Unclassified

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

1. PAAD Number: Project 669-0214 669-K-609
2. Country: Liberia
3. Category: Commodity Import Program (CIP)
4. Date: September 15, 1987
5. To: Charles L. Gladson, Assistant Administrator, Africa
6. OYB Change Number:
7. From: Mary C. Kilgour, Director, USAID/Liberia   MKilgour
8. OYB Increase: To be taken from: Economic Support Funds
9. Approval Requested for Commitment of: $ 5.0 million
10. Appropriation Budget Plan Code:
11. Type Funding: ☐ Loan ☒ Grant
12. Local Currency Arrangement: ☐ Informal ☒ Formal ☐ None
13. Estimated Delivery Period: 9/87 - 9/90
14. Transaction Eligibility Date: Authorization Date

15. Commodities Financed

Commodities eligible for financing under this grant include capital goods, intermediate goods, industrial raw materials, agricultural commodities and commodity related services.

16. Permitted Source		17. Estimated Source	
U.S. only	$5,000,000	U.S.	$5,000,000
Limited F.W.		Industrialized Countries	
Free World		Local	
Cash		Other	

18. Summary Description

This is a $16,185,000 grant Commodity Import Program proposed for a three year period, of which $5 million will be obligated at this time. The remainder is subject to availability of funds.

The CIP has two components: a public sector component that encourages economic policy reform and supports the GOL's civil service retrenchment program; and a private sector component that supports private enterprise by reducing foreign exchange shortages and helping to restore confidence in the economy. Approximately 65% of the CIP will finance commodities for the private sector; 30% for the public sector; and 5% will be used to administer the program. The local currency generated under the CIP will finance the GOL's Civil Service Reform Program.

Conditionality includes the placement and operation of OPEX personnel under the Economic Stabilization Support Project; establishment of a Special Account for local currency in a U.S. commercial bank; an agreement on operating procedures (Operating Circular) signed by GOL, USAID and the Approved Applicant Bank administering the program; and the publishing of the National Budget and the budget for offshore revenue. Disbursement for petroleum will require that a private firm import this product. Disbursement of local currency generated under the CIP will

19. Clearances	Date
DAA/AFR:Edward L.Saiers	9/23/87
AFR/DP:JWestley	
GC/AFR:TCarter	9/22/87
AA/PPC:REBissell	9/25/87
M/FM:CChristensen	9/29/87
AFR/PD:CPeasley	9/23/87
AFR/CCWA:JColes by a steele	9/2/87
GC/AID:HMFry	9/28/87
AA/SER:JOwens	9/23/87

20. Action: ☒ APPROVED ☐ DISAPPROVED

Authorized Signature: Edward L. Saiers   Date: 9/29/87

Title: Acting Assistant Administrator, AFR

AID 1120-1 (5-82)   CLASSIFICATION: Unclassified

Require a Memorandum of Understanding between the GOL and USAID on the Civil Service Reform Program. Disbursement of funds beyond the initial tranche of $5.0 million requires implementation of the Civil Service Reform Program and publishing of the National Budget and budget for offshore revenues for GOL FY 1988.

Source/origin waivers of Geographic Code 000 to permit Code 941 procurement of petroleum products and the shipment of petroleum commodities on Code 941 vessels are included.

- 1'

LIBERIA COMMODITY IMPORT PROGRAM
TABLE OF CONTENTS

I. SUMMARY AND RECOMMENDATION

A. Recommendation: USAID/Liberia recommends authorization of an Economic Support Fund Grant (669-0214) of $16.185 million over three years. The first obligations of $5 million will take place in FY '87 and the remaining $11.185 will be provided in FY '88 and FY '89, depending on progress in implementing the program and the operational year budget allocated to USAID/Liberia. The funds will be disbursed, after conditions precedent have been satisfied, to finance commodity imports for both the public and private sectors in Liberia.

B. Grantee: The Grantee will be the Government of Liberia (GOL) acting through the Chairman of the Economic and Financial Management Committee (EFMC).

C. Program Summary: Due to the deficit spending policies of the GOL, Liberia faces serious balance of payments and monetary problems which have combined and contributed to a foreign exchange shortage and a reduced level of imports. The shortage of foreign exchange is experienced by both private sector importers and by public utilities. Private sector productive activities and the ability of the public utilities to provide essential services have been jeopardized.

The Mission proposes a CIP which will finance the import of commodities for both the private sector and for selected public corporations which are able to generate local currency, i.e, the telephone and electric utilities. Initially, our intent is to allocate 65 percent of the funds to the private sector (agricultural commodities will account for at least 18 percent of total CIP funding, petroleum for no more than 25 percent, and other commodities will account for the residual), 30 percent to the public sector, and the remaining 5 percent will be used to administer the program. Except for petroleum, all commodities will be procured in the U.S. and a waiver for petroleum will be needed. Only a private firm will be allowed to import petroleum.

Special emphasis will be placed on sustaining Liberia's import requirements for the productive sector of the economy. A survey of potential users of CIP funds was undertaken and the Mission concludes that the program will be fast moving. Private sector procurement will be conducted through regular commercial channels following normal international trade and banking practices. In order to reach as many potential Liberian importers as possible, while still achieving rapid disbursement, a maximum single transaction value of $250,000 has been established for the private sector component, except for wheat and petroleum imports. The minimum transaction value will be $10,000, except for spare parts. The public sector CIP (to finance equipment and spare parts for revenue generating utilities) will be administered on a government-to-government basis, with procurement normally conducted on a formal competitive basis. No transaction limit has been placed on the public sector element. Initially the Monrovia branch of a U.S. commercial bank will open Letters of Credit (within the framework of AID commodity eligibility) and largely administer the financial aspect of the program. Other banks may be allowed to participate after the Mission and the GOL assess the efficiency of the installation of program procedures and regulations, the performance of the U.S. commercial bank and the needs of the program. Local currency generated from the program will be deposited into a "Special Account" held in the same Monrovia branch of the U.S. commercial bank. The Mission will hire a full-time commodity specialist to coordinate implementation and provide necessary monitoring and oversight.

The proposed program has two components: a dollar component to finance priority imports and a local currency component to support GOL economic reform efforts. The first priority for local currency programming will be initial funding for a Civil Service Reform Program. The Civil Service Reform Program, aimed at reducing the public sector wage bill, is one of the central elements in the Five Point Reform Agenda agreed to during the February 1987 meetings between President Doe and AID Administrator McPherson along with the placement of 17 operational experts in key government ministries to help the President gain control of GOL finances. In the absence of the OPEX project, the proposed CIP would not be warranted.

D. Conditions, Covenants and Negotiating Status: The conditions and covenants proposed for the grant are described in Section IV. In general, the major condition to commencement of the program is the arrival and functioning of the first group of OPEX personnel for the Economic Stabilization and Support Project. Conditions tied to the disbursement of U.S. dollars for imports are intended to insure the smooth and timely importation of commodities in order to maximize their impact on the economy and to meeting selected points from the Five Point Reform Agenda for which adequate progress has not yet been made. Conditions tied to the release of local currency from the Special Account and to subsequent disbursement of dollar grant funds are linked to the development and implementation of a civil service reform program. The proposed covenants are designed to encourage regular consultation and a forum for continuing policy dialogue.

The CIP program has been discussed with the GOL's Economic and Financial Management Committee (EFMC) under the chairmanship of the Minister of Finance. Agreement on the objectives of the program has been obtained and a draft Operating Circular, which details the duties and responsibilities of each of the parties to the CIP component, is being reviewed. (Signature of the Operating Circular is one of the CP's to the disbursement of AID funds). Modest progress is being made on the development of a civil service reform program and more progress is anticipated with the arrival of the OPEX team and a U.K. technician. When completed, the details of the program will be incorporated into a Memorandum of Understanding. (Signature of the Memorandum of Understanding is one of the CP's to the disbursement of funds from the local currency special account).

II. OVERVIEW AND RECENT DEVELOPMENTS

A. Summary Of Liberia's Economic Problems: Liberia is essentially an open, export oriented economy with virtually no exchange controls (except for the recently imposed 25 percent surrender requirement). Its exports are primarily iron ore and agricultural commodities. Little processing of these raw materials take place. In addition, very few production activities take place to supply the domestic market; Liberia is dependent on world producers for its consumption and investment needs. Exports are equivalent to about 60 percent of monetary GDP whereas imports are about 50 percent.

Liberia's economic problems can be traced to a combination of several interdependent, simultaneous influences including a decline in exports, an uncontrolled fiscal budget, a paralysis of the financial system, and a loss of investor confidence. Exports have declined continuously in the 1980's due to a loss of competitiveness, a drop in demand in its principal markets, and the depletion of high grade iron ore, the country's major export. The loss of competitiveness was due to the appreciation of the U.S. dollar, which is in theory still the country's legal tender; the high level of local wages; and the deterioration in roads and port facilities.

At the same time that exports began to decline, Liberia lost control of its fiscal budget. This was coupled with corruption, which led to extensive tax evasion, and with fraud, which led to vendors billing the government for services and goods not delivered. Due to excessive borrowing to finance its deficit spending, the GOL was unable to service its debt and this led to the suspension of World Bank and IMF financial assistance. Until recently the GOL was months late in meeting its payroll, and is still late in paying its vendors, and in paying parastatals for utility services. Since the GOL is the major buyer of parastatal services, the inability of these parastatals to collect has resulted in a decline in their ability to supply services. Finally, not only did the GOL engage in deficit spending but it also wrote checks without sufficient funds to cover them. For a time, this led to the cessation of check clearing, bank lending, and the NBL functioning in its limited role as a central bank.

In the early stages, the National Bank of Liberia (which serves many of the functions of a central bank) was able to loan the GOL sufficient U.S. dollars to cover its spending. The NBL was able to do this by drawing down on its holdings of dollars and by borrowing from the IMF and other lenders. In addition, the GOL began issuing its own coins in denominations as high as five dollars to partially cover its spending. Eventually, however, lenders stopped lending to the NBL and depositors lost confidence in the financial system and withdrew whatever U.S. dollars they could from the system. Now when the GOL wrote a check, the NBL was unable to loan the GOL funds to cover the checks. The banks which had cashed the checks for depositors were unable to collect from the NBL. The financial system virtually stopped functioning and a severe liquidity crisis developed.

All of the above resulted in a collapse of people's confidence in the Liberian economy. Foreign investment stopped flowing in and capital flight took place. For the fiscal year 1985/86, capital flight is estimated at over U.S. $100 million or 14 percent of monetary GDP.

If the above events were expected to continue, it would make no sense to undertake a Commodity Import Program. However, there is sufficient evidence to show that not only does the GOL recognize the problems it has helped create, but that it is taking steps to correct them. In addition, the banking system is beginning to function as commercial banks have established their own clearing mechanism outside of the NBL. Finally, as an indication that some business confidence may be returning, imports, excluding petroleum, for the first five months of 1987 are up 47 percent from the comparable period for 1986. If this import performance continues, it will break a string of six consecutive years in which imports each year were less than the previous year. This should not, however, be interpreted to mean that the foreign exchange shortage is over. Imports in 1986 were only 40 percent of what they were in 1980. It will take a supreme effort to bring the economy back to where it was seven years earlier.

In the sections that follow, the problems in the balance of payments, the fiscal budget, and the monetary system will be described in more detail. It will be shown that there is a shortage of foreign exchange and that a CIP is warranted. In addition the actions currently being undertaken by the GOL to correct its faults will be described. Finally, it will be shown that the CIP is complementary to our other programs in Liberia, particularly the OPEX project.

B. Recent Balance Of Payments Developments: Relative to many other African countries, Liberia is in an apparently envious position of having a balance of trade surplus. While a surplus in trade may be desirable, it is inappropriate to assume that it results in a surplus of foreign exchange. In Liberia's case, the export sector is dominated by foreign owned and foreign run businesses. It results in large foreign exchange outflows for interest, dividends, and worker remittances. Liberia also spends large sums for travel, shipping and factor services. Finally, in recent years there has been a large outflow of both short-term and long-term capital by the private sector. All of these expenditures and payments have in total exceeded what was received from trade, private transfers, and donor assistance. As a result the GOL has had to borrow from the IMF and other sources in order to finance the imbalance. The GOL can no longer turn to these foreign lenders for support.

TABLE I
BALANCE OF TRADE IN GOODS AND SERVICES
($ millions)

	1980	1981	1982	1983	1984	1985	1986
Exports of Goods (FOB)	600.4	529.2	477.4	427.6	452.1	435.6	408.4
Imports of Goods (FOB)	-550.7	-489.1	-441.5	-366.6	-317.8	-246.6	-227.0
Balance of Trade	49.7	40.1	35.9	61.0	134.3	189.0	181.4
Exports of Non-factor services	13.1	11.5	10.0	38.5	36.9	34.6	N/A
Imports of Non-factor services	-63.4	-71.8	-72.0	-112.6	-93.7	-76.2	N/A
Resource Balance	-0.6	-20.2	-26.1	-13.1	77.5	147.4	N/A

Source: NBL, see Annex E

From 1980 through 1986, Liberia had a growing surplus in its balance of trade. This occurred not because of a growth in exports but because of a sharp drop in imports. Over the period, imports declined by $323 million or by almost 60 percent. This decline is mainly due to the loss of business confidence, which is evidenced by imports of machinery and transport equipment declining from $150 million in 1980 to $59 million in 1986, and to the decline in economic activity, which is in part evidenced by imports of fuels declining from $152 million in 1980 to $53 million in 1986 (the fall in the price of petroleum has helped in reducing the cost of importing petroleum but volume has fallen by more than one-third).

The favorable trade balance was more than offset by trade in non-factor services for the years 1980 through 1983. Most of the expenditures were for travel and shipping. On balance, net exports of goods and non-factor services, the resource balance, were negative for the years 1980 through 1983.

The next accounts to be included will be those for receipts and payments for factor services of the private sector. A detailed breakdown of these figures became available starting in 1983.

TABLE II
RECEIPTS AND PAYMENTS FOR FACTOR SERVICES OF THE PRIVATE SECTOR
($ millions)

	1983	1984	1985
Interest Receipts	1.4	2.2	3.4
Worker Remittances	-70.0	-80.0	-65.0
Factor Payments	-59.0	-42.8	-40.0
Other Interest Payments	-37.8	-8.7	-7.6
Private Factor Services Balance	-165.4	-129.3	-109.2

Source: NBL, see Annex E

As can be seen, there is a large outflow of foreign exchange for private factor services, such as interest, dividends and worker remittances. The outflow for 1984 more than offset the favorable resource balance in 1984 but the outflow for 1985 was less than the resource balance for that year.

In addition to private factor services, the GOL receives and pays interest.

TABLE III
RECEIPTS AND PAYMENTS FOR FACTOR SERVICES OF THE GOVERNMENT OF LIBERIA ($ millions)

	1983	1984	1985
Interest Receipts	0.4	0.4	0.3
Interest Payments*	-49.5	-62.3	-26.7
GOL Factor Services Balance	-49.1	-61.9	-26.4

Source: NBL, see Annex E

*The GOL did not pay all of the interest that came due during these years. Interest that was due but not paid will be shown later in the capital account.

Helping to finance Liberia's balance of payments are large transfer receipts that are received by both Liberia's private and public sectors. These receipts are related in part to the work of missionaries and to donor assistance. Maritime revenue is the receipts of the GOL for allowing foreign vessels to register under the Liberian flag.

TABLE IV
RECEIPTS AND PAYMENTS FOR UNREQUITTED TRANSFERS ($ millions)

	1983	1984	1985
Private Transfer Receipts	31.0	36.4	37.0
Official Transfer Receipts	116.9	107.5	94.2
Cash Grants	(34.0)	(35.0)	(25.5)
Maritime Revenue	(24.5)	(23.5	(23.5)
Other	(58.4)	(49.0)	(45.2)
Official Transfer Payments	-2.7	-3.6	-2.6
Balance on Unrequitted Transfers	145.2	140.3	128.6

Source: NBL, see Annex E

All of the previous accounts will be combined to show the net effect of the transactions considered up to now.

TABLE V
CURRENT ACCOUNT ($ millions)

	1983	1984	1985
Resource Balance	-13.1	77.5	147.4
Private Factor Services Balance	-165.4	-129.3	-109.2
GOL Factor Services Balance	-49.1	-61.9	-26.4
Balance on Unrequitted Transfers	145.2	140.3	128.6
Current Account Balance (on a cash basis)	-82.4	26.6	140.4

Source: NBL, See Annex E

The current account balance is shown on a cash basis because it excludes the interest due but not paid by the GOL. The NBL, on the other hand, will include the impact of interest due but not paid in its presentation of the current account. Their presentation must be interpreted as a balance on a commitment basis.

It is always difficult to interpret the meaning of a current account balance. The balance in 1984 and 1985 was positive. One interpretation would be that Liberia had the capability to pay off some of its debts or to build up its holdings of foreign exchange. The evidence does not show that, however. As has been seen already, the GOL did not pay all of the interest that came due and, as will be seen later, it did not pay off all of the principal that came due either. Liberia also did not build up its holding of foreign exchange. The holdings of U.S. dollars by the NBL declined from $10.1 million in 1980 to only $1.2 million in June 1985. In addition the U.S dollar which once freely circulated in the country as a means of payment has virtually disappeared from circulation.

An alternative interpretation is that the positive balance on the current account is overstated. This would be true if more was imported into the country than was recorded. This is quite possible as many importers will undervalue their imports in order to escape duties. Another possibility is that many of the recorded exports really represent transshipment for neighboring countries and the receipts did not stay in Liberia but were passed on to the actual exporters outside the country. A third possibility is that both of the above occurred plus there was capital flight. Businessmen and people in all walks of life may have lost confidence in Liberia's economy and decided to build up their holdings of assets outside of Liberia. The private sector capital accounts will give some indication of that problem.

TABLE VI
PRIVATE SECTOR CAPITAL ACCOUNTS
($ millions)

	1983	1984	1985
Long-term			
Direct Investment	46.6	34.4	-17.9
Portfolio Investment	5.0	6.8	7.4
Commercial Banks	2.5	1.8	1.4
Other Sectors	-98.4	-24.9	-25.8
Total L-t	-44.3	18.1	-34.6
Short-term			
Commercial Banks	-26.4	7.8	7.6
Other Sectors	-26.2	-36.3	-25.9
Errors and Omissions	-6.1	-136.2	-140.0
Total S-t	-58.7	-164.7	-159.3
Balance of Private Sector Capital	-103.0	-146.6	-193.9

Source: NBL, see Annex E

Direct investment, which was once an important source of funds turned negative in 1985. Most of the other accounts also show an outflow of foreign exchange from the country. The errors and omissions account, which is generally believed to represent unrecorded capital flight, was $136 million in 1984 and $140 million in 1985.

On balance there was an increasing drain on the availability of foreign exchange for the country. Some of that will be lost forever as some investors will keep their assets abroad permanently. But much of it should be available for reinvestment in Liberia as confidence in political and economic stability returns and as new investment opportunities become available.

The remaining balance of payments accounts deal with the GOL. The balance of payments account, as it is presented by the NBL, and from which this presentation was derived, is given in Annex E.

TABLE VII
GOVERNMENT OF LIBERIA'S REMAINING ACCOUNTS
($ MILLIONS)

	1983	1984	1985
Official Interest Due but not paid	-9.1	-15.6	-53.0
Official L-T Capital	124.0	63.0	-70.6
Drawing on L-T Loans	(140.6)	(125.8)	(56.1)
Repayments on L-T	(-13.4)	(-31.5	(- 5.9)
Repayments due but not paid	(- 0.1)	(-15.8)	(-84.3)
Other Liabilities	(- 3.1)	(-15.5	(-36.5)
Official S-T Capital	28.7	42.6	173.8
Reserves	41.8	30.0	3.3
Foreign Exchange Assets	(-14.2)	(16.9)	(2.0)
Use of IMF Credit	(56.0)	(13.1)	(1.3)
Balance	185.4	120.0	53.5

Source: NBL, see Annex E

The balance on the GOL's remaining accounts essentially represents borrowing to finance the balance of payments. Previously the GOL was able to obtain credits from the IMF and the World Bank. Because the GOL failed to meet debt service payments to these institutions, those sources are no longer available. Much of the credit that the GOL receives now is not actually credit available for spending but instead represents the forced rollover of loans and the addition to loans outstanding of the interest not paid.

