 and 1981, it registered a negative real growth rate of more than 4 percent. The slowdown is attributed largely to the export-oriented sector. Iron ore production, which presently accounts for approximately 52 percent of total export earnings, has fallen sharply from its peak in 1975. Between 1976 and 1980, iron ore production was on the average 23 percent below the 1975 level. This reflects in part the closure of one of the four mines, due to exhaustion of the ore deposits. However, the main cause was the phenomenal increases in the cost of energy during the 1970's. Unit costs rose rapidly while iron ore demand declined or stagnated following the recession in the industrialized west. Furthermore, labor costs in Liberia are comparatively high, given the low productivity of the labor force. Most mining companies, in an effort to continue their operation, reduced personnel and social facilities and programs such as health care, schools, housing, etc., activities not directly related to production.

Some ore companies even requested the deferment of royalty payments to Government because of persistent negative cash flows. The Government has had to agree to one such request, because the perceived reaction to a negative reply was for the company to discontinue operations.

The future of the Liberian iron ore industry during the remainder of this decade is a cause for concern; likely increases in energy cost will further raise the cost of production. At the same time, the lack of adequate port facilities capable of handling large vessels will continue to depress the prices Liberia receives for its ore.

By the late 1980's the ore deposits presently being mined are expected to be depleted. In today's prices, the capital required to extend the lives of those mining companies enabling them to tap other ore bodies, are staggering. Continuing operations by Lamco and Bong Mine, will mean an investment of at least five hundred million dollars. To bring the proposed Wologisi Mine on stream, the capital required for the mine and housing, etc., would be over one billion dollars. (The latter figure excludes the cost of investment in power facilities.) A $67 million expansion and modernization package for the National Iron Ore Company (NIOC) was recently put together by the IBRD, the African Development Bank, the OPEC Fund, Netherlands FMO, and a consortium of commercial banks led by the Bank of America.

There is, in addition, an increasing international substitution of aluminum, magnesium and plastics for steel -- a trend most noticeable throughout the transport industry. With lower profits being realized by steel companies, construction of new steel plants has become problematical -- a number of proposed projects for new plants or the expansion of existing ones have been recently postponed or abandoned. As a result of these factors, our revised projections of growth in demand for steel on the world market is likely to be low until 1988. This situation does not augur well for iron ore producing countries such as Liberia, especially one whose money supply and liquidity position depend partly on what it sells abroad (Liberia uses the U.S. dollar).

Other export-oriented sectors have fared only slightly better. Rubber prices, which reached a 15-year peak in 1980 have fallen drastically due to a sharp decline in demand. The world automobile and construction industries --

primary purchases of rubber -- are in a slump. Measures by rubber producers to withhold natural rubber from the market are having little impact on prices. Further, there exists a relentless pressure on costs of producing natural rubber products; unless these pressures are restrained, synthetic producers may once again improve their competitive position vis-a-vis natural rubber, particularly if rubber prices remain soft. For Liberia, producing less than three percent of the world supply and with higher production costs than many producers, the prospects of a relative gain will be sacrificed unless there is a restraint on production costs.

The medium term prospects for rubber appear to be good. The market projections are positive and given Liberia's natural advantages, it could expand total production as well as its share in world production. The decline in profitability of local production, along with other problems, has led to large-scale abandonment of Liberian-owned rubber farms. Output from these farms has significantly decreased, though production from concessions farms has thus far remained relatively constant.

The production of coffee and cocoa, carried out primarily by smallholders, has increased only slightly over the past several years. The production of palmkernels has been declining in recent years. While these crops continue to be viewed as promising smallholder enterprises, export prices for all three have recently declined to their lowest levels in over a decade. Prospects for improvement in the short term are not bright, though medium to longer term forecasts are promising.

The timber industry, which had been slowly assuming an increasingly important role in the Liberian economy, has likewise experienced a slump. The European market, which purchased the bulk of Liberian round log exports, has been depressed. The result has been a decline in timber production, though the medium-term prospects for this industry are also good.

Until 1979/1980, the domestically-oriented sectors — consisting mainly of the traditional agricultural sector as well as manufacturing, construction and Government and other services sectors--showed slow but steady growth. Between 1975/1979 these sectors, excluding traditional agriculture, recorded a 5 percent growth rate, while production in the traditional economy increased at an estimated annual rate of 3.5 percent. From 1979 to the present, growth in these sectors has shown signs of slowing down.

This generally gloomy picture is also reflected in a number of other economic indicators: monetary trends, public finance and monetary sector employment. Prior to March, 1980 there had been a fairly steady growth of the money supply. (The volume of U.S. bank notes in circulation is not known, but it presumably rose more or less in line with banking liabilities). Up to 1977, claims on the Government and public corporations were relatively small, but they began to rise sharply thereafter, as the Government's budgetary position deteriorated. Up to the end of 1978, the banking system was in a small net asset position vis-a-vis foreign banks abroad, but this changed sharply in 1979. By March 1980 the banking system had a net liability position vis-a-vis foreign banks amounting to $64 million.

Following the April 12, 1980 coup, this situation deteriorated rapidly. There was a massive withdrawal of private sector deposits and capital flight as a result of the political upheavals but also because of the appreciation of the U.S. dollar. In 1981 the recorded money supply (not counting money in circulation, which also disappeared by the suit case full) declined by 26 percent, with bank deposits falling by 28 percent, resulting in a tremendous liquidity squeeze throughout the economy.

II. C. Employment/Unemployment

The Liberian Ministry of Planning and Economic Affairs (MPEA) identifies the "potential labor force" as being around 925,000, while what it terms to be the "economically active population" is only 525,000. This implies that unemployment is 400,000; our calculations show that it is less than half that number. Government employment data indicate that some 175,000 working-age persons are employed outside the agriculture sector; an additional 40,000 persons are employed in the informal sector (petty trade, services, unpaid family labor, crafts, etc.); 70,000 are attending school; the remainder (640,000) are either working in subsistence agriculture (including marketing), or are among the rising tide of urban unemployed.

Liberia currently faces a growing farm labor constraint in rural areas as young adult men and women are increasingly migrating to urban areas in search of a better life and an expected wider array of economic options. Most are severely disappointed, as the estimated Monrovia unemployment/underemployment rate of 40 percent indicates. At the same time growth in subsistence agriculture production -- until recently a sector registering sustained annual growth of 3 percent -- is now slowing down, as young children, remaining women and old people often cannot adequately carry out all the agricultural tasks that used to be performed by those who have gone to the cities, while hired labor from across the borders is discouraged; when it is available it is either unsatisfactory, too expensive or both. In the Lofa project high school students are being used as supplementary source of labor. On the other hand, there is a sizeable unfilled demand for managerial and technical skills; however, the qualification structure of demand is considerably at variance with the qualification structure of supply (as a result of poor manpower/education planning), with the result that many of these positions are filled by expatriates -- including other nationality Africans.

The unemployment situation is of particular concern to the PRC, one of whose aims upon the overthrow of the old regime was to "reduce unemployment". Even government, which used to be the employer of last resort, can no longer play this role; it is already bloated (one public service job for every 54 inhabitants) and government's fiscal problems are so severe that it has had to institute hiring freezes. Many recent high school and university graduates have been unable to be absorbed by either the private or the public sector.

II. D. Foreign Trade; Balance of Payments

Export value for 1980 was $600.5 million vs. $536.6 million in 1979; a 11.9 percent increase. In nominal terms this is a slightly better performance than between 1978 and 1979 when export value increased by 10.3 percent. This increase is largely due to both increased export volume and some prices. However, preliminary indications are that exports began to stagnate in 1981. Imports for 1980 were $550.7 million; a 4.6 percent increase in value over 1979, an increase smaller than that of 1978-1979. The trade balance of $49.17 million is an improvement over other recent trade balances (1977, minus $16.1 million; 1978, plus $5.5 million; 1979, plus $29.9 millicn). However, with stagnating export earnings, the unusually large trade surplus in 1980 is likely to have diminished in 1981.

However, it should be noted that a high positive trade balance does not necessarily reflect a favorable development in the economy or lead to the conclusion that Liberia has no balance of payments problem. The heavily negative services balance includes minus \$67.1 million for non-factor services, while the net factor services balance of minus \$157.9 million includes \$83.7 million investment payments by the private sector and minus \$23.9 million for public sector interest payments -- the highest ever. These balance of payments deficits used to be financed by private capital inflows; while there are no accurate figures on private capital transfers, since 1979/80 there has been substantial capital flight. Despite large drawings on official loans (\$117.6 million in drawings and \$23.9 million in amortization payments), there was a sharp decline in official reserves.

The underlying structural factors and policies which contribute to the balance of payments difficulties are: a high degree of concentration exports in a few primary products; deteriorating terms of trade and foreign demand; and policies such as government spending, taxation, concession agreements, wages, the interest rate, and Liberia's lack of an exchange rate as a policy instrument). A basic problem facing the government is that a large percentage of receipts for private sector exports are transferred through the commercial banks and not the National Bank of Liberia. As a result of limited experience, the National Bank is unable to "capture" more of these funds. This makes it very difficult for GOL to meet those offshore payments for which it is responsible. In effect, the balance of payments as seen from the GOL's point of view, and which is subject to official policy determination, is limited to public sector transactions, and the GOL is heavily reliant on foreign official transfers to make up the shortfall between the National Bank's foreign receipts and disbursements.

