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Country Development Strategy Statement

FY1985

Liberia

January 1983

Agency for International Development
Washington, D.C. 20523

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LIBERIA

COUNTRY DEVELOPMENT STRATEGY STATEMENT

FY 1985 - FY 1989

USAID/Liberia
February 3, 1983

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List of Abbreviations

ADP	Area Development Project
AFR/CCWA	Africa Bureau, Office of Central-Coastal West African Affairs
AFDB	African Development Bank
AID/W	Agency for International Development/Washington
AMDP	African Manpower Development Project
CARE	Cooperative for American Relief Everywhere
CARI	Central Agriculture Research Institute
CDSS	Country Development Strategy Statement
CG	Consultative Group
CP	Condition Precedent to Disbursement
DA	Development Assistance
ECG	Economic Consultative Group
EEC	European Economic Community
EHR	Education and Human Resources
ESF	Economic Support Fund
FAO	United Nations Food and Agriculture Organization
F.R.G.	Federal Republic of Germany
FX	Foreign Exchange
GDP	Gross Domestic Product
GOL	Government of Liberia
HIG	Housing Investment Guaranty
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEL	Improved Efficiency of Learning
IMF	International Monetary Fund
LAMCO	Liberian-American Mining Company
LDF	Liberian Development Foundation
LOIC	Liberia Opportunities Industrialization Center
LPRC	Liberian Petroleum Refining Company
MOA	Ministry of Agriculture
NBL	National Bank of Liberia
NHA	National Housing Authority
OAU	Organization of African Unity
OECD	Organization for Economic Cooperation and Development
OPG	Operational Program Grant
ORNL	Oak Ridge National Laboratory

PAAD	Program Assistance Approval Document
PCV	Peace Corps Volunteer
PD&S	Program Development and Support
PfP	Partnership for Productivity
PHC	Primary Health Care
P.L. 480	Public Law 480
PP	Project Paper
PRC	People's Redemption Council
PVO	Private Voluntary Organization
RDI	Rural Development Institute
RHUDO	Regional Housing and Urban Development Office
RIS	Rural Information Systems
SEFO	Small Enterprise Financing Organization
SDR	Standard Drawing Right
TA	Technical Assistance
U.K.	United Kingdom
UNDP	United Nations Development Program
U.S.	United States
USAID	U.S. Agency for International Development Mission/Liberia
WARDA	West Africa Rice Development Association

LIBERIA

FY 1985-89

COUNTRY DEVELOPMENT STRATEGY STATEMENT

This CDSS is written at a critical point for A.I.D.'s Liberia program. An important program period lies before us, given the experiences of the economic stabilization program during FY 1980-82, the still-deepening economic and financial crisis, the scheduled return to civilian rule in April 1985, and the decline in IMF Standby resources from $59 million in 1982/83 to possibly only $6 million (net) in 1984/85. The period is made more critical by the close linkage among future economic developments, social change, and political stability and transition -- a link exemplified by the 1979 rice riots and the 1980 coup by "tribal" enlisted military men, which toppled the Americo-Liberian elite. These same factors may influence the transition to civilian rule and the new government's viability. USAID, with AID/W support, has participated in a series of reviews of the economy and various program sectors over the last year (see Annex I). The findings of these studies are reflected in the program strategy that follows.

I. ANALYSIS

A. Background

The Liberian polity is characterized by fragmentation and dualism. Historically, after independence in 1847, governments were dominated by the Americo-Liberian elite, descendants of American and Caribbean Blacks and Africans freed from slavery, who constituted no more than 5 percent of the population. The other 95 percent of Liberia's populace, which now totals about 2 million, consists of 16 distinct ethnic or tribal groups,

having their own languages or dialects and traditions. None of the 16 has a substantial numerical advantage. Throughout the period of Americo-Liberian rule, the "tribal" majority remained largely unaffected by the modern economy and changes in it.

Historically, the political system was "soft", with consensus limited, even at the top; loyalties were loose and certain, and leadership highly centralized and personalized. The April 1980 coup swept away much of the old leadership and alienated many of the former political-economic elite.

The new People's Redemption Council leaders were young, poorly educated, inexperienced in governing, and unaccustomed to political power. Since 1980, the Head of State, in particular, has grown considerably in job knowledge and expertise, and the regime today is more stable than a year ago. Successive appointments to some senior ministerial posts have brought much improvement, but even so the sense of political community and ministerial capacity to carry out policies and programs, never strong to begin with, remain weak. Finally, under the PRC, officially stated GOL policy toward improving living conditions for the rural poor is more consistent with A.I.D. objectives than in the past.

Liberia's economy is markedly dualistic. About 70 percent of total employment is in agriculture, 90 percent of which, in turn, is in traditional, slash-and-burn, shifting cultivation, producing almost wholly for family subsistence and contributing only about 18 percent of GDP. Non-agricultural employment is dominated by government and trade. Within the various sectors there are great disparities in productivity (see Table I) with agriculture, government and other services showing relatively low

TABLE I

Sectoral Employment, Gross Domestic Product (GDP) and Relative Productivity
Liberia, FY 1981

Category	Employment	Sectoral GDP ($million)	Productivity Index*
Agriculture and Related Activities	538,000	144.0	40.1
(Traditional)	(478,000)	(81.0)	(25.4)
(Monetized)	(60,000)	(63.0)	(157.4)
Mining and Quarrying	17,500	110.6	947.5
Manufacturing	11,000	25.0	340.7
Electricity, Gas and Water	1,450	8.3	858.2
Construction	8,000	14.0	262.4
Wholesale and Retail Trade	32,000	24.0	112.4
Transport, Storage and Communications	15,600	34.0	326.8
Finance, Insurance and Business Services	1,650	29.0	2,635.0
Government Services	32,000	45.0	210.8
Other Services	18,800	17.0	135.6
TOTAL	676,000	450.9	

SOURCE: First two columns from Government of Liberia, Ministry of Planning and Economic Affairs, Second Four-Year National Socio-Economic Development Plan, 1980. "Traditional" and total agricultural GDP calculated from amount shown for "monetized" agriculture and estimated share of 18% of GDP for traditional agriculture and 14% for monetized agriculture.

* Calculated by dividing sectoral GDP by employment for that sector and expressing the resulting ratio as a percentage of total GDP divided by employment.

productivity. Within agriculture, the "monetized" sub-sector has sharply higher productivity, accounting for only 9 percent of employment, yet contributing almost as much to GDP, i.e., 14 percent, as traditional agriculture.

Another kind of dualism (also illustrated by Table I) is the concession or "enclave" economy, composed largely of foreign enterprises and engaged primarily in the extraction or production of iron ore, rubber and timber. These firms dominate economic value added in mining and monetized agriculture and account for these sectors' high relative productivities. Such concessions, which have long histories of involvement in Liberia, have benefited from liberal terms, including low taxes and relative freedom for profit repatriation. They, in turn, have generated income and employment, contributed social and physical infrastructure, and in the case of rubber (much less so for iron ore) have developed relatively strong linkages to the rest of the economy.

Economic growth in Liberia has been largely export-led rather than "domestic" in origin. Exports have emanated primarily from the concessions, although cocoa, coffee and some palm oil produced by Liberian smallholders accounted for up to 15 percent of total export value.

Dualism also is reflected in basic income and quality-of-life indicators. Nationwide, per-capita GDP is estimated at $550 (1980 figure), but for about 75 percent of the population it is less than $250. Given the population growth rate of 3.4 percent per year, and negative GDP growth rates in 1980-82, per-capita income has fallen significantly from that level. Income distribution is highly skewed, with the lowest 40 percent of the population earning only 12 percent of income; the top 10 percent control about 58 percent of national income. There also are

significant disparities in the regional distribution of per-capita income. Montserrado, the county in which Monrovia is located, in 1974 per the IBRD had a per-capita income level one-third higher than the national mean average and twice the median income of the other eight counties.[1/] It is doubtful any significant redistribution has occurred since 1974.

Compared to other countries with similar per-capita income levels, Liberia's quality-of-life indicators are low. While adult literacy overall is only about 25 percent, rural literacy is about half that figure (12 percent) and female literacy is only 9 percent nationwide. Fully 75 percent of all students entering primary school drop out by grade six. Female students are underrepresented in all grades. Nationally, infant mortality (ages 0-1) approximates 154 per 1,000 live births, with even higher rates in rural areas. Life expectancy at birth is 53 years, and women and children are most at risk health-wise. The physical quality of life index (PQLI) also is low -- only 39.3 -- compared to other African LDCs (Lesotho, 48; Tanzania, 43; Botswana, 51, Zimbabwe, 46). Reflecting these disparities and the decrease in per-capita income, Liberia has applied to the UNDP to be reclassified as a least-developed country.

B. Current Economic Crisis

1. Origins: In the years following World War II, economic growth was indeed impressive. A world rubber boom stimulated a quadrupling of nominal GDP in the Fifties. Expansion in world demand for iron ore in the Sixties contributed to an average annual growth in real GDP of 6.3 percent, and growth continued strong at a 4.2 percent annual rate during 1970-74. Encouraging and supporting such growth were government's "open

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1/ World Bank, Liberia: Current Economic Situation and Prospects, Report No. 2662-LBR, (December 28, 1979), Table 9.2, p. 137

door policy" toward foreign investment, a generally liberal overall approach to private enterprise, and expansion of basic infrastructure (ports, power and roads) with external, including U.S., help.

However, during 1974-78, Liberia's annual real GDP growth stagnated at a rate of 0.7 percent, and per-capita incomes declined. The serious weakening in Liberia's economic and financial position originated with the rise in world oil prices and with the decline in iron ore mining and rubber exports in the wake of recession in the industrialized West. A small country, heavily dependent on primary products sold in international markets, Liberia is particularly vulnerable to external factors, and these had a profound effect on GDP, the balance of trade, public finances, and external debt. Agriculture, including the subsistence sub-sector, proved the only bright spot, growing at 4.6 percent per year during this period -- still insufficient, however, to compensate for mining losses.

Government compounded the country's difficulties through heavy public outlays (estimated at $40 million to $50 million in each of 1978 and 1979) on facilities (some needed), that were constructed for the 1979 OAU Conference. These expenditures, financed mostly from private and foreign savings (public savings were minimal), occurred at the expense of more productive investment. Government spending also expanded due to public sector wage increases and transfers to public corporations. Consequently, the GOL deficit skyrocketed from $4.3 million in 1975 to $137.3 million in 1979, and external debt more than tripled, with an increasing shared owed on harder terms to private banks and suppliers. By 1979, the domestic resource gap was already judged to be the binding constraint on economic growth.

The rice riots in April 1979 and the coup of 1980 were the results of popular dissatisfaction culminating from many of the above-mentioned economic, political and social factors, especially the worsening economic situation; higher unemployment after the end of OAU construction; an announced increase in the price of rice, the basic staple; deepening dissatisfaction with the overt, pervasive corruption of the Tolbert regime; and frustrations with the disparities of Americo-Liberian rule. The new regime, however, only made the problem worse, furthering the public finance crisis through sizeable wage increases, stimulating massive capital flight and deterioration in investor confidence, and adding to the overall crisis of confidence in government's ability to cope with the country's problems.

