

DS/DIU

BUREAU FOR AFRICA

LIBERIA

LIBERIA PROGRAM GRANT

PROJECT NUMBER: 669-K-602 1

Authorization Package

Project Assistance Authorization Document

Authorization Date: December 17, 1980

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM : AAA/AFR/DR ^{John W. Koehring}
SUBJECT : Liberia Program Grant (669-K-602)

Problem: Your approval is required to execute a program grant (cash) of \$7 million from the ESF appropriation to the Republic of Liberia.

Discussion: A \$5 million program grant was provided to the Government of Liberia in August 1980. The purpose of this grant was to help the Liberian Government overcome an immediate fiscal crisis, meet its international obligations and maintain its development capability.

Since that time, Liberia's economic situation has deteriorated. The inexperience of Liberia's new Government has led to excessive expenditures and reduced international and local business confidence which, in turn, has led to lost investment, capital flight, declining credit availabilities and a rapidly increasing budget deficit.

The Liberian Government now realizes the seriousness of the problem and the need for drastic corrective measures. As a result, the Government has concluded an agreement with the International Monetary Fund (IMF) which establishes a program, which, if successful, will stabilize Liberia's economy.

However, a period of time is likely to pass before this economic stabilization program can take hold and the economic decline can be halted. During this period, Government revenues will not be adequate to continue ongoing development programs or even maintain existing development capabilities. The purpose of this program grant is to help provide the Government of Liberia with the resources to meet its minimal fiscal requirements until the stabilization program begins to take hold.

The provision of this program grant will strengthen US/Liberian relations by once again illustrating our willingness to come to Liberia's aid in their time of greatest need. It will also reconfirm the wisdom of Liberia's present policy of maintaining close ties with free world economic and financial systems. Therefore, this grant is in direct support of U.S. immediate and long-term interests in Liberia.

While it is in the best interest of the United States to show support to Liberia during the immediate crisis, we must continue to minimize entanglement in Liberia's day-to-day political process. By providing our assistance as general budget support to the development ministries, and by defining this support as an expression of U.S. desire to assist in the building of Liberia's

future, we are able to assist in meeting Liberia's immediate problem and promote equitable economic and social development without becoming too closely identified with any individual or faction.

It is proposed that, upon the meeting of the conditions precedent contained in a Grant Agreement, \$7 million be immediately transferred into a special bank account owned by the Government of Liberia. Disbursements from this account will be used to meet the immediate needs of selected development-oriented Ministries. It is anticipated that disbursements from this account will be completed within 30 to 60 days of the signing of the Grant Agreement.

A special covenant will be included in the Grant Agreement reaffirming that the GOL will provide the funds required to support certain development projects.

On December 1, 1980 the Congress was notified of our intent to provide a \$7 million cash grant to the GOL. The waiting period expired on December 15, 1980 with no congressional objections having been raised.

Mr. Dante De Antonio, USAID/Liberia Controller, will be the field manager of the grant. Mr. Edward H. Smith, Jr., AFR/DR/CAWARAP, will be the responsible officer in AID/W.

Recommendation: That you sign the attached PAAD and thereby authorize the proposed program grant (cash).

Attachment: a/s

Clearances:

AFR/DR/CAWARAP:ESmith ES
AFR/DR/CAWARAP:LBond LB
AFR/CWA:FScordato _____
AFR/DR/SDP:JHester _____
AFR/DP/FM:SLiapis _____
GC/AFR:EDragon _____
AFR/DR:NCohen NC

Drafted by:AFR/DR/CAWARAP:ESmith:cel:12/16/80.

AID 1120-1
(8-68)

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PAAD

PROGRAM ASSISTANCE
APPROVAL DOCUMENT

1. PAAD NO.

AFR-81-2

2. COUNTRY

Liberia

3. CATEGORY

Program Grant (Cash) - 669-K-602

4. DATE

12/17/80

5. TO:

Mrs. Goler T. Butcher, AA/AFR

6. OYB CHANGE NO.

6. OYB INCREASE

7. FROM:

Mr. John W. Koehring, AAA/AFR/DR

TO BE TAKEN FROM:

8. APPROVAL REQUESTED FOR COMMITMENT OF:
\$ 7,000,000

10. APPROPRIATION - ALLOTMENT

72-1111-037 137-61-698-00-50-11

11. TYPE FUNDING

LOAN GRANT

12. LOCAL CURRENCY ARRANGEMENT

INFORMAL FORMAL NONE

13. ESTIMATED DELIVERY PERIOD

Dec.16,1980-Feb.15,1981

14. TRANSACTION ELIGIBILITY

DATE
Dec. 16, 1980

15. COMMODITIES FINANCED

16. PERMITTED SOURCE

U.S. only:

Limited F.W.:

Free World:

Cash: \$7,000,000

17. ESTIMATED SOURCE

U.S.:

Industrialized Countries:

Local:

Other:

18. SUMMARY DESCRIPTION

The purpose of this program grant (cash) is to assist the Government of Liberia to weather its current fiscal crisis until the IMF-sponsored stabilization program can take effect. This grant will enable the Government of Liberia to keep its development capability intact during this interim period.

The grant will have a favorable impact on U.S./Liberian relations by once again showing our willingness to help during a period of crisis. However, it is structured to minimize U.S. entanglement in Liberia's day-to-day political process.

19. CLEARANCES

AFR/DR/CAWARAP: ESmith *EAS*

DATE
12/17/80

AFR/DR/CAWARAP: LBond *LB*

12/17/80

AFR/CWA: FScordato *FS*

12/17/80

AFR/DP: EDonaghue *ED*

12/17/80

AFR/DP/FM: SIapins *SI*

12/17/80

GC/AFR: EDragon *ED*

12/17/80

AFR/DR: BCohen *BC*

12/17/80

20. ACTION

APPROVED

DISAPPROVED

Goler T. Butcher

AUTHORIZED SIGNATURE

12/17/80

DATE

Assistant Administrator for Africa

TITLE

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I. Summary and Recommendations

A. Recommendation and Implementation Plan

Authorization of a Program Grant (cash) to the Government of Liberia in the amount of \$7 million is recommended. This grant will be obligated upon the signing of a grant agreement with the Government of Liberia (GOL). The grant agreement will provide, upon satisfaction of the necessary conditions precedent, for immediate disbursement of \$7 million into a special bank account owned by the GOL.

Disbursements from this account will be made for general budget support for the development ministries listed in Annex A. It is anticipated that all disbursements from the special account, financed by this program grant (cash), will be completed within 30 to 60 days after the signing of the grant agreement. Within 120 days after the signing of the grant agreement, the GOL will provide USAID/Liberia with a report of all expenditures made from this account.

A special covenant in the Grant Agreement will reaffirm the GOL's willingness and ability to meet its financial obligations for selected joint GOL/AID development projects. The covenant will contain an agreed upon list of such projects. Annex B contains a proposed list of projects to be included in the covenant.

B. Summary of Justification

In August 1980 a five million dollar program grant was provided to the Government of Liberia. The grant helped the Liberian Government overcome an immediate fiscal crisis, maintain its development capability, and signaled continued US interest in, and support of, the future development of the country. Numerous public statements by important members of the Liberian government indicate their appreciation for the grant and the importance they place upon continued close ties to the United States.

Since August, Liberia's fiscal crisis has worsened even as programs were being developed to strengthen the country's economy. The major reason for the continuing crisis was the inexperience of Liberia's new Government, which resulted in excessive expenditures and reduced

international and local business confidence. This combination of factors led to continued capital flight, a reduction in available credit, lost investment and a rapidly growing public deficit.

As these ominous trends continued, an awareness was growing within the Liberian Government of the seriousness of the problem and the drastic corrective measures needed if the country's economy was not to be overwhelmed. With the assistance of the international Monetary Fund (IMF) the Government has designed and implemented a program which, if successful, will stabilize the fiscal situation and create a framework in which the private sector can resume normal activity. 1/

However, before the Government's fiscal program can take effect one can expect a period of time during which the economic downturn will continue to worsen and available Government revenues, from both internal and foreign sources, will not be adequate to continue ongoing development programs or even maintain existing Government capabilities. The purpose of this program grant is to help provide the Government of Liberia with funds to meet its minimal fiscal requirements until Government revenues adequate for these requirements are realized as a result of the country's new fiscal policies.

The timely provision of the proposed program grant will strengthen US/Liberian relations, by once again illustrating our ability to effectively respond to Liberia's time of crisis, and reconfirm the wisdom of Liberia's present policy of maintaining close ties with the free world economic and financial systems. All of this is in direct support of immediate and long term US interests in Liberia.

