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669-0205

PROGRAM GRANT AGREEMENT  
BETWEEN THE  
GOVERNMENT OF LIBERIA  
AND THE  
UNITED STATES OF AMERICA  
(669-K-608)

By this Agreement made and entered into on the 29th day of August 1986, the Government of the Republic of Liberia (hereinafter referred to as the "Government") and the United States of America, acting through the Agency for International Development (hereinafter referred to as "A.I.D."), hereby agree as follows:

Section 1 - The Grant

For the purpose of assisting the Government to achieve economic and political stability by providing foreign exchange, A.I.D. hereby grants to the Government pursuant to the Foreign Assistance Act of 1961, as amended, twenty-eight million two hundred and three thousand United States Dollars (\$28,203,000) (the "Grant").

Section 2 - Representations and Warranties

As of the date of its execution of this Program Grant Agreement, the Government represents and warrants that it has:

1. Made all payments required to avoid the sanctions of Section 518 of the Foreign Assistance and Related Programs Appropriations Act of 1986 (the "Brooke Amendment");
2. Made a written request to the IMF, confirmed to the satisfaction of A.I.D. by the IMF, to undertake a study of the national currency system of Liberia;
3. Made a written request to the IMF, IBRD or EEC, confirmed to the satisfaction of A.I.D. by the IMF, the IBRD or the EEC, to provide assistance in arranging for expatriate operational personnel for the Ministry of Finance ("MOF") and the National Bank of Liberia ("NBL"); and
4. Made a written request to A.I.D., accompanied by a scope of work acceptable to A.I.D., for audits of the Liberia Produce Marketing Corporation ("LPMC") and the Liberia Petroleum Refining Corporation ("LPRC"), to be performed by an international certified public accounting firm with offices in Monrovia.

BEST AVAILABLE DOCUMENT

Grant Agreement

Section 3 - Conditions Precedent to Disbursement

A. First Disbursement

Prior to the first disbursement of funds under this Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Government will, except as the parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

1. A copy of the approved Budget of the Government of Liberia, with executive branch endorsement, for the Government budget year July 1, 1986 through June 30, 1987, and evidence that such budget has been published and made public. Such budget shall not include any prepayment of projected offshore revenues, except for the purpose of paying external debt obligations. Nor shall the budget include any increases in domestic arrears to vendors or for wages and salaries.
2. A copy of an Executive Statement instructing the Ministry of Finance not to approve any expenditures not provided for in the budget, unless such expenditures are completely offset by budget reductions in areas other than the payment of external public debt obligations.
3. A copy of a prioritized list of external public debt payments prepared by the Ministry of Finance and the National Bank of Liberia for the period of July 1, 1986 to June 30, 1987. This list shall include all payments required to avoid the sanctions of the Brooke Amendment as well as other payments that maximize net capital inflows. A schedule of projected payments against projected availabilities of offshore revenues will accompany the list.
4. A copy of (a) the scopes of work agreed upon by the Government and the IMF/IBRD/EEC for expatriate operational personnel to work on expenditure controls and revenue collection in the Ministry of Finance and on offshore funds collection and disbursement in the National Bank of Liberia, and (b) the request to the IMF, IBRD and/or EEC to finance the services of these expatriate operational personnel. The scope of work shall describe the control system to be used by these inputs.
5. A copy of a draft economic recovery plan to deal with the country's crisis over the next two years.
6. A copy of the payment instruction prepared by the National Bank of Liberia (NBL) to the Federal Reserve Bank of New York specifying how the FY86 ESF funds to be deposited into the GOL account at the Federal Reserve Bank of New York are to be disbursed for the payment of mutually agreed priority international debt.

X B. Second Disbursement

If there is a second disbursement of funds under this Grant, prior thereto the Government will, except as the parties may otherwise agree in writing, furnish A.I.D., in form and substance satisfactory to A.I.D.:

1. Copies of contracts entered into with internationally recognized accounting firms for audits of LPRC and LPMC.
- 01 2. A copy of a signed agreement for expatriate operational personnel at the Ministry of Finance in the areas of revenue collection and control and in expenditure management. Such contracts shall specify that:
  - ✓(a) Revenue specialists will oversee and report on the collection and deposit of revenues, and
  - ✓(b) Expenditure control experts under the Minister of Finance will oversee and report on all expenditures under an approved budget.
- 71 3. A copy of a signed contract or other commitment documents for expatriate managers at the NBL to oversee the collection and disbursement of offshore funds belonging to the Government.
- 01 4. A copy of the revised and final Economic Recovery Plan.
5. Copies of telexed confirmations of deposits into the Government's Special Debt Service Account at the Federal Reserve Bank in New York and copies of monthly Government statements of offshore revenues showing that on a monthly basis commencing September 1, 1986, the Government has deposited at least 30% of its offshore revenues towards meeting the debt obligations listed in the schedules provided pursuant to Condition Precedent A.3. of this Agreement.
6. A copy of the payment instruction prepared by the National Bank of Liberia (NBL) to the Federal Reserve Bank of New York specifying how the FY86 ESF funds to be deposited into the Government account at the Federal Reserve Bank of New York are to be disbursed for the payment of mutually agreed priority international debt.
- 01 7. Evidence that the IMF is studying the national currency system of Liberia.