2. Principal Factors: There are essentially five elements to the current economic crisis. These are (a) a stagnant domestic economy; (b) a public sector foreign exchange (FX) crisis due to high and accelerating external financial obligations combined with reduced FX and domestic revenue earnings; (c) near fiscal collapse caused by large and persisting budget deficits; (d) illiquidity at the National Bank of Liberia (NBL) caused by GOL overdrafts; and (e) lack of confidence in government's ability to put its fiscal house in order. These are discussed below.[2/]

a. Stagnant Domestic Economy: Since 1975 real GDP in the monetary economy has grown at an average of less than 1 percent per year. In 1980 and 1981 the monetary economy registered negative growth rates of -4.7 percent and -5.0 percent, respectively. Preliminary indications for 1982 suggest GDP may have declined even further. No reliable data exist

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2/ The reader is referred for more detail to Annex III, "Macro Analysis of the Liberian Economy," and to the FY 1983 ESF PAAD as amended by the USAID Program Economist, Curt Wolters.

for the non-monetary economy, but knowledgeable observers agree that subsistence agriculture may have stagnated since 1979, although the 1982 rice crop may be up due to a healthy, prolonged rainy season.

Demand and prices for Liberia's main exports remain depressed, indeed continue to decline. Between 1978-81, iron-ore production averaged 23 percent below its 1975 peak; the quantity sold in 1982 was only 12.7 million MT versus 15.2 million MT in 1981. Prices in 1982 were the lowest since the 1930s, and early 1983 orders are 15 percent less than last year. GOL revenue from iron-ore profit sharing was only $5.6 million in 1981, compared to $28.3 million in 1976. Over the last year the quantity of rubber sold has fallen by 24 percent and the price declined from $1.20/kg. to 84 cents. The price of cocoa fell 6 percent and the quantity sold, 34 percent.

These events occurred when the producers, especially the foreign concessions, faced higher production costs for wages and oil. LAMCO, largest of Liberia's three mining companies, recently began laying off one-third of its work force. Firestone closed its smaller Cavalla plantation January 31 and will lay off workers and cut costs, especially for social services, to try to keep the other Harbel plantation operating.

b. Foreign Exchange: During 1976-81 export earnings constituted 64 percent of GDP and imports 60 percent in current prices. (Iron ore, rubber, timber and diamonds make up 90 percent of total exports.) Total export earnings in 1980 were $600.5 million; in 1981, $529.2 million; and during the first nine months of 1982, $379.2 million, compared to $400.8 million during the comparable period in 1981.

Imports declined 12 percent between 1980/81 and 1981/82, reflecting the depressed economy and uncertain political environment.

Imports fell further in 1982. Oil, over the years, has become an increasingly significant component of the oil import bill, totaling $130 million in 1981 (27 percent of imports) compared to $14.7 million (7.6 percent of the total) in 1973. Food, too, has grown in importance, with Liberia now importing half of its rice requirements.

Annual current-account deficits have fallen from an average $134 million in 1977/79 to about $67 million in 1981/82. The trade balance was in surplus in 1980 ($66.5 million) and 1981 ($51.8 million), but may have been in deficit in 1982. Net invisibles remain in heavy deficit. Large net capital outflows have continued since 1980, largely due to firms and individuals transporting cash out of the country. Capital flight, which slowed in 1981, may have increased in 1982 following introduction of the Liberian $5 coin. This was intended to alleviate the liquidity crisis, but instead may have had the opposite effect.3/

Disbursed external public debt in June 1982 was $701 million (58 percent of GDP). Estimated debt service payments in 1982/83 are $71.4 million (27 percent of domestic revenues) and may approximate 33 percent of revenues in 1984/85. Only small amounts of offshore earnings are now available for debt service. In fact, since June such payments have taken lower priority in the face of immediate needs to import oil ($12 million/month) and to pay GOL salaries ($6 million to $8 million in cash imports/month). Therefore, despite rescheduling under the London and Paris Clubs, meeting external debt has become an increasing problem. Arrearages have risen and the GOL has been unable to meet pre-payments for the London and Paris Club reschedulings. The collapse in July of the commercial

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3/ Gresham's Law, i.e., "Bad money drives out good," at work.

credit facility to finance oil imports has confronted the GOL with an additional $26 million in debt that is due. To eliminate outstanding debt arrearages in December 1982, the GOL needed about $58 million.4/

c. Liquidity: Liberia's use of the U.S. dollar has advantages in providing the country with a stable currency and facilitating trade and investment; it also has disadvantages, i.e., denying government use of monetary policy as an adjustment tool. In Liberia's current situation it also means that financing budget deficits depletes foreign exchange reserves and domestic money supply while increasing the level of public borrowing. The domestic money supply has fallen more than 25 percent since 1979. Given limited capability in GOL financial entities, it is perhaps in Liberia's current interest to have a monetary system with which it cannot "tinker."

Liberia's banking system is small -- in total only eight banks, five of which are commercial, and the NBL. Net foreign assets have declined dramatically since the coup, and private sector deposits have declined by $30 million annually in each of the last two years. The NBL's increasing illiquidity -- 81 percent of its assets are GOL IOUs -- has meant sharply increased commercial bank lending to the public sector. In January the NBL doubled the reserve requirement to 30 percent. Reportedly, the balance sheets of at least two major banks show an excess over the required reserves.

d. Public Finance: The public finance picture remains highly disturbing. Budget expenditures now approximate 36 percent of GDP while

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4/ See Attachment 2 to the December amendment for the FY 1983 ESF PAAD.

revenues represent only 22 percent. Public corporations, largely unproductive, drain $30 million to $40 million from the budget each year. Public sector employment, only 18,000 in 1979, now totals about 56,000. The new government's increase in 1980 of the minimum wage from $100 to $200 for civilians and from $75 to $250 for soldiers nearly doubled the monthly GOL wage bill. Almost 85 percent of the 1982/83 recurrent budget goes for salaries, leaving little for supplies, equipment and so on needed to enable government to operate.

Revenue collections have consistently fallen short of projections, despite real increases in the amount of tax collections and the highest tax rates in Africa, which may, in fact, be confiscatory and misallocate resources. The shortfall results from the country's depressed economic situation, decreased export earnings, widespread tax evasion, and deficiencies in tax collection machinery.

Continuing high deficits not only have impacted adversely on FX availabilities, they have sucked up almost all loanable funds from the banking system. Public and private investment in productive activities has virtually ceased; in fact, disinvestment is occurring, and infrastructure deteriorates from lack of maintenance, thereby further inhibiting productive capacity needed for growth.

e. Confidence: To cite the USAID-financed private sector study,[5/] the GOL provides no institutional assistance to private investors, and the bureaucratic environment is perceived as high-handed and obstructive, especially to small, Liberian-owned businesses. There are few

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5/ Development Consultants, "Liberia Formal Private Sector Study," November 22, 1982, 84 pp. See also Monrovia 178 for a recent statement concerning disincentives to investment by the new Chairman of the National Investment Commission.

assets the banking system will accept as collateral, while the GOL has favored the public sector by guaranteeing its loans. Donor funds made available for the private sector remain undisbursed due to low managerial and administrative capacity, limited entrepreneurial ability, and low absorptive capacity. (The private sector includes: (a) the concession sector; (b) foreign-owned non concessions, dominated by Lebanese trading houses that in general provide no employment or training and pay little tax; and (c) Liberian-owned firms, most often sole proprietorships engaged in petty trading.) Add to these the atmosphere of general instability, political and economic, since 1979, and GOL actions since the coup (excessive wage increases, higher bank reserve requirements, harassment by soldiers,[6/] misjudged or inadequate policy decisions, non-essential spending, i.e., for plane purchases), and continued high levels of GOL corruption, the lack of confidence is not surprising.

C. Government of Liberia Response

1. Economic Policy Measures: Since 1980 Liberia has operated under three successive annual Standby Arrangements with the IMF totaling SDR 142.5 million, and since 1979 received program assistance in the form of budget support grants ($72.0 million) and concessional loans for rice imports ($35 million) from the U.S. The GOL so far has complied successfully with IMF terms -- the only African country to do so for nine successive quarters -- albeit with great effort, timely U.S. assistance, and IMF flexibility. IMF terms have gradually become more strict, but it appears there may be some need to revise them.

6/ Harassment has decreased, and the GOL is acting to punish soldiers who do so. See Monrovia 131.

All three stabilization programs have focused on the budget problem, requiring increased revenues, largely from taxes, reduced expenditures, declining budget and trade deficits, improved National Bank liquidity, and limits on public sector domestic and foreign borrowing. Expenditure reductions (15 percent proposed in the 1982/83 budget) have proven difficult to implement. This is due to inadequate systems for controlling budget formulation and implementation and to evasion of government decrees.[7/] Reductions in the deficit have occurred largely (a) through cuts on the non-wage side of the budget; (b) through shortfalls in development spending from budgeted levels; and (c) through deferring payments into subsequent budget years, i.e., payment of $58 million in outstanding GOL checks was held over until the start of 1982/83.

The budget deficit increased slightly, from $114.6 million in 1980/81 to $117.7 million in 1981/82 (well over the IMF's $69.5 million target), and it may approximate $84.9 million in 1982/83 versus the IMF's original $82 million projection. All external arrears were eliminated by May 1982, but these have since built up again. The BOP current-account deficit narrowed from $83 million in 1980/81 reportedly to about $67 million for 1981/82, despite a decline of 13 percent in export value and a further deterioration of 8 percent in the terms of trade over the same period.

The 1982/83 IMF program mainly was to be a continuation of those of prior years, with addition of three medium-term adjustment

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7/ See the September 1982 report of Dale McOmber, "Improving the Budget System of Liberia."

requirements: (a) a $20 million increase in development spending, which will not be achieved; (b) improvement in the operations of public corporations to occur with help from the IBRD, initiation of which has been very slow[8/]; and (c) measures to enhance financial intermediation, including increased interest rates and new means to mobilize financial resources. The report of an IMF team recommending such measures is forthcoming.

The IMF review last November-December of GOL performance under the current Standby had two basic aims: (1) a 15 percent reduction in government salaries, and (2) elimination of debt arrearages over the next year or so. Additionally, the review required a revised, more sustainable 1982/83 budget for January-June to take into account a $13 million decline in revenue projections and to make further cuts in expenditures, including an $8.7 million decrease in the 1982/83 development budget. The team also recommended a slight increase of $2 million in the ceiling on net credit of public banks to government. Finally, the review mandated an independent audit of petroleum refinery financial operations to ensure that offshore income is channeled to the public sector banks and to identify other measures for reducing the drain on FX balances attributable to oil imports.

On December 1, the Head of State announced a number of critical steps necessitated by Liberia's continued economic decline. Highlights of the speech (see also 82 Monrovia 12124) included:

- The first presentation to the Liberian public of the severity of the economic crisis and a warning that it might get worse.
- An average reduction of 17 percent in the public sector wage levels, graduated so that a 25 percent cut was

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8/ See the September 30, 1982 "Report of the Technical Committee on the World Bank Aide Memoire" and the April 9 IBRD Aide Memoire

made in wages of the highest paid workers, 20 percent at the middle level, and only 16.6 percent for the lowest.

- Reconfirmation of the GOL's intention to retain the U.S. dollar as its currency, to issue no coins of a higher denomination than the $5 coins already in circulation, and to continue monitoring introduction of additional $5 coins.
- A series of measures to alleviate the liquidity crisis.
- Orders for the oil refinery corporation to collect all outstanding bills and to improve its profitability, and announcement of a review of energy-saving measures.
- Various measures to offset the impact of wage cuts and ease the cost of living, i.e., rent control, removal of surcharges except on luxuries, etc.
- Review of the GOL pension scheme to ensure workers aged 65 and over are retired and to consider the continued effectiveness of those with 25 or more years of service.
- Limitations on official foreign travel and a 25 percent cut in per diem rates.
- Institution of a local tax to be used primarily for rural development.
- Establishment of an agriculture battalion to produce food to meet the Army's needs.