II. E. Other Selected Macro Economic Issues

Liberia's economic difficulties, which became apparent in 1979, were aggravated by the April 1980 military takeover, as well as by external economic factors over which Liberia had no control. The crisis has essentially seven elements; first, a domestic economy which began to stagnate in 1977 and has registered negative real growth, largely due to depressed demand for Liberia's exports, over the past two years; second, the existence of a public sector foreign exchange crisis, due to increased and accelerating external financial obligations, posed against reduced foreign exchange and revenue earnings to service these obligations, and exacerbated by the rising cost of oil imports; third, a near fiscal collapse which has its origins in large and persistent budget deficits which can only be financed by severe austerity measures, bringing expenditures into line with domestic revenues; fourth, the absence of liquidity at the National Bank because of government overdrafts and a further liquidity squeeze in the banking sector caused by capital flight, a reduction in demand deposits and dissaving; fifth, there prevails a lack of confidence by the business sector in the current government's ability to put its fiscal/ financial house in order, which in turn is reflected in reduced levels of liquidity, investment and business activity, and therefore revenues; sixth, considerable rigidity is imposed on monetary/fiscal operations by the use of the U.S. dollar; finally, there is considerable uncertainty about the immediate future. These elements are interrelated. A solution to the current crisis has to address six elements, while no one party, external or domestic, can resolve the situation by itself.

Despite a favorable trade balance, Liberia has a considerable current account deficit caused by a large negative "service" component. The GOL has virtually no external reserves and only limited lines of credit to finance its external transactions. This situation is illustrated by monthly recurring last minute scrambles to pay oil bills, service debt and find cash to pay government workers. It reflects a deterioration in the strength of the National Bank of Liberia (central bank) which in turn is due to GOL's resort to overdrafts at the Bank to help finance its fiscal deficits. The later is the root cause of the problem. The fact that Liberia uses the U.S. dollar as its currency limits government's monetary flexibility, and tends to exaggerate problems in short-term adjustments to liquidity constraints. On the other hand, the use of the dollar has many positive aspects; i.e., it promotes trade, and encourages investment in that returns on investment is in a hard currency.

Another key macro issue in more of a developmental sense, is that of agricultural pricing. The incentives and the resulting production functions which attempt to stimulate agricultural production through government policies, are based on two assumptions: (1) farmers will perceive true costs and benefits from policies and (2) that implemented policies produce the intended effects. As to the first assumption, Liberian farmers tend to behave rationally in an economic sense. However, policies, when implemented, sometimes have unintended side effects (middlemen interference in the interior causes farmers often to receive considerably less for sales than official producer prices would indicate; if consumer prices are controlled below the market rate, black markets will arise when demand exceeds supply at official prices, etc.). The current excessive sensitivity to urban consumers is myopic. When discussing agricultural pricing issues one cannot look at those in isolation. Although the lack of appropriate farmgate price incentives is an impediment to increased production in the long run, there are some other things which have to happen first before the farm household can react to improved price incentives. The current lack of proven alternatives to traditional production techniques that are technically feasible under Liberian conditions, remains a major constraint. Dramatically increased farmgate prices could not significantly affect output in the short and medium term. If there are improvements in the longer term, these are thought to be more likely to result from increased production efficiency from more competitive unit costs, rather than from higher unit prices.

Incentives to farmers may be broken down into those perceived as increasing benefits and those reducing costs. The gross benefits to farm households can be considered in terms of total sales and farmgate prices. Currently, price incentives for food crops do not exist although a break-through has occurred in the price of rice. In Liberia, the official farmgate price of rice was recently increased from 12¢ to 18¢/lb and is controlled; actual prices received are often lower. Despite the increase, the current farmgate price may be low relative to uncontrolled market prices. Middlemen interference also impacts on the amount the farmers receive. As a result of a number of interacting factors (very limited technology, lack of inputs, low farmgate prices actually received, lack of marketing channels) the typical farm household produces for subsistence only. Some marketable surpluses are grown by women and are to a certain extent dependent on how much time is left to them after attending to the household farm.

Costs also influence farm decision-making. The costs to the Liberian subsistence farmer are relatively low because of the low level of technology: seed rice, simple hand tools, and labor with low opportunity costs; the land the farmer uses under the tribal system is free. Traditional tenure prevails and farmers still feel largely secure under this system. Inputs subsidies (in some of the integrated rural development projects) do temporarily exist, but additional inputs tend not to be used unless there is a place to sell the additional output -- if physcially produceable -- at appropriate prices; and money is needed initially to buy the subsidized inputs. Education, health, research and extension may increase the efficiency on the subsistence farm, whereas better information and new skills improve farm management capabilities. Currently these inputs are viturally non-existent. Policies on research exist; those on extension are evolving. Without adaptive research and farm trials to develop packages of technology; without effective extension to get the technology out to the farm and get it adopted; and without functional support institutions, there is unlikely to be any substantial improvement in agricultural productivity, regardless of the producer price. Similary, without better physical infrastructure (roads, bridges), these improvements cannot be brought to the farmers; similarly, possible surplus production cannot get to markets.

II. F. Public Resource Allocation

(1) Overall resource allocation:

The budget deficit has grown sharply since 1979. By International Monetary Fund (IMF) definitions it amounted to $88 million in 1979/80, to $100 in 1980/81 and is likely to be only a fraction of this figure less in 1981/82. This amounts to roughly 10 percent of GDP and constitutes more than 40 percent of domestic revenues.

The deficit has its origins in reduced revenues, reflecting slow-downs in major export industries as well as in the domestic economy, but more significantly in expenditures. The expenditure side of the problem consists of the following parts: (1) a bloated civil service with an unaffordably large salary component, (2) a large number of unprofitable and mismanaged public corporations which are a drain on public funds, (3) ineffectual attempts at expenditure control, and (4) a mounting debt service.

The average monthly government wage bill (recurrent only) amounts to $13 million; wages constitute 64.5 percent of total recurrent operating expenditures. Debt service requirements as projected by GOL for the remainder of the decade (excluding repayments to the IMF) are as follows (GOL's figures):

	Debt Service (unrescheduled)	pct of expected revenue 1/ (nominal)
1981/82	63.9	25.3
1982/83	78.5	28.3
1983/84	86.9	28.4
1984/85	91.3	27.1
1985/86	90.3	24.4
1986/87	78.2	19.2
1987/88	61.4	13.7
1988/89	55.1	11.2

Note: This assumes a projected interest rate of 17.375 percent, the rate at June 30, 1981.

Debt servicing represents a tremendous burden to government until well after the middle of the decade.

1/ USAID Mission forecast (Optimistic)

Between 1979 and 1982 government subsidies to state corporations were $25 million, $32 million and $24 million respectively. Currently, none are profitable. Government has tried to control expenditures, but only with limited success. Despite heavy new taxes (one of the heaviest burdens in Africa) and a tough IMF agreement to hold down expenditures, spending targets for FY 1981/82 are being met only at the cost of a rising amount of unpaid checks and with outside assistance. Meanwhile the economy falters. All of the major sectors in the economy are negatively affected by adverse trends in the world economy. It will not be easy to overcome this crisis, as the external economic environment is likely to remain uncongenial for several years. One anomaly to this situation is that one can find anything in the marketplace one wants. This is because of the use of the dollar and is part of the "consumption economy".

The Government's financial position has deteriorated seriously. During the early 1980's the Government achieved overall budgetary balance. Beginning 1976-77 a substantial budgetary deficit was recorded; the deficit peaked in 1978-1979 and has remained high since. Since the coup, increasing problems have been faced in keeping the deficit at manageable levels, and the external debt burden has become staggering. Growth of revenues declined substantially; while at the same time, expenditures have consistently exceeded projections. Fiscal discipline, never a strong point of any Liberian Government, remains a problem. The result has been a financial crisis in which the Government is hard pressed to meet even the most essential financial obligation, i.e., salary payments, oil bills and interest on external debt. In the absence of bold initiatives aimed at controlling expenditures, it will be impossible to avoid even greater deficits in the immediate future.

Government Revenue and Expenditure
1976/1977 - 1980/1981

	1976/77	1977/78	1978/79	1979/80	1980/81
Revenue and Grants	182.5	201.5	224.9	225.8	254.1
Revenue	166.5	185.5	201.9	202.8	217.9
Grants	16.0	16.0	23.0	23.0	36.2
Expenditure	209.1	273.9	365.7	313.7	353.6
Recurrent	108.5	122.3	152.9	179.7	237.8
Development	100.6	151.6	212.8	134.0	115.8
Overall Deficit	(26.6)	(72.4)	(140.8)	(87.9)	(99.5)

Under the monetary system in Liberia where the U.S. dollar is used as the national currency, it is not possible for Government to print money in order to finance budget deficits. The use of the dollar has a number of advantages. At the same time, because the money supply cannot be expanded at the will of Government, the system imposes strict monetary discipline. While this circumstance has a positive influence in deterring uncontrolled printing of money, it also means that Liberia cannot, over the long run, sustain budget deficits through expanding its money supply. It is imperative that fiscal policy aim at minimizing such deficits.

The present financial crisis which the country faces has its roots in the period 1976/80. Since 1976 the Government has run large, growing deficits which have been financed by foreign borrowing -- mainly high interest commercial loans which are now coming due.