While it is in the best interest of the United States to show support for Liberia during the immediate crisis, we continue to minimize entanglement in Liberia's day-to-day political process. By providing our assistance as general budget support to the development ministries, and by defining this support as an expression of American assistance in Liberia's future, we are able to assist in meeting Liberia's immediate problem and promote equitable economic and social development without becoming too closely identified with any individual or faction.

1/ The fiscal crisis and the government's program for overcoming it are detailed in section II.

II. Current Economic Situation

A. General

A deteriorating economic and fiscal situation through November 1980, forced the Government of Liberia to face a hard fact: its present fiscal crisis, in the final analysis, is a problem which only Liberians can solve. External sources of financial assistance can only support Liberian efforts to help themselves. This is the essence of a hard-hitting and courageous speech made by Head of State, M/Sgt. Doe in November 1980. In this speech M/Sgt. Doe announced a forced savings program under which all salaried Liberians, depending on their income, will purchase Government savings bonds equal to one or two months' salary. If all salaried Liberians participate in this major self-help effort, it will generate between \$50-60 million in additional Government revenues. This will go a considerable way toward resolving Liberia's continuing fiscal crisis. The IMF, in recognition of Liberia's efforts to resolve its continuing financial problems, has renegotiated some of the performance criteria contained in the recent stabilization plan and has agreed to speed up the drawdown of the next SDR tranche.

Liberia has not yet resolved its financial problems, but the situation may be bottoming out. The month of December 1980 is critical to Liberia's efforts to restore fiscal viability. Two oil payments totaling \$20.4 million fall due; also the Government payroll of \$13 million which is traditionally given early, around December 20, for the holiday season must be paid. The proposed grant, together with a further IMF drawing, are the key to helping Liberia through this difficult period. This assistance will give the Government of Liberia the time it needs to begin implementation of its self-help financial plan. This self-help effort, which includes stringent measures to control expenditures, will help restore confidence in business circles that the Government is facing the essence of its financial problems and has the courage and ability to come to grips with them. Increased business confidence will lead to more economic activity and more revenue flows.

B. Government Budget for FY 1980/81

The Government of Liberia was two months late in implementing its FY 1980/81 budget because of its severe fiscal imbalances and cash flow problems. Under IMF guidance, the following budget was adopted on September 1, 1980.

BUDGET SUMMARY (\$ m)

Domestic Revenue	251.8	
Grants	<u>25.5</u>	
Total Receipts		277.3
Current Expenditure	204.3	
Interest on debt	<u>22.0</u>	
Total Recurrent Budget		226.3
Current Surplus/deficit	+51.0	
Development Expenditure	126.0	
Overall Surplus/Deficit	-75.0	

Financing

Foreign Loans (net)	49.3
Other	25.7

C. IMF Stabilization Package

In September 1980 the GOL and the IMF agreed to a two-year stabilization package. Subject to certain conditions and performance criteria, the Government was allowed to draw SDR 65 million, equivalent to \$84 million, over a two-year period: SDR 29 million (\$37.5 million) in FY 1980/81 and SDR 36 million (\$46.6 million) in FY 81/82. Out of the FY 1980/81 allocation, SDR 11.6 million (\$15 million) was made available in early October, while drawing of SDR 6.8 million (\$9 million) has been rescheduled for early in December. At the Government's request this agreement was revised when it was realized that the original agreement was not workable.

The revised IMF agreement places the following conditions on the draw down of SDRs:

1. Internal Borrowing

Net claims on Government by the banking system, standing at \$87.8 million at the close of FY 1979/80 (June 30, 1980) were not to exceed:

\$103 million by September 30, 1980
\$107 million by December 31, 1980
\$110 million by March 31, 1981
\$113 million by June 30, 1981

Gross claims on Public Corporations by the banking system, standing at \$6.7 million at June 30, 1980, were not to exceed:

\$11.7 million by September 30, 1980
\$26.7 million by December 31, 1980
\$16.7 million by March 31, 1981
\$11.7 million by June 30, 1981

2. External Borrowing

During 1980/81 Government must not contract or guarantee any new external loans with maturity between 1 and 12 years except for loans obtained to refinance existing debt, or loans obtained on concessional terms (loans with at least a 25 percent grant element).

3. Trade and Payments

Trade and exchange systems are to continue to be free of restrictions.

4. Budget Deficit

The budget deficit for FY 1980/81 is not to exceed \$75 million.