The above steps are courageous and unprecedented in many ways and are a decided step forward. However, the extent of their fiscal impact remains to be seen. The potential total annual savings of $30.6 million

in public sector wages will be eroded to some degree by other announced measures; some steps may not go far enough and implementation may also fall short.

2. GOL Development Plan, 1981/82 - 1984/85: Liberia's second four-year Development Plan was prepared in the midst of economic crisis. Stated objectives of the Plan are laudable — diversification of the economy, improved distribution of income, and increased Liberianization. These are to be achieved through promotion of private and public investment in agriculture, agro-industry and manufacturing; through placing a high priority on public sector investment in directly productive activities, especially agriculture; through an expansion in the domestic economy, making Liberia less reliant on export sectors; and through emphasis on human resource development. Table II compares proposed public sector allocations to those under the first Plan.

The Plan is a mixture of reasonable general objectives, including a 3.3 percent annual GDP target growth rate. However, even if realized, this rate is still slightly below the population growth rate, presaging continued decline in per-capita income. Specific public sector programs are widely variable in quality and feasibility. The agriculture program, for example, sets sound objectives -- increasing farm productivity, output and income, with special emphasis on food production and small farmers. But the strategy for achieving these goals is unclear; the allocation of resources is not consistent with the objectives, and a number of policy issues remain unresolved.

However, the overriding difficulty is that the Plan directs a further rapid expansion in public sector spending. The $749 million investment proposed grossly exceeds the likely availability of domestic

TABLE II

Public Sector Investment

Comparison of First Plan (1970-1980)

with Second Plan (1981-1985)

(Millions of dollars)

	1976-80		1981-85	
	Amount Current Prices	Percentage	Amount Current Prices	Percentage
Directly Productive	131	22.4	265	35.4
- Agriculture	103	17.6	249	33.3
- Industry	28	4.8	16	2.1
Human Resource Dev.	71	12.1	152	20.3
- Education	55	9.4	110	14.7
- Health	16	2.7	42	5.6
Physical Infra-structure	190	32.7	311	41.5
- Power	22	3.8	50	6.7
- Water	15	2.6	41	5.5
- Telecom., Posts	28	4.8	65	8.7
- Urban Dev. & Housing	20	3.4	22	2.9
- Road Transport	105	18.0	133	17.7
Other	191*	32.8*	21	2.8
TOTAL	583	100.0	749	100.0

*Includes OAU related projects

and external resources from public or private sources. In fact, development budget levels for the first two years were far below Plan projections. Currently, too, the GOL seems to be delaying development expenditure in order to free up money for recurrent budget needs so that 1982/83 spending may approximate that in 1981/82.

According to the CDSS strategy team, the need to regenerate the economy in the short term should take priority over an increase in GOL expenditure. Indeed, meeting Plan spending targets would be contrary to agreed IMF ceilings. Disaggregation of the Plan to focus on a limited number of high-return, fast-acting, implementable projects would be most useful to the GOL and donors alike. High priority should be accorded to projects promising increased production, employment and income in agriculture and agro-industry; to increase effectiveness in basic education and primary health within current resource constraints, and to ensure adequate maintenance of existing infrastructure, including roads.

D. Roles of Major Donors

The U.S., IMF, IBRD/IDA, the E.E.C., and West Germany are Liberia's principal donors, although smaller amounts of assistance also come from the U.K., France, UNDP, AFDB, the People's Republic of China, Japan and the Netherlands. The majority of aid provided in 1980-82 was program assistance from the U.S. and IMF in response to Liberia's economic crisis. The IBRD is in the initial design stage for a structural readjustment loan to address financial and management problems of public corporations. This may be authorized in 1984.

Other donors, including the IBRD, continue to emphasize project assistance in agriculture, education, health, infrastructure, and private sector development. Implementation of these activities has slowed considerably

due to problems of absorptive capacity, to the GOL's inability to meet its agreed local costs contributions, and to donors' frequent inability to convert their own currencies to dollars through the National Bank. Another problem is delays in aid disbursements caused by GOL arrearages on debt owed to individual donors (see 82 Monrovia 12350).

Two issues regarding donors affect U.S. efforts in Liberia -- increasing donor support and donor coordination. Liberia's other donors view the U.S. as having primary responsibility for supporting the GOL, yet limits on USG resources, declining IMF net transfers, and the nature and magnitude of Liberia's assistance needs argues for increasing resources from other donors and for a switch in emphasis over the short-term from project to program type assistance on either grant or the most concessional terms which donors offer. Approaches on converting aid to program assistance made to donor representatives in Monrovia, and in one case by the E.E.C. delegate to his Brussels headquarters, have so far borne no fruit. Efforts to interest new donors -- Italy and Sweden, respectively -- have had mixed results, with some expressions of interest by the first and a negative reply by the second (82 Stockholm 5556). The Administrator and other senior AID/W officials, and the Department of State should raise Liberia's aid needs in annual consultations with current and potential (new) donors and in donor coordination groups such as the CDA. Another group to be contacted is the OECD countries. Recognizably, increases in aid for Liberia may occur only at the margin. Other donors have their own interests and constraints, and they do view Liberia primarily as a U.S. responsibility.

The second and related issue is donor coordination. At the local level this now is minimal, although the last six months have seen efforts by

USAID and the Embassy to encourage improvement in this area. The Ministry of Planning and Economic Affairs has not so far followed up our suggestions to initiate a local coordination group; the UNDP is unwilling to take the lead in any such effort. The IBRD has no resident representative in Monrovia who might do so. Such coordination efforts as do exist are at the initiative of individual donors -- the U.S. and, on occasion, the F.R.G. and E.E.C. The recent visits of Joe Wheeler and the Cancun agriculture task force presented opportunities for the U.S. to bring Monrovia-based donor representatives and/or the OECD Ambassadors together to share information and discuss issues. Such efforts will continue as opportunities arise.

The U.S. has advocated formation of an IBRD-led Consultative Group or a less formal, CG-like entity. Such a group is needed, not only to generate aid resources, but to provide a forum in which government and donors can focus and agree on priorities, can carry out a policy dialogue at senior levels, and can agree on a more "disciplined" provision and use of donor resources. IBRD working levels so far have been unwilling to consider taking on the task and feel, with some justification, that a formal CG is beyond the GOL's capability to implement. The IBRD's top leadership has reacted more positively and further, vigorous follow-up is needed in Washington with the Bank. At a minimum, however, the IBRD should be encouraged to assign a resident representative to Liberia.

In May 1983 the UNDP is proposing a high-level, broad-based donor conference in Geneva to review assistance requirements. The timing may slip, however, to the fall. While the UNDP's stated intention is to take into account the state of the economy in considering future development projects, its main reference point is Liberia's Second Development Plan

(see 82 Monrovia 12645 and 12760, and Monrovia 66). A UNDP/FAO study of Liberia's assistance needs, conducted in early 1982, assessed the economic crisis accurately enough, but still went on to present a long shopping list of Development Plan projects whose priority and viability are questionable. Given its past support for donor coordination, the USG must support the conference while trying to ensure this gathering can have a constructive outcome. We will seek to stress the need for an improved donor coordination mechanism, the importance of program over project aid, careful review of assistance needs and priorities, and the importance of projects having manageable costs and short-term productive payoffs in our contacts in Monrovia. Similar follow-up contacts should be made at the U.N. and in the capitals of the major donors prior to the conference.

E. Major Constraints

The various sector studies, the CDSS team, and USAID 10/ have identified a number of constraints to achievement of broadly based economic growth. This section will highlight the constraints considered specially critical and which are central to A.I.D.'s program strategy. Notably, the same constraints affecting public sector effectiveness also impact adversely on the private sector.

1. Economic and Fiscal Constraints: The recent CDSS strategy team concluded that the roots of Liberia's economic crisis were excessive growth in public sector employment and expenditue and the recession in international trade. The team believed controlling the budget to be a necessary first step if Liberia is to solve its liquidity and FX crisis, to restore investor confidence, and to resume growth. At this time,

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10/ See FY 1984 CDSS, pp. 29-44.

with severely reduced financial and capital resource availabilities, one must consider carefully the implications for meaningful development programs.

Public policy has adversely affected broad-based development by expanding the scope of public enterprise, pre-empting the private sector, and increasing waste and misallocation of resources. Government-permitted, even if not officially condoned, harassment of individuals and firms has exacerbated the deterioration of modern sector investment and activity, though such harassment has become less overt and has been reduced. There is still no sign of a halt in capital flight.

Critically, it still remains for the GOL to cut public work force numbers, including those in government, the public corporations, and the military. The GOL views such a decision as fraught with serious implications for political stability as well as having wide-ranging economic consequences due to the importance of the extended-family system (one worker may support up to 10 family members) and to the already high unemployment rate, reportedly 50 percent in Monrovia.

Also, high wage rates for unskilled labor in the modern sector add to production costs, thereby inhibiting competitiveness in world markets. (Liberian wage rates exceed those of other iron ore and rubber producers, and Malaysian rubber growers also have higher yields per acre.) Distortions in the domestic wage structure -- for example, some teachers and paramedical personnel are paid at or near the same level as unskilled janitors -- affect morale and work force discipline, especially when combined with chronic delays in payment of GOL salaries. Options available include further reductions in personnel numbers and/or wage rates, to

freeze the rates until competitors "catch up", or to restructure GOL rates in anticipation the private sector will follow.

2. Human Resources Constraints: The lack of trained, skilled manpower is severe in technical and administrative areas. The problem is both quantitative and qualitative, as evidenced by high illiteracy and drop-out rates, low percentages of children enrolled, school curricula insufficiently oriented toward education for employment, the high proportion of university students who must do remedial work upon entrance, and, for A.I.D., the number of participant candidates who cannot meet university entrance requirements or who must repeat all or part of their academic course-work before qualifying for graduate study.

Chronic administrative and management problems throughout the public and private sectors severely constrain short-term economic recovery and longer-term development prospects. This constraint was made worse by the flight or removal of many of Liberia's best-trained and most experienced personnel after the coup. Few have returned. While there are some very competent people in senior GOL positions, these are few in number; all are overburdened; they lack support from below and many are mis-assigned to jobs where there contributions are marginal at best. Lack of qualified personnel retards Liberianization of the work force (40 percent of managerial and technical jobs are filled by non-Liberians) and is a major hurdle to private sector investment.

Administration and management in Liberia face a complex problem set. One aspect is persisting tribal socio-cultural concepts including hierarchical societal organization; lack of shared values with primary loyalties given to self, family, clan and patron; fatalistic attitudes or reliance

on some external force to solve problems; tribal concepts of time; and incessant pressures to contribute to a myriad of social causes. Other aspects are: (1) the relative insecurity of top office holders; (2) a historical lack of structure in government with confusing lines of authority; (3) an overly centralized system of decision making; (4) the misuse of scarce manpower resources within a bloated civil service; (5) poor leadership styles and supervision, with a failure to reward good performance; and (6) the lack of implementation follow-up on policy or reform measures after these have been discussed and agreed.

Despite its relative abundance of unskilled labor overall, Liberia also experiences a labor constraint in agriculture. During peak agriculture seasons, insufficient (male) labor is available for land clearing, thereby restricting the amount of land that can be brought into production. The problem is complicated by prevalence of the traditional division of labor between men and women.