Not only is the deficit large when viewed in relation to Liberia's past, it now is comparatively one of the largest in Africa. If one takes the budget deficit as a percentage of expenditure, Liberia's deficit was 23 percent in

1981 and has averaged 26.9 percent for the past five years. During this period only five other countries in Africa had higher deficits, including Ghana and Sierra Leone (both of which have economies which are in grave trouble). It is clear that these deficits are largely responsible for the present financial crisis, making the country totally dependent on foreign cash support to finance the shortfalls. It is also clear that the economy will not be restored to a healthy position until the deficits are eliminated. In view of the size of the deficit bequeathed to and exacerbated by People's Redemption Council (PRC) the Government (due in part to the 1980 increase in salaries granted security forces and lower paid government workers, and an increasingly costly military establishment), this will be an enormous task -- one that will require drastic steps to both reduce expenditures and raise revenues.

In an effort to increase revenues and bring the budget deficit within manageable bounds, the Government has raised significantly a number of taxes and fees over the past two years. This effort was done in concert with the IMF which entered into a stand-by agreement with GOL whereby it would provide financial support for a two year period. In turn, the GOL agreed to observe certain criteria designed to improve fiscal management and financial control. In addition, a condition for the stand-by agreement was that certain controls would be imposed on budgeted expenditures and reductions would be made where possible. Government also accepted a number of performance criteria. During the first year and a half of the stand-by the performance criteria have been observed, though with difficulty. Should GOL fail to meet performance criteria, the implications are grave: Government would not receive IMF financial support that is essential to finance the most basic expenditures during this fiscal year, e.g., salaries, oil payments, debt obligations. Furthermore, donors as well as commercial banking sector look to compliance with the criteria as a barometer for Liberia's financial stability. Should the criteria not be met, assistance from other sources may be threatened, and the negotiations to reschedule both public and commercial debt (through the Paris and London Clubs) could be put in jeopardy.

While revenues have grown moderately over the past 4-5 years, expenditures both prior and subsequent to the coup, have simply been uncontrolled -- they have increased to levels that can neither be met nor justified. From 1976/77 to 1980/81, expenditures grew at an average annual rate of 19 percent, with recurrent expenditure expanding at an annual rate of 22 percent and development expenditure at 10 percent. Since 1980, development expenditures, necessary for employment creation and increasing the productive capacity of the country, declined by $18.2 million (a trend which, if continued, can only contribute to economic stagnation). Excluding OAU Conference - related outlays, overall Government expenditures grew at an average annual rate of 17 percent during the five year period.

Economic Classification of
Recurrent Expenditure
(Millions of Dollars)

Expenditure	1976-77	1977-78	1978-79	1979-80	1980-81
Wages & Salaries	60.4	67.3	78.4	94.4	138.1
Other Services 1/	16.4	20.1	30.0	23.7	19.6
Materials & Supplies 2/	10.5	12.6	14.3	19.0	34.7
Subsidies & Grants	16.4	12.3	12.3	15.0	23.5
Interest on Debt	4.8	10.0	17.9	27.6	21.9
Total	108.5	122.3	152.9	179.7	237.8

1/ Covers communications, utility services, rentals, travel and maintenance.
2/ Includes purchase of equipment and property.

The most striking aspect of this breakdown relates to wages and salaries. Not only did this item increase rapidly over the period, but it accounted for 50-60 percent of recurrent operating expenditure in each of the years -- a proportion which by any gauge is far too high, and implies the existence of large numbers of redundant, unproductive employees who have almost no materials to work with and inadequate logistic support. The decline in "other services" in 1980-81 reflects the nonpayment by Government of utility bills and rentals (commitments which continue to be owed). Subsidies continue to grow. Interest on debt has also increased substantially over time, and will mushroom in 1983/84 without further debt rescheduling.

(2) Development Resources

(a) The First Four-Year Plan

Liberia's first development plan was drafted in 1975 when iron ore incomes ran high and no one foresaw the effects of the continuing series of OPEC oil price increases. The plan dealt with public sector investment only. Because of this, the plan lacked a clear and consistent presentation of either inter or intra-sectoral priorities and failed to provide the important link between proposed investments and the attainment of its stated objectives. Despite these shortcomings, the plan initiated a more systematic effort in the planning and implementation of Liberia's development.

The original plan envisaged an outlay of $415 million ($164 million from internal savings and $251 million from external sources). The plan was revised in 1978 and the target increased to $585 million. By the end of the plan period less than 70 percent of expected outputs had been achieved, while total financial outlays had increased to $615 million.

Analysis of the development expenditures under the plan showed that 25 percent had been incurred on general and miscellaneous projects whose links to specific economic and financial benefits are unclear, while only 20 percent was spent on productive sectors (16 percent of which was for agriculture). Of the total expenditure 63 percent was spent to benefit urban areas. The claim in the preamble of the plan that the cornerstone of economic diversification was to be rural development "to raise agricultural productivity and the quality of life in the villages where most Liberians live", was, therefore, not sufficiently pursued in implementation.

(b) The Second Four-Year Plan

Liberia's 1981/1985 development plan is currently under preparation; its public sector investment plan was released in February 1982. The plan is aimed at broadening and improving the quality of Liberia's productive base, primarily through agriculture, some additional manufacturing, assisted through additional physical infrastructures and improved institutional support mechanisms. In other words, the productive base must be expanded in order to generate the income to afford the much needed social services. This is a laudable departure from former planning orientations, as the activity mix is directly linked with the objectives, rather than aspiring some lofty goals but then having a project mix which was largely unrelated to the objectives, as used to be the case.

The sectoral allocations of planned public investment reflect the high priority that is given to agriculture which absorbs one third of total planned investment. This top priority appears justified on various grounds, including: the relatively substained productivity of the agricultural sector, the fact that investments in this sector have shorter gestation periods (and therefore impact more rapidly on the economy), its pervasive and positive impact on the rural population, and its contribution to lowering the cost of living with any increases in the production of foodstuffs.

In the plan, about $250 million, or more than 40 percent of planned public investment, is directed toward on-going projects initiated under the first plan. Available domestic public resources, as projected, for the plan implementation period will be barely sufficient for recurrent expenditures and debt amortization, let alone the development plan. The proposed public investment program amounts to $616 million in constant 1980 dollars, or about $720 million at current prices. Therefore the financing gap is the amount of the investment plan. This means that the absence of domestic resources for public investment will make it difficult for government to take advantage of foreign financial resources, which are largely project-linked and require local counterpart financing. Therefore, the viability of the second plan will depend on Liberia's ability to mobilize external resources which are not tied to projects, and/or donor willingness and ability to assume financial responsibility for costs which under normal circumstances would have been counterpart costs borne by the GOL. In this connection, financial resources for structural changes in the economy will be sought from the IBRD, the IMF, the EEC, OECD and the U.S. Government.

III. Institutional and Administrative Setting

Liberia is ruled by a military government which overthrew the Tolbert government in 1980. The constitution is suspended (except for juridical elements so that the courts can function) and the PRC, as the highest decision-making body rules by Decree. The Head of State is Chairman of the PRC; he and the Council are assisted by advisors in their daily decision-making.

The functional ministries continue their administrative, coordinative and implementing roles. Each is headed by a Minister, assisted by two or more Deputy Ministers and Assistant Ministers. All are political appointees.

Agencies of government are headed by Directors-General, while state corporations are headed by Managing Directors with Board of Directors (also political appointees). Policy formulation continues to be fragmented between the Head of State (and advisors), the PRC (and advisors) and the individual ministries, largely because policy formulation capability at the top is limited; at the same time the military are fiercely jealous of their right to make policy, while ministries are careful not to cross PRC sensitivities. The result is often poor communication and unclear lines of authority. Policy implementation continues to be less than satisfactory.

Many executive orders and directives have been issued (some many times over), but few are enforced -- except the curfew. Policy gaps and contradictions exist, which make real progress in development often more difficult than it already is. USAID, the IMF and the Consultative Group have made some headway in using their leverage to effect changes in policy (Agriculture Ministry decentralization; agriculture policy for government participation and private sector production; preventive public health; increasing the producer price of rice; expenditure control), but effective implementation of these and other policies remains a large stumbling block.

On the local government level, Liberia is divided into nine counties and five territories, headed by military Superintendents; districts within counties are administered by civilian District Commissioners who interact with tribal authorities (paramount, town and clan chiefs).

The PRC has stated that it plans to return the country to civilian rule by April 1985. No detailed time table exists. Meanwhile, a Constitutional Commission has conducted nation-wide hearings in order to determine what was wrong with the previous constitutions and to guide them in their drafting tasks for the new one.

IV. Analytical Description of Target Groups: Overview

Of the estimated total population of Liberia, the socio-economically disadvantaged constitute 80 percent, or 1,520,000. The Physical Quality of Life Index (PQLI) for this group amounts to only 25.0 (on a scale from 0-100) while the national average is calculated at 34.0. When compared with the continent as a whole, Liberia barely lies above Africa-wide indicators.

Geographically, the poorest, most isolated, stagnant, and least developed area is the southeastern portion of the country. This area includes Sinoe, Grand Gedeh and Maryland Counties and is inhabited by the Kru, Sikon, Sapo, Krahn and Grebo tribes. Other pockets of poverty are Southern Lofa, Eastern Bassa, the isolated settler villages along the coast and the low-income and squatter communities in and around Monrovia and other smaller urban concentrations.

Fifty percent of the rural population live in villages inhabited by 200 or less persons. According to the 1974 census, there were 1,002 localities with less than 100 inhabitants. Many of the small villages are without schools, clinics, proper sanitation and safe water and are often connected to the other areas only by foot-paths -- all these factors tend to keep the rural poor in ignorance and isolation.