D. Government Revenues

Domestic revenues for the first quarter of FY 1980/81 totaled \$45.3 million; this constitutes a shortfall from projections of \$9.3 million. Except for July, revenue collections have consistently fallen short of the estimate, despite the fact that new measures aimed at increasing revenues by \$55 million during the current fiscal year went into effect in September. The major reason for the shortfall has been the decline in receipts from international trade, particularly import duties. Between April and the end of September, customs and excise receipts, estimated at \$49.5 million amounted to only \$34.1 million. If this trend continues, it will be impossible to achieve the revenue target of \$251.8 million projected in the budget.

The major reason for the shortfall in customs receipts is the unsettled business atmosphere following the coup and a greater than projected reduction in the level of imports. In addition, the foreign assets of the National Bank and the commercial banking system have

been exhausted. Commercial banks are reluctant to issue letters of credit and have stopped issuing drafts. Importers claim that they have to use lines of credit abroad to import, or travel abroad with cash to buy the necessary imports. This has led to a general cash shortage.

E. Government Expenditures

The lack of effective expenditure control is yet another problem. During the first four months of the current fiscal year, Government expenditures totaled \$102,179,000 while current revenues totaled only \$66,709,000. Part of the problem derives from the salary increases for low-level Government employees and military personnel, decreed by the PRC immediately after it assumed power, and from increased hiring to absorb some unemployment. This adds \$34 million to the annual Government payroll. The other part of the problem lies in the extra-budgetary expenditures generated by members of the military, which already insecure civil servants and National Bank staff are unable, or unwilling, to block. The IMF's first SDR tranche of \$15 million, received in October, and the US Government ESF grant of \$5 million helped cover part of this shortfall between expenditures and revenues, while the rest was financed through ever-increasing GOL overdrafts with the National Bank.

The expenditure situation appears to be getting under control with the strong backing of the Head of State. The Ministry of Finance is now only approving payment for priority categories of budget expenditures and has imposed a temporary ban on others. The Deputy Minister of Finance for Expenditure and Debt Service has one of the Ministry's best staffs working under him. They are having some success in checking the military-inspired spending spree, while military interference at the Ministry itself is being curbed. All this cannot be solved overnight, given the situation, but progress is being made.

F. Government Cash Flow

The precarious situation in the Government's financial position is clearly illustrated by an analysis of its cash flow. On July 1, the start of the 1980/81 financial, the government's cash flow showed a deficit of \$37.5 million. By the end of October, it amounted to \$53 million, an would have been \$73 million had it not been for the assistance of the IMF and the US Government. These deficits were financed mainly by GOL overdrafts at the National Bank. The reserve position

of the National Bank has become so precarious that there is little possibility for further lending to government. It is clear that unless the National Bank is to receive a sizeable infusion of funds, the government will not be able to meet its financial obligations. The National Bank has managed to meet obligations thus far by using commercial banking sector funds deposited at the bank for transfer abroad. This has severely affected the net foreign assets position of the entire banking system, as shown in the following table:

Net Foreign Assets Position (\$m)

	<u>Dec' 79</u>	<u>Mar' 80</u>	<u>June' 80</u>	<u>Sept' 80</u>
<u>Foreign Assets</u>	<u>90.71</u>	<u>75.83</u>	<u>43.11</u>	<u>24.18</u>
National Bank	54.97	38.23	22.81	9.50
Commercial Banks	35.74	37.60	20.30	14.68
<u>Foreign Liabilities</u>	<u>130.18</u>	<u>137.85</u>	<u>122.30</u>	<u>118.00</u>
National Bank	67.43	60.43	61.42	54.86
Commercial Banks	62.75	77.42	60.88	63.14
<u>Net Position</u>	<u>-39.47</u>	<u>-62.02</u>	<u>-79.19</u>	<u>-93.81</u>
National Bank	-12.46	-22.20	-38.61	-45.36
Commercial Banks	-27.01	-39.82	-40.58	-48.45

G. Debt Servicing and Rescheduling

The latest figures available show current outstanding balance for official debt of \$506.5 million (end of July figures) ^{2/}

^{2/} (In addition there is an outstanding debt balance of \$97 million of State corporations which the Government has guaranteed. The corporations are unable to repay this debt from current revenues and its repayment will have to be assumed by the Government)

The outstanding balance is structured as follows:

Bilateral loans	- \$188,297,245 (of which 50% is owed to the US)
Multilateral loans	- \$145,905,425
Suppliers credits	- \$9,912,360
Private foreign banks	- \$119,493,305
Domestic loans	- \$42,844,596

During the current fiscal year servicing this debt will cost the Government \$78.6 million. This amount constitutes 33 percent of projected Government revenues. The Government of Liberia cannot presently support this level of debt service and has already failed to meet payments due on some loans. As part of its stabilization program, the Government of Liberia has requested, and the member nations have agreed to, a meeting of the Club of Paris to reschedule repayment of its outstanding debt. This meeting has been scheduled for late December. It is assumed that a workable repayment schedule will be agreed upon at this meeting. This will allow Liberia to take the first steps in regaining its formerly excellent international credit rating.

H. The Oil Bill

For the past seven months Liberia has had problems in meeting its oil import bill. The Liberia Refinery Corporation (LPRC), a state corporation, has an agreement with Saudi Arabia which commits it to purchase on a monthly basis a fixed quantity of crude oil. This crude is refined and marketed locally. The Refinery's largest customers are the iron ore mines, the Liberian Electricity Corporation (LEC), and the Government. Oil shipments are financed in advance through a consortium of foreign banks which open letters of credit on behalf of the LPRC through its bank and the National Housing and Savings Bank (NHSB). The LPRC/NHSB then have to repay these letters of credit on stipulated dates to keep this oil financing facility viable. These payments have to be made abroad through the National Bank. The National Bank, however, has been using funds deposited with it for overseas transfers to meet other commitments, such as Government salaries. Therefore it has been late on various occasions in meeting oil bill payments. Another part of the problem is that LEC, which has difficulties collecting its bills, is frequently overdue in meeting its payments to LPRC, which in turn affects the ability of the refinery, the NHSB and NBL to meet their commitments to the oil facility.

The timely payment of the oil bill is a constant struggle and the financial intricacies of eventually meeting it are becoming quite baroque. The basic problem, already described above, is shortage of cash in the economy. Measures are now being taken to meet the short-term oil financing requirement, such as requesting the iron ore companies to make advance payments for oil to offshore banks. However, these measures will probably make this cash shortage problem more severe in the long term.

Due to the Government's fiscal problems, November payments to the oil facility were too late to enable a tanker of crude to be loaded in Saudi Arabia on time to meet Liberia's normal demand for finished products in December and January. Therefore, in addition to having to meet two oil bills to the facility in December, totaling \$20.4 million, the Refinery, has opened a letter of credit for \$4.2 million to purchase refined fuel that has to be repaid in March.

I. The Monetary Situation and Private Sector Liquidity

Between April and August 1980, the recorded money supply (M1 = currency and demand deposits) dropped from \$84.6 million to \$71.5 million, while the quasi-money supply (M2 = savings, time deposits, etc.) was reduced from \$91.0 to \$62.3 million for a total money supply loss of \$42.0 million. This capital flight has resulted in a virtual cessation of domestic credit, as the banking system, operating under a 15 percent margin requirement on demand deposits, "lost" \$87 million of potentially lendable funds. Domestic savings and time deposits were reduced by \$28.7 million, further restricting already stagnating domestic investment. There is also evidence that businessmen are retaining more cash than normal in their own vaults rather than banking it.

These developments have had adverse consequences for the economy. The reduction in loans to the private sector had led to a contraction of imports and growing unemployment. The tight credit situation, contraction of imports and the Government salary increases have combined to exert an upward push on consumer prices. These developments have also adversely affected Government revenues, particularly import duties and corporate and partnership taxes.

In the face of these interrelated problems the Government has developed a simple, but complete program to limit expenditures while it increases Government revenues. The IMF assisted in the development of this program and by advancing the dates for drawing SDR's has endorsed the Government's attempt to implement it. The GOL has also accepted additional Fund assistance, in the form of a resident representative during this period. The GOL's attempt to raise between \$50-60 million through its enforced savings campaign, indicates the Government's understanding of the scope of the problem it faces and the political price it is willing to pay to overcome it. If even partially successful (i.e., the Government realizes only \$25-34 million from the savings scheme) the savings program will enable the Government to ease some of the most immediate pressures while creating the atmosphere required for an increase in business activity. Increased business confidence, expressed in renewed investments, is the key to the long term solution of the present crisis.