TABLE VIII
COMBINED BALANCES
($ MILLIONS)

	1983	1984	1985
Current Account Balance	-82.4	26.6	140.4
Private Sector Capital Account	-103.0	-146.6	-193.9
GOL's Remaining Accounts	185.4	120.0	53.5
Final Balance of Payments	0	0	0

Given the poor record of Liberia with respect to capital flight, a natural concern is to question whether the CIP will, in the final analysis, only add to the problem of capital flight instead of contributing to short-term stabilization and development. There can be no guarantees. In the first analysis, CIP funds will only be made available for the actual import of goods. Hence, there can be no direct contribution to capital flight. However, money is fungible and the money that is made available through the CIP to an importer will reduce that importer's demand for foreign exchange from other sources. The foreign exchange that the importer might have used thus becomes available for other users including those users interested in capital flight. Nothing can be done about that. The problem exists in any country where a CIP is implemented. It is important to note, however, that a person interested in capital flight always has the opportunity to bid foreign exchange away from any user including the importer that was just considered. Hence a case can be made that the importer who will benefit from the CIP might not have been able to import without the program because funds from other sources would have been bid away for capital flight.

One might argue that the solution to capital flight is to impose exchange controls. Such a move would be harmful to the long-run development of the country. Liberia is dependent on foreign capital for development. Investors knowing that they can remit profits will be willing to make an investment as long as they have confidence in economic and political stability. The problem of capital flight is not one of a lack of exchange controls but one of a lack of confidence. Underinvoicing exports, overinvoicing imports, smuggling, and bribery are all ways to engage in capital flight even if there are exchange controls. They are not an answer.

1. Export Prospects: Total exports for Liberia in 1986 were $408 million, which is $200 million less than they were in 1980. Even this reduced level can not be sustained as iron ore exports will decline sharply due to the partial closing of LAMCO, the country's major iron ore producer. Early indications are that LAMCO will reduce its operations by two-thirds. Iron ore accounts for 60 percent of Liberia's total exports and LAMCO accounts for 50 percent of iron ore. A reduction in LAMCO's operations by two-thirds will reduce total exports by about $80 million or 20 percent.

Prospects for Liberia's second major export, rubber, are improving. From 1980 through 1985, natural rubber prices fell and in November 1985 were below what they were in 1972. Much of the fall in natural rubber prices was due to the fall in petroleum prices, which reduced the cost of synthetic rubber, and to economic recession. Since November 1985, prices increased by almost 40 percent but are still about 35 percent less than they were in 1980. The major rubber concessions in Liberia undertook a cost cutting exercise and restored profitability. For the first time in several years, some replanting of rubber trees is taking place.

The third major export for Liberia is timber, which accounts for about 8 percent of Liberian exports. Log exports in 1986 are about 50 percent of what they were in 1980. The industry has been hurt by a deterioration in roads and port facilities.

In summary then, except for rubber, Liberia's prospects for exports are depressing. Iron ore is running out, the country's efficiency in production of the remaining commodities is falling, and there are no new export commodities on the horizon. As exports fall, the country's ability to import will fall accordingly. The CIP will make a small contribution in permitting Liberia to maintain some needed imports.

TABLE IX
LIBERIAN EXPORTS
1983-1986

EXPORT ITEMS	1983	1984	1985	1986
VALUE (MILLIONS OF $)				
Iron Ore	267.3	279.0	279.0	248.4
Rubber	73.1	91.3	77.1	80.7
Logs	22.2	22.6	23.0	31.9
Coffee	18.2	13.7	27.3	16.2
Cocoa	11.5	15.3	11.2	8.9
Diamonds	17.2	10.9	4.7	6.4
Palm Products	2.7	7.4	3.4	1.1
Sawn Timber	1.3	0.9	2.2	1.2
Other Domestic	7.3	5.6	2.1	7.4
Re-exports	6.8	5.4	5.2	6.2
Total Expts FOB	427.6	452.1	435.6	408.4
STRUCTURE (PERCENT)				
Iron Ore	62.5	61.7	64.1	60.8
Rubber	17.1	20.2	17.7	19.8
Logs and Timber	5.2	5.0	5.3	7.8
Coffee	4.3	3.0	6.2	4.0
Cocoa	2.7	3.4	2.6	2.2
Diamonds	4.0	2.4	1.1	1.6
Palm Products	0.6	1.6	0.8	0.2
Sawn Timber	0.3	0.2	0.5	0.3
Other Domestic	1.7	1.2	0.5	1.8
Re-exports	1.6	1.2	1.2	1.5
	100.0	100.0	100.0	100.0

Source: NBL

C. Recent Fiscal Developments:

1. Background: The Liberian economy registered a sluggish growth trend before the 1980 coup. Between 1974 and 1979, the average growth of real GDP was barely one percent per annum, much less than the population growth rate of 3 percent. The oil price shocks of the 70's, followed by the world recession which really began in the late 70's and spilled over into the 1980's, had a severe negative impact on the Liberian economy. The results for Liberia were massive oil import bills and a huge debt burden. These external factors occurred at a time when world demand for Liberia's major exports (iron ore, rubber and timber) was severely depressed. The limited diversification of the country's export base helped to intensify the effects of the recession on the economy.

The government's expenditure patterns during this time period (mid 70's through early 80's) clearly did not reflect this downward economic trend. In addition, the large borrowing undertaken to finance the establishment of new parastatals and the construction activities associated with the 1979 OAU conference exacerbated the problems for Liberia. The trends worsened after the change in government in April 1980.

Instead of dealing with the faltering economy by establishing some semblance of public and financial discipline, the new government implemented expansionary programs which had no sound financial basis. Salaries of civilian government workers doubled, the wages of the military force increased by as much as 200 percent and the number of people on the government's payroll increased from about 29,000 in FY 79 to an estimated 43,000 in FY 1986. While these policy measures may be understood from the political perspective, they resulted in a deterioration in the fiscal accounts of the government and a quantum deterioration in the efficiency of government operations.

The overall budget deficit on a commitment basis, became unsustainably large, averaging 14 percent of GDP in the period 1980/81-1985/86 (Tables X and XI). The inability of the Government to come to grips with this problem can be seen by the fact that precisely when the authorities were announcing their commitment to fiscal restraint, the Government's deficit rose from $80.3 million in FY 83/84 to $165.6 million in FY 84/85. The decline in government revenue, which has been occurring since FY 1980/81, reflects not only a drop in economic activity, but also a growing weakness in tax administration and collections. Budgetary procedures have deteriorated to such an extent that firms are not turning over the taxes collected by them for the GOL but are instead allowed to use those taxes to offset the unpaid bills of the GOL.

TABLE X
LIBERIA
GOVERNMENT FISCAL OPERATIONS
FY 1980/81-1986/87
(IN MILLION OF $)

	80/81	81/82	82/83	83/84	84/85	85/86 Prel	86/87 Est	87/88 Pro Forma
Total Rev. & Grants	242.4	279.3	257.4	260.1	217.0	205.6	210.4	200.0
Revenue	217.9	237.9	224.4	224.1	194.5	180.1	192.4	200.0
Grants	24.5	41.4	33.0	36.0	22.5	25.5	18.0	0.0
Total Expenditures	375.1	370.6	390.1	340.4	382.6	310.4	367.1	300.3
Recurrent	236.4	287.6	261.0	238.5	231.2	224.4	255.2	256.7
Wages & Sal.	(138.1)	(157.7)	(135.8)	(126.3)	(121.9)	(108.9)	(113.4)	(100.5
Interest	(32.2)	(37.8)	(57.1)	(60.1)	(70.0)	(80.3)	(96.4)	(105.2)
Other	(66.1)	(92.1)	(68.1)	(52.1)	(39.3)	(35.2)	(45.4)	(51.0)
Development	124.2	96.4	95.8	73.1	72.0	41.6	53.3	43.6
Non-budgetary	7.8	11.6	17.2	11.0	21.4	7.6	11.1	0.0
Unallocable	6.7	(25.0)	16.4	17.8	58.0	36.8	47.5	0.0
Overall Deficit (commit. basis)	132.7	91.3	133.0	80.3	165.6	104.8	156.7	100.3
Identified exp. related arrears	7.2	(6.0)	8.0	(7.0)	66.7	41.1	94.6	52.3
Overall Deficit (cash basis)	125.7	97.3	125.0	87.3	96.9	63.7	62.1	48.0

Source: IMF

TABLE XI
BASIC FISCAL INDICATORS
In Percent Of GDP
1980/81-1986/87

	80/81	81/82	82/83	83/84	84/85	85/86 Prel	86/87 Est
Nominal Monetary GDP	889.9	885.3	862.1	835.0	823.3	831.5	894.4
Rev. & Grants	27.0	31.5	29.9	31.1	26.4	24.8	23.5
Revenue	24.2	26.9	26.0	26.8	23.6	21.8	21.5
Total Expend.	41.7	41.9	45.3	40.8	46.5	36.8	41.1
Recurrent	26.6	32.5	30.3	28.6	28.1	26.0	26.7
Wages & Sal.	15.5	17.8	15.8	15.1	14.8	13.0	12.3
Interest	3.6	4.3	6.6	7.2	8.5	9.3	10.4
Other	7.4	10.4	8.0	6.2	4.8	3.6	4.0
Development	14.0	10.9	11.1	8.8	8.8	5.0	7.0
Unallocable	0.8	(2.8)	2.0	2.1	7.0	5.1	6.5
Overall Deficit (commit. basis)	14.8	10.3	15.4	9.6	20.1	11.9	17.8
Identified exp. related arrears	0.8	(0.7)	0.9	(.8)	8.1	4.3	8.7
Overall Deficit (cash basis)	14.0	11.0	14.5	10.5	11.8	7.7	9.1

Source: IMF

In contrast to this, Government expenditures since FY 1980/81 have averaged 42 percent of GDP, reflecting in large part the doubling of the public sector minimum wage, excessive hiring and a general lack of expenditure control.

Despite the slight increase in fiscal receipts projected for the FY 86/87 budget, the deficit on a commitment basis is expected to have increased over 60 percent, reversing the progress made in the preceding year, where the deficit declined 40 percent from $165 million to $99.3 million. The 21 percent increase in expenditures projected for FY 86/87 reflect three main elements: higher accrued interest payments on domestic and foreign debt; larger local spending budgeted for development, which had been sharply curtailed in the preceding year; and a reversal of the previous years decrease in unallocated expenditures (which is not identified as recurrent or development), reflecting a continued breakdown of budgetary discipline. To the extent possible, the FY 86/87 deficit has been financed through an increasing accumulation of arrears and credit from the National Bank of Liberia.

The deficit has become the main source of the confidence crisis which has plagued the banking system in Liberia and is the basic cause of the Government's liquidity problem. This liquidity problem is manifested in the constant scramble to meet offshore payments and the onshore monthly payroll.

2. <u>Attempts To Control The Deficit</u>: Since 1980, the Government, under the auspices of the IMF, the World Bank and other donor programs, has tried, without success, to address the growing deficits which characterize the budget. The measures attempted under some of those programs are reviewed below. What becomes saliently clear from this review is the fact that the Government's ability and willingness to exert sustained fiscal discipline and control has yet to be demonstrated. Until there is a continued period of actual implementation of a credible adjustment program, it is doubtful that Liberia will be able to re-establish its credibility with the donor and financial community.

In FY 1980/81, the following revenue measures were adopted with the intent of increasing revenue.

> A surcharge was imposed on all non-essential dutiable imports; a stamp fee was levied on selected imports of concessions; excise tax rates were raised; new taxes and fees were introduced on international air travel and movies; income tax rates were raised; personal income tax exemptions were reduced; and a compulsory saving scheme was introduced (Saving Bonds).

Measures on the expenditure side included the following:

A freeze on employment; new hiring was authorized only in exceptional cases; external debt payments were rescheduled with the London and Paris Clubs; extra-budgetary requests were prohibited; budgetary transfers were prohibited; a freeze was put on equipment purchases; allocations were reduced for all items except salaries.

Despite all the above effort, the budget deficit persisted. Most of these measures were not fully implemented. Expenditure control proved to be extremely difficult and expenditures continued to rise.

In FY 1981/82 an IMF stabilization program was negotiated. Conditions for the program required further adjustments with the intention of removing the budget deficit. The following fiscal measures were to be adopted:

1) A national reconstruction tax was imposed on all salaries and wages and on the income of self-employed individuals;

2) The pump price of gasoline was raised;

3) Tax on beer was increased;

4) Subsidies on rice were discontinued, and the price of imported rice was increased;

5) The prohibition on new expenditure was reinforced;

6) Government ministries were expected to stop violating budget procedures and guidelines;

7) Budget traveling appropriations were to be strictly adhered to by all agencies.

8) The sale of the Boeing 737 (Presidential aircraft); and

9) Other previous expenditure control measures were to be enforced.

Although the overall deficit declined in FY 1981/82, given that these measures were designed to instill fiscal discipline they failed to yield the desired results. The Government succumbed to the general pressures to spend, excessive foreign travel continued and new vehicles were purchased for many of the Government officials, despite the rules against doing so.

Another one year standby arrangement with the IMF was negotiated for FY 82/83. Additional fiscal measures were approved focussing mostly on ways to arrest the inordinate increase in recurrent spending, particularly in the wages and salary component. Specific relevant measures included:

1) Salary readjustment schemes were implemented, whereby all public sector employees' salaries and wages took a graduated cut of 25 percent for higher salaried personnel, 20 percent for the medium level and 16 2/3 for the lower level;

2) A National Identification Card System designed to collect revenue was implemented. The entire population was to be registered for a fee of $7 per adult and $5 per minor;

3) A moratorium on salary increases and new employment was to be reinforced;

Again, while some of these measures were partially implemented, some were not implemented at all. Consequently, they did not have any meaningful impact on the deficit. In fact total revenue declined from $279.3 million in FY 1981/82 to $257.4 million in FY82/83. The decline in revenue coupled with increases in accrued interest payments and non-budgetary expenditures resulted in a 46 percent increase in the deficit on a commitment basis.

The Government's attempt at adjustment continued into FY83/84 wherein a twelve page Executive Order was issued promulgating measures directed at ensuring proper implementation of the budget. Some of the salient measures were:

1) All ministries/agencies were to stop submitting requests for additional funding either to the President and/or the Budget Bureau;

2) Expenditures were to be controlled strictly by allotments and under no condition were expenditures to be initiated in excess of allotment;

3) No supplementary payrolls were to be accepted by the Ministry of Finance;

4) Development expenditures were to be made strictly for the purposes for which they were intended;

5) For the purpose of maintaining expenditure control, the Secretariat of the Economic and Financial Management Committee was mandated to review books of accounts of all ministries and agencies on a quarterly basis;

6) Officials of government violating the above guidelines were to be dismissed, arrested and prosecuted for corruption;

7) Foreign travel was to be limited;

8) Personnel Service cost was to be limited to $122.5 million;

9) Ministries/agencies were to pay their utility bills in advance by attaching vouchers to their quarterly allotment submission to the Budget Bureau.

While the measures were not fully implemented, some improvements were made and the deficit in FY 1983/84 declined 48 percent. Development expenditures declined 24 percent, and non-budgetary expenditures declined 36 percent. However, the Government's wage bill only declined a modest 7 percent.

The wage bill, which was clearly the single largest item of the budget, became the target of attention in the FY 1984/85 budget. A wage and employment policy package was introduced with the following components:

1) The retirement of 1,200 public employees with 25 years or more of service and/or who had attained the age of 65 with low productivity;

2) Voluntary retirement of 1,200 employees to be implemented in three stages beginning October 1, 1984 to April 1985. Each retiree was to be given a retirement grant of up to 6 percent of the last wage earned;

3) Deletion of unidentified employees on the payrolls;

4) A $10 across the board deduction from wages and salaries of all employees of government including public corporations.

Measures one and two were never implemented although the necessary work was done to determine the number of eligible individuals and the expected impact upon the budget. The wage and salary bill which had been hovering around 15 percent of GDP since FY 1982/83, declined a modest 3 percent in FY 1984/85. By the time this fiscal year was over the high wage and salary bill proved to be only a fraction of the Government's problems. The deficit on a commitment basis for that year more than doubled as it climbed from the previous year's high of $80.3 million to an unprecedented high of $165.6 million. As total revenue and grants were declining 17 percent, total expenditures were increasing rapidly (23 percent). The unallocated and non-budgetary expenditures increased 175 percent, demonstrating a total breakdown in the fiscal operations of Liberia.

Given that most of the previous years' adjustment efforts summarized above were not adhered to, FY 1985/86, which was an election year in Liberia, proved to be a most difficult period for the Government. Revenues continued to fall, expenditures had mounted and the IMF standby arrangements and the World Bank structural adjustment loan which was in effect stalled. The U.S which had up to this point operated under the aegis of the IMF and World Bank programs, took a more public role in the Government's operations when it negotiated an eleven point policy reform program which was to serve as the conditionality for the FY 1985/86 ESF program. Some of the eleven points were as follows:

1) No further expenditures beyond actual revenues. No further borrowing against offshore revenue to meet budget expenditures in Liberia.

2) Develop and publish an emergency budget for the balance of 1986 and the Minister of Finance was instructed not to approve any expenditures which were not in the budget.

3) Develop a list of debts due and make urgent debt payments immediately.

4) Institute a new system of control over revenue collection, expenditures and the banking and financial system.

5) Announce publicly audits of LPRC and LPMC by an internationally recognized firm.

6) Request the IMF, World Bank and other donors to provide professional expatriate managers in key areas of the bureaucracy.

7) Request the IMF and World Bank to undertake the currency study.

8) Contract no further minting of Liberian coins, or other measures toward non-dollar currency, unless approved under a plan agreed upon with the IMF and World Bank.

The budget for FY 1985/86 was never published. The allotments for the recurrent budget which had been on a quarterly basis were done on a monthly basis in order to reflect actual revenue collection for that month. The deficit for the fiscal year declined 40 percent from $165.6 million to $99.3 million, equivalent to 12 percent of GDP. The reduction in the deficit was brought about by a curtailment of government expenditures, which more than offset the decline in revenue and grants. In addition to retrenching and retiring 9 percent of the civilian workforce, and a 25 percent reduction in the salaries of certain Government employees, a freeze was imposed on other recurrent expenditures beginning in February 1986. Non-budgetary expenditures that year declined 65 percent while development expenditures declined 44 percent. The Government's performance was not all positive, however, because this was also the year that expenditure-related arrears began to mount. At the end of June 1986, total expenditure related arrears were estimated at $194 million, of which $125 million were domestic payment arrears and $69 million were external interest payment arrears. Wages and salaries were in arrears by about two months at the end of the fiscal year. The improvements made in budgetary expenditure control in FY 1985/86 were short lived as the budget deficit in FY 1986/87 is now projected to have increased 61 percent from $99 million to $159.6 million. This continued deterioration in the fiscal operations brought about the U.S. decision to offer operational experts to Liberia to help senior Liberian Government officials control public finances better.

The ability and willingness of the Government to come to grips with the current fiscal crisis is unclear. A recent cabinet shuffle yielded a new team which, according to a round of public announcements and actions, appears to be trying to put into place measures, (which are quite similar to those discussed above) designed to revive the economy. Some of the measures include the suspension of foreign travel, the lifting of restrictions on the importation of all commodities into the country (with a few exceptions) and the reduction of surcharges on all imported goods to a maximum of ten percent.. There is to be a clamp down on businesses and individuals which are not paying taxes. As part of a major show of public action, all custom agents at the airport were fired in an attempt by the Government to come to grips with the widespread problem of misuse of GOL resources. Some tax reductions have also been announced.

In their efforts to begin the process of coming to terms with the high wage bill, the Government announced that all salary arrears will be eliminated by the end of July 1987. The follow-on to this move is expected to be a reduction in the civilian work-force which will be partially financed by the local currency to be generated from the proposed CIP. The plan of action for this reduction has not been defined. Fourteen specialized cabinet committees have been appointed to commence work on the recovery of the economy with progress to be reported every Friday. The signs are promising. However the financial base from which this team will try to operate is not good. The imbalance in the Government's fiscal operations has widened considerably. Revenues are projected to fall further given LAMCO's decision to cut back on its operations in Liberia and future revenue resources are being mortgaged to pay current expenditures. Because of debt arrears, IMF and World Bank programs are limited to the current discussions underway for an IMF shadow program which will not include any resource transfers. Also, ESF flows have declined by over 60 percent since FY 1984/85. Even more important is the fact that the ESF support for Liberia has gone through a major structural change. In order to encourage economic reform and maximize the domestic impact, ESF resources have been projectized into the Economic Stabilization and Support Project (OPEX) and the proposed CIP program. This is expected to have a positive impact in the longer term on the GOL's public finances but the immediate impact is to reduce revenues into Government's accounts.