It is estimated that annually about 12,000 persons migrate to Monrovia. The majority of urban poor have migrated to the cities for economic and social reasons but most find neither employment nor improved social conditions and end up in the capital's many shanty towns.

The housing of the urban poor compares unfavorably with the rest of the urban dwellers: 10 percent use woven mats and 64 percent use corrugated zinc sheets for walls in their houses; 76 percent have no inside water; 82 percent have no inside kitchen or bath, while 90 percent have no inside toilet facilitiies.

Most units are noisy, overcrowded and dirty. Monrovia's poor constitute 65 percent of the city's population or approximately 180,000 persons.

A. Income Distribution and Employment

The target group's annual per capita income is $200 or less (versus $500 nationally) and is deteriorating in real terms. They make a marginal living in relative isolation on small subsistence farms, supplemented by a small cash crop or an occasional low-paying unskilled seasonal job, which places them on the fringes of the money economy.

The urban poor earn more than their rural counterparts but must pay to live in an "expensive" urban environment. The median income for 1981 was $350 annual per capita. However, in low income areas and slums, the per capita income is $100 or more below the median. Most are employed in unskilled or semi-skilled jobs, but almost 40 percent have no regular employment at all.

B. Education

Liberia has a literacy rate of 21 percent with male literacy 2.5 times as high as female. Rural literacy is only 12 percent, with male literacy dominating at a ratio of more than 3:1. Part of the problem is lack of access to educational facilities and the low quality of education nationally. This situation is particularly severe in rural areas and contributes to rural urban migration.

School curricula are inadequate in content for a developing country; they are largely academic, focusing on preparing students at all levels for further education, rather than for employment. All aspects of training and education suffer from the woefully poor quality formal education system and given the present situation, even if there were more agricultural content in the schools, the lack of learning efficiency in the system would preclude much progress.

C. Health

The basic features of the health status of the target group are a high infant mortality (155 per 1,000 versus 148 nationally) and a low life expectancy at birth (44 years, versus 48 years nationally). The highest incidence of ill health is found in children under five years of age and women of reproductive age. Children under five account for 60-70 percent of the patient population and women of child-bearing age account for 15-20 percent. Of those percentages, it is projected that infant deaths constitute 20 percent of total deaths, while 44 percent pertain to children under five.

D. Nutrition

Inadequate food availability, frequent pregnancies of young mothers, low purchasing power and inappropriate food habits and taboos are considered to be the main determinants of malnutrition. At least 60 percent of all children aged 6-59 months are anemic and 16 percent of the children 6-11 months old are not receiving food apart from milk. Acute protein-calorie malnutrition (PCM) does not appear to be a problem but milder degree malnutrition is found in the rural areas, especially during the second year of life (weaning), where approximately 10 percent are affected. This fact suggests that the problem of accute PCM in this age group lies under the surface and any deterioration due to poor environment, the hungry season (the three months before harvest), or the onset of diarrhea, might be sufficient to tip the balance. Prevalence of PCM is greater in marginal farming areas and in the environs of the capital city. Poor nutritional status is significantly associated with low income, poor socio-economic status, polluted drinking water and birth delivery in the bush or house.

E. Population

Liberia's population grows at an annual rate of 3.3 percent. The crude birth rate is 50 per 1,000 population. The crude death rate is 18 per 1,000. Females of reproductive age constitute 48 percent of the total female population. The total fertility rate is estimated to be 6.9 per 1,000. The proportion of the population below age 15 is 47 percent and consequently the dependency ratio is very high (83 dependents per 100 persons in the working age group). High fertility, a young age distribution, high infant mortality and low life expectancy characterize the country's population dynamics. Pro-natalist tendencies are highest among the uneducated poor. Subsistence farmers need large families to provide enough farm labor while the urban poor need children to "make market"; furthermore, they are generally considered as a social security policy to help provide income in times of old age or unemployment of the parents. In addition, the high infant and child mortality rates, especially among the poor, dictate that a women should bear many children in order to ensure that a certain percentage survives. Although infant and child mortality rates have been coming down in recent years, the pronatalist tendencies have not changed. Among those families who want to limit their number of children, wide-spread ignorance about reproductive functions and family planning techniques are a severe constraint.

A young population structure, high fertility, declining death rates and high dependency ratios create a situation which will soon offset the currently favorable person/land ratios and is creating demands for services which the country cannot afford to provide.

F. Agriculture

The agricultural sector of the Liberian economy in 1980 contributed 20 percent to monetary sector GDP (commercial farming, forestry, fisheries) and grew at an average annual rate of 3.5 percent, whereas the economy as a whole registered a negative growth rate of 4.4 percent. In addition, the smallholder or subsistence sector of the economy contributed 21 percent to total GDP. The agriculture sector is estimated to provide 70 percent of total employment. (Plantations and agricultural concessions account for 8 percent of that employment.)

Rice cultivation dominates smallholder agriculture in virtually all of Liberia. The type of rice cultivation traditionally practiced in Liberia is shifting upland cultivation. All energy inputs are human; hand tools are utilized; there are no plows. The system relies on rainfall and no water control is practiced. The Liberian system is based on shifting the site of the rice field annually. Each year a new area of forest is cleared, burned planted and harvested, after which it is allowed to lie fallow, on the average for 10 years. Systems of shifting cultivation such as practiced in Liberia, are adapted to situations in which there is relatively light population density, enough land and few capital goods. Rather than being primitive or inefficient, shifting cultivation is as efficient as utilization of available resources permits. However, it leads to destruction of valuable forest resources in the long run.

Liberian women provide the majority of the labor in food production, and allocate the distribution of food, whether it is for household consumption or for market sale. Men are responsible for brushing/clearing the land and for building fences; their production focus is on cash crops. Liberian women farmers perform 60 percent or more of the food production tasks and 100 percent of the distribution at a time when Africa is the only region in the world where per capita food production has declined over the past two decades and at a time when the Liberian government is placing great emphasis on the development of food production, thereby decreasing the country's dependence on imported food.

The typical Liberian farm household (5-6 persons) is physically unable to farm more than about 3-4 acres of rice intercropped with vegetables and a similar acreage of other cash crops. Physical labor is a binding constraint. In order to improve/increase production one has to address the farming system. Low cost labor-saving and labor-augmenting technologies need to be developed and introduced. Increasing productivity per unit of labor might increase marketable surplus of rice, in that individuals (mostly women) would have more time to work on their personal farms after fulfilling their obligations to the household farm.

V. Causes of Lack of Development and the Obstacles to Broadly-based Growth

A. Macro-economic and Financial Constraints

Between 1976 and 1979 the economy grew annually at less than 2 percent, while in 1980 and 1981 it registered negative growth rates of more than 4 percent annually. Part of the problem is external. The other part has been domestic: Liberia's crushing debt service burden; the 1979 Rice Riots; the 1980 military coup and its aftermath; a perceived poor investment climate, and the 1980/82 fiscal crisis. Uncongenial international markets, rising energy cost, and continued lack of confidence at home and abroad, a liquidity squeeze in the banking sector and government fiscal problems, all have combined to depress economic activity in Liberia. As a result, revenues are far below their potential levels, which in turn affects government's ability to stimulate development through public sector investment. In a sense, this nortages the

the future because development investment made now means jobs and economic growth tomorrow. Moreover, in the context of the present acute competition for budgetary resources to meet current operating expenditures there is a real danger that an inadequate public investment program can even wipe out past achievements: physical infrastructure investments made in earlier years can be eroded or even completely lost in the absence of adequate provisions for maintenance.

Liberia has essentially an open economy and it is the private sector that dominates most economic activity. But even though the private sector is an essential ingredient in the development mix, too much may be expected from it. A number of development programs require public sector investment and management (for example in socio-economic infrastructure, manpower training, projects of an experimental nature such as I.E.L.), which do not attract private investors but which contribute to the attainment of development goals and objectives. With current low levels of private sector confidence, the need now is greater than ever for a sizeable public investment program which can complement and bolster lagging private investment. Given the country's economic problems and GOL's financial constraints it may be necessary for donors to assume a greater percentage of project funding -- in some cases 100 percent donor funding may be needed -- to keep the momentum of development from stalling.

B. Planning/Management/Administration Constraints

Despite many years of inputs by various donors, planning functions in the public sector are still inadequate. At long last the country has gained a growing planning capability at the Ministry of Planning and Economic Affairs.

Planning capabilities at other ministries/agencies range from inadequate to non-existent. There is little coordination between the Planning Ministry and other ministries, even though the need for it is appreciated; it simply takes a long time before it can functionally be put into place. Planning at the county level is extremely poor. The tendency has been for planners to be placed into executive and administrative functions at higher levels so that their professional contributions are lost to the system.

Another aspect of the planning constraint is the very high turn-over in government ministerial portfolios. Only two Ministers remain out the the original 18 member cabinet appointed by the PRC, and they are now both in charge of ministries other than those of their original appointment. Some key ministries have had two or three changes in Ministers (and Deputy Ministers) in the two years since the coup. Experience thus far indicates that succeeding Ministers, in order to gain credibility or prove that they present a radical departure from their (often discredited) predecessors, tend to reverse or nullify their predecessors' policy decisions.

Administrative and management constraints derive from lack of structure and clear lines of authority, over-centralization of functions in Monrovia, the departure from the public service of scarce, trained manpower since the coup, lack of standardized operating procedures, poor logistical support functions and inadequate operating funds.