The Government's attempt to enforce expenditure discipline also indicates its willingness to pay the political price required to regain control of the economy.

Liberia's economic potential is good. Its development strategy is sound. What is needed is the effective management of the economy to allow these basic strengths to act as the foundation for a new period of economic and social growth. The Government's fiscal program is the first step in providing this management.

III. AID Response

The next several months are critical to the fiscal survival of the Government of Liberia. During this period the Government's fiscal position is expected to worsen as it awaits the increased revenues that are expected to result from its newly implemented stabilization program. Unless additional resources are found immediately, there exists a real danger of a complete breakdown in Government services, and a reduction of its ability to manage the economy even after the increased revenues become available. The IMF has recognized the seriousness of the situation and the Government's commitment to overcome its problems. It has responded by allowing a somewhat increased drawdown (SDR's 6.8 million) in December. Most of these funds will be used to maintain a flow of petroleum products to Liberia's transport and energy infrastructure. The balance of this drawing is not enough to keep the Government's essential services operating at a minimally acceptable level. The Government of Liberia is looking to the United States, traditionally its most influential and powerful international friend, for assistance during this critical period. This grant will represent the US Government's timely assistance to a friend in trouble and endorsement of Liberia's efforts to overcome its current problems.

IV. Proposed U.S. Assistance

The \$7 million program grant proposed in this paper is considered to be a minimal response to Liberia's current problems. This grant is not enough to meet all of Liberia's current critical needs. Even when combined with the resources being made available by the IMF, and with available Government revenues, these funds will not in themselves be adequate to maintain Liberia's existing institutional and fiscal ability to manage the country's economic recovery. Withholding this grant will make it much more difficult, if not impossible, for the GOL to maintain these abilities and will delay, endanger or weaken, the country's eventual economic recovery. The increasing political and economic instability that would result from a delay in Liberia's economic recovery would directly endanger important US economic and political interests. Therefore in the best interests of Liberia and the United States, it is proposed that a \$7 million program grant be authorized to the Government of Liberia for general budget support for selected development ministries.

A. Implementation Procedures

Because of the seriousness of Liberia's economic and fiscal position, it is appropriate that this proposed program be implemented expeditiously with the minimum of administrative procedures consistent with prudent management. Therefore, the total grant of \$7 million will be deposited in a GOL-owned bank account immediately after satisfaction of the conditions precedent to disbursement.

Disbursements from the special account will be used for general budget support for the development ministries listed in Annex A. Within 120 days from the signing of the Grant Agreement the GOL will provide USAID/Liberia with a report of all expenditures from the special account. This report will be accompanied by appropriate supporting documentation. The form and content of the report, as well as the supporting documentation required, will be the subject of an implementation letter.

B. Special Covenants

1. It is agreed by the parties that the proceeds of the grant will be used for general budget support for the development ministries listed in Annex A.
2. The Government of Liberia reaffirms that they will provide, in a timely manner, the funds required to support the development projects listed in Annex B.

Annex A

Proposed List of Ministries to Receive General Budget Support
Under Program Grant (Cash)

1. Ministry of Agriculture
2. Ministry of Education
3. Ministry of Health and Social Welfare
4. Ministry of Public Works

Annex B

Proposed List of Projects to be Included in the Special
Covenant to the Grant Agreement

A. Infrastructure

1. Paynesward-Robertsfield Highway
2. Paynesward-Totota Highway
3. Camp Meclin (Road Maintenance)
4. Monrovia Streets and Drainage

B. Health

1. Cape Mt. Hospital (Const.)
2. Tappita Hospital (Const.)
3. JFK Memorial Hospital (Const.)
4. Rehabilitation Center (Const.)

C. Regional Development - Assistance to 9 counties and 6 territories

Annex C

Liberia's Balance of Payments 1976 - 1979
(\$ m)