Section 4 - Notification of Satisfaction of Conditions Precedent

When A.I.D. has determined that the conditions specified in Section 3 have been met, A.I.D. will promptly notify the Government.

Section 5 - Terminal Date for Conditions Precedent

- A. If the Conditions Precedent specified in Section 3.A. have not been met within 60 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to the Government.
- B. If the Conditions Precedent specified in Section 3.B. have not been met within 135 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to the Government. 1/12/8 ?

Section 6 - Disbursement

- A. Disbursement of the funds made available under this Grant, and any amendments thereto, may be made in installments pursuant to requests for disbursement by the Government in such amount or amounts, and at such time or times, as A.I.D. may agree to in writing. Requests for disbursements of funds will be submitted to the Director, A.I.D., Monrovia. In accordance with the disbursement requests, A.I.D. will deposit funds to the Government's account in the Federal Reserve Bank of New York.
- B. The request for disbursement of funds under this Grant may be made upon satisfaction of the Conditions Precedent to disbursement under Section 2 herein.

Section 7 - Terminal Date for Disbursement

The terminal date for disbursement of funds will be March 31, 1987, except as A.I.D. may otherwise agree to in writing.

Section 8 - Taxation

This Agreement and the amount granted hereunder shall be free from any taxation or fees imposed under any laws in effect within the Republic of Liberia.

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Section 9 - Special Covenants

In recognizing the need for fiscal reform and budgetary balance, the Government hereby covenants during the period commencing with the execution of this Agreement through June 30, 1987, that it shall:

1. Not borrow from any taxpayers, whether local or foreign, in anticipation of future tax receipts, profit sharing, maritime revenues or any other revenues, not incur any further domestic deficit, not increase domestic borrowing, not use offshore funds for the financing of domestic expenditures, not incur further domestic vendor or salary arrearages, not borrow from the banking system;
2. Not permit public expenditures to exceed allocations, and not incur extra-budgetary expenditures and "tax expenditures";
3. Attempt to reduce domestic arrearages;
4. Not issue any Liberian coins or currency minted or printed after the date of execution of this Agreement, unless such minting or printing is consistent with a recommendation, such as one arising out of the study referred to in Representations and Warranties (Number 2) of this Agreement; and
5. Make all payments required to avoid the sanctions of the Brocke Amendment.

Section 10 - Records, Reports, Inspections

The Government agrees that financial records relating to the funds granted by A.I.D. under this Grant will be kept in accordance with generally accepted accounting principles, and that such information and records relating to the Grant will be made available to A.I.D., as A.I.D. may reasonably request.

Section 11 - Communications

Any notice, request, document or other communication submitted by either party to the other will be in writing or by telegram, cable or radiogram, and will be deemed duly given or sent when delivered to such party at the following address:

To the Government:  
Ministry of Finance  
Monrovia, Liberia

To A.I.D.:  
USAID, American Embassy  
Monrovia, Liberia

Other addresses may be substituted for the above upon the giving of notice.

Section 12 - Representatives

For all purposes relevant to this Agreement, the Government will be represented by the individuals holding or acting in the offices of the Minister of Finance, Minister of Planning and Economic Affairs, and the Governor of the National Bank of Liberia, and A.I.D. will be represented by the individual holding or acting in the office of Mission Director, USAID, Monrovia, Liberia. Each of them, by written notice, may designate additional representatives for all purposes other than for amendments to this Agreement. The names of the representatives of the Government, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized each instrument signed by such representatives in implementation of this Agreement until receipt of written notice of revocation of their authority.

Section 13 - Implementation Letters

A.I.D., from time to time, will issue Program Implementation Letters (PILs) that will furnish additional information about matters stated in this Agreement. The parties may also use PILs to confirm and record their mutual understanding on aspects of the implementation of the Agreement. PILs are not to be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement.

Section 14 - Suspension, Cancellation or Termination

A. If at any time

1. The Government shall fail to comply with any provision of this Agreement; or
2. An event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable either that the purpose of the Grant will be attained or that the Government will be able to perform its obligations under this Agreement; or
3. Any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.;

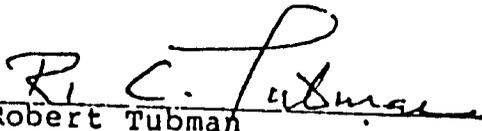
Then A.I.D. may suspend or cancel any disbursement of United States funds under this Agreement.

- B. In addition, this Agreement may be terminated by either party at any time by giving the other party thirty (30) days written notice. Any termination shall not terminate the rights and obligations of the parties under Section 9 of this Agreement.

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IN WITNESS WHEREOF, the Government of the Republic of Liberia and the Government of the United States of America, each acting through its duly authorized representatives, have caused this Agreement to be signed in their name and delivered as of the day and year first written above.