Cabinet Ministers will find that their struggle for adjustment will be an up-hill battle. The measures announced thus far are viewed with much skepticism by the public because get-tough programs have been announced before with limited or no success and no lasting impact. On the positive side, the pending arrival of the OPEX personnel will assist key Cabinet Ministers to reestablish control of the budget and set the stage for a resumption of public and investor confidence.

D. Recent Monetary Developments: Monetary and credit developments since 1980 have been strongly influenced by the Government's expansionary fiscal policies and the depressed overall economic situation in the country. Over a very short period of time, the Government's borrowing crowded out the private sector, and monetary growth tended to reflect primarily the increasing issuance of Liberian coins. The large fiscal deficits since 1980/81 depleted the National Bank of Liberia's (NBL) foreign reserves which, in turn, limited the NBL's ability to provide cash to commercial banks or to effect foreign transfers on their behalf. As the Government ran out of resources to meet its expenditures, its checks drawn on NBL and presented to the commercial banks could not be cleared. This resulted in commercial banks building up their deposits with the NBL but which were effectively blocked with the NBL. The increasing unavailability of cash in the official system, coupled with a decline in private capital inflows resulted in a liquidity shortage which in 1984 was beginning to have a negative impact on the functioning of the banking system. In order to conserve available cash balances, the commercial banks became increasingly reluctant to cash or accept checks for deposits drawn on the NBL or on other commercial banks. This development not only added to a compartmentalization of the financial system, it also discouraged private businesses and individuals from channeling any available cash balances through the commercial banks, thus contributing to a break-down of the financial system in Liberia. It is important to point out that the infusion of large amounts of coins into the system and the lack of liquidity in the banking sector moved Liberia off the dollar standard *de facto* since Liberian coins are converted only at a discount on the parallel market.

In an attempt to ease this liquidity problem, an agreement was reached between the Government and the commercial banks in May 1984 in which the MOF pre-sorted taxpayer checks by bank and deposited the checks in the originating bank. This reduced the interbank clearing problem but not the incidence of uncashable taxpayer checks due to insufficient balances. The problem of uncollected taxes continued because the MOF never followed up with taxpayers when banks refused to honor those checks where insufficient balances were in the taxpayers accounts. The MOF recorded the check as a tax receipt but there were no funds added to the MOF accounts.

The commercial banks agreed to make available up to $5 million in cash on a monthly basis to meet the Government's payroll, provided the Government held balances to cover the checks. This arrangement was renewed in May 1985 and expanded to include a provision which required the commercial banks to surrender up to 15 percent of their foreign exchange earnings in exchange for government deposits with the commercial banks over and above the $5 million. While the Government met its payroll through the local cash provision mechanism, the foreign exchange surrender aspect of the agreement was not implemented as the Government was unable to generate the required balances with the commercial banks. By mid-1985, the commercial banks were again having problems with the Government in that the amount of in-coming checks exceeded the Government's balances and once again the commercial banks were expected to cover these checks. During the second half of 1985, the NBL issued nearly $20 million in Liberian $5 coins in support of the expansion of its credit to the Government, most of which was used to finance payroll payments. Since many of these coins were hoarded by individuals and businesses soon after issuance; the banking system continued to face a liquidity shortage. The NBL issued $10 million worth of coins in May 1986--this time against the excess reserves of the commercial banks--to liquidate Government balances held with the commercial banks.

By the end of 1986, the financial system in Monrovia had reached a critical juncture. As a means of conserving cash balances, and in response to a continued weakening in the financial system, a number of banks completely stopped accepting checks for deposit drawn on other local banks. The state of the financial system discouraged both the commercial banks from lending and the private business entities and individuals from channeling available cash through the commercial banks.

In a major improvement instituted in January 1987, taxpayers paid taxes directly to the bank in which they held an account. The banks verified that sufficient funds were in the taxpayers account before issuing "flag receipts" showing that taxes had been paid. Recorded tax revenue and funds actually available now coincided.

In March of 1987, the commercial banks, in an effort to restore confidence in the banking system in Liberia, reached an agreement with the Government and the NBL which will (1) liquidate the excess reserves of the commercial banks held at the NBL; (2) inhibit the build-up of excess reserves in the future; (3) reduce the indebtedness of the Government to the NBL in accordance with a strict schedule for repayments; and (4) revive the interbank clearing house arrangements to facilitate greater use of checks by deposit holders, and to stimulate the flow of currency into the system. The check clearing process is operating and the repayments to the NBL are being made on schedule.

U.S. currency and coins are legal tender in Liberia and circulate along with the Liberian currency. Officially, the Liberian dollar is at par with the U.S. dollar. There is no reliable estimate of the amount of U.S. currency in Liberia since substantial amounts are used to finance border trade and to make capital transfers abroad. The Government has not made any real movement towards the issuance of a national currency. The Economic and Financial Management Committee reviewed the IMF currency study and made a recommendations to President Doe. To date, there has been no official response from the President.

Prices have been relatively stable as measured by the Monrovia Consumer Price Index (CPI). From December 1982 through December 1985, the CPI showed almost no change, increasing from 378.6 to 380.1. From December 1985 through December 1986, prices increased by 9.1 percent and for the first 5 months of 1987 increased by only 1.1 percent.

Data on the money supply, excluding U.S. currency, show that the money supply, consisting of coins and demand deposits, almost doubled between December 1982 and December 1985. From December 1985 through December 1986, the money supply increased by 24 percent and for the first five months of 1987 increased by only 3.1 percent.

The lack of an inflationary impact of the large increase in the domestic money supply can be attributed in part to the simultaneous decrease in U.S. currency that used to circulate as a medium of exchange and to bank deposits losing their "money" characteristics because of the reluctance of banks to clear each others checks. As interbank check clearing returns to normal, there is the potential that further increases in the money supply could have a sharp inflationary impact.

III. AID POLICY ISSUES

A. U.S. Interests And Objectives: U.S. interests in Liberia are based on a long standing historical relationship dating back to Liberia's founding, with strong cultural, psychological and, often, family ties existing between the two countries in what is termed the "special relationship." One facet of this relationship is the establishment of a Voice of America relay station, a relay facility for diplomatic cable traffic, and access to the Port of Monrovia and Roberts International Airport. Another reflection of this relationship is the AID program, which dates back to 1951, and represents one of the world's highest per capita bilateral assistance efforts.

A principal short to medium term objective of the AID program is to help the Government of Liberia to forestall economic collapse. The AID program attempts to encourage policy reform, cushion the effects of inadequate fiscal and monetary policies and maintain vital social and productive infrastructure.

B. Relation to CDSS: The recently submitted CDSS reviewed the ESF program to explore how the economic and policy impact of the program could be maximized in the face of declining assistance levels. The review concluded that the debt servicing approach pursued by the Mission from 1983 to 1986 was no longer appropriate for addressing Liberia's growing economic problems. Rather, ESF resources should be refocused on the domestic economy. This conclusion was based on the rapidly escalating (and unserviceable) level of external debt, the unattractive cost/benefit ratio of the debt servicing approach, and the threatened disengagement of the World Bank from Liberia because of non-performance and debt servicing arrears. The Mission was also confronted with the fundamental question of how the domestic impact of reduced ESF assistance could be maximized without compromising accountability under the program. The CIP proposal addresses both of these concerns by providing priority imports to stimulate economic activity via mechanisms which address U.S. Government accountability requirements.

C. Economic Reform and OPEX: In the face of continuing economic and financial decline it became evident by early 1987 that drastic reform measures would be required to avert economic collapse and political instability. The response was the OPEX project which stems from the January 1987 visit by Secretary of State George Shultz who appointed the AID Administrator McPherson to lead a follow-on Economic Mission to help the GOL address its economic and fiscal crisis. The U.S. Economic Mission met with President Doe and members of his Government in February 1987, to propose a new bilateral financial management partnership based on GOL commitment to reform and a direct role for U.S.-financed operational experts in helping Senior GOL Officials manage the public finances. After three days of intensive negotiations, the GOL agreed to a five point policy reform agenda and to the assignment of 17 U.S. experts with operational responsibilities at key financial management control points in the Liberian Government. The purpose of the partnership is to help the President of Liberia and his senior ministers gain control of revenues and expenditures. This will be achieved by assigning the operational experts at the Deputy Minister level and giving them endorsement authority. The experts will support the implementation of a Five Point Policy Agenda consisting of the following specific reform measures:

1. Prohibit the practice of borrowing against traditional sources of offshore revenue (maritime, royalties, and corporate taxes,) and do not utilize such offshore revenues to pay onshore expenditures. Halt extra-budgetary expenditures. All salaries will be in the budget and every effort will be made to comply with this budget. It is understood by both Governments that employees' salaries must be current in December. Priority will be given in the coming months to reducing salary arrearages.

2. Develop and publish a realistic budget for GOL budget year 1987-88. The budget will reflect expected revenues and encompass all expenditures and show no unfinanced gap. The budget will be based on a revised fiscal plan in the Economic Recovery Program. In executing the budget, the GOL will permit no net budget overruns, nor permit extrabudgetary expenditures to occur.

3. As part of the 1987-88 budget process, develop a budget of all offshore revenues, which will include a priority list for external debt payments. Brooke-sensitive debt payments should be made in full and on time.

4. Contract with internationally recognized firms for preparation of current financial statements of LPRC and LPMC. Liberian-owned and-controlled firms will be able to participate in these studies as sub-contractors. Conduct annual financial reviews thereafter. Develop a plan of action to better manage and restructure LPRC and LPMC. Collect and deposit into Government revenues excise taxes levied on imported petroleum products.

5. The GOL will carefully review the recent IMF currency study and work with the IMF on overall economic reform. No release of new Liberian coins will be undertaken without prior consultation with the IMF and the U.S.

The OPEX Project offers the hope that some progress can be made in controlling GOL finances and in arresting the current economic decline. Progress in implementing the Five Point Policy Agenda will be helped by the participation of the OPEX team.

IV. PROGRAM DESCRIPTION

A. Summary of Proposed Program: The Liberia CIP will permit financing of commodities for both the public (parastatals) and private sectors. It is the desire of USAID that this be a fast moving program and, to the extent possible, special emphasis be placed on financing of imports that will promote the goal of sustaining Liberia's import requirements in the productive sector of the economy. Liberia is not typical of most countries in which AID operates CIP's because there are no official measures rationing foreign exchange for importation.

The lack of formal rationing of foreign exchange does not mean there is no shortage. Capital flight, the decline in exports and lack of new investments have greatly reduced the supply of foreign exchange in Liberia. The issuance of $69 million in Liberian coins since 1982 has combined with the shortage of U.S. dollars to weaken the parity between the currencies. Foreign exchange has become extremely tight, and it is increasingly difficult and expensive for importers to obtain access to foreign exchange.

Private sector procurements shall be conducted through regular commercial channels, following as close as possible normal international trade and banking practices. Importers are free to determine the specific goods to be imported, within the general AID policies of commodity eligibility. USAID will not participate directly in the selection of importers, suppliers, or negotiation of sales contracts. Liberian importers, distributors, manufacturers and merchants may select and purchase those U.S. products which best meet their needs and are competitively priced from U.S. suppliers of their choice, subject only to AID regulations designed to protect all parties involved in the transaction. The only waiver foreseen is for petroleum since the U.S. does not export this product. The public sector CIP will be administered on a government-to-government basis, with procurement normally conducted on a formal competitive basis. Procurement regulations are designed to promote competition and establish formal contract terms acceptable to both AID and the U.S. business Community.

In order to encourage and stimulate the private sector and reach as many potential Liberian importers as possible, while still achieving the objective of rapid disbursement, a maximum single transaction value of $250,000 has been established for the CIP private sector element, except for petroleum and wheat. No maximum has been placed on the public sector element, since each individual procurement in the public sector will be reviewed and approved by USAID in advance, and the objective of providing assistance to the deteriorating public sector infrastructure does not require establishing a maximum transaction value. A minimum transaction value of $10,000 has been established to give a greater number of small to medium size importers an opportunity to participate, and still not overburden the banks and USAID with undue administration and monitoring tasks. Essential spare parts will be an exception to the minimum transaction requirement.

As currently envisioned, the CIP will utilize only one private U.S. commercial bank to serve as Approved Applicant Bank(s) in Liberia to start with. After the Mission and the GOL assess initial operations, the performance of the bank and the needs of the Program, other banks may be allowed to participate. The banking role is critical to the success of the CIP, as it will be the primary implementing mechanism. The bank(s) will interface with importers and its U.S. bank counterpart will deal directly with U.S. suppliers. USAID and the GOL will have primarily supporting and monitoring roles. The major players, private importers, commercial banks, and U.S. suppliers, are all profit motivated and will play an aggressive role in helping achieve the purposes and goals of the CIP. The CIP will help maintain the U.S. market share of Liberian imports and possibly expand U.S. exports to Liberia. The CIP will facilitate contacts between Liberian and U.S. businessmen and financial institutions, and these linkages can be of long term benefit to both countries. Nothwithstanding the country's current dim economic prospects, Liberia still offers one of the more attractive markets for U.S. exports in Africa.

Economic conditions, the nature of Liberia's import needs and the way business is conducted in the local market place have influenced USAID's approach to the CIP. The design and implementation mode for the CIP has been developed within the context of the existing Liberian economic and commercial environment, GOL limitations, USAID program goals and administrative constraints. More detailed program descriptions of the administration and organization of the CIP are contained in Section V and Annexes I and J.

B. Rationale and the Major Problems to Which the Program is Directed: In the previous sections, the Mission identified three problem areas that are interrelated and which need to be eliminated in order for the economy to return to a growth path. The paramount problem, which is the major cause for the others, is the lack of fiscal discipline. This is evidenced by large and consistent fiscal deficits and is compounded by a lack of controls over the growth of spending. As a result of the enormous borrowing and the inability of the GOL to finance all its spending, the financial system for a time ceased to function and is only now beginning to show some signs of resuming its role of financial intermediation. The third and final major problem is capital flight which is the result of the lack of confidence in political and economic stability.

Before any program can succeed, fiscal discipline must return and that is the Mission's primary focus in its economic and policy reform agenda with the GOL. As a result of Administrator McPherson's visit, the Mission developed the Economic Stabilization Support Project (referred to as the OPEX project) and the GOL agreed to a Five Point Policy Agenda (FPPA). The OPEX project is the foundation for the implementation of fiscal reform measures and the Mission will not go forward with the CIP until the initial OPEX personnel have arrived and are functioning in their respective positions. The FPPA represents specific actions that the GOL will take in order to address the problems of budget deficits and a malfunctioning financial system.

It should be noted that the GOL has begun to implement reforms and is making progress in meeting several of the points in the FPPA. For example, the GOL recently implemented a major reform in allocating gasoline to the different Ministries. As a result, gasoline consumption by the GOL is expected to be reduced from $14.5 million to $6 million a year. In addition, government employees who used to receive free gasoline will now be forced to buy it and the government's tax collections from gasoline sales will increase.

A campaign was initiated to identify and remove from office government officials found guilty of fraudulently diverting public funds. For example, all customs officers at the airport were dismissed and those at the Freeport were suspended pending an investigation. Many trials of employees found defrauding the government are taking place. In addition the GOL eliminated some tax surcharges in an effort to remove incentives for tax evasion. Finally fourteen Cabinet committees were formed to investigate and make recommendations regarding such issues as taxes, tariffs, tolls, foreign exchange and marketing.

Progress was also made in addressing some of the specific points in the FPPA. Government salary arrears were reduced from 3-4 months to one month; all Brooke payments were made; and the EFMC reviewed the IMF currency study and made a recommendation to President Doe. Also, progress is being made in the privatization of LPRC through a competitive process. The major area where progress has been lacking has been in preparation of a budget.

Where does the CIP fit in? The CIP is linked directly to fiscal policy reform through conditions precedent and through the local currency component which will help finance the reduction in the GOL's labor force. The CIP is linked to the FPPA through Conditions Precedent to the Disbursement of Dollar Grant Funds for the Public Sector. Two points from the FPPA for which adequate progress has not yet been made by the GOL have been included as CP's. They are:

(1) The GOL was to develop and publish a realistic budget for the 1987/1988 fiscal year (July 1, 1987 to June 30, 1988). However, the GOL made a decision to change their fiscal year to a calendar year and to operate for the last six months in 1987 on a Revised Interim Budget. In order to carry out the terms of the FPPA, the GOL must publish the budget covering the period from July 1, 1987 to December 31, 1987.

(2) The GOL also agreed to develop a budget for all offshore revenues. To comply with this undertaking, the GOL must develop and provide to AID a budget for offshore revenues covering the period from July 1, 1987 to December 31, 1987.

Finally, the CIP will make a contribution to alleviating the shortage of foreign exchange. Several bankers expressed the view that the addition of $16 million of foreign exchange into the banking system over two calendar years will have a significant positive influence on businessmen's attitudes and expectations regarding economic conditions in Liberia.

In terms of allocating CIP funds, approximately 65 percent will be allocated to the private sector and 30 percent to the public sector. The remaining 5 percent is needed for administering the program. In terms of the private sector allocation, it would be ideal to target certain sectors. Unfortunately this will not work for Liberia as it would for most other developing countries. The usually selected targets are the agriculture or the agro-industry sectors where one can expect to find the most likely firms that have a comparative advantage in production. In Liberia's case there is an established agriculturally related export sector (concessions, like Firestone and the timber companies) and, unlike the case in most developing countries, exporters are allowed to retain 75 percent of their export earnings. There is no need to provide foreign exchange to these producers in order to keep them viable. The Mission is in effect excluding itself from helping firms which have demonstrated the most efficiency in production.

We do intend to support firms which are just starting to develop an export capability. In addition, we intend to earmark $500,000 for small scale producers who have foreign exchange requirements in the range of $10,000 to $50,000. These small scale producers will range from hog and poultry producers to carpentry and machine shops.

In terms of allocating funds to the public sector, which will consist primarily of public utilities, there is the legitimate question of why we need to do so since the public sector supposedly has the exclusive right to 25 percent of export earnings due to the surrender requirement. Unfortunately the new amounts surrendered are much less than 25 percent since concessions are allowed to count the foreign exchange they are already remitting to the GOL for employee income taxes, health and national development taxes, royalties, and government services in meeting the 25 percent requirement. Some exporters are allowed to use their export earnings for meeting their debt payments or for essential imports. What is surrendered (averaging $600,000 per month) is prioritized for use in supporting embassies abroad, repayment of debt and essential imports. Consequently, the public utilities are unable to purchase foreign exchange from the NBL and must instead turn to local vendors who, in the view of the public utility managers, charge excessively in local currency for whatever parts and equipment are available.

The status of the local currency component (the Civil Service Reform Program) is not as advanced. The GOL Civil Service Agency (CSA) is studying various approaches to reducing the payroll and has indicated they will be seeking assistance in defining a severance plan from the Royal Institute for Public Administration (U.K.) which has an ongoing project with CSA to undertake a job inspection scheme. (See Section VI for a discussion of this activity). When the severance plan is completed and approved by the EFMC it will be incorporated into a Memorandum of Understanding, which will serve as the pivotal CP for the disbursement of funds from the Special Account. This procedure will permit the Mission to move ahead with the dollar component of the Program, while the details of the use of counterpart are worked out.

C. <u>Objectives</u>: The objectives of the CIP are as follows:

1) To encourage economic policy reform in Liberia;

2) To provide the funding needed to support a civil service retrenchment program;

3) To provide support for the private sector; and

4) To reduce foreign exchange shortages and to, the extent possible, contribute to restoration of confidence in the economy.

D. <u>Conditionality</u>: Six levels of conditionality are proposed:

- Representations and warranties, i.e. those GOL actions which most be undertaken before the Grant Agreement is signed;

- Conditions attached to the first disbursement of grant funds ($5,000,000);

- Conditions attached to disbursing grant funds for other than technical assistance;

- Conditions attached to disbursing grant funds for the procurement of petroleum products;

- Conditions attached to the disbursement of local currency from the "Special Account";

- Conditions attached to subsequent disbursements of grant funds ($11,185,000).

Each level of conditionality is discussed below.

1) <u>Representations and Warranties</u>:

Because the proposed CIP is linked to the implementation of the Economic Stabilization Support Project (669-0213), the Grant Agreement for that project must be signed before USAID will sign the CIP Grant Agreement.