3. Institutional Development Constraints: Liberia's institutions are fragile and very undeveloped, with limited absorptive capacities. In part the problem is historical, reflecting the lack of commitment to development of the 95 percent of the population which is of tribal origin among the former Americo-Liberian rulers. In part, too, it reflects donors' past unwillingness to commit sufficient resources and to stay the course long enough to ensure institutional viability. Finally, in part, this problem is social, reflecting Liberians' personal conservatism and systemic resistance to change.

The problem is manifest in many ways -- weak organizational and administrative systems; GOL services that lack technical and outreach capabilities to serve their target clientele; inability to plan and

implement effective programs needed for development; and inadequate policy formulation and execution.

Finally, at the highest political level, progress toward restoring a Constitution and transferring power to a civilian government could have a substantial, salutory effect on private sector confidence. The Head of State has given repeated assurances of his commitment to restore a civilian government in April 1985. With U.S. and U.K. technical assistance, the Constitutional Commission completed in January the drafting of a new Constitution, patterned after that in the U.S. After PRC review, a Constituent Assembly, chosen by regional caucuses of community leaders, is to be held in March 1983, and after that, a national referendum during the second half of the year. A civilian government restored to power in 1985 will still have to establish its authority, wrestle with difficult economic issues, and operate within many of the same socio-economic and political constraints that have affected the PRC government.

4. Access Constraints: Many of Liberia's people live far removed from the modern economic sector, from contact with government activities, and from each other. The population is small, and much of the country is uninhabited or sparsely settled. The main population concentrations are found along the coast, in central Liberia, and in the urban areas. Eighty percent of the population lives in villages and settlements of 500 persons or fewer.

The major rivers, which cross Liberia diagonally and discharge into the Atlantic, have steep and irregular gradients, are of little use for transportation, and hinder East-West traffic links. The country has a limited network of all-weather roads (6,268 miles) of which only

1,165 miles are primary roads and only 366 miles are paved. Even the main roads are unusable during heavy rains, and portions of the country are inaccessible by surface transport. This system is deteriorating due to lack of maintenance. Internal air transport services are sporadic due to financial, management and maintenance problems.

The lack of physical infrastructure generally, especially in areas away from Monrovia and off the main highways, has frequently been cited as being a significant factor in (1) limiting access by the bulk of the populace to services, inputs and markets; (2) severely limited investment (both foreign and domestic) in rural Liberia; (3) stagnating agricultural production and lack of agricultural processing facilities; (4) the high cost of transportation in the interior, which is absorbed by farmers in terms of lower farm-gate prices and which adds to producer costs for iron ore and timber exports; and (5) the continued isolation, and therefore lack of a sense of national identity, by large segments of the population.

In addition to problems of physical isolation, there are serious deficiencies in access to modern technology and to information. The Cancun agriculture task force concluded that improved technology, which had revolutionized agriculture elsewhere and provided the primary basis for development, had bypassed the majority of Liberia's small farmers. These farmers continue to use highly labor-intensive techniques and other traditional production practices that have remained unchanged for generations. The team recommended that highest priority be given to strengthening agricultural research in order to raise small farmers' productivity by means of better and more efficient farming systems.

Broad-based development and increased productivity in rural areas also

depend on improved access to education and health services. It is in these areas where such services are least available, thus delaying advances in the overall quality of life. Limited access to primary education for girls deprives their families of the returns from basic education -- economic productivity, better maternal care, general health benefits, and family planning. Similarly, limited access to primary health care inhibits productivity, learning capacity, and interest in family planning.

Economic planning and monitoring of performance is complicated by inadequate and delayed information availability. For example, the GOL still has incomplete information on its payrolls and debt, and the IBRD Agriculture Assessment found the existing agriculture data base thin and of limited reliability. Education and health statistics are equally poor. Rural dwellers similarly lack information on prices and market opportunities, basic technology, better health practices, and everyday events with adverse consequences for nation building.

F. Development Prospects

1. Short-term - FY 1983-85: "Development" is defined for the purposes of this CDSS as, "diversified, broad-based economic growth in which wider numbers of Liberia's populace can participate." The prospects in the short term obviously are severely limited by the GOL's financial constraints and the time required for development payoff to occur since solutions to Liberia's most serious constraints are long-term in nature.

During the short term, then, priority should be accorded to economic recovery and resumption of growth. These are not easy tasks, and achieving them is complicated by difficulties in implementing GOL

policy decisions and uncertainties over world market prospects. The short term itself, therefore, could extend beyond 1985. The outlook could be enhanced by donors' willingness to engage in effective policy dialogue, to condition their assistance effectively, to pick up all or a major share of local and recurrent costs, and to target their assistance selectively on projects having significant production, income and employment effects.

For the private sector to resume a positive, active role requires a restoration of confidence and an improvement in the investment climate. A halt to economic deterioration, continued political stability, and return to civilian rule are the major domestic factors leading to such an improvement. External factors are an end to world recession and signs that the concessions are returning to health. Donors during the short term can, in addition to support for economic recovery and constitutional rule, assist in removing disincentives affecting Liberia's longer-term investment climate.

2. Medium-to-Long-Term -- FY 86-88 and Beyond: Development prospects over the longer term are more favorable. Liberia, for such a small country, is comparatively well endowed with natural resources -- minerals, including iron, gold and diamonds, timber and hydro-electric power sources. Offshore oil possibilities have been identified and their investigation should begin soon. There are still unexploited mineral resources that might be tapped if foreign investment is forthcoming, and with careful management further potential also exists for timber exports.

The timing for price and demand recovery for iron ore and rubber is uncertain -- one prediction suggests 1988 as the earliest date for recovery in iron-ore markets. There is also the real prospect these exports may never return to their former levels due to restructuring in the

iron, steel and automobile industries and to the possibility Liberia may not be able to compete as effectively due to higher production costs, declining ore quality, and greater reliance on synthetic rubber.

The Cancun task force and IBRD were both especially impressed with Liberia's potential over the medium and long terms for increased agriculture production. They cited food crops, especially rice, and also a more diversified range of cash crops, such as oil palm, coconut, cashews, citrus and so on, as areas to explore. Realization of this potential will require significant attention to technology transfer and institution building, but also to finding ways to enhance involvement of local private (Liberian) investors in addition to foreign investment. Another factor will be raising productivity of Liberia's small farmers through giving them the skills and information needed to avail themselves of new opportunites.

Achieving a sustainable development path ultimately depends on a restructuring of the economy to strengthen domestic output and to make Liberia less vulnerable to external market fluctuations. Restructuring is a long-term process, possibly 10-15 years or more, to which the Liberians in the public and private sectors and donors alike must commit themselves. Such an effort also will require careful and better planning of assistance activities and more consistent attention to implementation. Phase-downs of assistance should occur over longer periods with greater sensitivity to factors affecting institutional viability. Such considerations suggest that donors need better information about the socio-cultural context in which projects operate and about factors influencing adoption of new ideas and technologies.

II. A.I.D. STRATEGY RESPONSE

A. U.S. Interests and Objectives

The U.S. has long been identified as Liberia's closest friend and supporter, having a wide and diverse range of interests in the country which go back to its founding. Liberia has the largest concentration of U.S. assets in Africa. These include port and airport access rights, a regional telecommunications relay facility serving most U.S. diplomatic missions in Africa, Voice of America transmitters that broadcast throughout the continent, and an OMEGA maritime navigational station. American private investment, now estimated at under $300 million, is the second or third largest in Black Africa, after Nigeria and, possibly, Kenya, with much of that investment in rubber and iron ore. About 59 percent of all foreign-registered U.S. ships fly the Liberian flag of convenience. The U.S. dollar is the official currency, and Liberia has an open market-oriented economy. Finally, Liberia has a close historical relationship to the U.S., with strong cultural, psychological and, often, family ties existing between the two countries in what is termed the "special relationship." One manifestation of this relationship is the A.I.D. program, dating back to 1947, the longest U.S. economic assistance effort in Africa.

U.S. objectives in the short-to-medium term are to help restore economic and financial stability, to assist re-establishment of investor confidence, and to support return to civilian rule in 1985 as announced by the Head of State. A.I.D.'s economic assistance program plays an integral part in overall U.S. efforts for achieving these goals, providing the major share of total U.S. assistance, which approaches $80 million annually. The

sizeable increase in A.I.D. program funding and complexity since the rice riots in 1979 is a direct outgrowth of that role.

($ Millions)

	FY 78	FY 79	FY 80	FY 81	FY 82
TOTAL A.I.D.	6.4	14.9	22.7	54.6	64.8
Economic Support Fund	-	5.0	5.2	32.0	35.0
P.L. 480, Title I	-	-	5.0	15.0	15.0
Development Assistance	5.3	8.3	10.8	5.3	12.0
Total Bilateral	5.3	13.3	21.0	52.3	62.0
Regional	1.1	1.6	1.7	2.3	2.7
Human Rights Fund	-	-	-	-	0.1
Total Other	1.1	1.6	1.7	2.3	2.8
PEACE CORPS	1.8	2.6	2.3	2.0	1.8
TOTAL MILITARY	0.7	1.5	2.7	6.3	12.6
M.A.P.	-	-	-	1.0	5.0
F.M.S.	0.5	1.2	2.5	4.7	7.0
I.M.E.T.	0.2	0.3	0.2	0.6	0.6

SOURCES: "U.S. Overseas Loans and Grants", Liberia Peace Corps, U.S. Military Mission, and USAID.

B. A.I.D. Economic Assistance Objectives - FY 1983-88

1. Short Term FY 1983-85

a. Restoring Fiscal and Economic Stability: Restoration of fiscal and economic stability is A.I.D.'s first priority goal. The short-term period will be crucial for reducing or eliminating budget deficits; generating some surplus for productive investment or, at a minimum, making more efficient use of existing resources; creating an atmosphere more hospitable to private investment, and protecting Liberia's existing infrastructure from serious deterioration. The USAID will utilize its assistance resources -- ESF, DA, P.L. 480, and counterpart -- in an integral fashion so as to support creation of these conditions.

For program assistance (ESF and P.L. 480) to achieve the objective, policy dialogue and conditioning of budget support and rice sales on GOL performance will be vigorously pursued. The GOL must appreciate that the U.S. expects adherence to U.S. and IMF conditions if substantial levels of assistance are to continue, and the U.S. should be prepared to invoke those conditions if GOL performance does not meet the requirements. A beginning has been made in FY 1983 in tightening conditions, and in linking budget support, P.L. 480 assistance, and complementary Development Assistance (DA) activities more closely so as to reinforce each other.11/

During the short term we believe ESF and DA should continue to be provided at their current levels and as grants in order to avoid adding to the GOL's already heavy debt burden. While P.L. 480, Title I can only be made available on concessional loan terms, A.I.D. and State might investigate the possibility of forgiveness of Title I repayment obligations.

11/ See the FY 1983 Program Grant Agreement and the Title I Sales Agreement.

We anticipate, at a minimum, GOL requests for additional reschedulings of official and commercial debt repayments, to which the U.S.G. should be sympathetic. Conversion of the Title I program to Title III, which is a grant, we believe would not be justified since the purpose of the Liberia P.L. 480 program is balance of payments support rather than development.

Throughout the short term and into the medium term, the USAID will also pick up the recurrent costs of all new and continuing bilateral project activities either with ESF and P.L. 480 counterpart or with DA funds. (The GOL development budget includes recurrent and capital costs of all donor and other development activities.) DA funding of recurrent costs will be in accordance with the recently announced A.I.D. policy on this subject.

