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THE PROSPECTS FOR FOREIGN ASSISTANCE TO LIBERIA

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THE PROSPECTS FOR FOREIGN ASSISTANCE TO LIBERIA

To assess the prospects for foreign assistance generally is difficult. To assess the prospects for Liberia specifically is close to impossible. Nevertheless, it is possible to speculate about the forces and ideas which might influence the future level and pattern of foreign assistance and the relevance of those tendencies to Liberia.

Before doing so, the relevant and chief characteristics of prior foreign assistance to Liberia should be laid on the table. For purposes of this discussion, four key characteristics bear mentioning.

First, Liberia has done relatively well among the other poor countries of Africa, Asia and Latin America. From a low of foreign assistance per capita that rose from \$1 to more than \$6 per person by the end of the fifties, assistance to Liberia exploded to more than \$40 per capita during the first six years of the next decade, except for two years when the level dipped below \$20. Since 1966, a gradual decline seems to have set in but per capita assistance seems to have held at \$10 or a little more. The reason for mentioning these figures is that such per capita aid levels are unusually high. One ordinarily thinks of per capita assistance on the sub-continent of Asia as ranging between \$2 to \$4. Figures as high as \$30 to \$40 are known for a few other countries in selected years, such as Jordan, Bolivia, perhaps one or two of the Far Eastern countries during the 1950's and a few nations in French Africa. But it is safe to say that even a \$10 per capita figure is well above today's world average.

There are two likely reasons why Liberia has fared so well. The first is the so-called "small country effect" which Alan Strout of AID discovered some years ago in an effort to explain levels of foreign assistance. He concluded that the mere fact of being a country seems to establish eligibility for a minimum level of assistance and the effect of spreading this minimum level over a small population tends to produce high per capita aid levels in the small countries. A second explanation, of course, is Liberia's special relationship to the United States.

This is my second point. The assistance picture in Liberia has been dominated historically by the United States. Both the rapid increase in assistance during the early sixties and gradual decline toward the end of that decade are attributable in large part of changes in U.S. support. One wonders what may have caused these changes. As recently as 1969, the United States Congress was told that "AID assistance supports basic U.S. objectives in Liberia which include a continuing cooperation with the Liberian Government with respect to installations of importance to the United States which are located there. ... Given the close historical identification of Liberia with the United States, measurable and visible development progress is important to the U.S. image in other African countries." I submit that there are three possible explanations why these U.S. interests seem to be accorded less weight now in the U.S. assistance program than in the early sixties: (1) Liberia is simply another victim of declining appropriations of U.S. foreign assistance. (2) Insufficient capital projects have been forthcoming from Liberia to

maintain previous loan levels. (3) The marginal assistance dollar available for Liberia can be more productively employed in other countries. I am confident that all three of these explanations contain a measure of truth, but I would not venture to weight their relative importance.

The assistance picture which I have been describing above really relates to commitments rather than the disbursements which show up in the balance of payments. When one examines the balance of payments picture, one is impressed with the relatively subordinate role that net transfers (and even gross transfers) to Liberia from governmental sources have played relative to private direct investment. While private direct investment flows may have been erratic and, for all I know, may also be declining, they have in the past played a key role in Liberia's balance of payments picture.

Finally, Liberian assistance has been characterized by virtually exclusive project financing rather than what has come to be called program or balance of payments support. Unless donor policies toward Liberia are altered in the future, this would suggest that future prospects are heavily dependent on the availability and suitability of projects for foreign donors.

Let me turn now to the tendencies which are discernible in the overall level and characteristics of foreign assistance programs.

I think we would all agree that except for certain smaller donors such as Canada, Sweden and Australia, the prospects for a rise in foreign assistance commitments are rather bleak and a decline should certainly

be anticipated, as least for the next several years. How long the trough or the skid will last is anyone's guess.

However, a number of ideas are germinating in the capitals of the donor world which may in time give a cast to the foreign assistance picture that differs quite substantially from the present situation. It is not just wishful thinking to suggest that certain of these ideas, as expressed most recently in the report of the Pearson Commission, seem to have a better survival probability than others, at least insofar as public and Congressional attitudes in the United States are concerned.

Three of these ideas might have some bearing on Liberia's future assistance prospects. The first is the view that an increasing proportion of total foreign assistance funds be channeled through international organizations. While the leading candidate for such transfers is probably the World Bank and its affiliates, it might be useful to ask whether it would be in Liberia's interest to encourage a greater diversion through regional institutions such as the African Development Bank. Reflection on this possibility should presumably take into account the decision-making processes in the two institutions and an analysis of how Liberia might fare under either alternative.

An idea which probably has an even greater chance of influencing the atmosphere is the notion that assistance be geared more carefully and conscientiously toward the more highly productive country situations. The Pearson report lends support to the growing interest in a nation's overall economic performance as a basis for assistance decisions. The operative effect of such an approach would be to provide the lion's share

of official transfers to those who mobilize and use their resources best.

Finally, increasing attention will be given, I believe, to other devices for financing subsidized transfers to the poor countries than those which require action by the legislatures of donor countries. Voices can be increasingly heard in support of a modification of the Special Drawing Rights system so as to provide a fraction of each issue directly to the poor countries, to the IDA or to regional banks for lending to those countries. Along with a few other countries, Liberia has been forced to deal recently with a massive external debt crisis. However, the early years of the 1970's promise to convert what had been a series of ad hoc concerns about the plight of debtor countries into a generalized problem which faces a great many, and particularly the largest, members of the family of poor nations. Debt service burdens in the next four to five years will be unprecedented. It is almost inevitable that the sweep of the problem will be so vast that donors will be forced either to consider broad programs or generalized policies for debt rescheduling, or a generalized softening of the terms of aid, or both. Since debt roll-over serve to increase net transfers in any given year, they are as useful as fresh aid commitments.