2). <u>Conditions Precedent to First Disbursement of Grant Funds</u>:

Prior to the first disbursement of U.S. dollars under the Grant, or to the issuance of AID documentation to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID:

(a) The name of the person holding or acting in the office of the Grantee and of any additional representatives, together with a speciment signature of each person certified as to its authenticity; and a statement representing and warranting that the named person or persons have authority to act as the representatives of the Grantee pursuant to Section 8.2.;

(b) An opinion of counsel that the Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee.

3) <u>Conditions Precedent to Disbursement of Grant Funds for other than Technical Assistance</u>:

Prior to the disbursement of funds by AID for the purpose of financing commodities or services other than technical assistance under this CIP, the Grantee shall furnish in form and substance satisfactory to AID:

(a) Evidence that the "Special Account" has been set up in Citibank;

(b) An "Operating Circular" describing the specific rules and procedures of the Commodity Import Program, signed by the Grantee's authorized representative, USAID, and the Approved Applicant Bank(s).

(c) Evidence that the first group of OPEX personnel have arrived. and are functioning in their respective positions.

(d) A published copy of the interim National Budget covering the period from July 1, 1987 to December 31, 1987; and

(e) A copy of an approved budget for offshore revenues covering the period from July 1, 1987 to December 31, 1987.

4) <u>Condition Precedent to Disbursement of Grant Funds for Petroleum Products</u>:

Prior to the disbursement of funds by AID for the purpose of financing petroleum product imports under this CIP, the Grantee shall furnish in form and substance satisfactory to A.I.D. evidence that a private firm(s) subject to approval by A.I.D. will be permitted to import the petroleum products financed under the CIP.

5). <u>Conditions Precedent to Disbursement of Local Currency</u>:

(a) No funds will be released from the "Special Account" until criteria and procedures for disbursement have been mutually agreed by AID and the Government of Liberia. Such criteria and procedure will be incorporated into a signed "Memorandum of Understanding" between the parties and will detail a Civil Service Reform Plan;

(b) In the event an acceptable civil service reform program cannot be agreed upon within one year from the date that the Conditions Precedent to First Disbursement of Dollars are met, funds in the "Special Account" will be disbursed for purposes which will benefit the private sector as determined by the parties and to establish a Trust Fund to finance local costs of the AID Mission in Liberia.

6). Conditions Precedent to Subsequent Disbursement of Grant Funds:

Prior to subsequent disbursement of U.S. dollars under the Grant, or to the issuance of AID documentation to which disbursement will be made, the Grantee will, except as the parties may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID:

(a) Evidence that an acceptable Civil Service Reform Plan is being implemented;

(b) A copy of an approved National Budget covering the period from January 1, 1988 to December 31, 1988.

(c) A copy of an approved budget for offshore revenues covering the period from January 1, 1988 to December 31, 1988.

(d) Evidence from the reporting system of the Economic Stabilization Support Project that Grantee is satisfactorily complying with the established procedures for controlling expenditures and revenue collection, and with the Five Point Policy Agenda agreed to during the February, 1987 visit of the A.I.D. Administrator.

E. General Covenants:

(a) Periodic Consultation: Periodically but no less than two months after the Project Agreement is signed and thereafter a minimum of three times annually, the Grantee and AID will formally meet to discuss the status of the economy, associated economic issues, implementation of the CIP, utilization of the local currency "Special Account", and the relationship of the CIP to these concerns;

(b) The Grant Agreement will contain a provision that at least eighteen (18) percent of the CIP Grant Proceeds will be used for the procurement of agricultural commodities from the United States.

V. PROGRAM IMPLEMENTATION AND ADMINISTRATION - DOLLAR COMPONENT

A. Introduction/Analysis of Imports: The economic decline which has gripped the Liberian economy in recent years has resulted in a foreign exchange shortage and lower import levels. While statistics reflect some increase in imports over the first five months in 1987, no significant upturn in the economy appears to be on the horizon. While the United States continues to supply roughly 25 percent of Liberia's imports, the dollar level has declined every year since 1981 and in 1986 was approximately forty percent below the level five years earlier. Prospects for renewed growth in U.S. exports in the near future are poor, but in spite of the serious problems confronting the Liberian economy, it is still the eighth largest importer of U.S commodities in Sub-Saharan Africa, and the private sector provides a degree of economic resilience, and remains relatively strong by African standards.

As foreign exchange has become extremely tight, it is increasingly difficult and expensive for the private sector to obtain access to hard currency for imports. A number of small to medium sized commercial firms have gone out of business. Even large companies have cut back operations as the foreign exchange required for essential spare parts, equipment and raw materials has become more difficult and costly to obtain. The GOL is unable to supply foreign exchange for the import of petroleum and LPRC is forced to acquire it at high cost in the parallel market. We will encourage the effective privatization of LPRC by making CIP funds available to a private firm to import petroleum (hopefully a privatized LPRC).

In the public sector, Liberia suffers from inadequate and deteriorating infrastructure. Telephone communications are not reliable, and many local business firms must resort to using messengers and/or rely on intra-company radio networks to carry on their day-to-day business. Similar problems are encountered in the reliable provision of water and electricity. Even in the Monrovia area, a continual supply of electricity and water cannot be assured. Since the above utilities are parastatals, revenue generating, and on balance do not receive direct governmental budgetary support, yet do provide services essential to efficient economic activity, they appear to be the best potential public sector candidates for receiving allocation of public sector CIP funding. Public sector revenue generating importers will be required to deposit the local currency equivalent of the Letter of Credit dollar amount at the official exchange rate. GOL procurement practices, traditionally followed for procurements utilizing their own foreign exchange, have generally involved arranging offshore purchases through local agents and distributors. This system does not comply with AID procedures which promote competition and establish formal contract terms acceptable to both AID and the U.S. business community. The formal competitive bid procedures required under the CIP, will eliminate local vendor markup. In addition, the utilization of detailed specifications and direct procurement from U.S. manufactures and suppliers will assure that the commodities are suited for the intended end-use.

Due to the relatively limited amount of CIP funding proposed for the public sector ($1.5 million in the first disbursement), it is currently envisioned that one public sector activity will be selected to receive the bulk of the initial funding. Since the public sector importer will be required to deposit the local currency equivalent of the U.S. dollars received, the recipient must be engaged in a revenue generating activity. By concentrating on one public sector organization at a time, the administrative burden on USAID of introducing and implementing a new program and the requirement to educate and brief public sector organizations receiving their first CIP allocation will be reduced. This will help facilitate a more smooth and effective operation of the public sector element of the CIP.

As the table below indicates, the bulk of Liberia's trade is with the OECD, although China and Korea are increasing their trade. The U.S. consistently supplies roughly 25 percent of Liberia's imports and receives approximately 20 percent of its exports.

TABLE XII
LIBERIAN IMPORTS (CIF)
($ million)

	1981	1982	1983	1984	1985	1986
Total Imports CIF	477.4	428.4	411.6	363.2	284.4	287.3
Imports from U.S.	142.1	119.2	102.5	95.9	72.3	65.0
Other Major Suppliers:						
- West Germany	48.6	42.8	50.4	39.8	28.0	N/A
- Netherlands	40.4	31.1	40.7	34.9	18.6	N/A
- U.K.	25.2	18.0	21.4	23.5	21.1	N/A
- Japan	22.6	26.4	33.4	29.7	23.8	N/A

Source: "Commercial Activities Report For Liberia"; Commercial Office, American Embassy, Monrovia, Liberia.

Although the level of Liberian imports has dropped, Liberia is still a major market for U.S. commodities. A wide variety of items are imported from U.S. suppliers, both large and small. There is a continuing demand for U.S. exports, including raw materials and heavy equipment and spare parts. While the shortage of U.S. dollars has made operations increasingly difficult for Liberian importers and local banks, the potential demand for an increased share of imports from the U.S. exist.

The following table highlights the major U.S. exports to Liberia. However, these major items represent only about half of total imports from the U.S. The remainder is made up of items whose total value is under $250,000. Unfortunately, adequate data on the breakdown of imports for the public vs. the private sector does not exist.

TABLE XIII
MAJOR US EXPORTS TO LIBERIA

		In Thousands U.S.$			
Schedule B	Item	1982	1983	1984	1985
13065	Wheat	1,100	1,357	2,907	2,005
13130	Rice, Not Parboiled	27,399	26,623	25,189	20,239
14175	Vegetables	741	1,202	1,280	817
17065	Cigarettes	1,896	1,745	1,946	1,588
18297	Edible Preparations	508	514	564	1,508
35900	Textile Fabrics	4,731	2,129	1,811	1,217
43310	Chemical Mixtures &Preps	1,001	542	766	269
66122	Air Conditioners	705	1,065	634	503
66405	Mechanical Shovels	9,159	4,205	2,242	1,834
66410	Elevators, Hoists,etc	246	283	3,539	5,534
67820	Sorting Machinery	369	587	364	508
68260	Generators	194	605	855	392
68590	Electrical Switches	705	692	1,180	450
(A)	Autos, Trucks, Buses Tractors and Parts	14,797	7,379	6,101	10,545
81840	Used Garments	1,540	1,680	1,614	1,349

(A) 66041, 66054, 69204, 69205, 69208, 69209
69210, 69214, 69216, 69220, 69222, 69224
69229, 69231, 69232

Source:

Liberia's imports of petroleum have continually declined since 1980 but still represent a significant burden on the economy. Several of the major concessions are allowed to import their own requirements since LPRC does not have the foreign exchange to import for them. However, LPRC must still supply from 70 to 80 percent of the country's petroleum needs. Petroleum imports since 1980 are shown in Table XIV. Imports of petroleum to be financed under the CIP, intended to be up to 25 percent of the total dollar value of the CIP, will probably be purchased in either Abidjan, Lagos, or Dakar depending on the lowest cost supplier.

TABLE XIV
LIBERIAN IMPORTS OF PETROLEUM
($ million)

Item	1980	1981	1982	1983	1984	1985	1986
Petroleum	151.1	129.6	115.1	71.5	71.7	54.6	53.0

Source: NBL

U.S. dollars are the official currency of Liberia and in the past circulated freely in the country, at par with the Liberian coins. Importers can readily obtain import licenses from the Ministry of Commerce, Industry and Transportation (MCIT) at a cost of 1.5% of the CIF value of the commodities. (This fee is waived on importations by the concessions, Public Corporations, GOL Ministries, GOL Contractors, Diplomatic Missions and Religious and Educational Institutions).

It is desirable that, to the extent possible, special emphasis be placed on financing of imports that will promote the productive sector of the economy. USAID undertook a survey of the potential CIP users in the industrial sector in order to determine if there would be sufficient demand for raw materials, semi-finished products, machinery, equipment, manufactured parts, spare parts, assemblies and other essential commodities and commodity related services, by Liberian private and public end-users, manufacturers, assemblers, fabricators, processors, and other importers whose local processing produced value added to the import.

The stated objective of the survey was "to determine the level of effective demand by the private sector, (with emphasis on the industrial/productive sector) and from selected public sector corporations, for essential commodities from the U.S. In addition, to determine if the commodities so identified are included in AID's list of eligible commodities or, if a case could be made for their inclusion."

The survey was two-dimensional. At first, statistical information relative to the value of total imports to Liberia and also the aggregate value of imports from the USA, for the past three years was obtained from the Ministry of Planning and Economic Affairs (MPEA). The import figures for the U.S. for the period under review were further classified under seven SITC commodity classification headings (see Annex H). The second dimension of the survey was to conduct interviews with a number of the private and public sector firms, identified as potential CIP users in the statistical analysis, with respect to their annual need of essential imports for their operations, as well as their ability to generate local currency.

In the Manufacturing Sector seven firms were selected and interviewed. The companies were selected because they are processing firms and their value added ratios are relatively high compared to the norm of industry in Liberia (14%). See Annex H. Of the seven firms interviewed, only five indicated an interest in participating in the CIP, with a minimum effective demand of $3,193,274 per annum. One of the five firms already has an established import relationship with U.S. suppliers and alone could utilize 62% of the amount referred to above. Since this firm, National Milling Company, imports agricultural commodities from the U.S., the Liberian CIP should experience no problems in meeting the requirement that all proposed CIP's, authorized before the end of this FY, meet the requirement of the Zorinsky Amendment, i.e. that 18% of the CIP commodities financed be from the U.S. agricultural sector. Imports for the poultry sector could also help A.I.D achieve the required level of agricultural imports.

The three public sector corporations selected in the survey are all utility corporations. They are all revenue earning public corporations and receive no budgetary support from the Liberian government. These utilities have received major inputs of AID project assistance over the past twenty five years and much of their infrastructure and equipment was supplied by U.S. contractors and manufacturers. Such major facilities as the Mt. Coffee hydroelectric dam and White Plains waterworks were financed by AID. The program design team visited each of these utility corporations, conducted interviews, and inspected their facilities.

There is absolutely no question that the utility companies' infrastructure, including that previously provided by the U.S. Government, has deteriorated. Because most of their equipment is of U.S. source and origin, until recently, most of their replacement equipment and spares were imported from the U.S. Due to the costs and infrequency of direct shipping from the U.S., the reluctance of U.S. manufacturers to extend suppliers' credits, and the non-availability of concessional financing of imports from the U.S., the utilities have been forced to purchase their requirements for essential commodities from countries whose prices are more attractive. This has caused major difficulties. A prime example was viewed by the project design team. The major source of electricity for Monrovia and the surrounding area is the Mt. Coffee dam, financed by AID and constructed by U.S. contractors in the 1960's. This is the major producer of hydro electricity in the country. Although the facility was constructed with the capability to expand to four hydro-generating units, only two were originally installed.

Due to increasing demand for electricity, the Liberian Electricity Corporation (LEC) was forced to install the last two units. Due to the reasons outlined above, LEC had to purchase the last two units from Brazil. This has proved to be less than satisfactory, because of incompatibility with the G.E. and Allis Chalmers equipment in place, lower performance standards, and lack of familiarity with the Brazilian equipment by operational personnel.

In summary, although Liberian imports are primarily composed of consumer goods, there is a sufficient demand for petroleum and critical imports from the U.S. in the industrial/production sector to fully utilize CIP grant proceeds. The survey indicates that a 65/30 Private Sector-Public Sector allocation of CIP funds is reasonable.

Of the total annual foreign exchange requirements of the seven private sector firms contacted, approximately 30%, or a little over $3 million of their requirements are strong potential imports under the CIP. Most of the raw materials and equipment requirements of these firms have, over the past few years, come from Europe. Recently, there has been an increasing switch to the Far East (China, Korea, Japan) However, the value of the proportion of imports from the U.S. has held steady, with an average of 27 percent over the past three years. It is felt that the above trade practices are not peculiar to the seven firms interviewed in the survey, but reflect trade patterns in the entire Liberian industrial/production sector.

Most of the industry in Liberia is an import substitution process. Light consumer goods are produced with capital intensive techniques. Most of the raw materials, semi-finished goods, manufactured parts, assemblies, and other inputs to the industrial sector are imported. Because of established trade relations and generous supplier credit from European and Far East suppliers, it is doubtful that they would consider altering traditional buying patterns, even with the attractive concessional foreign exchange rates available under the CIP. This is especially the case, since they have no assurance that the CIP will be continued beyond one year. It takes time and money to identify and establish beneficial and cordial importer-supplier relationships. Most of the firms interviewed would not risk interrupting long standing business relationships with their current suppliers for short-term benefit. This would not be the case if they had some assurance that the CIP facility would be a multi-year program.

The Public Corporations, while previously importing directly from foreign suppliers, have increasingly relied on local private sector vendors. This has primarily been the result of the unavailability of foreign exchange. Procurement of available commodities through local vendors has been primarily influenced by credit terms, rather than price. Thus, the revenue earning parastatals have been forced to pay an ever increasing price for essential commodities. There is no question that the public sector corporations will receive substantial benefit from the CIP. They are in dire need of replacements and spare parts for U.S. manufactured equipment, much of it originally financed by USAID.

However, it should be noted that all three of the major utilities (water and sewage, electricity, and telephone) have severe financial restraints. They have large and until now, outstanding and uncollectable receivables from the Government of Liberia. The forgoing not withstanding, two of the parastatals, namely; the Liberian Telecommunications Corporation (LTC) and the Liberian Electricity Corporation (LEC) have sufficient local currency to utilize the CIP. The Liberian Water and Sewage Corporation (LWSC) does not currently have local currency to meet local currency deposit requirements of the CIP.

B. Administrative Responsibilities:

1. Government Of Liberia (GOL): The major GOL entities responsible for administering and implementing the CIP grant will be the Ministry of Finance (MOF) and the Ministry of Commerce, Industry and Transportation (MCIT). Because of the need to program across ministries and agencies and involve other entities at key points of implementation, the Economic and Financial Management Committee (EFMC) will also be involved. The Minister of Finance as Chairman of the Economic and Financial Management Committee will sign and submit Financing Requests (FR's) to USAID/L for the designation of private commercial Approved Applicant Bank(s) in Liberia and Letter of Commitment Bank(s) in the U.S. The duties on CIP funded commodities will be assessed and collected according to standard commercial practice. The Chairman of the EFMC, in coordination with USAID, will be responsible for management and oversight of the Special Account for counterpart generations. MCIT, Division of Foreign Trade is responsible for approving Import Permit/Declaration Forms and issuing all import licenses. In addition, MCIT decides which imports are subject to compulsory pre-shipment inspection with regards to quality, quantity and price comparison by its inspection agent, Society Generale de Surveillance S.A. (SGS), of Geneva, Switzerland. MCIT is responsible for ascertaining that commodity imports into Liberia are of the proper quality and quantity, in accordance with invoices and contracts, and that prices for commodities and commodity related services correspond to export prices and normal costs for services prevailing in the country of source. Finally, a Program Coordination Unit (see Annex D) will be established to provide a mechanism for coordinating activities between the GOL and USAID.

A copy of the SGS Report of Findings (ROF) is forwarded to the Bureau of Customs and Excise. Based on the information contained therein, the Bureau of Customs and Excise establishes the import duty to be levied. In cases where the MCIT ROF reveals discrepancies (quality, quantity, price), Customs may refuse entry of the Commodities into Liberia.

2. U.S Agency For International Development (AID): The USAID Office of Economic Affairs supported by a contract Commodity Management Officer, in cooperation with support Offices in REDSO/WCA and AID/Washington, will have direct implementation responsibility for USAID: coordinating, managing and monitoring day-to-day operation of the CIP. Such implementation functions will include liaison with the Chairman of the EFMC or his/her designee (e.g., the Program Coordination Unit); working with, coordinating and monitoring CIP activities of the Approved Applicant Bank(s) and Public and Private Sector importers to facilitate and expedite procurement of commodities and related services. The Economic Affairs office will also be responsible for programming counterpart funds generated by the CIP. The USAID Office of the Controller will be responsible for monitoring the generation of counterpart funds into the Special Account (account balances, deposits, expenditures), and arrival accounting and end-use monitoring, to ascertain the effective arrival and utilization of CIP financed commodities. Annex L contains a description of the Commodity Management Officer's responsibilities and a budget for contracting his and other services.

The REDSO/WCA Regional Legal Advisor will provide legal advice and necessary support for CIP execution. The AID/W Office of Procurement (M/SER/PO) and the REDSO/WCA Regional Commodity Management Offices will provide backstopping in areas including public sector competitive procurement, commodity eligibility, transportation, specification review etc. The AID/W Office of Financial Management will provide support on financial and disbursement matters. The AID/W Bureau for Africa, Office of Project Development (AFR/PD) will monitor overall project implementation and provide backstop assistance, as needed.

C. Procurement And Financing Procedures - General:

Procurement and financing procedures will be those set forth in AID Regulation 1. Negotiated procurement procedures will be applied to the private sector (Reg. 1, Sect. 201.23). With respect to the public sector, formal competitive bid procedures will apply (Reg. 1, Sect. 201.22) unless proprietary procurement is indicated, or AID otherwise agrees in writing. The method of financing will be through Bank Letter of Commitment (Reg.1,Sect. 201.51). For single transactions over $1 million a Direct Letter of Commitment to a supplier may be utilized.

D. Eligible Commodities:

All items listed as eligible in the AID COMMODITY ELIGIBILITY LISTING as revised (Handbook 15, Appendix B), will be eligible for financing and will be included in the Commodity Procurement Instructions (CPI). However, commodities actually financed for the public sector will be determined largely by the allocations made by the Ministry of Finance and approved by USAID/Liberia. Responsibility for determining commodities actually financed under the CIP in the private sector will be the primary responsibility of the Approved Applicant Bank(s), utilizing eligibility criteria and guidelines provided by USAID. After the Bank(s) makes an initial determination that CIP commodity eligibility criteria is met by a proposed private import transaction, USAID will review the transaction to assure that it is not at variance with USAID development priorities, prior to the bank opening a Letter of Credit.