FOR THE GOVERNMENT OF THE  
REPUBLIC OF LIBERIA

  
Robert Tubman  
Minister of Finance

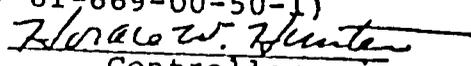
FOR THE GOVERNMENT OF THE  
UNITED STATES OF AMERICA

  
Edward J. Perkins  
Ambassador

  
Paul R. Jeffy  
Minister of Planning  
and Economic Affairs

  
Mary C. Kilgour  
Mission Director  
USAID/Liberia

  
John Bestman  
Governor of the National  
Bank of Liberia

Appropriation 72-1161037  
Budget Plan Code: GESA-86-31669-KG31  
(Allowance 637-61-669-00-50-1)  
Funds Available:   
Controller

AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AFR/PD, Laurence Hausman 

SUBJECT: Liberia Program Grant (669-K-608)

Problem: Your approval is requested to authorize a Program Grant (cash transfer) of \$28,203,000 to the Government of Liberia.

Discussion: During the past six years AID has directed its ESF Program towards helping to stabilize the Liberian economy. The recent strategy was that ESF disbursements combined with GOL resources would keep the GOL current in its debt obligations to the IMF and the World Bank, thus permitting continued disbursements by these two institutions. These inflows would permit uninterrupted implementation of World Bank projects and also encourage the GOL to make necessary policy reforms. However, these reforms were not fully implemented; escalating IMF repayments rapidly added to the debt burden, and shortages of offshore GOL resources led to the rapid accumulation of debt arrears and the virtual disappearance of large capital inflows. Unrestrained extra budgetary spending in the period leading to the election and in the aftermath caused a significant deterioration in the GOL budget deficit. In view of the sheer magnitude of these problems, coupled with the reduced level of ESF, it became apparent that efforts by the U.S. and other external donors to assist in relieving Liberia's economic plight were futile without vastly improved economic management and far better fiscal discipline. It is clear that policy reform is an absolute prerequisite to effective use of ESF and that such reforms must come before and not as an anticipated result of the program.

During mid-April 1986, a high level U.S. delegation (Crocker, Lyman, Richards) met with a number of key GOL policy makers, including the President, to again emphasize the need for the introduction of and compliance with major policy reform measures and to discuss various conditions that would have to be met before FY 1986 ESF resources can be obligated. The U.S. delegation emphasized that U.S. assistance would be directly tied to policy reform benchmarks and left with the President a list of eleven steps to deal with the economic and financial crisis (page 30 of PAAD). This was followed by a May visit by the IMF, and a June World Bank team. The theme was the same: Donor funds will be largely irrelevant in the absence of fundamental improvements in economic management and immediate policy reform. The GOL was told that the adoption of a policy reform agenda will be linked to the disbursement of ESF funds.

Project Antenna  
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The objectives of this program grant are:

1. To encourage the GOL in the implementation of reforms and adjustments to economic policies required to place the country on a sounder financial and economic footing.
2. To help the GOL meet its highest priority foreign debt obligations so that donor support for Liberia's reform efforts will continue.

These limited and specific objectives will be addressed by an implementation strategy which utilizes ESF resources to pay priority external debt. The priority debt for which ESF will be used is the debt to the World Bank (IBRD and IDA), and the IMF. The IMF is providing technical assistance and advice to the GOL. A large IMF team completed a mission in late May and appears willing to provide additional technical assistance to the GOL. The payment of the debt to the IBRD will help to keep the IBRD engaged with Liberia, helping it in the search for solutions to its problems and will lead to continued disbursements by the IBRD. These disbursements will permit the resumption of project activities and at least provide some element of public sector investment activity.

The new GOL economic management team which was installed in early April has begun to define and implement a policy reform/economic recovery program. We have judged that progress in complying with the 11 points has been sufficient, even better than expected, to recommend authorization of the Program Grant. Disbursements will be directly tied to continued implementation of the 11 points. Further, the GOL team places top priority on utilizing offshore funds for clearing external debt arrears, in order to enhance the country's international image and assure continued resource flows.

The following is the Mission's illustrative disbursement schedule which is subject to change:

	<u>First Disbursement</u>	<u>Second Disbursement</u>	<u>Total</u>
IBRD/IDA	\$18,000,000	\$3,203,000	\$21,203,000
IMF	_____	<u>7,000,000</u>	<u>7,000,000</u>
Total	\$18,000,000	\$10,203,000	\$28,203,000

The eleven points of the Crocker/Lyman/Richards plan are directly incorporated into the CPs for the first and second disbursements and the covenants (see pages 43-46 of the PAAD):

Recommendation: That you sign the attached PAAD authorizing a \$28.2 million Program Grant for Liberia.

Drafted: USAID/Monrovia: ECostello: 647-9066: 7/18/86: 2454K

Clearances:

GC/AFR: AVance	(Draft)	Date	8/1/86
AFR/CCWA: CSteele	(Draft)	Date	7/21/86
AFR/CCWA: JEColes	(Draft)	Date	7/30/86
M/FM: WMcKeel	<i>ESD</i>	Date	<i>8-18-86</i>
AFR/DP: JPatterson	(Draft)	Date	7/23/86
DAA/AFR: LRichards	<i>JL</i>	Date	<i>8/15/86</i>
PPC/PB: RMaushammer	(Draft)	Date	8/13/86