Finally, a good portion of management and administrative constraints derives from the public service's resistance to change. Despite revoluntionary and radical rhetoric, the system remains conservative in its orientation; new, different or improved ways of doing things do not receive the necessary systemic support to sustain them over time. This is an attitudinal issue and difficult to treat as part of an ongoing development effort.

C. Policy Framework Constraints

As observed earlier, policy-making is fragmented while implementation is inadequate. (The latter relates to B above.) Many development thrusts are hampered by lack of clear directives, policy gaps and policy contraditions. Some examples follow. Urban consumers are protected by controlled market prices of agricultural commodities; these in turn reflect on lower than necessary farmgate prices, especially when transportation costs are not passed on to the consumers but end up being borne by the producers. This does little in terms of production incentives. Moreover, price controllers employed by the Ministry of Commerce and the Monrovia City Corporation interfere with marketing functions for their personal benefit.

The education system is insufficiently oriented toward education-for-employment and to preparing children for a predominantlyagricultural economy. Investment policies are fragmented and in their implementation act more as a barrier than as an incentive. Expenditure control policies are subverted from the very top. There is no national training policy, linking successfully-completed training with career development and promotion. The list is long and the political will to make the necessary (often painful) changes is not always there.

D. Human Resource and Institutional Capacity Constraints

A shortage of adequately trained and motivated persons continues to be a key impediment to increasing agricultural and industrial production, in improving the quantity and quality of services and in reducing population growth. Shortages at the top and middle manpower levels have become even more acute in both the public and private sectors since the coup. Another aspect of the manpower situation is that trained and qualified individuals are mis-assigned to positions where their contributions are marginal at best.

Key constraints to improving the quality and quantity of the nation's human resource base are the lack of access to basic education and the poor quality of instruction in formal education. While there is also a lack of training policies to address the human resource needs, the former two constraints are so aggravated that training policies would necessarily have to focus on remedial training as well as technical and administrative training.

The efficiency of the formal school system is low and poor quality and non-standardized instruction is recognized as the major cause of both the internal and external inefficiencies which present serious education and economic consequences. Low priority in real terms is accorded to teachers and education generally. Problems of quality lead to dropout, repetition, and the need for remedial education, all of which incur costs that Liberia can ill afford. The holding power of Liberian schools is low and considerably below the average for Africa. Low quality education (a) limits employment opportunities, (b) reduces worker productivity, (c) constrains the availability of qualified workers to meet priority manpower needs, (d) slows the implementation of the Liberianization of the work force and (e) limits the receptivity of Liberian workers to technological change.

Institutional absorptive capacity is low. Government is trying to reconcile its sectoral priorities with the absorptive capacity of each sector. This process is important because, ironically, it is in the preferred areas of investment such as rural development and improvement in the educational and training systems where absorptive capacity tends to be weakest. An important determinant of absorptive capacity is the availability of trained and skilled manpower. Other determinants are the extent of institutional building achieved, implementation capability and availability of funds for counterpart contributions and recurrent expenditures. Absorptive capacity therefore limits the range of choice of investments, both public and private.

E. Lack of Capability to Develop and Spread New Appropriate Technology

The USAID-supported Central Agricultural Research Institute (CARI) in Suakoko, Bong County, is the only permanent institution capable of developing new appropriate technology related to agriculture and rural development. Even though the Institute has existed for many years -- in fact it was created with USAID support more than 20 years ago -- it was starved of adequate policy direction, funds, and properly qualified personnel when the original technical assistance input phased out. It was also badly managed and has no real integrated research program but rather dabbled in largely unrelated pursuits depending on the interests of individual researchers. Recently USAID has reentered the agricultural research field at CARI with long-term support aimed at getting the research and development functions firmly established. Technical assistance was operationalized in 1981. There is likely to be a time lag before appropriate packages of technology are developed, tested and ready for distribution.

Currently there is no viable mechanism for getting improved agricultural technology out to farming households, as the agricultural extension service, as presently set up, is attitudinally, financially and operationally unable to perform such tasks. Limited packages of improved technology for rice and food crops as well as methods for improving cash crop yields are available, but given the moribund state of the extension service, the lack of motivation of extension agents, and the lack of logistical support, even this limited technology cannot now be spread.

A need exists for an institutional base for developing or adapting new appropriate technologies in other sectors. Presently, there is no institute for industrial research in Liberia, nor are there any working relationships with those which do exist elsewhere in West Africa. No mechanisms exists in Liberia to acquaint people with alternative technologies, and given the state for government finances, these are unlikely to be set up with public funds.

F. Private Sector Involvement in Development

Historically, the private sector has played a role in the economic growth of Liberia, both directly and indirectly, through the tax resources and foreign receipts made available to the economy. Most direct investment has come from abroad; foreign investment has been concentrated in the export-oriented iron ore industry, rubber plantations, and timber concessions, as well as in manufacturing enterprises, construction, banks and insurance, tailoring (largely Guinean), and commerce (Lebeanese and Indian).

Participation in development activities by the large concessions has admittedly been undertaken because it is in their interests to do so. In the initial stages, the companies installed infrastructure--roads, harbor facilities, and railroads, for example, as an essential part of their operations. The almost total absence of such facilities otherwise has meant that the community at large as well as the companies have benefitted. Concessions provide health care, schooling, housing, agricultural inputs, and some of the larger, technical training for their staffs, who constitute about 25 percent of Liberia's paid work force. These companies also contribute to community projects, in cash and in-kind--the loan of equipment for road grading, for example. Some of the plantations have allowed workers and their families to farm certain areas of the concessions. One notable project has been the Partnership for Productivity program in Nimba County, to which LAMCO provided initial start-up support, in the early 1970's. The inherent limitations of these contributions does not alter the fact they they have provided an addition to the social services available to the country, mostly in rural areas where no such services had been provided by the government.

Liberia's manufacturing and commercial establishments have also made contributions to development, although on a much smaller scale than the large concessions. The Lebanese and Indian communities have made cash contributions for special projects and occasions in an effort to improve their image in this country. These efforts have been declining somewhat as a result of depressed business conditions generally since the 1980 coup.

There has been a relatively small but significant Liberian private sector contribution to development, usually by Americo-Liberians closely associated with former governments, supported in one way or another by foreign investors (e.g., private rubber farms, the Mesurado Group of Companies, poultry farms, etc.) These industries have been in financial, managerial and legal difficulties particularly since the 1980 coup. While the existence of a myriad of family-sized businesses (cook shops, trading stalls, furniture "factories", traditional industries such as baskets and wood carvings) suggest that a private enterprise mentality is not lacking, this sector has not benefitted much from efforts to help upgrade and expand it, largely because private sector development needs are not accurately known. A needs assessment survey prior to assistance to this sector would have to be carried out.

G. Constraints in the Agriculture Sector

As a result of growing farm labor constraints, low productivity is the key factor in traditional subsistence farming. Also contributing to low farm output are (1) fragile tropical soils (2) rainfall patterns and (3) lack of knowledge about improved farming practices. Slightly over 40 percent of the country is arable but due to the shifting cultivation pattern only a fraction is cultivated at any one time. A large portion of the terrain has gradients up to 37° which make the land difficult to farm. This area is better suited for the production of tree crops; however, other sections are suited for upland rice, cassava, vegetables and livestock production. Insufficient feeder roads and access to markets, where surpluses often have to be head-loaded, are also an impediment to increased production.

Land tenure, a combination of two diverse land tenure systems, is a growing constraint especially in more densely populated areas. One is free-hold (private land ownership), and the other is tribal ownership. The ultimate owner of the land is the state. Most of the public land is administered under the tribal tenure system. The Code of Law of 1965 states that each tribe is entitled to use as much public land in the area it inhabits, as is required for farming and other activities. The Code also allows for segments of national land to be leased for variable amount of time to concessions, both foreign and domestic. Under the traditional tribal land tenure system, the chiefs are the agents for land allocation and distribution. Individual families have the right to use the land assigned to them as long as they cultivate it. The duality and complexity of the system have led to abuses which affected the small farmers.

H. Health and Population Constraints

Health problems in Liberia relate to poor sanitation, infectious and communicable diseases, parasitic diseases and malnutrition. The most serious diseases are malaria and diarrhea. As there are inadequate safe water supplies and sanitary sewerage systems in rural areas, diarrhea and other water borne diseases are common. Liberia's limited health services, accessible by only 33 percent of the population, are concentrated in urban areas although approximately 80 percent of the population live in rural areas. The extremely limited health care available to the rural population is reflected in considerably higher crude death and infant mortality rates. The imbalance in the quantity and quality of health services between the urban and rural areas could be a factor contributing to the migration of the rural population to urban areas.

The lack of financial resources and shortage of trained manpower also contribute to the inaccessibility of health services in rural areas. Moreover, the GOL's relatively meager financial resources have been focused predominantly on curative services and only minimally on preventative health services. Fifty percent of the health personnel are employed in Monrovia. There is a chronic shortage of rural physician assistants and this shortage is not evenly distributed. Most of the physician assistants positions in the less developed counties remain unfilled. Some "rural" health facilities are provided by the concessions, primarily, if not exclusively for their own employees. Mortality in Liberia, though moderately high, is declining and is expected to continue to decline for some time. This decline, coupled with continuing high fertility is responsible for the rapid population growth, now 3.3 percent. The expectation of life at birth is expected to increase to 50 years by 1985.