E. Commodity Source And Origin:

The authorized source and origin for commodities and commodity related services financed under the grant is AID Geographic Code 000 (The United States).

Two procurement waivers for petroleum products will be needed: 1) A source/origin waiver of Code 000 to permit Code 941 procurement, and 2) an ocean transportation waiver permitting shipment on vessels of Code 941 registry.

Petroleum Source/Origin: The three year CIP has allocated up to $4,046,250.00 (25% of the total CIP) for the purchase of refined petroleum products over the life of the program. Within the first tranche of $5.0 million, up to $1.25 million may be used to finance the procurement of petroleum products. Lack of sufficient storage capacity in Liberia limits quantities imported to approximately $1,000,000 to $1,250,000 per shipment. Such shipments typically come from Abidjan, Ivory Coast which is the main supply point for all of West Africa, including Liberia. The results of a recent investigation of amounts of refined petroleum products imported by Liberia from the United States show that they are at insignificant levels--approximately 7,000 barrels for 1986 and about 3,000 for the first half of 1987. Because these quantities were so small, the products were probably shipped in small tanks or drums, not in bulk.

The GOL, with REDSO/WCA assistance will negotiate, as approved by SER/OP in Washington, under the authority in Chapter 13A1b(2) of Handbook 1B, with the oil companies shipping out of Abidjan and other possible sources in West Africa, seeking the most advantageous price and delivery terms. The award(s), following the requirements of Section 201.23 of A.I.D. Regulation 1, will be based on good commercial practice after soliciting a reasonable number of prospective Code 941 suppliers. However, information currently on hand about normal sources of supply for Liberia indicates that offerings from Abidjan are more advantageous than other Code 941 sources.

Refined petroleum products are effectively not available from the U.S. In the first instance, the U.S. is a net importer of petroleum products. Secondly, given the small total dollar amount of refined products to be purchased over the life of the program and the upward limit of $1,250,000 per shipment because of limitations on storage capacity, there is apparently little if any interest on the part of U.S. suppliers in providing these small quantities according to information obtained by SER/OP. Moreover, procurement from the U.S. would make the delivered cost of any refined petroleum prohibitive, and would not serve the interests of the U.S. Government or the Government of Liberia.

The eligible source for ESF Grants under Chapter 5A(1)(a) of Handbook 1B is Code 000. As stated in Chapter 5B4a(2) of Handbook 1B, source/origin waivers may be granted when the commodity is not available from countries included in the authorized geographic code. For the reasons stated above, the refined petroleum products to be financed by this Program are effectively not available from the United States. A waiver permitting procurement of these commodities from Geographic Code 941 is therefore included.

Ocean Transportation: The procurement of petroleum will involve small shipments (less than 5,000 M/T) of refined petroleum products from West African countries, most likely the Ivory Coast. M/SER/OP/TRANS has determined that U.S. flag tankers are not available for such shipments. This Determination of Non-Availability (DNA) relieves the grantee from the cargo preference requirement for this portion of the CIP, and permits financing of freight for such shipments as authorized in HB1B, Chapter 7B1B(5). The transportation documentation (Charter Party/Bill of Lading) utilized for such shipments shall contain the following clause: "DNA No. 87-02 issued September 15, 1987", and copies of such documentation for each shipment will be submitted to M/SER/OP/TRANS.

F. Related Technical Services:

Up to five percent (5%) of CIP funds will be allocated for financing technical assistance and training activities directly related to commodity procurement and CIP implementation and administration. Such services may be required both prior to and subsequent to commodity procurement and are viewed as essential to the effective utilization of CIP funds. Long-term technical services relate to the hiring of a U.S. PSC to manage the project. Short-term technical services include contract assistance to assist in CIP implementation, assistance to GOL individual governmental units in identifying requirements, preparing technical specification in accordance with U.S. standards, preparing Invitations for Bid (IFB), conducting seminars and/or advising participating banking institutions and private/public sector importers, the chamber of commerce or USAID staff, preparing AID Importer List, CIP Information Brochure, and CIP newspaper advertisements, and evaluations. All of the technical services are procurement related and would be contracted for, managed, and procured by the Mission.

G. Special Account:

As a condition to the disbursement of AID funds, the GOL will establish a "Special Account" to receive counterpart funds in a bank mutually acceptable to USAID and the GOL. USAID and the bank will establish procedures for its operation, monitoring and reporting thereon to USAID.

Upon opening the Letter of Credit for the importer, the Approved Applicant Bank(s) will be required to deposit the full equivalent value of the counterpart funds in the "Special Account" immediately, or within five work days, from the date of L/C opening. The exchange rate applicable is the most favorable rate of exchange which, at the time the conversion is made, is not unlawful in Liberia. Local currency in the "Special Account" will be used for such purposes as described in a "Memorandum of Understanding" between AID and the GOL. "Special Account" operations shall be subject for discussions at the formal CIP periodic consultation meetings to be held at least three times annually between the GOL and USAID.

H. Tentative Implementation Schedule:

ACTION	DATE
Conditions Precedent to First Disbursement Met	November 1987
First Letter of Commitment Issued	November 1987
First Letter of Credit Opened	December 1987
Counterpart Deposits Begin	December 1987
First Commodity Shipment Made	January 1988
First Shipment Arrives Liberia	February 1988
Conditions Precedent to Local Currency Disbursement	March 1988
Conditions Precedent to Subsequent Disbursement	July 1988
Grant Fully Committed (L/COMS)	November 1989
Terminal Disbursement Date	September 1990
Final Counterpart Deposit	September 1990
Final Counterpart Disbursement	October 1990
Final Shipment	October 1990

I. Commodity Eligibility Date:

The eligibility date for commodities and commodity related services procured under the CIP Grant will be the date the conditions precedent to first disbursement are met.

J. Terminal Disbursement Date:

The Grant's Terminal Disbursement Date (TDD) will be 36 months from the date the Grant Agreement is signed. Recognizing a priority need to generate counterpart into the "Special Account" and provide urgently required foreign exchange to help sustain Liberia's import needs, efforts will be made by the GOL and USAID to channel CIP funding into short leadtime private and public sector procurements.

K. Arrival Accounting And End-Use Monitoring:

The USAID Office of the Controller will be responsible for monitoring the arrival and disposition of CIP commodities. The monitoring system will strive to assure prompt processing of commodities through the port of entry and removal from customs within 60 days, and consumption, use, sale or transfer of the goods by the importer within one year.

USAID is presently sponsoring the computerization of customs documentation at the Freeport of Monrovia. This effort, which is part of the "Increased Revenue for Development Project", will effectively establish reliable data for the following reports/actions:

1. Manifest Control Program: A cross reference check will be made between ship's manifests and customs entry documentation. All importers, whose goods have not been cleared within a 14-day and 30-day period, will be notified by letter of their tax obligations to government for importation. If the goods are not cleared within the legal 60-day limit, customs will seize the goods and sell them at public auction.

2. Bonded Warehouse Control Program: Over 50% of all goods entering the Freeport are placed into bonded warehouses. Through the Customs automated data processing (ADP) effort, inventories will be established for each of the 90+ warehouses in the Monrovia area. The ADP records will be used as a cross-reference check against business maintained records and for inventory checks.

3. Statistical Reports: A full range of data will be available and monthly reports are projected. Included in this category are consumption, bonded warehouse, duty-free, commodity and country of origin data. Additionally, statistics will be maintained regarding transshipment and special release documents.

In addition to monitoring the arrival and release of CIP commodities from the port, USAID will initiate a series of end-use examinations of CIP imports. They will include a wide sample of imports by both the private and public sectors.

L. 50 - 50 Shipping:

The U.S. flag vessel shipping requirement, as spelled out in Section 201.15 of AID Regulation 1, will apply for both the public and private sector elements of the CIP. Experience in other countries has shown that public sector importers in most cases have taken advantage of AID financing of transportation on U.S. flag vessels, rather than use scarce host country foreign exchange to pay for freight charges. Private sector importers generally prefer to purchase from U.S. suppliers on a CIF basis, requiring them to open only one Letter of Credit (L/C) for the import transaction, rather than one for the CIP financed FAS/FOB costs of the commodities and the other for freight charges on non - U.S. vessels opened with their own free foreign exchange.

Ninety-five percent of Liberia's trade passes through the Freeport of Monrovia. There are three U.S. flag carriers with liner service to West Africa. They generally call at Monrovia only on an "inducement" basis. Most general cargo from the U.S. is transhipped to Liberia through Europe on a through bill of lading. In addition to the three U.S. flag carriers above, Free Trade Container Service also transships through Europe. The CIP will finance shipping cost of transport on free world flag vessels, if the costs are part of the total costs on a through bill of lading paid to a U.S. flag carrier for the initial carriage to Europe (Section 201. 13, AID Reg 1).

It appears that there will be sufficient available U.S. flag service for Liberia to comply with the 50-50 shipping requirement. In addition to the U.S. flag carriers, two AID Code 935 (Free World) carriers provide service between U.S. ports and Liberia; Torm Lines (Danish) and Zin Lines (Israeli).

M. Publicity:

In order to inform the Liberian private commercial sector about the CIP, USAID will place advertisements in local newspapers. In addition, USAID will arrange seminars with the local Chamber of Commerce, banking groups, business association clubs, and other interested parties to explain the program. A brochure containing useful facts about the CIP and information and guidance on utilization will be published and distributed to the Liberian business community at the commencement of the program.

USAID will compile a list of potential Liberian importers and likely imports and transmit this information to the AID/W Office of Small and Disadvantaged Business Utilization, where the information can be published as an AID Importer List and distributed to interested U.S. suppliers. The Commercial Section of the U.S. Embassy in Monrovia will also assist in answering inquiries about the CIP and its utilization in promoting trade opportunities with both U.S. and Liberian businessmen.

N. Program Monitoring, Reporting and Evaluation:

The USAID Office of Economic Affairs, in conjunction with the Office of the Controller, will ensure preparation of a monitoring plan that will provide quarterly and annual reports on grant implementation status. The reports will be designed to provide information to the GOL and the Office of the USAID Director on:

a) allocation of CIP funds to the private and public sectors;
b) dollar value of Letters of Commitment issued;
c) dollar value of Letters of Credit opened;
d) total disbursements to date;
e) 50-50 shipping status;
f) general composition of commodities.

In addition, a separate status report will be compiled by the Office of Economic Affairs and the Office of the Controller, on the counterpart "Special Account" and the allocation and utilization of local currency proceeds. The report will indicate:

a) deposits to the "Special Account";
b) balance in the "Special Account";
c) allocation of counterpart funds;
d) disbursements from the "Special Account";
e) utilization of counterpart funds.

The Office of Economic Affairs will keep under continuous review the macro-economic aspects of the grant and will further monitor the GOL's performance in meeting Conditions Precedent and the Covenants agreed to between AID and the GOL. Quarterly reports will be made to the USAID Director as to the results of the monitoring, or more frequently, should developments warrant it.

In planning, monitoring and evaluating the progress of the CIP, particular attention will be focused on ensuring that the criteria established under the International Security and Development Cooperation Act of 1985 are being met. Section 801 of that Act requires that imports meet long-term development needs of the country. The Mission will ensure that priority will be given to imports that:

a) promote production, generate employment, and are cost effective;
b) support the GOL's development plan as long as they are cost effective and conform to the country's comparative advantage;
c) promote agricultural activities with a view to expanding exports or reducing agricultural imports;
d) serve the needs of the country in various economic sectors and geographic areas; and
e) are in addition to, rather than a substitute for, traditional imports.

Senior Management of USAID will meet three times a year, or more often if required, with the representatives of the GOL to discuss implementation progress for the purpose of establishing, reaffirming, and/or altering priorities governing the uses of both CIP dollars and local currency proceeds, and review status of progress toward meeting civil service reform goals. The policy level and evaluation discussions will provide a basis for consideration of further program or project assistance and the progress made in furthering economic and fiscal policy reform.

An evaluation of the program will be undertaken one year after the date of signature of the Grant Agreement, or when 80% of the first tranche of funds are disbursed, whichever is earlier. The dollar (CIP) component will be evaluated utilizing the guidance contained in A.I.D. Program Design and Evaluation Methodology Report No.4 (August 1985) entitled "Evaluation Guidelines for NonProject Assistance (CIPs) and CIP-Like Activities".

The local currency component will be evaluated against progress in implementing the three stage severance plan shown in Part VI below. Of particular interest will be the objectivity of the process by which employees were selected (volunteered) for separation from government service, the rate at which disbursement were made from the special account, and the success of the GOL in holding the line on position ceilings.

The evaluation will be funded from PD&S funds and will be conducted with both TDY and GOL assistance.

O. Private Sector Procurement And Financing Procedures:

The primary objective of the private sector element of the CIP is to provide fast disbursing assistance, increase participation by the Liberian private sector in productive economic activities, foster economic growth, and provide incentive for the private sector to import capital goods and equipment, raw materials and intermediate goods which promote development.

1. Eligible Importers: To achieve the above, the private sector element will provide financing to private entrepreneurs and firms to import eligible commodities from the U.S. and foreign supplies of petroleum. Specifically, the program will be open to privately owned firms in the following categories: Manufacturers; processors; distributors; importers; traders; agents and stockists. An eligible private sector importer will be one where:

a. all or most of the company's equity is held by private, non-governmental individuals or corporations; and/or

b. company or corporate control, both at the board level and at the operating level, is completely or a majority is in private hands.

Concessions and other existing exporters that are in the iron ore, rubber, timber, coffee, cocoa, diamond, gold, and similar sectors that have major access to foreign exchange through export earnings are excluded from participating in the CIP unless they can demonstrate to USAID that their import requirements are directly related to expanding their export capability and, their need exceeds their earnings of foreign exchange.

2. Eligible Banks: The program will be primarily implemented by local, private, commercial bank(s). To maximize private sector use of CIP Funds, expedite counterpart generations and minimize the administrative burden on USAID and the GOL, it is proposed that a U.S. bank will serve as the initial Approved Applicant Bank in Liberia. The bank identified is Citibank, N.S. After the program has started and experience gained, the Mission and the GOL will review the operation in light of the needs of the program to see if additional banks are needed. The specific rules and procedures of the program will be set forth in an "Operating Circular" which will be agreed upon and signed by the GOL, USAID and the participating commercial bank(s). A draft "Operating Circular" is attached, as Annex G. The circular will be modified as needed, after discussions with the government and commercial bank(s).

3. Transaction Size - Minimum - Maximum: Except when authorized by USAID in writing, no Letter of Credit, issued by the Approved Applicant Bank(s) for any private sector importer, shall be in an amount less than $10,000 (except for spare parts) or exceeding $250,000, except for wheat and petroleum.

4. Commodity and Commodity Related Services -Source: The authorized source and origin of commodities is limited to the United States, AID Geographic Code 000, as defined in Section 201. 11(b) of AID Regulation 1, except for petroleum.

The CIP will finance transportation cost on vessels under U.S. Flag registry. In addition, AID will finance costs incurred on vessels under flag registry of any free world country, if the costs are part of the total cost on a through bill of lading paid to a carrier for initial carriage on a U.S. Flag vessel.

When a U.S. Flag vessel is not available for shipment, a supplier may request a waiver from the Office of Procurement Transportation Division, AID/W. Freeworld (Code 935) Flag carriers may be used after the waiver is obtained. However, the CIP will not finance the delivery services, and the importer will be required to make other financing arrangements and open a separate letter of credit for transportation costs.

5. Procurement Procedures: Private Sector procurement will be in accordance with AID competitive negotiated procurement procedures, AID Regulation 1, Section 201.23. The importer will follow good commercial practice and solicit offers from a reasonable number of prospective suppliers. Solicitation of offers from more than one supplier is not required when the importer is a supplier's authorized distributor or dealer. Initially all transactions approved by the Approved Applicant Bank(s) for financing shall be forwarded for USAID review and concurrence. As the bank(s) gain experience with the "Operating Circular", AID regulations and USAID development priorities, USAID will consider eliminating this step.

After USAID approval, the Approved Applicant Bank(s) will open an Irrevocable Letter of Credit, through its correspondent U.S. Letter of Commitment Bank, in favor of the named U.S. supplier. The Approved Applicant Bank(s) will be responsible for collecting the U.S. dollar value of the L/C in equivalent Liberian dollars at the most favorable rate of exchange which, at the time the conversation is made, is not unlawful in Liberia.

The full equivalent value of counterpart funds will be transferred to a "Special Account" immediately, or no later than 5 days after the L/C is opened, at the bank selected by USAID and the GOL. The Approved Applicant Bank(s) will be indebted to the "Special Account" for the full amount of the L/C upon opening the L/C. Thus the bank assumes full credit risk, if any, for each transaction.

The Approved Applicant Bank(s) are allowed to collect the fees normally charged, such as a commission charge (currently averages about 13%), L/C charges (about 3%) and TELEX charges (about $60 per TELEX). While it is recognized that the participating banks will require fair compensation for administering the private sector CIP, the amount will be agreed upon during negotiations and discussions on the "Operating Circular". Bank operation/administrative costs associated with the CIP may differ from their normal commercial transactions, thus indicating a need to revise their standard charges. In preliminary discussions with private commercial bank officials, there is general agreement that the Approved Applicant Bank(s) will pay half of their normal L/C opening and other fees, as described above, into the "Special Account". The other half will be retained by the bank to off-set their administrative cost related to implementing the CIP. It is estimated that these payments could generate as much as $300,000 additional revenue into the Special Account.

The incentive for commercial bank(s) to participate in the CIP are as follows: The bank will have foreign exchange to provide its clients that otherwise would not have been available; banks will earn letter of credit fees on business generated under the program; utilization of the official exchange rate will attract new customers to the bank(s); the bank will be entitled to keep interest collected from credit worthy clients it wishes to extend credit terms for payment of local currency.

The private sector CIP procedures are designed to provide incentives to both the participating bank(s) and importers to utilize the program. Annex I presents an illustrative list of the sequence of steps to be followed in implementing the Private Sector element of the CIP.

P. Public Sector Procurement And Financing Procedures:

The primary objective of the public sector element of the CIP is to provide rapid disbursement assistance, and assistance to the deteriorating public sector infrastructure. Upon GOL request, USAID will consider, on a case-by-case basis, specific CIP allocations for relief to revenue producing governmental agencies that, because of their inability to secure foreign exchange, or the high costs thereof, require support. Public Sector entities receiving allocations must comply with counterpart local currency payment requirements. The public sector CIP will be administered on a government-to-government basis, with the Chairman of the EFMC acting as the coordinating body for the GOL.

1. <u>Eligible Importers</u>: In the case of the public sector, the Chairman of the EFMC may allocate CIP Funds to various economic sectors and agencies requiring foreign exchange for purchasing commodities from the U.S. Central organizations, authorities, public stock companies (with majority government participation), parastatals, and individual industries and groups under the Government of Liberia's public sector umbrella are eligible to receive financing. Allocations to public sector importers must be in accordance with mutually agreed GOL and USAID priorities and approval of USAID secured in writing. To be eligible the public sector importer must be:

a. a public sector revenue generating entity (parastatal) capable of depositing the local currency equivalent of the Letter of Credit U.S. dollar value in local currency, at the official exchange rate; or

b. a public sector administrative unit that has available local currency from its budget, or other source, and is capable of depositing the local currency equivalent as described above.

2. <u>Eligible Banks</u>: The Chairman of the EFMC, after consultation with and approval of USAID, may allocate specific dollar amounts to governmental units. MOF will then submit a separate Financing Request, Form AID 1130-2 (FR), to AID/W, through USAID/Liberia, which request Letter of Commitments (L/Coms) be opened by AID/W in favor of the designated U.S. L/Com Bank. A separate FR is submitted for each individual governmental unit, in the specific dollar amount of its CIP allocation. Each governmental unit will have its own L/Com. The specific rules and procedures of the program will be set forth in an "Operating Circular" which will be agreed upon by the GOL and signed by USAID and the participating commercial bank(s). A draft "Operating Circular" is attached as Annex G. The circular will be modified, as required, after discussions with the government and commercial bank(s).

3. <u>Transaction Size - Minimum</u>: Except when authorized by USAID in writing, no Letter of Credit for the public sector, issued by the Approved Applicant Bank(s) for any public sector importer, shall be in an amount less than $10,000, except for spare parts. There is no maximum transaction value for the public sector.