The USAID will also utilize AID/W resources for assistance in energy and to the private sector because of their importance for achieving the short-term economic stabilization goal. All Liberia's commercial energy needs are now met by imported petroleum, with the exception of power for Monrovia and surrounding areas during and shortly after the rainy season when the Mt. Coffee hydro-electric facility supplies those needs. Liberia's largest import bill ($130 million in 1981) is for petroleum imports, and in-country refining of crude oil may cost $25 million more annually than importation of refined product. These costs need to be reduced.

USAID with AID/W support is now completing a national energy assessment being conducted by the Oak Ridge National Laboratory (ORNL). The inter-ministerial technical subcommittee of the National Energy Committee, one outgrowth of the assessment, has been asked to provide technically sound options for a national energy conservation plan. Many of the

subcommittee's recommendations parallel those emerging from the assessment -- a cutback or shutdown of the refinery, reductions in gasoline allotments for GOL officials, and studies of consumer power usage to identify and promote conservation measures. Another is a proposal to explore alternative energy sources, such as wood gasification.

The GOL, however, is giving particular attention to a $1 billion hydro-electric scheme on the St. Paul River, and a GOL technical committee is reviewing a pre-feasibility study of the project by a U.S. firm. USAID, the IBRD and the energy assessment team believe the proposal is not economically attractive, that other options, including alternative energies are more cost-effective, and that to go ahead with the scheme at this time would be imprudent. The GOL has not so far followed up on the Administrator's offer last August to provide an expert to review the study although AID/W has recently engaged a person to do the review.

AMOCO began negotiations with the GOL in January on its bid to explore for oil in several tracts on Liberia's offshore coastal slope. At least one European firm also has expressed interest. Oil exploration is a long and uncertain process, and even if the outcome should be positive, Liberia will not see any returns for at least five to ten years.

USAID proposes to continue to draw on AID/W funds and ORNL for technical assistance and to pursue a policy dialogue with the GOL on energy planning, conservation, and alternative energy options. An AID/W-financed expert from Arthur D. Little is to review, at the GOL's request, beginning in mid-February, various options regarding the refinery, crude oil versus product imports, and related issues. We will consider, as circumstances warrant, provision of similar experts and possible collaboration with the

Liberia Electric Corporation and a private firm in a pilot demonstration project in wood gasification.

Restoring fiscal and economic stability and evidence of sound GOL financial management are the sine qua non for rekindling private sector confidence. As part of its policy dialogue conducted through the Economic Consultative Group (ECG), the Country Team will continue to raise for discussion GOL actions and pronouncements affecting the private sector. We also propose to take up with the GOL the desirability of A.I.D. assistance to review the tax code and its incentives/disincentives to business. If requested, USAID will also assist the GOL's ongoing efforts to revise Liberia's investment code so as to make it more supportive of private sector activiites.

While the CDSS was being written, CARE approached the Mission regarding a possible OPG for assistance to the Small Enterprise Financing Organization, a branch of the National Investment Commission. Much about this proposal is attractive, especially SEFO's assigned role in working with the hitherto largely neglected small and medium-sized enterprises, which are mainly Liberian owned. While the grant's outcome would be more long-term in nature, we intend to review this proposal and may submit an OPG request to AID/W later this fiscal year. Such assistance would be consistent with existing A.I.D. support for PfP and LOIC -- two PVOs which also provide varying degrees and kinds of support to small enterprises.

During the short-term stabilization program period, too, USAID will continue its support through ESF CPs and covenants and policy dialogue for IBRD efforts to revamp the 23 public corporations. As proposed in the April IBRD Aide Memoire and agreed by the GOL, six of these are to be sold

to the private sector and seven converted to joint (public-private) ventures. The last-named group of seven and the 10 other public corporations which are to be retained under GOL ownership, are to receive IBRD-financed assistance to improve their management efficiency under the proposed structural readjustment loan. Depending upon economic recovery prospects, the Mission will later consider during the medium and/or long terms possible support to the Liberian Bank for Development and Investment, our staffing and financial resources permitting.

Progress toward the goal also will depend on external factors affecting budget deficits and surpluses including export earnings and import costs, and on corrective actions undertaken by the GOL. Another factor is the magnitude of net program, i.e., non-project, assistance from donors. Since repayment of IMF drawings will increase significantly beginning in 1984, and since any expansion in Liberia's allowable drawings is limited at least to a relatively small increase in its IMF quota next year, net Fund resources will diminish rapidly over 1984 and 1985.

b. Maintain and Enhance Human and Physical Productive Capacity

This objective mandates that USAID continue a minimum level of development activity that can lay the groundwork or maintain Liberia's capacity for sustained growth over the medium and long terms without costly investments at that time to restore "lost" capacity before she can resume growth. Of particular priority will be key efforts at institution building and technology transfer affecting human and physical productivity and at maintaining needed infrastructure.

During the short term, the composition of the Mission's DA portfolio will be reviewed to streamline it and to concentrate on projects

promising the greatest potential contribution with the least burden on GOL recurrent costs. Given the $22.1 million "mortgage" existing for ongoing DA projects, new starts must be limited in number and concentrated in agriculture, and efforts complementary to program assistance, with limited involvement in education and health.

Much of the DA program directed toward this short-term objective will have medium-to-long-term impact and accordingly is discussed in more detail below. However, we recommend that A.I.D. also provide assistance for development of rural infrastructure. Currently, the country's physical infrastructure is wholly inadequate for sustained growth and development. Comparatively, it also is less extensive than in other West African coastal countries, which gained independence a century or more after Liberia. USAID in particular during the FY 1983-85 period, working in concert with the IBRD, would support improvement in Liberia's road maintenance capability. The IBRD has concluded that for roads programs to function effectively requires improved Ministry of Public Works management, restructuring of the Ministry's budget to free funds from payroll uses for logistic support and actual operations, and greater reliance on private contractors instead of on "force account" construction. USAID is in close touch with Bank officials and may provide in FY 1984 technical assistance and, possibly, some capital to the Ministry in coordination with the IBRD.

Depending on improvements in donor coordination and discussions with the GOL and donors, we believe it appropriate to also consider assistance for access road and bridge construction, rural telecommunications, rural water supply systems, and rural electrification based on alternate energy sources. USAID estimates an annual minimum commitment of the

involved donors in rural infrastructure might approximate $30 million over about 20 years. Such a multi-donor effort could improve Liberia's attractiveness to investors, minimize additions in the short and medium terms of recurrent costs, provide employment opportunities in construction and ancillary industries, stimulate Liberian private sector development in construction and related industries, assist in technology transfer, and, over time, facilitate increased commerce in up-country areas while lowering transport costs for agriculture and other goods produced there.

2. To the Medium Term (FY 1986-88) and Beyond

a. Continue Pursuit of Short-Term Goals: The time frame, levels and mix of aid instruments during the medium term are heavily dependent on the factors determining the short-term strategy. If the GOL effectively carries out requisite corrective policy measures and world demand for Liberia's major exports recovers by FY 1985-86, program assistance might begin to decline in a measured fashion at a point early in the medium term as determined by the state of the economy and by an assessment of the decline's impact on the "new" civilian government.

b. Promote Sustained and Broadly Based Economic Growth: Resumption of development is a reasonable medium-term objective for the Liberia assistance strategy, although achievement of sustained, broadly based growth will be a long-term task of 10 to 15 years or more. A.I.D.'s priority program areas will be agriculture and rural development, education and health, with agriculture taking priority.

C. Macro Economic Emphasis

The policy dialogue on economic and financial issues between the U.S. and the GOL is quite intense. It is conducted in the context of negotiation

of ESF and P.L. 480, Title I Agreements, satisfaction of conditions precedent (CPs) to individual ESF disbursements, discussions on project planning and implementation, and frequent meetings of the Economic Consultative Group. The ECG includes the Ministers of Finance and of Planning and Economic Affairs, the Governor of the NBL, their deputies, and as necessary, representatives of GOL entities involved in oil imports, along with the U.S. Ambassador, his deputy, the Economic Counselor, the A.I.D. Director, and often the A.I.D. Program Economist. These meetings discuss debt, salary payments, oil financing, credit to the public sector, wage and personnel levels, the public corporations, climate for private investment, and GOL performance under the Standby; they often are quite open and frank.12/

The FY 1983 ESF grant contains CPs and covenants directed toward improved revenue and expenditure performance, regularizing projections of offshore funding requirements and availabilities, prioritizing development budget spending, GOL personnel spending, the public corporations, conformance with IMF Standby terms, energy conservation, and mobilization of public and private sector financial resources. The PL 480 agreement similarly includes self-help provisions on the Ministry of Agriculture payroll, certain public corporations, and rice prices. Both agreements support IMF and IBRD efforts, while that for ESF also reinforces activities of technical assistance (TA) project advisors working on revenue generation and on budgeting and expenditure control. USAID will gradually tighten these measures during the year and may add new ones in the future, possibly in such areas as donor coordination, divestiture of public corporations, GOL personnel and payroll, interest rate levels, debt management and private

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12/ See, for example, Monrovia 381 on the ECG meeting of January 10, 1983.

sector incentives as we seek to control budget deficits and foster economic recovery.

Given the importance the U.S. assigns Liberia and her continuing resource requirements, one issue to keep under review is the relationship between levels of budget support and P.L. 480 assistance. Annually, during FY 1981-83, the combined total of such program assistance approximated $47 million to $50 million. Potentially declining levels of P.L. 480, Title I assistance might need to be offset by corresponding increases in ESF, assuming funds availability and appropriate GOL policy measures.

Counterpart funds generated by P.L. 480 and previously by ESF grants will continue to be allocated to selected, priority USAID and other donor projects, principally for agriculture, education and health, in the development budget and for roads maintenance in the recurrent budget. To the degree feasible without undercutting IMF objectives, USAID will seek ways (1) to protect such allocations from budget reductions and (2) within the limits of our staffing availabilities, to facilitate timely GOL release of funds budgeted. At some future point USAID may consider use of counterpart funds to support private sector initiatives.

Two DA-funded projects are integral parts of USAID's macro-economic strategy. The Increased Revenue for Development activity, directed to increasing GOL revenues, was expanded in FY 1982 to add customs advisors to ongoing IRS personnel and its duration extended. The project also should review tax rates and the incentive structure. The Economic and Financial Management Project, placing advisors in the Budget Bureau and Ministry of Finance to work on improved budgeting and expenditure control, will be reviewed in FY 1983-84 with a view to its possible

expansion in FY 1984 to other agencies where requirements are clearly indicated and prospects exist for advisors to have the desired impact. Potential clients are the NBL, the Ministries of Agriculture and Education, and possibly the Finance Ministry's debt management office and the Commerce and Public Works Ministries. The Education Sector Assessment pointed out some areas where cost cutting and greater internal efficiencies could free funds within current budget levels for more productive use; similar opportunities, we believe, may exist in agriculture, roads maintenance, and energy.

D. Sectoral Responses

During the short term, USAID will propose a limited number of new activities that have high economic impact or can lay the groundwork for and contribute to resumption of sustained growth. We anticipate a review during the remainder of FY 1983 of the current portfolio of 22 active projects to verify their priority and importance and to consider early termination where deemed appropriate.