The spatial dispersion of the population is skewed. The 1974 Census shows nearly 30 percent of the entire population living in Montserrado County and its territories, causing a density of the population slightly more than four times that of the entire country. On the other extreme, Grand Cape Mount County had the smallest share of the country's population (3.8 percent) and Grand Gedeh County had the lowest population density (11 per square mile).

Liberia's current population dynamics are creating increasingly unmet demands for education and health facilities, for additional job opportunities for the new entrants into the labor force, increased food availability and more housing. To date Liberian decision-makers have shown little understanding of or concern for the implications of these dynamics.

I. Energy Constraints

Since Liberia has no known petroleum or other mineral fuel deposits, it relies for energy on imported crude oil, refined in-country, a small hydroelectric facility and traditional energy sources such as fuel wood and charcoal. Liberia's raw material concessions, manufacturing, transport industry, and to an increasing extent its electric power-generation depend almost exclusively on imported oil. The rising cost of the imported oil has had a serious impact on its foreign exchange position. The cost of imported oil has risen from $5.5 million and 6.3 percent of the import cost in 1970 to over $134 million and 25 percent of the import cost in 1981. Since the coup, the Government has had serious problems financing the refinery's monthly supply of crude oil. The impact of rising oil prices has fallen mostly on the modern sector and urban population; however, there has been some impact on the rural poor as well, as the cost of most items purchased up-country has risen because of increased transportation costs.

For the rural population, where approximately a third of all energy is consumed, wood is the most important source of energy. However, technologies used in production of charcoal and in domestic cooking are primitive. Technologies other than hydroelectric that exploit other renewable sources of energy (solar radiation, wood-alcohol, wind, biogasification, etc.) are not used in Liberia. Although the potential for hydroelectric energy is considerable, the Government has been unable to exploit this resource adequately for lack of money.

Finally and most importantly, for the immediate future, Liberia has not evaluated its present energy sources and uses, and energy supply and demand. The Government has not identified potential new sources, nor developed a national energy policy and plan. The tight supply and high cost of energy acts throughout the economy as a constraint to development.

J. Other Donors

Besides the Unites States, Liberia's traditional bilateral contributors include West Germany, Japan, and the Dutch Government. Contributing multilateral donors are the World Bank (IBRD), the International Development Agency (IDA), the United Nations Development Program (UNDP/other UN agencies), European Development Bank, European Economic Community (EEC), and the International Monetary Fund (IMF). The People's Republic of China and OPEC joined the donor list quite recently (1978/79) providing loan funds and some technical advisors.

The IBRD and IDA are major sources of development finance, concentrating their resources, averaging $40 million annually, on energy, agriculture, education and urban development. West Germany provides a program package of $23 million which focuses on agriculture, technical training and modernization of secondary ports, rural water supply, integrated rural development, village health, and special self-help projects. A German forestry mission is attached to the Forestry Development Authority.

Japan's technical operation with Liberia totals $31 million concentrating on highway construction, school construction (for vocational training), debt rescheduling, and the construction of the maternity wing of the JFK Hospital.

The Dutch Government has a health program of approximately $2 million, which provides assistance at the village level. The European Development Funds and the European Investment Bank have made major commitments since 1977 totaling $107.5 million to mining and energy. The UNDP/UN agencies have a regular program budget of $7 million largely in the form of technical assistance training and commodities. The African Development Bank became a contributor in 1975 at a level of $7-8 million per annum, supporting development of public utilities, transport, industry, and agriculture.

The EEC Multilateral Assistance package of $17.5 million annually, consists of support to agricultural development, export earnings stablization and technical assistance. Finally, the IMF two year stabilization package of $85 million, is helping to bridge Liberia's critical balance of payments and budget problems.

VI. Three-Year Plan of Action

A. Introduction

The next three years, FY 1982 through FY 1985, for Liberia will be a time for sacrifice on the part of its people and a time for its government to make some tough decisions in order to get on the road to fiscal and economic recovery and development.

During the recent visits to Liberia by AID Administrator McPherson, Assistant Administrator Ruddy and Deputy Assistant Secretary of State Lyman, these points were clearly made. Some difficult decision have already been made: the consumer subsidy on the staple food, rice, was removed; a compulsory national savings-bond scheme was introduced; a reconstruction tax on salaries was imposed; taxes and surcharges were raised on gasoline, drinks, cigarettes and other items; public sector employment and salaries as well as purchases of equipment and vehicles were frozen. However, there is evidence that not all of these decisions have been adequately implemented, and that there will continue to be problems in revenue generation and expenditure control.

Despite these self-help efforts, more must be done to bring the recurrent budget to a point where a sufficient domestic surplus is generated to fund development programs within the scope of total revenues. The most pressing problem of the recurrent budget is the salary component and payroll padding. Clearly, it must be reduced; yet no significant reduction in force can be contemplated at this time -- it is an extremely sensitive issue, considering the high level of unemployment already existing. A number of interventions are needed in the private sector in order to absorb more employment, while increased alternative employment opportunities are needed in the interior in the hopes of stemming or slowing down the migration to Monrovia. In addition to dealing with the immediate fiscal/financial problems, Liberia must also implement projects and design new ones to sustain long-term development; to do otherwise would mortgage the future in terms of economic growth and employment-creation foregone. However, it does not have the money, and donors will increasingly have to pick up 100 percent of project costs.

Mindful of the fluid situation and its likely effect on the next three years, the Mission sought and received approval from AID/W to prepare a three-year action plan. The focus is on economic stabilization and increasing the momentum of development.

Budget deficits during this period are likely to remain large, since government must deal with the financial impact of several major factors:

- a large public sector wage bill which can be contained and marginally reduced, but cannot be drastically cut;
- large debt service obligations;
- a tax rate burden which cannot be increased without having increasingly negative effects (even though collection procedures can be tightened up); and
- low revenues from exports and profit sharing as the external economic climate is likely to be uncongenial for Liberia's exports for some time to come.

Similarly, the balance of payments situation is unlikely to improve in the short to medium term because of increased costs of imported energy, a rising debt service burden, deteriorated terms of trade, stagnant investment and lack of private capital inflows, because of perceived poor investment climate. The main culprit is the deficit. The financing of it prevents GOL from building up foreign exchange balances of a sufficient magnitude to avoid the recurring offshore payments cliff-hangers and the "oil bill and salaries payment" dilemmas.

In the face of these unresolved structural weaknesses, investor confidence is not likely to recover fast enough. Yet, if we want to avoid a situation where Liberia's fiscal and economic situation gradually deteriorates to the point of no return (e.g. Ghana), the pace of recovery has to be stimulated and the momentum of development has to be accelerated over the next three years. This means more, not less U.S. involvement; it also means broadening economic and financial support from friendly developed nations and international financial institutions. The Liberians on their part must be prepared for further sacrifices and must marshall the collective will to take effective charge of economic and fiscal elements within their control. April 12, 1985 has been targeted by the military rulers as the date for a return to civilian rule. Much remains to be done economically, constitutionally, politically and administratively if the successor civilian government is to face a fair degree of stability and feel secure in its task to guide the nation. Given the special relationship between the two countries, and the fact that the fiscal crisis is likely to get worse before it gets better, the U.S. cannot do less for a freely-elected civilian government than it does for the current military government. The minimum requirements for the three year period are: $125 million in Economic Support Fund Assistance, $40 million in PL 480 Title I, and $75 million in Development Assistance. The U.S. Liberia special relationship and our economic and strategic interests here require nothing less.

At the same time our assistance should be programmed in such a manner that Liberia's dependence on outside resources over time becomes less rather than more. This can in part be ensured through the mechanism of greater conditionality (i.e. performance criteria, self-help measures and targets, especially in those policy areas which directly relate to development) by means of our advisory assistance in helping improve the management of scarce public sector resources, and through increased private sector participation in both the expansion of the productive base of the country's economy and the developmental process.

Since the April 1980 military take-over, Liberia's grave financial situation has caused the U.S. Mission's time and energy to be concentrated largely on short-term measures designed to keep the Liberian ship of state afloat, day-to-day damage control, and fighting brush fires. Medium and long-term planning, dialogs on policy reform as this affects the development process, greater promotion of private sector involvement in development, and organizing a broader pattern of outside assistance have taken a backseat, despite some limited achievements in these areas. In order to help ensure future self-sustaining economic and social development, we have developed a three-year plan of action which is designed to:

- increase development assistance funding levels;
- continue top-priority for budget/balance of payment support of at least current levels ($35 million ESF; $15 million PL-480 through FY 1984; $45 million ESF beginning in FY 1984).
- greater conditionality and insistence on self-help measures through policy reform;
- stimulate priority investment in the short and medium term (public

and private) in the directly productive sectors with high employment potential;

- encourage secondary priority investment in the medium and long term in human resource development and increased productivity, i.e. education/training, and health/nutrition/population;
- make the rural areas more habitable and thereby ensuring the continued viability of the agricultural sector;
- enhance the stability, skills level and motivation of the wage labor force as a key factor in improving the investment climate; and
- address Liberia's energy issues.

B. Stabilization and Recovery

Our assistance in order to stabilize Liberia's fiscal situation for the next three years is critical for Liberia's economic recovery after the promised return to civilian rule. Iron ore and timber demand are forecast to remain slack for the immediate future; recovery of major exports is likely in the second half of the decade but its effects in terms of increased revenues may not be felt until the close of the 1980's. However, rubber, coffee and cocoa export prices could recover before then, as they are less directly linked with productive economic activities of the developed economies.