4. <u>Eligible Commodities</u>: All items listed as eligible in the "AID Commodity Eligibility Listing", as revised (Handbook 15, Appendix B), will be eligible for financing. However, commodities actually financed for the public sector will be approved by the Chairman of the EFMC after mutual agreement with USAID. Priority will be given to those commodities that promote the productivity of the public sector through the provision of needed imported commodities, such as equipment for institutions which provide services to the general public.

5. Commodity and Commodity Related Services - Source: The authorized source and origin of commodities is limited to the United States, AID Geographic Code 000, as defined in Section 201.11 (b) of AID Regulation 1, except as noted below.

The CIP will finance transportation cost on vessels under U.S Flag registry. In addition, AID will finance costs incurred on vessels under Flag registry of any Freeworld country, if the costs are part of the total cost on a through bill of lading paid to a carrier for initial carriage on a U.S. Flag vessel.

When a U.S. Flag vessel is not available for shipment, a supplier may request a waiver from the Office of Procurement, Transportation Division, AID/W. Freeworld (Code 935) Flag carriers may be used after the waiver is obtained. However, the CIP will not finance the delivery services, and the importer will be required to make other financing arrangements and open a separate letter of credit for transportation costs.

6. Procurement Procedures: Public sector procurement will be in accordance with AID formal competitive bid procedures, AID Regulation 1, Section 201.22; unless USAID agrees in writing that negotiated procurement is authorized. Public sector importers receiving CIP allocations will be expected to submit detailed requirements and specifications of the commodities they intend to purchase to USAID/Liberia for forwarding to the AID/W Office of Procurement (M/SER/OP). M/SER/OP will review the specifications for compliance with U.S. standards and to insure they are not restrictive. Any proposed changes will be submitted to the public sector importer through USAID for approval.

After specifications are approved, M/SER/OP will assemble the terms and conditions and the specifications and publish the Invitation for Bid (IFB). M/SER/OP will arrange for the announcement of the procurement in the "AID Financed Export Opportunities Bulletin" and distribute IFB's to interested suppliers. Bid documents will be opened at a public bid opening at the importer's premises in Liberia or at the Liberian Embassy in Washington, D.C., in the presence of an AID Officer. USAID will be advised of all award decisions and give the public sector importer a "no objection letter". The importer can then open a Letter of Credit (L/C) against its Letter of Commitment in favor of the lowest responsive bidder through the Approved Applicant Bank(s). The L/C will be confirmed by the Letter of Commitment (L/Com) Bank in the U.S. The U.S. supplier may then assemble and ship the commodities to the Public Sector importer.

The public sector CIP procedures are designed to promote competition and establish formal contract terms acceptable to both AID and the U.S. business community. An illustrative list of the sequence of steps to be followed in implementing the public sector element of the CIP is found in Annex J.

VI. PROGRAM IMPLEMENTATION AND ADMINISTRATION - THE LOCAL CURRENCY COMPONENT

The local currency to be generated from the CIP will be utilized to finance severance payments to GOL civil servants identified for separation under an OPEX-supported civil service reform plan. The following implementation procedures are recommended, although at this stage alternate (and yet unspecified) reform plans could be developed:

1. The severance rules will be decided upon and approved by President Doe. The Director of the GOL's Bureau of the Budget was originally charged with recommending such a package but the responsibility has since shifted to the EFMC with the active participation of the Director of the Civil Service Agency. In several meeting on the issue some progress has been made, but we judge that a comprehensive plan will not be completed until after the arrival of the OPEX team.

2. Civil servants who participate in the plan must have survived a payroll audit. This is a relatively straight forward verification procedure to insure that all payroll "ghosts" have been exorcised from the payroll and that those who remain are legitimately employed. The payroll audit consists of a verification of employment and certification that the employee is in a budgeted position. The mechanism for conducting such an audit was put in place under the ongoing Economic and Financial Management and Training Project and for any given ministry that payroll audit could be completed in several months. The presence of the OPEX personnel would accelerate the completion of the payroll audits and enhance both their reliability and credibility. OPEX personnel assigned to the Bureau of the Budget and the Civil Service Agency would help to ensure that only funded positions are filled. OPEX personnel in expenditure control and cash management control would provide necessary assurances that "ghosts" have been eliminated from the payrolls.

3. Ministries or agencies that participate in the plan must have first undergone a job inspection undertaken by the GOL Civil Service Agency. This is a project supported by a U.K. grant, and U.K. personnel help conduct job audits to determine the appropriate staffing for each agency. The procedure is to undertake a position by position review to establish position ceilings. The redundancy plan would then be implemented by reducing the number of employees in each agency to the number of authorized positions. Enforcing the position ceiling and the 5 year moratorium on re-entry into public service should ensure that GOL employment does not creep back up after the initial round of redundancies take place. The OPEX personnel will be available to monitor the progress of the redundancy program. To date the Civil Service Agency has completed inspections in 3 ministries

and 5 agencies accounting for 1,201 jobs. They recommend a cut of 423 positions, or a reduction of 35 percent. Extrapolating these findings to the 13 ministries and 23 agencies which in December 1985 accounted for 36,145 jobs (excluding defense) implies a reduction of 12,630 jobs. At the preliminary estimate of $3,000 for each separated employee, a fully implemented redundancy cum job inspection plan would cost about $37.9 million. It is clear that the approximately $15 million to be derived under the CIP will only represent a start, but it will be an important start in addressing the most important (and hitherto uncontrolled) expenditure item in the GOL budget.

The above three steps will produce a list of employees by ministry/agency who qualify for severance pay. As the list for each agency is completed, containing the amount owed to each individual, it will be turned over to the bank holding the special account. Payment will be made to each employee, a receipt signed, and at the end of the process the account will be closed. Quarterly reports on movements in the account will be submitted to the Bureau of the Budget and USAID. Procedures to ensure that no severed employee can be rehired for at least 5 years will be worked out in coordination with the Civil Service Agency, the Bureau of the Budget and the Ministry of Finance. It is fully expected that new hiring and releases will be taking place on a continuing basis. This is acceptable so long as position and employment ceilings for each agency are not exceeded and the 5 year moratorium on released individuals reentering government service is respected during the life of the Economic Stabilization Support project. The OPEX personnel will provide the checks to see that these two conditions are enforced.

The Mission has carefully reviewed the option of providing an in-kind as opposed to a direct cash severance payment. For all the compelling reasons cited in paragraph 5.B. of MONROVIA 3517, a cash payment is strongly recommended. The accountability and management problems associated with in-kind options would make implementation virtually impossible.

One cannot ignore the social feasibility of instituting a civil service retrenchment program. On paper the government's proposed new budget shows salaries decreasing from about $113 million a year to between $100 and $105 million a year. However, job prospects for those to be retrenched are extremely limited. The economy has been declining for seven years and with LAMCO's decision to reduce its operations by two-thirds, one can only anticipate further declines in overall economic activity. The political realities of the situation will make it difficult for the GOL to follow through on its professed plans.

There may be opportunities for selective small-scale retrenchments on a voluntary basis. The Mission's position will be to recommend starting with a small voluntary retrenchment program and to monitor the progress of those retrenched in finding new employment before expanding retrenchment actions. We have requested FY 88 PD&S funds to finance such an ongoing study. Once agreement is reached with the GOL on the retrenchment program, the study will begin.

In the event an acceptable civil service reform program cannot be agreed upon by the TDD, funds in the special account will be disbursed for purposes which will benefit the private sector or elements of the public sector which directly impact on the Liberian people. The principle to be followed is not to reward the GOL for lack of progress on civil service reform. Thus, using the funds for a private sector revolving loan fund or for grants to private sector hospitals, schools or self help projects would be considered. The funds could also be used to support the local costs of the Mission's PVO/NGO project.

ANNEX A
PAIP APPROVAL CABLE

The ECPR review cable was transmitted in State 151518 of 18 May 1987 and requested additional information. The mission's response was transmitted in Monrovia 5679 of 29 May 1987. Both cables were classified. Copies may be obtained as appropriate from AFR/PD/CCWAP.

Rec'd 8/14/87 1745

ANNEX B

LETTER OF REQUEST

REPUBLIC OF LIBERIA
MINISTRY OF FINANCE
MONROVIA, LIBERIA

OFFICE OF THE MINISTER

MF-2-4/EFMC/142/'87 August 14, 1987

Dr. Mary Kilgour
USAID Director
Monrovia, Liberia

Madam Director:

I wish to refer to your letter of July 23, 1987, and the accompanying draft Program Assistance Approval Document (PAAD) for the proposed Commodity Import Program (CIP) which you forwarded to us for examination.

In this regard, I wish to inform you that the document has been reviewed and that the Government of Liberia is in general agreement with the package. However, Government desires to utilize the available funds in settling its external debt obligations. This is more beneficial as it would lessen our debt burden and further open up new avenues for external funding. Furthermore, it would have a multiplier effect on the economy which would be greater than that under the CIP as the package proposed does not generate much more than that which is initially disbursed.

In the event that the proposal to utilize the available funds in settling Government's external debts is not acceptable by USAID, Government would be receptive to a modified version of the CIP to include petroleum and petroleum products as part of the commodities to be imported.

I await your reaction in this premise.

Kind regards,

Very truly yours,

John G. Bestman

John G. Bestman
M I N I S T E R

BEST AVAILABLE COPY

JGB/BRCB/mjt

ANNEX C

INITIAL ENVIRONMENTAL EXAMINATION

(Liberia Commodity Import Program)

(669-0214)

Program Title: Commodity Import Program (669-0214)

Program Funding: Start FY 87, End FY 90

Recommended Threshold Decision: Categorical Exclusion

Justification: (See attached Justification for Categorical Exclusion)

Mission Director's Concurrence: Mary C Kilgour
Mary C. Kilgour, Director

Date: August 25, 1987

AFR Environmental Officer Approval: B. Boyd X
Bessie L. Boyd, AFR/TR/PRO

Date: AUG 27 1987

GC/AFR Clearance: T Carter
Ted Carter

Date: 8/27/87 8/27/87

JUSTIFICATION FOR CATEGORICAL EXCLUSION

In accordance with AID Regulation 16, Section 216.2 (c) (ix), assistance under a Commodity Import Program is eligible for categorical exclusion from environmental procedures when, "prior to approval, AID does not have knowledge of the specific commodities to be financed and when the objective in furnishing such assistance requires neither knowledge, at the time the assistance is authorized, nor control during implementation of commodities or their use in the host country."

Commodities will be financed from the AID Commodity Eligibility Listing (Handbook 15, Appendix B), all of which have been screened for any adverse effects they may have on the environment. No pesticides will be imported under the grant.

As the contemplated grant to Liberia fulfills both the qualifications cited above, it should be granted a categorical exclusion from environmental procedures.

ANNEX D

PROGRAM COORDINATION UNIT

A Program Coordination Unit (PCU) will be established within the EFMC. It will consist of at least two professional staff members appointed by the Chairman of the EFMC. The general role of the unit will be to facilitate continuing coordination between USAID and the GOL for follow up and periodic evaluation of CIP implementation. Meetings between USAID and the PCU will be held monthly.

Among the points to be discussed regarding the dollar component of the CIP are the following:

a) allocation of CIP funds to the private and public sectors;

b) dollar value of Letters of Commitment issued;

c) dollar value of Letters of Credit opened;

d) 50-50 shipping status;

e) general composition of commodities imported;

f) total disbursements to date;

g) compliance with Zorinsky amendment;

h) compliance with Conditons Precedent and Covenants.

Among the points to be discussed regarding the local currency component of the CIP are the following:

a) deposits to the Special Account;

b) balance in the Special Account;

c) allocation of counterpart funds;

e) disbursements from the Special Account;

f) compliance with Conditions Precedent.

The existence of the PCU will provide an institutional arrangement for preparing and discussing reports required by USAID. Such discussions will serve the purpose of establishing, reaffirming, and/or altering priorities governing the uses of both CIP dollars and the local currency proceeds, and review status of progress toward meeting civil service reform goals. The discussions will also provide a forum for monitoring the GOL's performance in meeting the Conditions Precedent and Covenants agreed to between the GOL and USAID.

ANNEX E
BALANCE OF PAYMENTS
(Millions of US $)

	1980	1981	1982	1983	1984	1985
1.EXPORTS OF GOODS AND NON-FACTOR SERVICES						
Merchandize Exports	600.4	529.2	477.4	427.6	452.1	435.6
Non-Factor Services	13.1	11.5	10.0	38.5	36.9	34.6
TOTAL	613.5	540.7	487.4	466.1	489.0	470.2
2.IMPORTS OF GOODS AND NON-FACTOR SERVICES						
Merchandize Imports (FOB)	-550.7	-489.1	-441.5	-366.6	-317.8	-246.6
Non-factor services	- 63.4	- 71.8	- 72.0	-112.6	- 93.7	- 76.2
TOTAL	-614.1	-560.9	-513.5	-479.2	-411.5	-322.8
BALANCE OF TRADE	49.7	40.1	35.9	61.0	134.3	189.0
RESOURCES BALANCES	- 0.6	-20.2	-26.1	-13.1	77.5	147.4
3.FACTOR SERVICE RECEIPTS						
Official Interest	-	-	-	0.4	0.4	0.3
Other Interest	-	-	-	1.4	2.2	3.4
Total	-	-	-	1.8	2.6	3.7
4.FACTOR SERVICE PAYMENTS						
Factor Payments	-83.7	-72.0	-64.0	-56.0	-40.9	-37.4
Official Interest Payments	-23.9	-20.2	-31.9	-58.6	-77.9	-79.7
Interest Paid				(-49.5)	(-62.3)	(-26.7)
Interest Due But Paid				(- 9.1)	(-15.6)	(-53.0)
Other Interest				-37.8	- 8.7	- 7.6
Other Factor Services Payments				- 3.0	- 1.9	- 2.6
TOTAL FACTOR SERVICES	-139.6	-125.2	-145.9	-225.4	-209.4	-193.3
5.UNREQUITTED TRANSFER RECEIPTS						
Private Transfer Receipts	-			31.0	36.4	37.0
Official	35.7	68.1	93.8	116.9	107.5	94.2
Cash Grants	-	-	-	(34.0)	(35.0)	(25.5)
Maritime Revenue	(10.7)	(20.1)	(20.5)	(24.5)	(23.5)	(23.5)
Other	-	-	-	(58.4)	(49.0)	(45.2)
TOTAL	35.7	68.1	93.8	147.9	143.9	131.2

TABLE F1
Liberia: Medium-Term Balance of Payments Projections
Baseline Scenario
(In Millions of U.S. Dollars)

	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92
	Prel. Est.						
Current Account	64.7	50.2	44.0	56.2	70.9	70.0	83.4
Trade Balance	145.4	137.6	130.1	132.3	140.4	118.1	120.0
Exports, f.o.b.	(419.0)	(395.8)	(351.8)	(360.8)	(371.6)	(333.6)	(347.3)
Imports, c.i.f.	(-273.6)	(-258.2)	(-221.7)	(-228.5)	(-231.1)	(-215.5)	(-227.3)
Services (net)	-123.2	-120.9	-122.3	-121.2	-125.0	-113.1	-114.7
Of which: interest due on public debt	(-78.7)	(-86.3)	(-89.8)	(-94.7)	(-99.9)	(-104.4)	(108.6)
Transfers (net)	42.5	33.5	36.1	45.1	55.5	65.0	78.1
Capital account	-147.2	-181.9	-187.7	-173.2	-148.9	-128.6	-112.8
Official long-term	-24.0	(-37.7)	(-43.3)	(-37.7)	(-23.5)	(-13.6)	(-5.2)
Private 1/	123.2	(-144.2)	(-144.4)	(-135.5)	(-125.4)	(-115.0)	(-107.6)
Overall deficit (-)	-82.5	-131.7	-143.7	-117.0	-78.0	-58.6	-29.4
Financing	82.5	131.7	143.7	117.0	78.0	58.6	29.4
National Bank of Liberia	-39.7	-59.7	-54.1	-41.0	-28.0	-17.0	-0.7
Assets (increase -)	(3.3)	(1.1)	--	--	--	--	--
Liabilities	(-43.0)	(-60.8)	-54.1	-41.0	-28.0	-17.0	-0.7
Use of Fund credit (net)	(-42.7)	(-60.5)	(-54.1)	(-41.0)	(-28.0)	(-17.0)	(-0.7)
Other	(-0.3)	(-0.3)	(--)	(--)	(--)	(--)	(--)
Arrears (accrual +)	122.2	191.4	197.8	158.0	106.1	75.6	30.1
Memorandum items:							
External arrears (end of period) of which:	301.0	517.0	714.8	872.8	978.9	1,054.5	1,084.5
nonreschedulable 2/	NA	NA	(356.1)	(432.7)	(483.6)	(508.5)	(500.4)
Debt service ratio (percent of goods and services)	40.9	50.9	55.8	51.8	45.1	44.7	39.4

BEST AVAILABLE COPY

67A

TABLE F2
Liberia: Medium-Term Balance of Payments Projections
Normative Scenario
(In Millions of U.S. Dollars)

	1985/86 Prel. Est.	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92
Current Account	64.7	50.2	44.0	78.5	104.7	122.4	145.7
Trade Balance	145.4	137.6	130.1	154.5	172.5	165.5	172.0
Exports, f.o.b.	(419.0)	(395.8)	(351.8)	(385.5)	(415.8)	(394.2)	(420.7)
Imports, c.i.f.	(-273.6)	(-258.2)	(-221.7)	(-231.0)	(-243.3)	(-228.7)	(-248.8)
Services (net)	-123.2	-120.9	-122.3	-121.0	-123.2	-108.2	-104.4
Of which: interest due on public debt	(-78.7)	(-86.3)	(-89.8)	(-94.0)	(-96.4)	(-96.4)	(-94.4)
Transfers (net)	42.5	33.5	36.1	45.1	55.5	65.0	78.1
Capital account	-147.2	-181.9	-187.7	-158.9	-128.2	-102.0	-84.9
Official long-term	-24.0	(-37.7)	(-43.3)	(-37.7)	(-23.5)	(-13.6)	(-5.2)
Private 1/	123.1	(-144.2)	(-144.4)	(-121.2)	(-104.7)	(-88.4)	(-79.7)
Overall deficit (-)	-82.5	-131.7	-143.7	-80.4	-23.5	20.4	60.8
Financing	82.5	131.7	143.7	80.4	23.5	-20.4	-60.8
National Bank of Liberia	-39.7	-59.7	-54.1	-41.0	-28.0	-17.0	-0.7
Assets (increase -)	(3.3)	(1.1)	--	--	--	--	--
Liabilities	(-43.0)	(-60.8)	-54.1	-41.0	-28.0	-17.0	-0.7
Use of Fund credit (net)	(-42.7)	(-60.5)	(-54.1)	(-41.0)	(-28.0)	(-17.0)	(-0.7)
Other	(-0.3)	(-0.3)	(--)	(--)	(--)	(--)	(--)
Arrears (accrual +)	122.2	191.4	197.8	121.3	51.5	-3.4	-60.1
Memorandum items:							
External arrears (end of period) of which:	301.0	517.0	714.8	836.1	887.6	884.2	824.1
nonreschedulable 2/	NA	NA	(356.1)	(414.5)	(442.1)	(445.6)	(399.7)
Debt service ratio (percent of goods and services)	40.9	50.9	55.8	48.7	40.0	37.0	30.5

Sources: Data provided by the Liberian authorities; and IMF staff estimates
1/ About half of "errors and omissions" in the base year is assumed to represent imports or other current payments (see discussion in text). Remaining errors and omissions, assumed to represent capital flight, are projected to be reduced sharply over the medium term.
2/ In the event of rescheduling, the normalization of external payments relations would require financial assistance sufficient to clear these arrears and meet current debt service obligations estimated at about $90 million, net of debt relief, (i.e., payments on moratorium interest, and on nonreschedualable principal and interest) each year over the period shown

6. UNREQUITTED TRANSFERS PAYMENT			
Official Transfer Payments	2.7	-3.6	-2.6
Worker Remittances	-70.0	-80.0	-65
TOTAL	-72.7	-83.6	-67.6
CURRENT ACCOUNT BALANCE	-91.5	11.0	87.4
CAPITAL ACCOUNT	55.8	95.2	49.3
7. DIRECT INVESTMENT	46.6	34.4	-17.9
8. PORTFOLIO INVESTMENT	5.0	6.8	7.4
9. OTHER LONG-TERM CAPITAL	28.1	39.9	-94.7
9-1) Resident Official Sector	124.0	63.0	-70.6
Drawing on Long-Term Loans	140.6	125.8	56.1
Repayments on Long-Term Loans	-13.5	- 47.3	-90.2
Actual Repayments	(13.4)	(-31.5)	(- 5.9)
Repayments due but not paid	(- 0.1)	(-15.8)	(-84.3)
Other Liabilities	- 3.1	-15.5	-36.5
9-2) Commercial Banks	2.5	1.8	1.7
9-3) Other Sectors	-98.4	-24.9	-25.8
10. Other Short Term Capital	-23.9	14.1	154.5
10-1) Resident Official Sector	28.7	42.6	173.8
10-2) Commercial Banks	-26.4	7.8	7.6
10-3) Other Sectors	-26.2	36.3	-26.9
RESERVES	41.8	30.0	3.3
11. Foreign Exchange Assets	-14.2	16.9	2.0
12. Use of IMF Credit	56.0	13.1	1.3
Net Error and Omissions	-6.1	-136.2	-140.0

SOURCE IMF

Annex F

Projected Balance of Payments for Liberia

Tables F1 and F2 contain medium-term projections for Liberia's balance of payments. Two scenarios are presented. The first, referred to as a baseline projection, assumes that the initial steps taken for 1987/88 to tighten fiscal policy will be further strengthened in subsequent years. Specifically, it is assumed that noninterest recurrent spending will be kept constant (the wage bill would be reduced allowing some increase in spending for goods and services). No other policy adjustments are assumed to take place.