TA efforts generally will continue the Mission's current emphasis on longer-term technology transfer and institution building. They will include a significant training component and, together with an increased allocation being sought under the African Manpower Development Project (ADMP) will represent a heightened priority for participant training. The USAID is already establishing an in-house training committee to bring to bear a broader range of Mission expertise and to improve internal coordination of our training program. We expect during design to make as realistic an appraisal as possible of assistance needs and duration and to seek improved approaches to eventual phase down. To facilitate such design efforts USAID will further request Project Development and Support funding for a

"Social and Institutional Profile" of Liberia to follow up the recently completed "Profile of Liberian Women in Development" and for selected analyses to improve our knowledge of the Liberian economy.

The target of the DA program are socio-economically disadvantaged Liberians, representing 80 percent of the population. As a group, they are characterized by low incomes, illiteracy, poor health and low life expectancy, high birth rates, mild-to-severe malnutrition, and low productivity. The majority live in rural areas, predominantly in small upland villages lacking schools, clinics, safe water and proper sanitation: and are connected to other areas only by footpaths. They make a marginal living 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 monetary economy. About 12,000 rural dwellars migrate each year to Monrovia, where most find neither employment nor improved social conditions. About 23 percent of urban residents fall below the IBRD's absolute poverty income level.[13/]

For more detailed background information on the sectoral programs summarized below, the reader should review the relevant materials listed in Annex I.

1. Agriculture and Rural Development

a. Background and Sectoral Constraints: Liberian agriculture operates in a setting both conducive and non-conducive to farming. The person/land ratio is one of the lowest in Africa. Rainfall, too, is plentiful so that rain-fed cultivation of annual crops and tree crops are the main elements of the farm economy. However, farming under the best of

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13/ See also the FY 1984 Liberia CDSS, pp 24-29.

conditions is difficult and complex -- soil fertility ranges from lower moderate to poor, and soils are difficult to manage due to problems of terrain and heavy rainfall. Hard-to-control weeds and insects and frequent cloud cover further complicate the picture.

Four distinct farming systems exist, with A.I.D. assistance directed toward the subsistence farming system. Land, farmed most often by women assisted by their children, is state-owned but is held in trust by tribal chiefs who provide farmers secure tenure through occupancy and use rights. Farm size is small (two to three acres), and few purchased inputs are used. Upland rice is the principal crop, although there is some swamp rice production. Other crops include vegetables, groundnuts, cassava, eddoes, tropical fruit and other tree crops. Most farm produce is consumed at home and little is sold.

Small-scale farmers face severe economic/technological problems of low productivity, low total production, and low economic returns. The relevant constraints are serious shortages of purchased inputs that could increase yields and farm size; the slash-and-burn system of cultivation, which limits the area farmed; lack of yield-increasing technology from research; labor shortages and the sex-based division of farm labor; the physical and biological handicaps cited earlier; low commodity prices and farm distortions attributable to different opportunity costs for men and women; problems of marketing through GOL channels, and lack of knowledge and other factors affecting incentives.

Farmers also face a serious management/administrative constraint. GOL services lack strength and competence to carry out assigned roles; they

perform very weakly, and they have serious resource shortages (funds, logistical supplies, etc.). Finally, there is a lack of coordination among donors and the GOL.

b. A.I.D. Objectives and Strategy: The CDSS team, like the Cancun task force, recommended that improved and tested farm inputs be developed for small farmers and a dependable means created for delivering them at prices which make them profitable. The target group must acquire the knowledge to make use of the new inputs and technologies. The team cautioned that the USAID's current emphasis on food is misdirected because low production is a whole farm problem requiring increased productivity at lower unit costs for the total farm unit.14/ Crop-specific problems occur together with and are part of farm-enterprise problems.

USAID's current agriculture program involves (1) institutional development in research (the Central Agriculture Research Institute), in training of extension and other mid level technical specialists (Rural Development Institute), and in Ministry of Agriculture (MOA) planning capabilities, and (2) area-specific rural development projects, working with the IBRD and FRG in Nimba and Bong Counties. Both program thrusts directly embody transfer of technology. Additionally, regional funding supports the West Africa Rice Development Association, headquartered in Liberia, and two small experimental activities in zero-tillage and mini-hydro-electricity generation for villages. Peace Corps Volunteers have been directly involved in many of these projects. At present we believe this approach is sound and should be continued. During FY 1983 USAID plans to extend further assistance to

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14/ See the "U.S. Economic Assistance Strategy Assessment Liberia" by John Erickkson, PPC; Vernon Johnson and Burton Gould, Consultants, December 1982.

RDI, and in FY 1984 we propose a revision and expansion of support for agriculture research consistent with recommendations of the Cancun and CDSS teams. One issue for consideration during the revision is how to link CARI and WARDA more closely together so as to reinforce their respective efforts more effectively. Consistent with the CDSS team's suggestion of a more area-specific program focus, and given the existing and potential possiblities for coordination and interrelationships among and between CARI, RDI, the Bong County Agricultural Development Project, and the A.I.D.-funded Partnership for Productivity OPG in Nimba County, we anticipate an approach by the IBRD re possible USAID support for the second phase of the Bong County ADP as well as a PfP proposal for a second phase project.

The only other new Agriculture-Rural Development project that USAID might consider during FY 1983-85 is a revision/extension of the existing agriculture planning effort. This will continue work with the MOA's statistical unit, but it should also seek to improve planning and budgeting capabilities within the Ministry of Agriculture. Proceeding to design of this extension requires prior resolution of ongoing policy issues regarding the nature of the planning function to be performed, maintaining the integrity of the statistical unit, GOL support, and performance criteria.

A coordinated, multi-donor effort in rural infrastructure development will support A.I.D.'s activities in this sector as well as having broader significance for macro-economic objectives.

Previously proposed A.I.D. assistance for expanded agriculture extension and for land use and tenure is accorded a low priority for the short and medium-term program strategy periods. These ideas will be placed

"on hold" for possible consideration during the longer term.

The above-proposed activities to begin in the short-term period will involve a slight change in emphasis. Sectoral objectives will remain (1) to stimulate increased agriculture production and productivity of Liberian small farmers; (2) to expand the economic base of agriculture; and (3) to demonstrate prospects for improved equity through the production and marketing process. As the CDSS strategy team recommended, USAID will incorporate a farm-enterprise-oriented emphasis which in the short and medium terms realistically can at best achieve only marginal increases in production; however, over the longer run there should be measurable changes in the traditional farming system, spurring sustained agriculture growth. Institution building and technology transfer are essential elements of the above approach.

The USAID's sectoral policy dialogue during the short term will focus on issues of project planning/revision and implementation and continuing review of pricing vis-a-vis P.L. 480. As the CDSS strategy team noted, the current price level is less a problem for farmers than is marketing access under the existing funding and management constraints of the Liberia Produce Marketing Corporation.

The Country Team also will pursue the proposal of the Cancun task force for a high-level Liberian-U.S. Joint Commission on Liberian Agriculture Development. Positive responses to invitations to join from potential U.S. members may depend on some improvement in the overall economic and investment climate. Such a commission, however, could be very useful in generating outside investment and fostering involvement of Liberian investors in the sector, and technology transfers.

USAID further will continue its support for PVOs now working in the sector, i.e., PfP, and we will carefully review a proposal from Winrock International for an OPG for a livestock development program in cooperation with Uniroyal and the Liberian Agriculture Corporation. Coming at this time, the proposal is an encouraging private sector initiative; however, livestock development per se is a low priority in the short term for the USAID, the CDSS strategy team and the Cancun task force.

2. Human Resources Development

a. Education and Training

(1) Background and Sectoral Constraints: Liberia's education system is characterized by limited access at the primary level, high wastage through the lower secondary cycle, a concentration on academic studies at the upper secondary level, and a diverse post-secondary level with high attrition and wastage. The institutional capacity to address these problems is not strong, and there is need for strengthened management and an improved incentive system. However, according to the recent Education Sector Assessment, the main constraint is financial and human resource limitations affecting new and continuing activities.

The Sector Assessment was conducted jointly with the GOL and will be published as a government document. It assigned highest priority to efforts to improve the internal efficiency of education and training programs at all levels but especially in the primary grades. The Assessment particularly stressed making better use of existing resources through acquisition of instructional materials needed to operate ongoing education programs more effectively, raising student/teacher ratios as warranted, and improving quality control through external examinations. The study

singled out USAID's Improved Efficiency of Learning Project as having particular relevance for improving instructional materials within current resource levels and recommended a phased implementation and expansion of the IEL system. The Assessment team also cited the potential of radio education (Rural Information Systems Project) for adult literacy and for health and agriculture education.

(2) A.I.D. Objectives and Strategy: The CDSS strategy team concurred with USAID that education should have second priority after agriculture. They also agreed that USAID assistance should continue to be modest relative to total needs and to be consistent with present financial and managerial capabilities. The team further suggested these activities concentrate on medium-to-long-range returns and seek to improve the quality of primary education, to increase educational opportunities for women, and to maintain close coordination with the IBRD and other donors. In conclusion, the team felt that the IEL and RIS projects should constitute the basis for the education program during the short and medium terms.

The USAID's education program now includes only three projects -- IEL, RIS[15/] and Liberian Opportunities Industrialization Center, a vocational training program carried out by a PVO in cooperation with the GOL and private sector employers. The Youth-on-the-Job Training project with the GOL concludes in early CY 1983.

The USAID intends during this CDSS program period to carry out an education program along the lines set forth above. The objectives are (1) to demonstrate cost-effective means of providing improved basic education and vocational training, and (2) to contribute to increased

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15/ Although funded with "agriculture" funds, the project is managed by USAID's EHR Division.

productivity. The Mission proposes to design and initiate Phase II of IEL to extend to primary schools throughout Liberia the programmed learning materials developed for grades one through six during Phase I. This PP should be authorized in FY 1984. The LOIC and RIS activities are to continue to FY 1984 and FY 1987, respectively.

USAID has been approached regarding possible OPG support to the Liberian Development Fund, a recently formed local PVO with strong ties to the Catholic Church in Liberia and in the U.S. LDF is seeking registration in the U.S. as an eligible PVO, but so far has not yet begun operations. The OPG might finance an expansion in the Church's educational system, which qualitatively exceeds that of the GOL and now enrolls about one-third of Liberia's school children. LDF as yet has submitted no proposal.

With regard to management problems, USAID is reviewing options. The "management" chapter in the Education Sector Assessment is being complemented through a more intensive follow-up management assessment review in early CY 1983 under the auspices of the joint AFR-S&T/EHR initiative. Hopefully, that report will provide suggestions on how to proceed in a more effective fashion than has been true in the past (see for example, USAID's impact evaluation of the 1971-78 project at the Liberia Institute for Public Administration). Management training, preferably in-country or in other Third World institutions, is important, but is only one aspect of a solution. Without real commitment from GOL leaders and a supportive policy framework, training will have little impact. Yet both the private sector assessment and the CDSS strategy team commented that significant improvement in GOL administration and management was essential for institutional and sectoral objectives

to be realized. Depending on the outcome of the management assessment and subsequent discussions with the GOL, USAID may propose a program to improve managerial skills and capabilities.