If the history of assistance to Liberia is essentially as I have described it and if the international atmosphere for assistance takes on the characteristics which I have suggested, certain problems and implications for Liberia are likely to emerge.

The first important possibility to be addressed is the likelihood of a decline in bilateral assistance. Since the dominant contributor has

been the United States, the initial question has to do with the actions Liberia might take to at least preserve and hopefully increase assistance from that source. If we accept as an overriding objective the simple maximization of possible official transfers from the United States, it would seem that the rational course is to make certain that the special relationship which the United States feels for Liberia is in fact preserved. As the quotation from AID above indicates, this relationship is based both on the facilities which Liberia offers the United States and the example which the United States would like to see Liberia set for the rest of Africa in its development progress. It may be appropriate for Liberia to develop a separate strategy for each of these U.S. interests. With respect to the first, Liberia might assure itself of a steady, long-range source of foreign exchange by negotiating a fixed, annual rental payment over the years to come for the facilities that the United States uses. Over and above this, the government might maximize U.S. support by improving the efficiency of domestic resource allocation and continuing to enlarge the mobilization of internal resources.

Special measures in order to improve the chances for continued high levels of the United States' support should not preclude any special measures which would be required to attract high levels of multilateral financing. Certainly a satisfactory self-help effort would continue to be a sine qua non at least insofar as The World Bank and its IDA affiliate are concerned. But perhaps even more important is the availability of viable projects. It is my impression that financing from The World Bank (and the Export-Import Bank as well) is below its potential because of the

absence of ready projects. Apparently it is now typical for Liberia to present international agencies with project ideas and to seek from them assistance for the feasibility studies and basic analysis as well as the financing of the ultimate project. Understandably, financial organizations are loathe to embark even on the feasibility study financing stage unless they are quite confident that the project ultimately developed will meet their standards. Since bankers are typically cautious when they do not know all the facts, the practice of relying on foreign institutions for such comprehensive financing might result in less project financing than would otherwise be available. The government should consider diverting some of its revenues from less productive uses into contracts entered on its own with reliable consulting and engineering firms for the pre-feasibility and feasibility study of specific projects. Having such studies in hand would open up more project possibilities than at present and enable the government to shop around more for project financing.

The consultative mechanism invented by The World Bank is likely to be extended to more and more countries, if recent statements by President McNamara bear fruit. These groups perform an extremely useful function for both donor and recipient. The recipient is provided with a forum which reduces the burden of justifying his case to many donors and which offers him and the other participants a chance to coordinate programs. Furthermore, the net effect is usually to increase the total aid inflow. The consortia are also regarded, however, as devices which enable the donors to press concertedly for improved economic performance by the recipient. If the implicit criteria which have governed the establishment of consultative groups thus far obtain the future, Liberia is likely to face an

uphill struggle in pressing for one of its own. I think it is fair to say that such groups have been formed thus far for large countries for which The World Bank thinks quite substantial amounts of funds are needed in any year (in the order of hundreds of millions of dollars) and for countries where numerous donors are already engaged or potentially interested to the point where conflict and overlap are either present or likely. While the prospects for a Liberian group are dim if such criteria obtain in the future, there may well be a special argument which Liberia could make at least for the creation of such a group for a fixed period. I have in mind Liberia's substantial debt problems. No country should be expected to devote one third of its total revenues to foreign debt service. With all due deference to the International Monetary Fund, its management of the debt renegotiations thus far has reflected its understandable preoccupation with the short - and intermediate-term financial situation which Liberia confronts. If one regards with debt situation on the other hand as a critical factor in Liberia's long range development potential, one inevitably reaches different conclusions than have been negotiated thus far about the rescheduling period, the amount of service that can be borne in any one year and terms which should be renegotiated. IMF consultative groups in the past, if one wants to call them that, have been converted in other instances into IBRD sponsored groups when it became evident that debt and other problems should be looked at in a longer term development context.

There is also the question, on which it is most difficult to offer an opinion, of whether Liberia will be able to continue its reliance on project financing. One would hope that its domestic revenue situation would continue to improve so as to avoid the need for external program

balance of payments support. However, if such a problem should emerge, it is important to bear in mind that it may come about in such a way as to make it much more, rather than less, difficult to obtain such support. If there is one element of foreign assistance which seems to be geared to hard appraisals of economic performance, it is program support. Should emerging fiscal problems come about because either revenue collections do not increase at the rate which a country in Liberia's situation should expect or if it appears that expenditures are heavily loaded with relatively unproductive efforts, program support will become increasingly difficult to obtain.

In short, it would seem to me that Liberia's chances of maximizing foreign assistance in the future will be affected only marginally by changes either in the form by which assistance is provided or the channels through which it comes. Its chances of achieving its foreign assistance goals will be best **insured** it seems to me, if the government undertakes on its own special measures for the generation and development of feasible capital projects, without **awaiting** foreign initiative, and if the government continues to manage the economy in such a way that foreign donors are **satisfied** that a reasonable amount of internal resources are being mobilized and that such resources are being **wasted** no more than is normal.