Offshore oil exploration is to start shortly. If exploitable deposits of sufficient magnitudes are found, the revenue situation could drastically improve in the medium term. The most likely scenario, however, is that revenues will remain at their current levels in real terms while recurrent expenditures, including debt servicing, will rise gradually though 1985 and then level off. An annual budget/balance of payments gap between $100 and $120 million appears likely through 1985. Assuming a continued IMF stand-by stabilization program of current magnitude,[2] continued U.S. ESF and PL-480 assistance at current levels, additional (EEC, OECD) resource flows of up to $15 million per annum may be necessary in 1982 and 1983. This implies that development activities will have to be financed fully by donors. In-kind contributions would enable GOL to comply with local cost contribution requirements. For USAID projects counterpart funds will be channelled through the ESF and PL-480 Special Development Accounts, as Liberia itself has no funds to provide local cost contributions.

Over the next three years we will work with the IMF to reduce deficits; nevertheless Liberia will still need external resources as in the "real world" it continues to face oil bills, debt servicing and the cash importation to enable government salaries to be paid. Annual ESF levels of $35 million through 1983 and of $45 million starting in FY 1984 are an absolute minimum requirement; reduced flows may be interpreted as our exerting undue pressures to make politically unacceptable decisions. The additional $10 million in ESF beginning in FY 1984 is proposed for direct development as a means to creating employment uses: low income housing, rural development fund, private sector initiatives, and energy assessment. Similarly, PL-480 Title I program loans of at least $15 million through FY 1984 are needed to provide foreign exchange for increasing rice imports, which rose from 50,000 MT in 1978 to 93,000 MT in 1981. By FY 1985, PL-480 Title I could be reduced to $10 million. The PL-480 program enables Liberia to keep sufficient rice on the urban market, to avoid shortages and the likely

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2/ Even if dollar magnitudes remain the same, total resources from IMF will be reduced because of SDR repurchase requirements.

instability which may ensue. U.S. assistance flows of these magnitudes provide excellent leverage especially in the areas of self-help and policy reform. Although some success has been achieved to date, we look for further improvement. Through FY 1982 ESF grants (and to a lesser extent PL-480 loan) were programmed on a ad hoc basis; grant justifications and payments were usually effected under short-notice, crisis situations to help meet last minute payments of oil bills or service external debt. The only conditionality imposed on these grants was Liberia's continued adherence to IMF performance criteria under the stand-by stabilization program. The timing and conditions under which these grants were made, as well as their mode of financing, afforded us little additional policy leverage. It is proposed that starting with FY 1983, adequate levels of ESF and PL-480 funds be obligated at the beginning of the year for the full amount. Similar to financial performance criteria being negotiated in connection with IMF quarterly flows of SDRs, the USG and GOL will negotiate performance criteria in self-help and policy reform, especially where these would benefit growth and development, tied to disbursement of ESF dollars. This would instill more control and orderliness in the manner of disbursement from our point of view, whereas the National Bank, the Ministry of Finance and the Ministry of Planning could undertake better advance planning for specific magnitudes of ESF flows at predetermined times during its fiscal year. It is important for all of us to bear in mind that given the systemic constraints and the current fragmented nature of policy-making, our insistence on policy reform would have to remain flexible, lest it become counter-productive. The advisory team is expected to play a crucial role here.

We are aware of Washington's concern about how Liberia's oil bills will continue to be paid. Given the fact that the National Bank has virtually no foreign exchange balances abroad--and when they are built up gradually, they are regularly drawn down to zero to service debt, pay oil bills and meet other international commitments and are sometimes even tapped to import cash into Liberia--there is no current solution under the prevailing circumstances other than Liberia's continued reliance on IMF tranches and ESF flows (and various bridging mechanisms) to make up the occasional shortfall. The root cause of the oil bill financing is the government deficit and its financing requirements. Thus far the National Bank has not been able to build up its foreign exchange reserves beyond the point of immediate need, nor has it succeeded in tapping a greater share of sales proceeds of Liberian commodities abroad.

Finally, the currently operating Economic Consultative Group, (ECG)--which includes the Minister of Finance and Planning as well as the Governor of the NBL on the Liberian side and the U.S. Ambassador and the USAID Director on the American side--will continue to play its role to help facilitate overall economic recovery, channel resource flows into various sectors of economy, and encourage a greater degree of medium and long-term planning.

C. Continuing Development

1. General Setting

In addition to the need for AID to assist in short-term stabilization, assistance is essential in the period immediately ahead for development investments. Economic recovery can take place only as productive investment-both in the public and private sectors-begins to pick up. Such a recovery is the only way that the economy can restore and sustain fiscal balance. Without an economic upturn the assistance for stabilization described in (B) above, will serve to keep the government (civilian or military) afloat only so long as the assistance is forthcoming.

The thrust of Liberia's four-year plan (1981-1985) is to create the environment to promote private investment in priority productive areas such as agriculture, agroindustry and manufacturing in order to broaden and increase the productive base of the economy, increase incomes and generate the means for much needed social services and infrastrucre. The role of public investment is essential to maintain existing capital stock, complement and bolster private sector activities, and provide financing in areas which do not usually attract private initiatives. The most striking aspects of the structural composition of the 1981-1985 public sector investment plan is the substantial increase in allocation of funds to the directly productive sectors. The share of public agricultural investment alone rose from 17 percent during the previous plan to 33 percent of total. The thrust of the agricultural program will be on research, extension and training. The implementation of on-going integrated rural development projects will continue but will be placed into the Ministry of Agriculture's extension program. This serves as the core of the strategy to achieve a quick increase in production, improve rural incomes and expand employment among the most disadvantaged groups. The USAID three year plan is directly supportive of this thrust.

2. <u>Public investment in support of increased production</u>

It is unlikely that Liberia's economic growth rates of the late sixties and early seventies will return in the foreseeable future, given current world economic trends. The country has to grow less reliant on its export sectors and pay more attention to its domestic economic base. The sector which has registered slow but steady growth has been agriculture, even when other sectors and the economy as a whole showed negative growth rates. The smallholder sector has been better shielded from external factors than has the monetary sector, even though longer term growth potential in both is good. The smallholder sector exists on the lowest margin of the monetized economy. Improved unit cost-reducing technology, farming systems, better access to farm inputs and markets can bring this sector more firmly into the modern economy by means of achieving production levels beyond household subsistence needs and improved yields from cash crops. In addition, improved storage, marketing and farmgate prices of selected produce are likely to reduce post-harvest losses and increase production incentives.

The GOL's priority focus on the agriculture and agribusiness sectors further relates to job creation. A 1979 Ministry of Planning and Economic Affairs (MPEA) manpower supply-demand projection for a 15-year period found that under three different annual employment growth rate assumptions in the modern sector (7.5, 4.0 and 2.1 percent), keeping subsistence sector employment growth constant at 1.6 percent, that even a maximum modern sector growth rate of 7.5 percent would not reduce unemployment below 50 percent in 1992. It suggested that a noticeable improvement could only be obtained by considerable increase in employment in the agriculture sector, as the modern sector was likely to be unable to absorb the annual increase in the labor force (currently 35,000).

As stated earlier, the proposed requirement for Development Assistance during the three years is $75 million ($20 million in 1983, $25 million in FY 1984 and $30 million in FY 1985). This level of assistance is needed to implement the development aspect of the action plan which has increased agricultural production as its core, and in which a number of interventions and thrusts are undertaken together with or delicately phased with others. For example, a production strategy which ignores either inputs, rural credit, storage, marketing, or any combination thereof, would likely be doomed to failure. The existing agriculture development project mix consists of mutually supportive activities in analysis and planning, research, training, rural information systems, credit, and rural development. These will continue to be implemented during the next three years. In order to fully round out the agricultural sector activities into an integrated program of interlocking efforts, we propose to add the following activities, pending further recommendations by the Presidential Task Force on Agricultural Initiatives, scheduled to visit Liberia in mid 1982:

- Agricultural Extension (dissemination of tested and proven improved packages of technology).
- Livestock Production (encourage domestic beef production to increase protein intake).
- Land Tenure (development and implementation of a systematic policy of land registration and adjudication in rural areas).

- Rural Development Fund (encourage economic and social development of rural Liberia through the generation of local financing for rural self-help projects, including those with considerable production and self-financing potential; low income housing investment in some of the secondary cities 3/ rather than in Monrovia; small scale rural investments to increase rural productivity and provide employment).
- Cooperative Development (encourage wide-scale productivity through farmer associations and rural-based business enterprises).
- Storage and marketing (reduce post-harvest food crop loss and develop marketing distribution systems).

A further element of the agricultural strategy is to encourage local processing of cash crops (coffee, cocoa, citrus, sugar, and develop regional (ECOWAS) and overseas market for processed or semi-processed agricultural commodities).

The World Bank has made a large commitment to help construct and maintain feeder roads, while the German Government is implementing a nation-wide rural water provision program.

In view of both the major determinants of ill health and the current constraints in the area of health/nutrition/population discussed in earlier sections, USAID/Liberia plans to assist the GOL in the development and implementation of its long-term national primary health care program. The first phase of the effort establishes the framework for the national program

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3/ Currently these cities are way-stations in the rural-urban migration pattern ultimately directed toward Monrovia.

while implementing county-level activities in selected counties. The project emphasizes preventive health services provided at the village level by village people. At the same time, the project provides sufficient organizational/managerial capacity and establishes the framework for the entire primary health care program to insure a strong, coordinated national effort. This is especially important in view of the need to integrate potential inputs from other donors into the long-term national program. We expect this project to be authorized during FY 82 and to extend through FY 86.