As can be seen in Table F1, exports are projected to decrease from $419 million in 1985/86 to $352 million in 1987/88. This reflects the partial closing of LAMCO. In 1990/91, exports are again projected to decline as LAMCO shuts down completely. Even with the decline in exports, however, the IMF projects a decline in the overall deficit in the balance of payments. This is primarily due to an expected improvement in the capital account as capital flight is expected to be reduced.

Table F2 presents the IMF's normative scenario. In this case a broad line of policy reforms would be carried out and private capital inflows would resume. It is a much more optimistic scenario with the balance of payments sharply improving over the period.

In either scenario, the balance of payments shows an overall deficit over the life of the CIP. Imports would be less in 1991/92 than they were in 1985/86 for either case. In no case is there a projected possibility that Liberia's international reserves would increase.

ANNEX G

OPERATING CIRCULAR
COMMODITY IMPORT PROGRAM
A.I.D. GRANT NO 669-0214

1. The private sector element of the Liberia Commodity Import Program, hereafter referred to as the CIP, provides foreign exchange to the Liberian private sector to import capital equipment, intermediate goods, and raw materials from the U.S. The regulations, rules and procedures set forth in this "Operating Circular" shall be valid with respect to all transactions for the private sector financed under the CIP.

2. Primary implementation responsibility for the CIP will rest with the participating Bank(s) listed on the last page of this Operating Circular. Each participating bank, herein after referred to as Approved Applicant Bank(s), will receive an initial allocation of CIP foreign exchange through an AID Letter of Commitment (L/Com) in favor of the Approved Applicant Bank's named U.S. correspondent bank, referred to as the L/Com Bank.

3. Liberian private sector entrepreneurs and firms shall be eligible to participate in the CIP. Specifically the CIP will be open to privately owned firms in the following categories: manufacturers; processors; distributors; importers; traders; agents; and stockists. An eligible private sector importer will be one where:

   a. all or a majority of the companies equity is held by private, non-governmental individuals or corporations; and/or

   b. company or corporate control, both at the board level and at the operating level, is completely or a majority is in private hands.

   Concessions and other existing exporters that are in the iron ore, rubber, timber, coffee, cocoa, diamond, gold, and similar sectors that have major access to foreign exchange through export earnings, are excluded from participation in the CIP unless they can demonstrate to USAID that their import requirements are directly related to expanding their export capability and, their need exceeds their earnings of foreign exchange.

4. USAID shall furnish the Approved Applicant Bank(s) a list of the commodities which are eligible to be imported under Bank the CIP. Implementing documents under the CIP have incorporated the entire AID Commodity Eligibility Listing which shows the general eligibility or ineligibility of commodities for AID financing. On occasion, commodities shown in the listing as being generally eligible, may be declared ineligibile by USAID/Liberia and so declared in an Implementation Letter to the Government of Liberia (GOL). A copy of the Implementation Letter will be furnished the Approved Applicant Bank(s).

Commodities are made ineligible for CIP financing in the "AID Commodity Eligibility Listing" if they are:

a. Unsafe or ineffective products, such as certain pesticides, food products, or pharmaceuticals.

b. Luxury goods, such as recreational supplies and equipment, alcoholic beverages and equipment for their production or use, equipment or supplies for gambling facilities, jewelry, stamps, coins, furs and the more expensive textiles. Subject to prior approval, AID may permit the financing of an item normally regarded as a luxury item which may be required to attain the objective of a development activity or which is clearly justified by the intended end use of the item.

c. Surplus or used items, unless inspected and approved in accordance with procedures approved by AID.

d. Items for military use.

e. Surveillance equipment, of micro-miniature design for audio surveillance activities.

f. Weather modification equipment.

g. Commodities and equipment for the purpose of inducing abortions as a method of family planning

h. Commodities for support of police and other law enforcement activities.

The Approved Applicant Bank(s) shall not open any letter of credit for the importation of commodities under the CIP that are shown as ineligible on the listing. In addition to the above, the CIP prohibits the financing of commodities which are intended for re-export in essentially the same condition in which they were imported and; requires consumption, use, sale or transfer of the goods by the importer within one year from the date they are released from customs. The Approved Applicant Bank(s) shall not open any letter of credit for the importation of commodities where it knows, or has reasonable reason to believe, due to the nature of the goods, unreasonable quantity etc, that the requirements above may be violated or compromised.

5. Private sector importers desiring to use the CIP shall make application at an Approved Applicant Bank(s). Alternatively, a potential client may apply through any other Liberian commercial bank. In the latter case, the application will be forwarded by the client's bank to an Approved Applicant Bank(s). Each importer's application for opening a letter of credit under the CIP must include:

   a. an Import Permit/Declaration Form (IPD), approved by the Ministry of Commerce, Industry and Transportation (MCIT);

   b. Evidence that the importer has followed AID Regulation 1 negotiated procurement procedures which requires a reasonable number of offers from U.S. suppliers, in accordance with good commercial practices or

   c. If the importer is purchasing for resale or processing as the U.S. suppliers regularly authorized dealer or distributor, or the importer is purchasing for resale a registered brand-name commodity from a U.S. supplier who is the exclusive distributor of that commodity to Liberia, solicitation of more than one offer is not required. The Approved Applicant Bank(s) will require a copy of the importers agreement with the U.S. Supplier.

6. The Approved Applicant Bank(s) will forward all approved transactions to USAID for final review. Upon issuance of a USAID "Letter of No Objection", the Approved Applicant Bank(s) will make an administrative reservation of CIP foreign exchange, and assign a transaction number. The importer shall have 45 days from the date of the "Letter of No Objection", to open a letter of credit in favor of the named U.S. supplier. Extension of this time limit may be considered on a case-by-case basis, provided that the importers' written request is forwarded to USAID, through the Approved Applicant Bank(s), at least ten days prior to the expiration date.

7. The Approved Applicant Bank(s) may not open letters of credit to any party other than the one named in the proforma invoice or contract, nor is the bank authorized to amend any letter of credit in a manner contrary to the contents of the proforma invoice or contract. All letters of credit must reference the AID transaction number. Credits opened for raw materials and intermediate commodities shall be valid for a period not to exceed six (6) months, and credits opened for the importation of capital goods shall be valid for a period not to exceed one (1) year; unless USAID otherwise agrees in writing.

8. The minimum transaction size (value of L/C) shall be $10,000, except for spare parts for which there is no minimum, and the maximum transaction value shall be $250,000, except for petroleum and wheat and unless USAID otherwise agrees in writing.

9. At the time the letter of credit is opened, the Approved Applicant Bank(s) shall collect the full local currency equivalent value of the letter of credit, or extend credit terms to the client in accordance with the bank's own internal policies and procedures and at the bank's risk. The local currency payment for a specific transaction shall be calculated at the most favorable rate of exchange which, at the time the conversion is made, is not unlawful in Liberia.

10. The Approved Applicant Bank(s) shall be entitled to collect normal fees and commissions, i.e., letter of credit fees, on transactions financed under the CIP. Such fees and commissions shall be for the account of the importer and will not be financed under the CIP.

11. The Approved Applicant Bank(s) shall be indebted to the Government of Liberia for the local currency equivalent of the face amount of each letter of credit opened under the CIP, calculated at the most favorable rate of exchange which, at the time the conversion is made, is not unlawful in Liberia.

The Approved Applicant Bank(s) shall pay into the "Special Account", established for deposit of local currency generated by the CIP, all local currency collected or due for letters of credit opened under the CIP, immediately or not more than five (5) working days from the date the letter of credit was opened. In addition, the Approved Applicant Bank(s) will pay into the "Special Account" on the same date, fifty percent (50%) of the L/C local opening and other fees collected from importers with respect to transactions financed under the CIP. The remaining fifty percent (50%) of the fees collected shall be retained by the Approved Applicant bank as a fee for administrative services associated with implementing the CIP. Due to the need to adhere to the recommendation of the U.S. Government Accounting Office (GAO), the "Special Account" will be established with a U.S. commercial bank, Citibank.

In the case of petroleum, an additional payment into the special account will be required. Since the wholesale price of petroleum is much greater than the price at which petroleum is purchased, the importer will be required to make an additional deposit into the special account within 60 days of arrival of the petroleum at port. This additional time is to give the importer time to sell the product. The additional deposit will be equal to the established wholesale value minus the following costs: CIF value of product valued in local currency (which has already been deposited); fifty percent of the fees and commissions collected by the Approved Applicant Bank(s) (which has already been deposited); LPRC charges and fees; and charges and fees assessed by the private sector importer to cover its costs of operations. The wholesale value and those charges and fees assessed by LPRC and the private sector importer will be agreed to in writing by USAID, the GOL, and the importer before an L/C is issued.

12. USAID will furnish the Chairman of the EFMC, or his/her designee, a quarterly report showing all proposed private sector transactions concurred in by USAID.

13. Approved Applicant Bank(s) shall meet the following reporting requirements:

    a. a copy of all letters of credit issued under the CIP shall be forwarded to USAID, not latter than 30 days after opening;

    b. A copy of all amendments to letters of credit issued under the CIP, i.e., those that deal with major conditions such as value, quantity, validity, terms, etc., shall be forwarded to USAID not later than 30 days after issuance.

c. A detailed monthly statement, showing all new letters of credit opened or new amendments issued during the period covered, shall be submitted to USAID not later than the 15th day of the following month;

d. A quarterly statement showing all local currency collected or due against the face value of letters of credit opened, the amount of local currency collected in L/C local opening and other fees for each transaction financed under the CIP, and the additional deposits due to the import and sale of petroleum under the CIP.

The quarterly statement shall also show the amount of local currency deposits made into the "Special Account" during the reporting period. The statement shall be sent to USAID not later than the 15th day of the month following the end of the quarter.

14. The private, commercial bank in which the "Special Account" is located, will ensure that the "Special Account" can at all times be operated in cash. The bank undertakes to request a full cash payment from the importer and to hold this cash in a separate vault at the disposal of the GOL.

The Government of Liberia agrees that the balances in the Special Account will not be subject to the 8% non-interest bearing portion of the excess balances, for the special service provided by the bank of assuring full monetization of the Special Account balances.

The bank will provide the Ministry of Finance, or its designee, and USAID, monthly account statements indicating deposits, withdrawals, and account balance. In addition, the bank will report interest earned or due on "Special Account" deposits. Such interest earned will be deposited in the "Special Account".

15. USAID will provide banks participating in the CIP with copies of AID Regulation 1, AID Commodity Eligibility Listing and the AID Commodity Procurement Instructions (CIP) for the AID CIP Grant. In addition, USAID is prepared to conduct seminars and/or briefings with bank officials to explain the responsibilities of the banks in implementing the CIP.

16. Banks participating in the CIP will be responsible for executing the provisions contained in this "Operating Circular". In the event of willful or flagrant violation of any of the provisions of the "Operating Circular", or applicable AID regulations, on the part of a participating bank or importer, the Ministry of Finance and USAID may jointly agree to:

a. place the offending party on probation for a specific period of time; or

b. prohibit the offending party from future participation in the CIP, and/or;

c. require the offending party to reimburse AID in U.S. dollars, or the Government of Liberia in local currency, for the amount of funds advanced under the CIP, or applicable to the "Special Account".

Signatures:

____________________ U.S.A.I.D.

____________________ Chairman, EFMC

____________________ Participating Bank

ANNEX H
U.S. EXPORTS TO LIBERIA IN KEY COMMODITY AREAS
BY SITC SECTIONS

IMPORTS	1984	%	1985	%	1986	%
FOOD & BEVERAGES	38,379,331	47.0	43,159,802	58.0	41,627,171	64.0
FUEL & LUBRICANTS	2,919,587	3.5	48,518	0.1	448,820	.7
MACHINERY & CAPITAL EQUIPMENT	16,493,256	20.0	10,880,642	14.7	7,829,277	12.0
TRANSPORT EQUIPMENT	3,897,404	4.7	3,331,475	5.0	2,087,401	3.2
CHEMICALS	6,415,872	7.8	3,832,517	5.2	2,858,541	4.4
ELECTRICAL GOODS & PARTS	1,918,288	2.0	2,062,076	3.0	1,311,919	2.0
COMMODITIES NOT CLASSIFIED BY TRANSACTIONS	11,976,262	15.0	10,533,488	14.0	9,104,871	14.3
TOTAL	$82,000,000	100.0	$73,800,00	100.0	$65,268,000	100.0

Source: Ministry of Planning and Economic Affairs, External Trade of Liberia.

SUMMARY OF POTENTIAL END USERS OF CIP ON ANNUAL BASIS

PRIVATE SECTOR	TOTAL FX REQUIREMENT	FX OBTAINABLE UNDER CIP
FIRMS	$	$
CEMENCO	5,000,000.00	500,000.00
ROBERT BRIGHT & SONS	1,603,800.00	178,800.00
PARKER INDUSTRIES INC.	1,098,447.00	20,474.00
NATIONAL MILLING CO.	1,980,000.00	1,980,000.00
RAINBOW INSUSTRIES INC.	720,000.00	- 0 -
MEZBAU INC.	1,367,000.00	- 0 -
LIPCO GROUP OF COMPANIES	514,000.00	514,000.00
PETROLEUM	45,000,000.00	2,000,000.00
TOTAL	$55,303,247.00	$5,193,274.00

PUBLIC SECTOR

FIRM	$	$
LIBERIA TELECOMMUNICATON CORP.	2,000,000.00	1,375,000.00
LIBERIA WATER & SEWER CORP.	688,000.00	-* 0 -
LIBERIA ELECTRICITY CORP.	3,183,000.00	2,462,000.00
TOTAL	$5,871,000.00	$3,837,000.00

*Because of its inability to generate local currency, the Company will be unable to utilize CIP Funds although its commodities are eligible under CIP.

ANNEX I
PRIVATE SECTOR CIP PROCEDURES

1. After AID's internal approval process is completed, a Grant Agreement is signed between USAID and the Government of Liberia which is the basis to establish a Commodity Import Program (CIP).

2. One or more private commercial bank(s) are nominated by USAID and, with the approval of the Government of Liberia, are selected to act as Approved Applicant Bank(s) (Letter Of Credit Bank).

3. The Approved Applicant Bank(s) nominates its U.S. Correspondent Bank to act as the AID Letter Of Commitment Bank. (L/COM Bank).

4. After meeting all Conditions Precedent (CP's) to disbursement, the Government of Liberia (Ministry of Finance) submits a Financing Request (FR), Form AID 1130-2, TO AID/WASHINGTON, through USAID/LIBERIA, which requests a Letter of Commitment (L/COM) be opened by AID/WASHINGTON in favor of the designated U.S. L/COM Bank.

5. When the L/COM is opened, it is the authorization for the Approved Applicant Bank(s) to open Commercial Letters of Credit.

6. Liberian Importers contact U.S. commodity suppliers and request quotations (proforma invoices). In the case of petroleum, offers from non U.S. suppliers would be obtained. Suppliers submit offers directly to importers.

7. The importer selects the supplier after analyzing offers.

8. The importer goes to the Ministry of Commerce, Industry and Transportation (MCIT) and obtains and completes a Government of Liberia Import Permit/Declaration Form (IPD).

9. The importer pays the National Bank of Liberia a non-refundable import fee equivalent to 1.5% of the cif value of commodities to be imported or $120.00, which ever is higher. Import fees are not eligible for financing under the CIP.

10. After completion of the IPD Form and payment of the import fee, the IPD Form, the official fee receipt, and three copies of the suppliers proforma invoice are forwarded to MCIT, Division of Foreign Trade.

11. MCIT, Division of Foreign Trade approves the importation and determines whether or not the commodities are subject to pre-shipment/inspection by Societe Generale De Surveillance S.A. (SGS). (Import of commodities with F.O.B. value less than $3,000 may be exempted. Inspection is waived for the Concessions and Chick Importers).

12. The importer takes his approved IPD Form to the Approved Applicant Bank(s) and applies for a Letter of Credit.

13. The Approved Applicant Bank(s) reviews the transaction to make an initial determination if it is eligible for financing under the CIP Grant. The following criteria will be utilized:

    a. Eligible Importer - Firms that are, to all intents and purposes, private in ownership and management

    b. Eligible Commodity - eligible in accordance with AID Commodity Eligibility Listing.

    c. Country Source and Origin - AID Code 000 - "The United States".

    d. Value of Transaction - $10,000 minimum L/C Value except for spare parts and $250,000 maximum L/C value, except for wheat and petroleum.

14. The Approved Applicant Bank(s) forwards importer application to USAID, if it determines the CIP eligibility criteria are met.

15. After USAID confirms the Approved Applicant Bank(s) initial determination and, in addition, finds that the proposed transaction is not at variance with USAID development priorities, it will return the application to the Approved Applicant Bank(s) with a "Letter of No Objection."

16. The Approved Applicant Bank(s) notifies the importer that his application for financing the transaction under the USAID CIP has been approved.

17. The importer pays the Approved Applicant Bank(s) the U.S. dollar value of the L/C in Liberian dollars at the most favorable rate of exchange which, at the time the conversion is made, is not unlawful in Liberia, or makes proper credit arrangements according to the banks requirements.

18. Based on a prior agreement with USAID and the Government of Liberia, the Approved Applicant Bank(s) deposits the local currency into a "Special Account" immediately, or within five work days, from the date of L/C opening. Funds in the Special Account will be used for such purposes as described in a "Memorandum of Understanding" between AID and the Government of Liberia. In the case of petroleum an additional deposit will be required as outlined in the operating circular.

19. The Approved Applicant Bank(s) transmits the L/C to the U.S. L/COM Bank. The L/C will specify required supplier's documentation (Commercial Invoice, Bill of Lading, SGS Report of Findings, Supplier Certificate and Agreement (AID FORM 282), application for approval of commodity eligibility (AID FORM 11).

20. The U.S. L/COM Bank notifies the supplier that they are in possession of an irrevocable L/C in his favor.

21. Supplier applies to the AID/W Office of Procurement for AID FORM 11 Approval (Approval of Commodity Eligibility).

22. At least ten days prior to shipment, the supplier advises SGS where commodities may be inspected and shipment date. When pre-inspection is requested, the supplier is required to provide SGS with relevant documentation, such as: Proforma Invoice, Purchase Order, Letter of Credit, Contract, Price Lists, Tender Documents, Confirmation Advice, Product Sample, other relevant documentation.

23. Upon completion of inspection, SGS issues a Report Of Findings (ROF). A "Clean Report Of Findings" will be issued if the inspection is satisfactory. A "Clean ROF" will be required by the L/COM Bank prior to making payment under the L/C. A "Non-negotiable Report Of Findings" will be issued if the SGS inspection reveals discrepancies. The supplier must correct any discrepancies and receive a "Clean ROF" prior to submitting his L/C payment documentation to the L/COM Bank.

24. A copy of the SGS Report of Findings, together with a copy of the supplier's final commercial invoice is sent by SGS to the Liberian Bureau of Customs and Excise, who establishes the import duty to be levied.

25. Supplier ships commodities to the Liberian Importer. Only U.S. Flag vessels are eligible for financing under the CIP Grant.

26. When the supplier has obtained an On-Board Bill Of Lading, he assembles all necessary payment documentation required in the L/C, and presents it to the L/COM Bank for Payment.