The Mission previously proposed an increase in its allotment under the regional AMDP activity (82 Monrovia 12554). An appropriate level during FY 1983-85 might be $250,000 annually, compared to FY 1982 obligations of $125,000 and the currently planned $140,000 for FY 1983. We believe the increase should principally finance training in financial and administrative management and in economic development and planning for GOL officials and for officials of those public corporations that are to continue to exist.

b. Health and Nutrition

(1) Background and Constraints: Health care for 65 percent of all Liberians is still limited to traditional medicine and provided by practioners lacking even the most basic knowledge of preventive techniques. For the remainder of the populace, modern health services are available primarily in the urban and coastal areas; they emphasize curative care, and they may be provided by government, religious missions, or foreign concessions. Half of all hospitals and 75 percent of Liberia's 125 physicians are located in and around Monrovia, and a third of the GOL health budget goes for the JFK Medical Center. Provision of services is seriously constrained by lack of trained personel; by severe shortages of drugs and other medical supplies, even in urban centers and at the JFK Hospital; by declining financial resources with which to operate; and by fundamental structural, organizational and managerial problems. The Ministry of Health and Social Welfare recurrent budget for 1982/83 in absolute terms is 24.5 percent lower than that for 1981/82.

The consequences of such an inadequate and imbalanced health system are apparent in the low health indicators cited in Section I-A and elsewhere in this CDSS. Yet most morbidity and mortality could be prevented through wider access to immunizations, clean water, and basic health services, especially for maternal-child health, as well as to improved environmental sanitation and nutritional practices. For this reason the GOL approved in April 1981 a plan to extend primary health care to 90 percent of Liberia's population by the year 2000 and to involve rural people as appropriate in implementation of their own health services. To carry out this program successfully will require a major policy reform to which the Ministry has already agreed -- increasing cost recovery of health programs through charging user fees, thereby facilitating self-sufficiency of community-level health services.

(2) A.I.D. Objectives and Strategy: USAID is designing for FY 1983 approval a new Primary Health Care project, which draws heavily on a model developed by the Dutch and will introduce in a limited geographic area on a pilot basis new concepts of decentralized authority for health services, user fees, training and use of traditional health practitioners, recruitment of local health workers from the villages where they will work, and provision of integrated health services -- nutrition and health education, environmental sanitation, immunizations, family planning, and curative care. About 21 PCVs will participate in project implementation. The project will support implementation of the GOL's PHC program and will seek to provide more modern health services to a wider number of rural inhabitants. Three regional health activities in Liberia -- the Expanded Program for Immunization, Strengthening Health Delivery Systems, and the proposed Combatting Communicable

Child Diseases are complementary to the PHC thrust of the health strategy. The first two of these terminate before FY 1985.

c. Population: Despite the absence of population pressures on land, an added strain on Liberia's development is rapid population growth, with the related demands placed on Liberia's inadequate health and education services and demands for new jobs and food. Approximately 47 percent of the population is under age 15; the child-dependency rate, accordingly, is 96/100. At the current population growth rate (3.4 percent) the population will double in 20 years. Although organized family planning services have operated in Liberia for more than 26 years, meaningful information is not widely available, and fewer than one of every 20 eligible couples practice contraception. Commitment to family planning within the GOL is lacking, and some major religious leaders oppose it.

USAID currently supports several centrally funded family planning interventions aimed at developing information needed to educate GOL officials to the developmental significance of the high population growth (RAPID) and strengthening the existing public and private systems for service delivery (IPPF, FPIA, Pathfinder Fund, and Westinghouse Contraceptive Prevalence Survey). We will continue this approach and, staff resources permitting, may heighten efforts to educate GOL officials. More active efforts to expand service delivery would be inappropriate until a favorable economic and policy climate exists and until strengthened "core" service systems are in place.

3. Shelter: A.I.D. began in FY 1978 a Low-Cost Housing project to be financed with a combination of DA and ESF funds and a Housing Investment Guarantee ($10 million). The project provides a "civilian" counterpart

to the F.M.S.-financed program to construct housing for GOL military personnel. Implementation of the A.I.D. project to date has been disappointing, and the HIG has not been utilized. The major problems have been lack of GOL commitment to the concept of low-cost housing affordable by low-income groups, changes of leadership at the National Housing Authority and National Housing and Savings Bank, NHA's own performance inadequacies, and USAID's lack of staff capability to monitor the project. This last problem has been resolved with the recent hiring with RHUDO support of a full-time, contract project officer. A complicating factor has been comparisons of the two U.S.G. housing programs. The military housing is being constructed to a visibly higher, more expensive standard and would be unaffordable to the A.I.D. low-income target group. The former housing, too, is to be rented, while the low-income housing is to be owned by its occupants. Depending on an audit and improved financial practices at NHA and on a strong GOL commitment to the low-cost housing concept to be made by next July, USAID will complete the grant-financed portion of the project. Failing these two prerequisites, we will terminate the project early. Should circumstances be favorable, we may seek a slight increase in grant financing to complete a major portion, but not all, of the housing program as originally envisaged. We concur with the CDSS team that Liberia's debt servicing capacity does not now warrant utilizing the HIG.

4. Human Rights: In FY 1982 and to date in FY 1983, USAID has obligated Human Rights and PD & S funds totalling about $125,200 in assistance to the Constitutional Commission, with another $100,000 grant in process. The U.K. and F.R.G. also have provided TA and financial support for the Commission.

The Country Team will propose further assistance under either Human Rights grants or, more likely, Democracy Initiative funding for a national effort to identify and register voters and for a national referendum on adoption of the Constitution. We will be alert to additional future targets of opportunity for supporting the return to civilian constitutional rule, to improve the judicial system, and to foster a wider extension of basic human rights to Liberia's people.

III. RECAPITULATION: A.I.D.'S STRATEGY RESPONSE AND PRIORITY POLICY EMPHASES

The strategy set forth above involves all four A.I.D. policy areas -- policy dialogue, private sector, technology transfer and research, and institution building. It also features a significant integration of the various assistance resources -- ESF-financed budget support, P.L. 480, counterpart funds generated by the two preceeding aid forms, DA and training -- both on the job and overseas.

During FY 1983-85 economic recovery will continue to involve the Mission in an unusual, possibly unique for Africa, degree of policy dialogue with the GOL and other donors. This dialogue involves the entire range of issues affecting economic recovery and GOL financial management as well as A.I.D. assistance -- budget support, P.L. 480, counterpart funds and DA -- provided in support of the economic recovery strategy. The dialogue also includes Liberia's other donors. A.I.D. conditions initiated in FY 1983 further strengthen these linkages. We anticipate that over the coming months the conditions will gradually be tightened and will also be revised, reflecting changing circumstances. In applying conditions, however, the U.S. must be sensitive to their socio-political implications as well as their economic rationale and to the GOL's implementation capabilities. Further, in carrying out its assistance program, A.I.D. , like other donors, must not

add to the GOL's straitened economic circumstances. Proposals made above on grant financing of the entire economic assistance program and on recurrent cost financing seek to address this concern.

A sine qua non for resumed growth is an improved investment climate and restoration of private sector confidence. Central to such changes are fiscal stability, improved liquidity in the banking system, an end to harassment of business, and measures to facilitate, rather than obstruct or inhibit, investment. The strategy outlined in Section II seeks to achieve these ends through program assistance for economic stabilization and recovery, selected DA interventions, including grants to PVOs, and policy dialogue.

USAID also believes that Liberia's current investment in infrastructure must be protected, both to support resumed growth, to encourage increased private sector activity, and to involve the rural Liberian majority more directly in development and national life. The example of nearby Ghana and the major investment now required to restore its road system to usefulness should give pause for thought.

The DA program will in the main support institutional development needed for transfer of new technologies that over the medium and long terms can increase production and productivity and expand participation of Liberians in the economy and in the benefits of development. USAID's primary sector of activity will be agriculture (research, training and planning), with more limited bilateral interventions planned in education (primary and vocational training and, possibly, management), and one in health care. Selected DA projects for enhancing the GOL's budgeting and financial management capabilities will continue to be critical for achieving the short-term stabilization objective.

Some complementary assistance from AID/W sources is also proposed in health and population; for a study of social factors critical to institution building; for participant training additional to that included in bilateral projects; in energy planning, conservation and alternative energy sources, and for PVOs.

Counterpart funds generated by program assistance will continue for so long as they remain available to constitute GOL contributions to priority A.I.D. and other donor projects included in annual GOL development budgets, and possibly for support to the private sector.

The proposed strategy for the medium and long terms also accords special prominence to technology transfer and research. This is most noticeable in agriculture and rural development through efforts at CARI and at WARDA and through RDI's training of mid-level Liberian technicians, many of whom will serve in the extension service. But the PHC project's health education efforts and education sector activities also facilitate adoption and use of new technologies needed to increase productivity. On-the-job and other training as well as advisory assistance provided, for example, to the Ministry of Finance and Budget Bureau has a similar effect.

The CDSS strategy team raised a particular issue with regard to agriculture research which has wider implications than just for USAID/Liberia. That issue is whether such efforts should focus only on increasing food production or should take a "whole farm" approach toward increasing productivity and production. The team's example of better soils management for the entire farming unit is well chosen. The Cancun task force also concluded that research was necessary to expand and diversify Liberian farmers' production of crops for export in addition to food. Further, we believe the potential for increases in productivity and farmer incomes does not rest solely with

food crops. We call these points to AID/W's attention since the Agency's agriculture strategy favors food over other crops.

The Liberia program is atypical compared to most other A.I.D. endeavors in Africa — it has a dominant program assistance element and particular priority is accorded to the short term in contrast to a longer time horizon. These characteristics derive from the urgency of Liberia's economic crisis, but also from the absolute criticality of there being a resolution of that crisis for meaningful development to resume. To try to operate a traditional development program in the prevailing economic circumstances would be both counter-productive and fruitless. However, the economic recovery program does have consequences for, and is supportive of, A.I.D. development endeavors. Only with recovery will the public and private sectors be able to generate investment needed for development activities and implementation of development plans.

As the CDSS team pointed out, too, the distinctions inferred by the division into short, medium and long-term planning periods are blurred by uncertainty over how long economic recovery will take and the need to give attention now to critical problems of the private sector, institution building, and technology transfer if results are to be felt in the medium and longer terms. The various components of the country strategy can together lay a more solid foundation for Liberia's future development and will contribute to the resumption of sustained growth. Thus, the two program components are linked and interrelated; ultimately, both seek to achieve the same long-term goal of broad-based development.

IV. RESOURCE IMPLICATIONS

A. Financial

The basic recommendation of the CDSS strategy team was that ESF and

P.L. 480 assistance continue at about their current levels -- $32 million to $35 million, and $15 million per year, respectively -- throughout the short run. The team justified this recommendation on the grounds that the movement toward fiscal stability supported by program assistance is fundamental to the resumption of sustained growth. The team also felt that such assistance should decrease if policy conditions are not met.

However, the team also envisaged an increase in ESF budget support if major policy implementation progress is made or if persistence of a significant financing gap prevents achievement of fiscal stability. Given the impending decline in IMF resources and the continued decline in the economy, the Country Team believes that the latter alternative, i.e. a widening gap, is the more likely to occur. As the "lead" bilateral donor to Liberia in the eyes of the GOL and other countries, the U.S. may well have to continue to provide significant and increased levels of assistance if we expect to achieve overall U.S. objectives. Program assistance from other donors during the short term may be limited and should not be relied on to reduce significantly in amount or duration the need for continuing ESF financing.

While the Country Team and CDSS strategy team urge continuation in FY 1983-85 of P.L. 480 Title I assistance at the current $15 million level, they envisage the commodity composition may be revised to reduce the amount of rice and add feed grains. A decision to continue an all-rice program should factor in whether such a level is justified and possible disincentive effects. If the P.L. 480 program continues to finance only rice, slight increases in domestic production, possibly higher levels of commercial imports, and/or continued low U.S. rice prices together may result in a drop in Title I assistance levels. In such an event, the U.S. may need to make up the difference with additional ESF

transfers in order to maintain the current level of overall U.S.G. support in Liberia.