- The Improved Efficiency of Learning is underway, developing programmed teaching and learning materials which will reduce the costs of primary education. Assuming it is replicable, the program would be extended nation-wide, with the main beneficiaries being rural children, the majority of whom have no access to schooling of any kind. The other ongoing education activities are a vocational training project implemented by a POV, Opportunities Industrial Center International (OICI) and an On-the-Job Vocational Training project.

In FY 84, we propose to add an EHR Sector Planning and Manpower Project to increase the efficiency, access and relevance of the education sector and to assess the demand for professional, skilled, semi-skilled and supervisory manpower.

Technical assistance efforts in areas of revenue generation and customs, and financial and economic management will continue through the three year period. The projects underway will contribute to increasing revenue and more effectively managing expenditures.

The continuation of a low-income housing program will assist in alleviating the shelter needs of the urban poor. The project will also generate considerable employment in the urban area.

(3) Private Sector Intiatives

As mentioned earlier in this document, the thrust of the Second Four-Year Plan is to promote private investment in priority productive areas. The role of public investment is essentially to complement and bolster private sector activities. Private sector initiatives can be disaggregated into (1) support for the development of the indigenous private sector and (2) foreign investment in Liberia.

Little attention has been paid to encouraging Liberian business development and investment. Only a handful of Liberian owned and operated businesses, largely within the domain of the Americo-Liberians, survived the coup. Those that did, have suffered setbacks and reduced business activities. Other have been taken over by the State and are operating far below potential due to mismanagement and political interference. The National Investment Commission is receiving financial and technical assistance support from both the World Bank and the Dutch Government which provide loan funds and advice to small-scale enterprises (carpentry shops, block-making factories, retail trade). As part of the USAID-supported low income housing project, a limited amount of small business loan capital is also made available through the National Housing and Savings Bank to stimulate business activities inand near the low income housing estates and neighborhood upgrading areas. The NIC has thus far been unable to move these funds out of the banks and into productive enterprises. Loan limits are low and processes are complicated. In the aggregate, this assistance is having only marginal impact. Access to credit is only one in the mix of many variables which spur business development. Not enough is known about the others.

In FY 82 USAID is requesting PD&S funds to conduct a private sector needs assessment to better identify priorities and likely intervention points. Possible project ideas which we expect to emerge from this survey are: a loan guarantee fund (involving private and parastatal financial institutions), entrepreneurship training, a management development program, and perhaps one or more vocational improvement centers (where already employed artisans can upgrade their skills). In addition, the AFR/RA project proposal for private sector assistance would provide a useful vehicle for USAID's participation by means of mission add-ons to a centrally funded core.

Since the coup there had been virtually no new investment in Liberia until the February 1982, $67 million financing package for the National Iron Ore Company. There have been many "investment missions" to Liberia since the coup. Some have made vague references to "investments" ranging from $50 to $500 million, but obviously had ulterior motives. None of these grandiose proposals have been carried out. Liberia is therefore growing somewhat skeptical about investment proposals in general. We can initially be most helpful in developing, in coordination with government and the Chamber of Commerce, an investment strategy which will focus on measures to improve the investment climate in Liberia, simplify and clarify steps in the investment procedures, and tap U.S. Government programs and resources to develop leads on potential U.S. investors and encourage them to seriously consider Liberia. Part of this exercise would be to conclude a bilateral investment treaty as a confidence-building measure as well as constituting a framework for implementing such a private sector investment strategy. An Investment Guarantee Agreement would be a logical next step, with full participation of OPIC and ExIm Bank. The U.S. Government could further lend assistance in helping to mobilize U.S. private capital to Liberia by the creation of an Investment Fund. Funds could be provided through a consortium of U.S. financial institutions under revolving lines of credit, guaranteed by the U.S. Government, for purposes of steering capital toward needed and viable investments. A mechanism (institution or organization) needs to be identified which could be a logical conduit through which Liberia could draw upon the expertise and experience of American business decision-makers capable of influencing the flow of U.S. investment capital to Liberia and increase the flow of trade between the two countries. The initial foci of potential U.S. productive investment in Liberia would be on agribusiness, processing and perhaps manufacturing for the regional market, and the Liberian Industrial Free-Zone Authority (LIFZA).

Recognizing that a stable, self-disciplined labor force is essential to attracting and retaining investment, efforts should be made through such avenues as training programs to enhance the skills level and productivity of the labor force and improve the Labor Ministry's ability to assess and serve the legitimate needs of the workers and employers.

At a separate level, efforts should be made to (1) strengthen the minerals industry by active encouragement of new investment by the mining companies now operating in Liberia' (2) support a study of the hydroelectric potential of Liberia; and (3) encourage additional minerals exploration/

exploitation by serious investors, including possible offshore oil deposits.

Liberia has no currently known oil/gas deposits, although exploration in off-shore blocks is to start this year. The country's forest reserves are ample and its offtake is currently limited to logging concessions, shifting agriculture and firewood cutting. Liberia's six major and eight minor rivers, run perpendicular to the coast. In the interior they flow at steep gradients and constitute a considerable potential for hydro-electric energy generation. Feasibility studies are in progress on hydroelectricity development involving the Mano River in the Northwest, the St. Paul River near Monrovia and the Cavalla River in the Southeast.

Liberia's current energy development situation is as follows:

1. There is no integration of Liberia's energy activities into the overall national development planning efforts. This means that rural areas remain comparatively disadvantaged in energy development.

2. There has never been a complete inventory of Liberia's energy resources, their possible development and utilization, or the needed manpower in the energy sector. Therefore alternative energy resource use is low and the necessary technology has not been developed.

3. Liberia relies heavily on imported crude oil (and some refined product) for its energy needs. This consitutes a heavy drain on scarce foreign exchange and affects domestic savings. About 60 percent of petroleum products (and about 42 percent of their value) is consumed by export industries -- especially for iron ore processing.

5. Liberia has considerable hydro-electric energy-generating potential, but the public investment costs of major schemes are unaffordably high. Mini-hydro technology is now being tested and may prove cost-effective and replicable elsewhere. Wood, charcoal, wind, solar and biomass all present potential sources of additional energy. Their technologies must be developed and utilized.

Over the next three years, USAID's assistance in this sector (through a recently signed grant) will focus on (1) helping conduct an energy sector assessment and (2) the design and implementation of a national energy policy.

PROPOSED ASSISTANCE LEVELS

($000)

		FY 83	FY 84	FY 85
I. Stabilization				
	ESF	35,000	35,000	35,000
	PL 480 Title I	15,000	15,000	10,000
	Total	50,000	50,000	45,000
II. Development Projects				
	Current			
A	Agriculture Research & Extension	1,248	4,200 (a)	5,000
A	Rural Development Training (PVO)	567 (a)	1,500	1,000
A	Agriculture Analysis & Planning	700 (a)	1,800	1,700
A	Rural Information Systems (Grant)	1,450	1,000	1,050
A	Rural Information Systems (Loan)	1,700	-	-
A	Nimba County Rural Technology (PVO)	730	703	-
A	Agriculture Credit Bank	1,000 (a)	1,000	1,500
B	Primary Health Care (Grant)	2,000	2,000	2,700
B	Primary Health Care (Loan)	1,000	1,000	1,000
B	Primary Health Care (POP)	300	300	500
C	Improved Efficiency of Learning	1,500	2,000 (a)	2,500
C	Financial & Economic Management Services	1,000	-	-
C	LOIC	1,005	-	-
D	Increased Revenue for Development	2,500	2,500	2,500
D	Low Income Housing	-	3,000 (b)	-
	Total	16,700	18,003	19,450

(a) Phase II of project begins.

(b) Non-add. To be funded from additional $10 million ESF.

PROPOSED ASSISTANCE LEVELS (Cont'd)

($000)

Proposed		FY 83	FY 84	FY 85
A	Agriculture Extension	2,000	2,500	3,000
A	Livestock Production	500	800	1,000
A	Land Tenure	800	1,397	2,000
C	EHR Sector Planning & Manpower Development	-	1,500	-
A	Rural Development Fund (Loan)	-	3,000 (b)	2,500 (b)
D	Private Sector Initiative		2,500 (b)	7,500 (b)
D	National Energy Assessment		1,500 (b)	-
A	Cooperative Development		800	1,800
A	Storage and Marketing		-	2,750
	Total	3,300	6,997	10,550

III. Funding Summary

	FY 83	FY 84	FY 85
ESF	35,000	45,000 (c)	45,000 (c)
PL 480 Title I	15,000	15,000	10,000
DA	20,000	25,000	30,000
Total	70,000	85,000	85,000

IV. DA Summary

	FY 83	FY 84	FY 85
ARDN	10,695	15,700	20,800
EHR	3,505	3,500	2,500
HLTH/POP	3,300	3,300	4,200
SDA	2,500	2,500	2,500
Total	20,000	25,000	30,000

(c) $35 million for stabilization and $10 million for development projects.

(d) A - ARDN; B - HLTH/POP; C - EHR; and D - SDA.

Notation: The proposed assistance levels for the three year period represent USAID/Liberia's current thinking. We anticipate that other project ideas will develop from the planned Cancun initiative; and that project formulation will also take place to address unemployment.