27. L/COM Bank pays supplier.

28. The L/COM Bank dispatches documents and advice of payment to the Approved Applicant Bank(s) in Liberia.

29. The L/COM Bank forwards the suppliers documents to the AID Finance Office in New York for reimbursement against the Letter of Commitment. Documents are then sent to the AID/W Office Of Procurement for post-audit.

30. Upon receiving advice of payment, the Approved Applicant Bank(s) notifies the importer and provides him with the negotiable instruments required to secure the release of his commodities from customs.

31. When the commodities arrive in Liberia, they are unloaded into warehouses or storage sites in the port area. The importer, or his freight forwarder, clears goods through the port.

32. Importer pays custom duties and is then free to move the commodities directly into the market.

33. USAID monitors commodity arrival and disposition from the agreement stage through shipment, arrival in and release from customs, and acceptance by the importer. The monitoring system will reflect the utilization (Sale) of AID financed dollar exchange, the local currency dollar equivalents collected therefrom, the dollar value of commodities shipped, (as represented by the value of advance documentation forwarded by ~~suppliers~~ to the Commercial Bank(s)), or the commodities released to importers (as developed by customs). In addition, USAID will conduct sample end-use checks on private importers.

34. Importers should ensure that goods are promptly cleared from customs upon entering Liberia. In no event should such goods remain in customs for a period in excess of 60 calendar days from the date of their arrival (GOL regulations state that goods are subject to confiscation after 60 days). Importers shall also ensure that goods imported under the CIP are consumed, used, or sold not later than one year from the date they are removed from customs, unless a longer period can be justified to the satisfaction of USAID by reason of force majeure, or special market conditions or other circumstances.

35. Under the terms of the CIP, importers shall permit USAID or any of its authorized representatives at all reasonable times during the 3-year period following the date of payment by AID for the commodities, to inspect the commodities at any point, including the point of use and to inspect all records and documents pertaining to such commodities.

ANNEX J
PUBLIC SECTOR CIP PROCEDURES

1. After AID's internal approval process, a grant agreement is signed between USAID and the Government of Liberia, which is the basis to establish a commodity import program (CIP).

2. One or more private commercial bank(s) are nominated by USAID and, with the approval of the Government of Liberia, are selected to act as Approved Applicant Bank(s) (Letter of Credit Banks).

3 The Approved Applicant Bank(s) nominates its U.S. Correspondent bank to act as the AID Letter of Commitment Bank (L/Com Bank).

4. After consultation and approval of USAID, specific dollar amounts are allocated from the public sector portion of the CIP to individual governmental units by the Ministry of Finance.

5. The Chairman of the EFMC submits a Financing Request, Form AID 1130-2 (FR) to AID/Washington, through USAID/Liberia, which request Letter of Commitments (L/Coms) be opened by AID/Washington in favor of the designated U.S. L/Com Bank. A separate Financing Request (FR) is submitted for each individual governmental unit, in the specific dollar amount of its CIP allocation.

6. When the L/Com is opened, it is the authorization for the Liberian Approved Applicant Bank(s) to open Commercial Letters of Credit requested by the GOL Unit.

7. The GOL Unit prepares technical specifications and general terms and conditions for an Invitation For Bid (IFB).

8. The GOL unit transmits IFB (tender), with technical specifications, to USAID/Liberia. USAID reviews IFB, making recommendations for alterations/changes that are within the technical competence of Mission Staff.

9. After final agreement between GOL unit and USAID on IFB contents, the draft IFB is forwarded to the AID/W Office Of Procurement.

10. AID/W Office of Procurement reviews the IFB to assure that the terms and conditions include all mandatory AID terms and conditions, and conforms to other AID standards. Specifications are reviewed to assure they are complete, are in compliance with U.S. standards and are not so restrictive that they prohibit adequate competition between suppliers.

11. If the IFB terms and conditions must be amended, AID/W informs USAID, usually by cable. USAID discusses the proposed changes with the GOL Unit. If changes present no significant difficulties, USAID cables AID/W its concurrence.

12. AID/W Office of Procurement assembles IFB in Final Form and reproduces sufficient copies for distribution to interested suppliers.

13. When the IFB is ready for distribution, AID/W notifies USAID by cable of the proposed Bid Opening Date (BOD) and request concurrence of USAID and the GOL Unit.

14. After the BOD and location for bid opening are established, the AID/W Office of Procurement request that the AID/W office of Small and Disadvantaged Business Utilization advertise the procurement in the "AID Financed Export Opportunities Bulletin." In most cases, a minimum period of 45 days is required between the date of advertising and the BOD.

15. Interested suppliers request a copy of the IFB in writing to the AID/W Office Of Procurement. Copies are mailed to prospective suppliers.

16. Suppliers submit sealed bids to the address/location specified in the IFB prior to the hour of the day indicated for bid opening. Depending on whether the bids will be opened in the U.S. or in Liberia, the address/location might be the Liberian Embassy in Washington, D.C. or the GOL Unit's Office in Liberia.

17. The GOL Unit or Embassy will assure that all envelopes containing supplier bid packages are secure and remain sealed until the bids are "publicly opened" at the formal bid opening.

18. At the hour and day specified, the public bid opening is conducted at the location indicated in the IFB. This may be at the Liberian Embassy in Washington, D.C., or an appropriate room in the GOL Unit's Offices in Liberia. A GOL Official will conduct the bid opening; open and read bids. The reading will usually be confined to a recital of name of bidder, items and quantity offered, inclusion of bid bond, and price. A USAID Officer(s) will be present to observe the bid opening and, if required, advise and assist the GOL Officials. One copy of each bid opened should be retained by the USAID Officer at the conclusion of the bid opening to assure that every bid is considered during the evaluation process and that no bid is later altered or modified in any way.

19. The GOL Unit evaluates all bids within the time frame specified in the IFB for the suppliers bid price to remain firm and the bid bond to remain valid. The GOL Unit's technical staff prepares an abstract of bids, and identifies the bidder who they consider is lowest in price and whose bid is responsive to the specifications and terms and conditions of the IFB.

20. After its bid evaluation is completed, the GOL unit submits the bid abstract and recommendation for award to USAID for review. USAID will have completed its own informal review. If there is no dispute, USAID concurs in the award to the lowest responsive bidder.

21. The GOL Unit notifies the successful bidder of the award and promptly releases all bid securities from unsuccessful bidders. USAID cables the AID/W Office of Procurement the bid results.

22. The successful bidder submits his performance bond to the GOL Unit and his bid bond is released. The GOL Unit signs and issues a purchase contract that conforms to IFB terms to the supplier.

23. The GOL Unit proceeds to the Approved Applicant Bank(s) and opens a Letter of Credit in favor of the supplier, and pays the bank the U.S. dollar value of the L/C in Liberian dollars at the most favorable rate of exchange which, at the time the conversion is made, is not unlawful in Liberia, or makes proper credit arrangements according to the banks requirements.

24. Based on prior agreement with USAID and the Government of Liberia, the Approved Applicant Bank(s) deposits the local currency into a "Special Account" immediately or within five work days after the opening of the L/C. Funds in the "Special Account" will be used for such purposes as described in a "Memorandum of Understanding" between AID and the Government of Liberia.

25. The Approved Applicant Bank(s) transmits the L/C to the U.S. L/Com Bank. The L/C will specify required supplier's documentation (Commercial Invoice, Bill of Lading, Supplier Certificate and Agreement - AID Form 282, Application for Approval of Commodity Eligibility -AID Form 11).

26. The U.S. L/Com Bank notifies the supplier that they are in possession of an irrevocable L/C in his favor. The L/Com Bank confirms the L/C.

27. The supplier applies to the AID/W Office Of Procurement for AID Form 11 approval (Approval of Commodity Eligibility).

28. After receipt of Form 11 approval, the supplier prepares commodities for shipment. If the award was made on a CIF basis, the supplier books the shipment on a Code 000 (US) or Liberian Flag vessel. If award is FAS or FOB port, the supplier notifies the GOL Unit when the commodities will be available for shipment. The GOL Unit books the shipment on a U.S. Flag vessel and notifies the supplier of the port of loading and the shipping date.

29. The supplier transports the commodities to the port of loading and obtains an On-Board Bill of Lading. He assembles all other necessary payment documentation required in the L/C, and presents it to the L/Com Bank For Payment.

30. The L/Com Bank pays the supplier and dispatches documents and advice of payment to the Approved Applicant Bank(s) Liberia.

31. The L/Com Bank forward the suppliers documents to the AID Finance Office in New York for reimbursement against the Letter of Commitment. Documents are then sent to the AID/W Office of Procurement for post audit.

32. Upon receiving advice of payment, the Approved Applicant Bank(s) notifies the GOL Unit and provides it the negotiable instruments required to secure release of the commodities from customs.

33. When the commodities arrive in Liberia, they are unloaded into warehouses or storage sites in the port area. The GOL Unit, or its freight forwarder, clears commodities through the port, and is free to move them to its own facilities.

34. The GOL Unit releases the suppliers' performance security (bond).

35. USAID monitors commodity arrival and disposition from the agreement stage, through shipment, arrival in and release from customs, and acceptance by the GOL Unit. The monitoring system will reflect the utilization (sale) of AID Financed U.S. dollar exchange, the local currency dollar equivalents collected therefrom, the dollar value of commodities shipped (as represented by the value of advance documentation forwarded by suppliers to the Approved Applicant Bank(s), or the custom records of commodities released to the GOL Unit(s). USAID will conduct periodic end-use checks of the GOL Unit(s) to assure CIP Financed commodities are being utilized for the purpose intended.

ANNEX K
MEMORANDUM OF UNDERSTANDING
COMMODITY IMPORT/PROGRAM (CIP)
A.I.D. GRANT NO. 669-0214
SPECIAL ACCOUNT

Prior to the first disbursement of U.S. dollars under the Grant, the Government of Liberia (GOL) is required to provide AID evidence that a "Special Account" has been set up in a bank agreed to by AID and the Grantee's authorized representative. In addition, prior to disbursement of local currency from the Special Account, the Grant Agreement requires that criteria and procedures for disbursement be mutually agreed upon by AID and the GOL and that such criteria and procedures be incorporated into a signed "Memorandum of Understanding" between the parties.

AID, acting through its duly authorized representative, The Director, USAID/Liberia and the GOL, acting through its duly authorized representative, have caused this "Memorandum of Understanding" to be signed in their names and delivered on the day and year below written, in compliance with the Conditions Precedent specified in Section ____________ and Section ____________ of the Grant.

The parties further agrees to the following covenants with respect to use of local currency drawn from the Special Account:

(1) local currency will be programed to support economic reforms or to support developmental purposes which AID and the GOL mutually agree to; and

(2) priority will be given to supporting policies aimed at civil service reform, reducing the budget deficit, and restraining public expenditures.

It is expected that all transactions, both private and public, financed by the CIP will generate counterpart local currency to be deposited in a special account, with the following exception:

(1) up to seven percent ($350,000) of the first disbursement is set aside for financing technical assistance and training activities directly related to commodity procurement and CIP implementation. However, approximately only five percent of ~~total~~ CIP funding of $16.185 million ($800,000) will be used over the life of the program. Any unencumbered balances of funds which remain in the technical assistance set aside one year after the Grant Agreement date may be reallocated to the private or public sector as agreed to by the Parties; and

Importers will make 100% payment in local currency with the Approved Applicant Banks(s) at the time of opening the Letter of Credit (L/C). The Approved Applicant Bank(s) will then deposit the local currency collected in the Special Account immediately, and in no case later than five working days from the date of L/C opening. The exchange rate applicable to CIP transactions is the most favorable rate of exchange which, at the time the conversion is made, is not unlawful in Liberia.

It is hereby agreed by the Parties that the Special Account will be setup and located in Citibank, N.A., P.O. Box 280, Monrovia, Liberia. The Parties agree that the bank account established will be solely for the receipt of cash generated by the CIP and such proceeds may not be co-mingled with other funds from whatever source. Should any interest be earned on the Special Account, such interest will be treated as though it were principal. Citibank will pay half of the L/C local opening and other fees and commissions into the Special Account, which will then be treated as though it were principal.

In the case of petroleum, an additional payment into the special account will be required. Since the wholesale price of petroleum is much greater than the price at which petroleum is purchased, the importer will be required to make an additional deposit into the special account within 60 days of arrival of the petroleum at port. This additional time is to give the importer time to sell the product. The additional deposit will be equal to the established wholesale value minus the following costs: CIP value of product valued in local currency (which has already been deposited); fifty percent of the fees and commissions collected by the Approved Applicant Bank(s) (which has already been deposited); LPRC charges and fees; and charges and fees assessed by the private sector importer to cover its costs of operations. The wholesale value and those charges and fees assessed by LPRC and the private sector importer will be agreed to in writing by USAID, the GOL, and the importer before an L/C is issued.

To insure that the Special Account can at all times be operated in cash, Citibank will hold the full balance of the account in cash in a separate vault, subject to withdrawal at any time during normal business hours. The balances in the Special Account will not be subject to the 22% reserve requirement, nor subject to the 8% non-interest bearing portion of the excess balance, in recognition of the special service provided by Citibank of assuring full monetization of the Special Account balances.

The local currency cash representing the deposits to this Special Account, and to be held in a separate vault by Citibank, will not be subject to withdrawal except for uses as agreed upon by the parties. Exclusive joint signature authority over the Special Account will be held by the Chairman of the Economic and Financial Management Committee and by the USAID Director or their designee(s). Funds may be withdrawn from the account only upon joint signing by the two individuals holding joint signature authority.

The individual currently holding the office of the Chairman of the Economic and Financial Management Committee is Honorable John G. Bestman. The individual currently holding the position of USAID Director is Mary C. Kilgour. Their specimen signatures are enclosed as an attachment to this Memorandum of Understanding.

Citibank will provide the Parties, or their designee, a monthly Special Account statement, indicating deposits, withdrawals, and account balances.

SIGNED THIS ____________ DAY OF ______________, 1987

____
DIRECTOR
U.S.Agency For International Development
Monroevia, Liberia

____
Chairman, EFMC
Government of Liberia

____
VICE PRESIDENT
CitiBank
Monrovia, Liberia

ANNEX L
ADMINISTRATIVE BUDGET

The Commodity Management Officer (CMO) will be responsible for advising and assisting the Mission, responsible GOL representatives, and participating bank(s) on procurement and shipping requirements which are needed to implement the CIP. The Officer will be supervised by the Supervisory Program Economist. Representative duties include, but are not limited to:

1. Advises and assists in drafting agreements and implementing documents; provides guidance and information on AID procurement requirements, rules and regulations; prepares and processes required documents; and monitors all phases of the CIP to assure compliance with all U.S. Government and AID requirements.

2. Assists in the development and installation of end-use checks and controls to assure effective commodity utilization. Establishes procedures for prompt settlement of irregularities, such as improper specifications and illegal bids or awards; and assists in investigations, and prepares documentation and recommendations for corrective action. Advises on or establishes procedures for prompt settlement of loss, damages, theft and other claims.

3. Assists in the establishment of a reference library to include: supplier catalogs, applicable AID procedural directives, U.S. Federal and other specifications, GSA issuances, certain DOD issuances, and other technical references in procurement and supply management. Provides guidance in the design and preparation of publications for issuance by the mission or the cooperating country government such as manuals, handbooks, and instructions on purchasing, shipping, receiving, storage, accountability, inventory management, warehousing, and other supply management activities.

4. Attends local meetings of businessmen, trade shows, exhibitions, etc. Is available to speak before such groups and make presentations to promote the CIP.

In support of the CMO, a fulltime FSN will ~~be~~ hired. Funding is also provided for related short-term technical assistance and training directly related to commodity procurement and CIP implementation. All technical assistance will be contracted for and managed by the Mission.

BUDGET

US PSC 36 Months

Salary	$45,000	=	$135,000	
Post Diff.	25%		33,750	
COLA	4,900		14,700	
FICA	7.15%		12,065	
Education Allowance	9,000		27,000	
Post Assign. Costs - Air Travel R/T(3,000 x 7)			21,000	
- Ship to Post		(S) 10,500) (A) 2,450) (V) 3,000)	31,900	
- Return to U.S.			47,900	
Storage			9,600	
In-Country Travel and Transport			5,000	
Misc. Costs (Ins, etc.)			12,050	
Sub-total				350,000

Local Support Costs

Housing 1000 mo x 40 mo	$40,000	
Utilities 875 mo x 40 mo	35,000	
Guard Serv. 19,000 x 40 mo	63,200	
Maint. 500 x 40 mo	20,000	158,200
Total U.S. PSC Costs		$508,200

FN PSC 36 months (10/5)

	Yr.1	Yr.2	Yr.3	
Salary	$14,439	$14,937	16,000	
Transp.	338	338	400	
Fringe Benef. 8%	1,155	1,193	1,280	
	15,932	16,468	17,680	$50,080

Short-Term T.A. 4 trips (60 days/30 days)

Salary	269.12 x120 days	$32,295	
FICA	7.15%	2,310	
DBA INS.	2.49%	805	
Air Travel $3,000/Trip x10 =		30,000	
Per Diem 160 Days x $98 =		15,680	
Overhead 95%		77,035	
Fee	8.1%	6,570	
Misc. & Cont.		77,025	241,720
Total Costs			$800,000

U.S. PSC Project Manager	$508,200
FN PSC Asst. Manager	50,080
Short-term TA (IQC)	241,720
Total	$800,000

3537K

3(A)2 - NONPROJECT ASSISTANCE CHECKLIST

ANNEX M

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 Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1987 Continuing Resolution Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.	A congressional Notification was sent to congress in September 10, 1987
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?	No such action is required
3. FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.	N/A
4. FAA Sec. 601(a). Information and conclusions on 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	(a)This CIP will stimulate trade between the U.S. and Liberia. (b) 65% of CIP will be reserved for the private sector. (c) N/A

practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.	(d) CIP promotes competition (e) Equipment and spare parts imported under CIP will increase efficiently of recipients. (f) N/A
5. FAA Sec. 601(b). Information and conclusions 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).	This CIP will be used primarily to fund the sale of U.S. commodities to the private and public sector in Liberia
6. FAA Secs. 612(b); FY 1987 Continuing Resolution Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollarsto meet the cost of contractual and other services.	N/A
7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	N/A
8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes
9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?	N/A
10. FY 1987 Continuing Resolution Sec. 532. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?	No

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531(a). Will the assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?	Yes
b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities?	No
c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?	Yes
d. ISDCA of 1985 Sec. 205. Will ESF funds made available for commodity import programs be used for the purchase of agricultural commodities of United States-origin? If so, what percentage of the funds will be so used?	Yes, approximately 18% to 20% will be used to purchase agricultural commodities
e. ISDCA of 1985 Sec. 801. If ESF funds will be used to finance imports by an African country (under a commodity import program or sector program), will the agreement require that those imports be used to meet long-term development needs in those countries in accordance with the following criteria:	Yes

(i) spare parts and other imports shall be allocated on the basis of evaluations, by A.I.D., of the ability of likely recipients to use such spare parts and imports in a maximally productive, employment generating, and cost-effective way;

(ii) imports shall be coordinated with investments in accordance with the recipient country's plans for promoting economic development. A.I.D. shall assess such plans to determine whether they will effectively promote economic development;	Yes
(iii) emphasis shall be placed on imports for agricultural activities which will expand agricultural production, particularly activities which expand production for export or production to reduce reliance on imported agricultural products;	Yes
(iv) emphasis shall also be placed on a distribution of imports having a broad development impact in terms of economic sectors and geographic regions;	Yes
(v) in order to maximize the likelihood that the imports financed by the United States under the ESF chapter are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange use;	Yes
(vi)(A) 75 percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in subparagraph (B), shall be available only for use in accordance with the agreement for economic development activities which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under sections 103 through 106 of the FAA;	(a) Yes (b) Yes
(B) the agreement shall require that the government of the country make available to the United States Government such portion of the amount deposited in the special account as may be determined by the President to be necessary for requirements of the United States Government.	Yes

f. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country (1) is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or Weapons in Latin American (the "Treaty of Tlatelolco"), (2) cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States?

No

g. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to to the recipient country, have Special Account (counterpart) arrangements been made?

Yes, special account will be established.

h. FY 1987 Continuing Resolution. If assistance is in the form of a cash transfer to any country which receives in excess of a total of $5 million as cash transfer assistance in the current fiscal year: (a) are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account to be used in accordance with FAA Section 609 (which requires such local currencies to be made available to the U.S. Government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available)?

N/A

2. Nonproject Criteria for Development Assistance

N/A