	1976	1977	1978	1979
Exports (F.O.B.)	457.1	447.4	486.4	536.6
Imports (C.I.F.)	399.2	463.5	480.9	506.7
of Which: Oil	(56.0)	(64.5)	(24.6)	(103.2)
Other	(343.2)	(399.0)	(396.3)	(403.5)
Merchandise Trade Balance	57.9	-16.1	5.5	29.9
Services (net)	-147.3	-139.9	-133.5	-136.1
Maritime Revenue	16.3	12.8	13.6	11.7
Investment Income	-134.9	-125.9	-108.0	-103.9
of Which Interest on External Debt	(-5.6)	(-7.8)	(-13.2)	(-22.0)
Other Services (net)	-28.7	-26.8	-39.1	-43.9
Unrequited Transfers (net)	-8.9	-9.5	-11.4	-7.0
<u>Current Account Balance</u>	-98.3	-165.5	-139.4	-113.2
Official Capital	29.3	54.4	64.4	110.7
Drawings	(44.5)	(74.3)	(78.7)	(173.1)
Amortization	(-15.2)	(-19.9)	(-14.2)	(-54.4)
Private Capital (incl. errors & omissions)	106.2	104.0	49.8	-58.4
<u>Capital Account Balance</u>	13.5	104.0	49.8	-58.4
Allocation of SDRs	-	-	-	4.9
<u>Surplus or Deficit</u>	37.2	-7.1	-25.1	-48.0
Financing	-37.2	7.1	25.1	48.0
Monetary Authorities	-1.7	-12.8	13.3	25.5
Deposit Money Banks	-29.3	15.9	9.5	22.5
Central Gov't Deposit Abroad	-6.2	4	2.3	0

AID HANDBOOK 4, App 3A	TRANS. MEMO NO. 4:6	EFFECTIVE DATE November 2, 1977	PAGE NO. 3A(2)-1
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3A(2) - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

CROSS-REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered; FAA Sec 653(b)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;

Congress through a formal Congressional Notification has been informed of AID's intent to obligate these funds.

(b) Is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than \$1 million over that figure plus 10%)?

No.

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

Not required.

3. FAA Sec. 209, 619. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?

No.U.S. and Liberian interests will best be served by a direct Government to Government agreement.

4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

The proposed grant will help protect Liberia's present free enterprise system thereby fostering private initiative and competition.

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A.

- 5. FAA Sec. 601(b). Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
- 6. FAA Sec. 612(b); Sec 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.
- 7. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

By protecting trachtional U.S./Liberian relations the proposed grant will help maintain U.S. economic interests in Liberia and access to the Liberian market for U.S. producers.

NA

The U.S. does not own excess Liberian currency.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

- 1. Nonproject Criteria for Security Supporting Assistance
 - a. FAA Sec. 531. How will this assistanee support promote economic or political stability? (Is the country among the 12 countries in which Supporting Assistance may be provided in this fiscal year?)
- 2. Nonproject Criteria for Development Assistance
 - a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity will (1) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?
 - b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [include only applicable paragraph -- e.g., a, b, etc. -- which corresponds to sources of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source.]

This grant, in coordination with an operating IMF stabilization program, will help bridge a gap in GOL recurrent costs until newly implemented fiscal policies designed to increase government revenues can take effect. This will promote both economic and political stability in Liberia.

This grant will support the immediate needs of development-oriented Ministries of the GOL. It will allow these Ministries to continue to function and provide support for the GOL's ongoing efforts to provide greater development benefits to the poorest class of Liberians.

NA

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- (1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers; NA
- (2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor; extent to which assistance gives attention to interrelationship between (A) population growth and (B) development and overall improvement in living standards in developing countries. Is activity designed to build motivation for small families in programs such as education in and out of school, maternal and child health services, agriculture production, rural development, and assistance to urban poor? NA
- (3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development; NA
- (4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:
 - (a) to help alleviate energy problem; NA
 - (b) reconstruction after natural or manmade disaster; NA
 - (c) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance; NA
 - (d) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development. NA
- (5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries. NA

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c. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on: (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy.

d. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

e. FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211(a)(1)-(3) and -(8). Does the act give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives?

f. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position.

3. Nonproject Criteria for Development Assistance (Loans only)

a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.

The GOL has adapted decentralized intergrated rural development as the means of promoting economic and social growth in Liberia. This approach provides for greater democratization of political and economic institutions and promotes "ground up" development. By focusing U.S. support upon the development-orientated ministries this assistance will allow the GOL to continue to implement ongoing intergrated rural development efforts.

As described in the PAAD this assistance will provide the development-orientated ministries the means to continue normal operations. It will support the needs, desires and capacities of Liberia as reflected in the country's development effort.

This assistance is designed to help maintain the fiscal and political stability of Liberia. Such stability is a precondition for effective economic or social development.