The Country Team, including USAID, also believe that levels of ESF support and Title I might appropriately fall short of covering Liberia's entire payments gap as one means of levering the GOL to take additional needed belt-tightening measures. But, even if the GOL undertakes such steps and assistance remains the same or increases, government may still face a widening gap.

In contrast to the above, A.I.D. assistance for more traditional development activities has a lower priority during 1983-85, but will gradually rise in importance during the medium term and beyond. This is consistent with recommendations of the CDSS strategy team and of this planning strategy. Therefore, the level of DA funding is projected to remain at about $12 million annually during FY 1983-85 and to increase thereafter to $15 million to $20 million, depending on the GOL's economic recovery and coinciding with a decline in program assistance.

The level and composition of the USAID's traditional development activities will be subject to several constraints. First and foremost is the GOL's budget problems and limited ability to support such activities. Therefore, USAID will contain the numbers of new starts and consider only those having high priority and for which the GOL's recurrent cost burden can be minimized. The Mission will review the existing program portfolio against these criteria during FY 1983 to identify possible deobligations and early terminations, such as the Rural Roads Phase III project, on which action already has been taken. Mission staff availabilities, composition of the current portfolio, size of the existing pipeline, and the high "mortgage" will further restrict the number of new starts that USAID can undertake and, similarly, the amount of AID/W resources and/or activities the Mission can utilize. Over time we

would hope to curtail or eliminate the mortgage and commit the total authorized funding for new projects as early after authorization as possible. This, with a reduced number of new starts, can help release additional staff time for attention to project implementation.

Table III-A proposes three alternative levels for ESF budget support with P.L. 480, Title I and DA funds holding constant in each case throughout FY 1985. The differing levels of ESF assistance are based on alternative projections of the payments gap (see Annex II) and reflect assumptions regarding (1) GOL fiscal and policy performance, (2) changing economic conditions, (3) declining levels of IMF assistance, and (4) continued appropriateness of a Title I program. Table III-A also projects a decrease in ESF and P.L. 480, Title I beginning in FY 1987 with DA to increase starting in 1986. This reflects the Country Team's belief that assistance levels should not drop in the year after the civilian government takes office. The U.S. cannot appear to do less for a civilian government that it has for a military regime, especially if the new GOL government faces continued economic difficulties.

USAID and the Country Team believe that Alternative A is the most appropriate given the current economic outlook, a persisting large resource gap under the no-change and best-case scenarios in Annex II, prospective other donor assistance availabilities, and Liberia's priority for the U.S. Alternative C. is unacceptable for the same reasons and because of the need for the U.S. to support the new civilian regime. Alternative C might be warranted if there were some major change in government and/or abandonment by government of efforts to stay in compliance with the IMF and implement sound economic policies and practices. Alternative B, projecting no change in the level of assistance would be more acceptable than 'C', but still might fall far short of our assessment of Liberia's actual requirements and might be

Table III - A
Actual and Proposed Funding
For The Bilateral Liberia A.I.D. Program

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
Program Assistance							
1. ESF							
Alt. A	32.0	50.0	50.0	50.0	35.0	15.0	--
Alt. B	30.0	35.0	35.0	35.0	25.0	15.0	--
Alt. C	32.0	25.0	15.0	--	--	--	--
2. PL 480 Title I[1/]	15.0	15.0	15.0	15.0	10.0	--	--
Project Assistance - DA	12.0	12.0	12.0	15.0	15.0	20.0	20.0

1/ Assumes this amount of rice purchases continues to be justifiable. The figure shown for FY 84 may exceed AID/W's planning figure, which may be only $10 million.

insufficient to attain U.S. goals. Table III-B shows FY 83-85 DA funding for ongoing and proposed extensions of new projects.

B. Staffing

Beginning in FY 1979, the A.I.D. program has increased dramatically in size and complexity due to addition of program assistance and responsibility for programming and monitoring counterpart funds (see page 31). Concurrently, Mission USDH and FSN staff levels have declined equally dramatically from 35 USDH to 24 at the end of FY 1982, and from 58 FSNs to 40. PASA and contractor personnel have nearly quadrupled during this period. However, since FY 1979 Mission staff composition has remained basically that of a traditional DA program concentrated on providing TA for which, as AID/W knows, the monitoring requirements, especially in a country with Liberia's constraints, are heavily people-intensive. The USAID Director and the Ambassador expressed their concern (in 82 Monrovia 12511) at the impact of proposed additional staff reductions during FY 1983 (to 17 USDH and 32 FSN), concluding that such cuts would impair USAID's ability to manage the overall program, might cast doubt on our commitment to Liberia's economic recovery, could seriously lower Mission morale, and might predetermine the outcome of the CDSS exercise and a management assessment in March. The major macro-economic thrust of the current program and the Agency's stress on policy concerns and institutional assessment require strengthening USAID's capacity for related economic and social analysis. The CDSS strategy team recommended addition of an assistant program economist and an FSN economist and replacing one of two agriculture staff departing this summer with an agriculture economist. They also recommended keeping Mission (bilateral) agriculture staff at the current level of three USDH. We fully concur. The team's recommendations on education, health/FP and physical infrastructure, energy, private enterprise, and

Table III - B
Actual and Proposed Funding
for Bilateral DA
FY 1983 - 89

Sectors/Projects	Amount ($000's) FY 83	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
I. Agriculture							
A. Ag. Research and Extension, Phase I (669-0135)	-	-	-	-	-		
Phase II		1/	1/	1/			
B. Rural Development Planning (669-0185) Extension	975	800	1/	1/			
C. Agriculture Sector Analysis and Planning (669-0127) II	-	1/	1/	1/			
D. Nimba County Rural Technology (669-0163)	675	758	-	-	-		
E. Bong County ARD (669-0139)	-	-	-	-			
F. Rural Information System (669-0134)							
(Grant)	525	901	1000	-	-		
(Loan)	-	1700	-	-	-		
G. Roads Maintenance	-	1/	1/	1/			
Subtotal	2175	4159	1000	1/			
II. Education							
A. Improved Efficiency of Learning (669-0130) I	1500	500	-	-	-		
B. Improved Efficiency of Learning (669-0166) II	-	-	1000	3000	3000		
C. Liberian Opportunities Industrialization Center (LOIC) (PVO) (669-0168)	-	-	-	-	-		

Actual and Proposed Funding
for Bilateral DA
FY 1983 - 89

Sectors/Projects	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
D. Youth-on-the-job Training (669-0160)	-	-	-	-	-		
E. Economic and Financial Management and Training (669-0184)	1000	-	-	-	-		
F. Economic and Financial Management and Training (Amendment)	-	1/	1/	1/			
Subtotal	2500	500	1000	3000	3000		
III. Health/Pop							
A. Primary Health Care (669-0165)	3800	5400	3000	2800	-		
B. Health Management Planning (669-0126)	-	-	-	-	-		
Subtotal	3800	5400	3000	2800	-		
IV. Selected Development Activities							
A. Increased Revenue for Development (669-0132)	3525	1000	1458	-	-		
B. Low Income Housing (669-0146)	-	-	-	-	-		
C. Care OPG/SEFO	1/	1/	1/	-	-		
Subtotal	3525	1000	1458	-	-		
Total	12000	11059 3/	6458 3/	5800 3/	3000 3/		

1/ New activities for which no projections available at present.

2/ FY 83 figures are most recent USAID-proposed OYB per Monrovia 1020.

3/ Total reflects only "mortgage" amounts for on-going projects. To obligate for new activities funding will either have to be stretched out further and annual levels reduced accordingly for continuing activities or the DA total increased by the amount of new project funding.

PVOs also have staffing implications, which we hope to accomodate as much as possible within the existing staff level and configuration.

At present the USAID has monitoring and management responsibilities for a DA portfolio including 22 active bilateral and regional projects and having a pipeline of $22 million and a mortgage of about the same amount. These activities' implementation periods generally extend to FY 1985 and beyond. Therefore, requirements for a number of technical staff in agriculture, education and health will remain high.

One of the issues for review by the upcoming management assessment is USAID organization. We believe there may be some direct-hire "position" savings to be realized from a realignment of USAID offices, such as combining Health and Education into one Human Resources Division. Similar opportunities may result from transferring responsibility for providing contractorlogistic support to a separate entity (82 Monrovia 9944) and from contracting for USAID staff replacements from among ex-PCVs and dependents of official U.S. personnel, depending upon their availability. However, such savings may be small -- at best one or two positions -- and there are some countervailing concerns. As mentioned above, we need to strengthen the USAID's analytical capability. Agriculture-rural development staff numbers must be geared to their priority role in the DA program. There are some cases of premature Liberianization in the executive office which need correction through further on-the-job training provided by continuing in place USDH supervisors and administrative staff must remain sufficient to see the proposed contractor support unit to full operational status. With only two USDH secretarial personnel now, we are at the minimum given the large amount of classified material, the USAID's distance from the Embassy, and the need for coverage during leave periods.

The Mission already has a major share (75 percent) of its Liberian work force under contract. An FSN job classification/wage survey in March may or may not raise the common salary levels agreed among the official American community to a somewhat more competitive level, but even so we may still be competing at a disadvatage with the private sector, et al (due to lack of promotion opportunities inherent in the FSN personnel system) for a very small pool of trained Liberians. Within OE budget limitations we are developing a more concerted training program for both U.S. and Liberian staff, which may bear fruit over the next several years. Such training, especially critical in the Controller's Office, is essential.

For the short-term program period, staff requirements, therefore, will be determined largely by the above factors and the overall program and project portfolio. To the degree possible, we have tried to project the number of active projects in any one fiscal year in Table IV. We expect to review these estimates further with the Management Assessment team and to assess other options, such as recruitment of staff for the Mission under RSSAs and through the AID/University Joint Career Corps, but Table IV does suggest no sustained diminution in the level of Mission monitoring activity. The decline over FY 1985-88 reflects mainly a decrease in regional activities. Bilateral project assistance for which USAID monitoring responsibilities are most staff-intensive may, thus, remain fairly constant throughout the short and medium terms.

TABLE IV

Projected Level of Project Activity

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
Active Projects at End of FY	15	10	9	9	11	13	15	17
Designed During FY 1/	-	3 2/	4 2/	2 2/	2 2/	2 2/	2 2/	2 2/
Under Design for Future FY Approval 1/	3	4	2	2	2	2	2	2
Regional or AID/W Funded Activities	7	7	7	4	2	2	2	2
Total DA Projects	25	24	24	17	17	19	21	23
Program Assistance 3/								
ESF	1	1	1	1	1	1	-	-
P.L. 480, Title I	1	1	1	1	-	-	-	-
Counterpart	1	1	1	1	-	-	-	-
Total Program Activities	28	27	27	20	18	20 4/	21	23

1/ Assumes two new project approvals annually in FY 1985-89.
2/ Assumes CARE OPG, RDI extension, and PHC approved in FY 1983; IEL, CARI and Ag Planning extensions, and roads maintenance project in FY 1984, and a management and one other project in FY 1985.
3/ Assumes P.L. 480 Title I ends in FY 1986 and ESF in FY 1987. Counterpart generations conclude in FY 1986.
4/ Project activity levels may pick up again beginning in FY 1987.