The direct effects of this assistance on the U.S. economy will be minimal. By helping to protect U.S. access to the Liberian market and raw materials it will have a positive indirect effect upon the U.S. economy.

NA

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b. FAA Sec. 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and United States) of lending and relending terms of the loan. NA

c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner? NA

d. FAA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources? NA

4. Additional Criteria for Alliance for Progress NA

[Note: Alliance for Progress assistance should add the following two items to a nonproject checklist.]

a. FAA Sec. 251(b)(1)-(8). Does assistance take into account principles of the Act of Bogota and Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America? NA

b. FAA Sec. 251(b)(8); 251(h). For loans, has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress (now "CEPCIES," the Permanent Executive Committee of the OAS) in its annual review of national development activities? NA

INITIAL ENVIRONMENTAL EXAMINATION

Project Country: Liberia

Project Title: Program Grant (Cash)

Funding: FY(s) 1981 \$ 7,000,000

Period of Project: FY 1981

IEE Prepared by : Chuck Husick, USAID/Liberia

Environmental Action Recommended: Negative Determination

Africa Bureau Environmental Coordinator Decision:

APPROVED _____

DISAPPROVED _____

DATE _____

I. Description of Project:

This project is a cash grant to the Government of Liberia. The grant will allow development-orientated Ministries to continue their normal operations, thus maintaining Liberia's institutional development capacity. The loss of this capacity, due to Liberia's current fiscal crisis which prevents the GOL from adequately funding the recurrent budgets of these Ministries, would be critical to the future economic and social development of the country.

II. Examination of Nature, Scope, and Magnitude of Environmental Impacts:

(In terms of items on attached Impact and Evaluation Form)

The proposed project will have no direct significant impact upon the environment.

III. Recommended Environmental Action:

A negative determination requiring no further environmental examination is recommended.

IMPACT IDENTIFICATION AND EVALUATION FORM

Impact
Identification
and
Evaluation 2/

Impact Areas and Sub-areas 1/

A. LAND USE

- 1. Changing the character of the land through:
 - a. Increasing the population _____ N _____
 - b. Extracting natural resources _____ N _____
 - c. Land clearing _____ N _____
 - d. Changing soil character _____ N _____
- 2. Altering natural defenses _____ N _____
- 3. Foreclosing important uses _____ N _____
- 4. Jeopardizing man or his works _____ N _____
- 5. Other factors

B. WATER QUALITY

- 1. Physical state of water _____ N _____
- 2. Chemical and biological states _____ N _____
- 3. Ecological balance _____ N _____
- 4. Other factors

1/ See Explanatory Notes for this form.

2/ Use the following symbols: N - No environmental impact
 L - Little environmental impact
 M - Moderate environmental impact
 H - High environmental impact
 U - Unknown environmental impact

IMPACT IDENTIFICATION AND EVALUATION FORM

2

C. ATMOSPHERIC

- | | |
|--------------------------|-------|
| 1. Air additives ----- | N |
| 2. Air pollution ----- | N |
| 3. Noise pollution ----- | N |
| 4. Other factors | |
| _____ | _____ |
| _____ | _____ |

D. NATURAL RESOURCES

- | | |
|--|-------|
| 1. Diversion, altered use of water ----- | N |
| 2. Irreversible, inefficient commitments ----- | N |
| 3. Other factors | |
| _____ | _____ |
| _____ | _____ |

E. CULTURAL

- | | |
|--|-------|
| 1. Altering physical symbols ----- | N |
| 2. Dilution of cultural traditions ----- | N |
| 3. Other factors | |
| _____ | _____ |
| _____ | _____ |

F. SOCIOECONOMIC

- | | |
|--|-------|
| 1. Changes in economic/employment patterns ----- | N |
| 2. Changes in population ----- | N |
| 3. Changes in cultural patterns ----- | N |
| 4. Other factors | |
| _____ | _____ |
| _____ | _____ |

IMPACT IDENTIFICATION AND EVALUATION FORM

3

G. HEALTH

- 1. Changing a natural environment ----- N
- 2. Eliminating a ecosystem element ----- N
- 3. Other factors
- _____
- _____

H. GENERAL

- 1. International impacts ----- N
- 2. Controversial impacts ----- N
- 3. Larger program impacts ----- N
- 4. Other factors
- _____
- _____

I. OTHER POSSIBLE IMPACTS (not listed above)

- _____
- _____
- _____

See attached Discussion of Impacts.