PD-AAM-537

Agency for International Development

Washington, D. C. 20523

Bureau for Africa

Liberia

Program Grant

Project No. 669-K-604

Authorization Package

Project Assistance Authorization Document

Amendment No. 1

Authorization Date: December 31, 1981

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM : AAA/AFR/DR, ~~John W. Koehring~~ JWKoehring

SUBJECT : Liberia Program Grant (669-K-604) - Amendment No. 1

<u>Problem:</u> Your approval is required to amend the Liberia Program Grant (669-K-604) to increase the total funding by $6 million from $10 million to $16 million. The funds will come from the Economic Support Fund (ESF) Appropriation.

<u>Discussion:</u>

A. <u>Background</u>

Since August 1980 program grants totaling $47 million have been provided to the Government of Liberia (GOL). The amount of the FY 1980 Grant was $5 million; the two FY 1981 Grants totaled $32 million; and $10 million has been provided so far through the FY 1982 Grant. The purpose of these grants has been to help the GOL deal with its ongoing fiscal crisis and meet its international obligations.

Liberia's economic problems, although predating the April 1980 coup, were aggravated by it. Major factors in Liberia's continuing fiscal/balance of payments crisis include: (a) declining foreign exchange receipts, (b) rapidly increasing foreign exchange obligations, (c) declining domestic revenues, (d) inadequately controlled budget expenditures, (e) illiquidity of the banking system and (f) lack of private sector confidence in the GOL's ability to resolve the crisis. All these factors are interrelated, partly because Liberia uses the U.S. dollar as its domestic medium of exchange. The result is GOL difficulty in meeting both external and domestic obligations (oil imports, debt servicing, monthly government payrolls, etc.) and a contracting economy with high and increasing urban unemployment.

A joint GOL/International Monetary Fund $85 million, two-year, standby stabilization program is currently in its second year. The GOL has met the IMF's performance criteria so far and the program has made some progress in stabilizing the Liberian economy. However, resolution of Liberia's continuing crisis is still some way off.

The purpose of this program grant amendment is to help the Government of Liberia (GOL) deal with its ongoing fiscal/balance of payments crisis by providing the resources needed to meet its minimum requirements for offshore dollar balances through December 31, 1981. The impact of the joint GOL/IMF stabilization program, as well as GOL needs, are being assessed regularly as a basis for the continuing U.S. cash grant assistance program.

The provision of this program grant will further strengthen U.S./Liberian relations by once again illustrating the U.S. willingness to effectively respond during Liberia's time of crisis, and reconfirm the wisdom of Liberia's policy of maintaining close ties with the free world financial and economic systems, while keeping the Libyans and Eastern European countries at bay. Therefore, this grant is in direct support of U.S. immediate and long-term interests in Liberia.

B. Implementation Arrangements

Amendment No. 1 to the Grant Agreement will provide, upon the satisfaction of the conditions precedent to additional disbursement, for immediate disbursement of up to the amount of the Amendment into an account owned by the GOL in a U.S. bank. It is anticipated that all disbursements from the GOL account in a U.S. bank financed by the Amendment will be completed within 50 days after the signing of the Amendment. The Amendment will not change any of the terms and conditions of the original grant.

C. Analyses and Requirements

The categorical exclusion from AID's environmental requirements contained in the original grant remains valid. The requirements of FAA Section 611(a) are not applicable. No human rights issues have been raised. No waivers are necessary to complete this action.

D. Congressional Apprisement

Congress was informed of AID's intent to provide $6 million in additional ESF funds to the GOL through this grant during FY 1982 on December 14, 1981. This notification expired on December 29, 1981 with no objection.

E. Responsible Offices

The USAID/Liberia Controller will be the field manager of the grant. AFR/DR/CCWAP will be the responsible office in AID/W.

Recommendation: That you sign the attached PAAD Amendment for the Liberia Program Grant (669-K-604) and thereby increase total funding by $6 million from $10 million to $16 million.

Clearances:
AFR/CWA:FScordato (Draft)
GC/AFR:EDragon (Draft)
AAA/AFR/DP:ICoker

Drafted by:AFR/DR/CCWAP:ESmith:cel:12/28/81.

CLASSIFICATION:

AID 1120-1 (8-66)

PAAD

Amend.

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

AMENDMENT

1. PAAD NO.

2. COUNTRY
Liberia

3. CATEGORY
Program Grant (cash) 669-K-604
Amendment No. 1

4. DATE

5. TO:
Mr. F. S. Ruddy, AA/AFR

6. OYB CHANGE NO.

7. FROM:
Mr. John W. ~~Koehring~~, AAA/AFR/DR
JW Koehring

8. OYB INCREASE

TO BE TAKEN FROM:

9. APPROVAL REQUESTED FOR COMMITMENT OF:
$6,000,000 ($16,000,000 total)

10. APPROPRIATION - ALLOTMENT

11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
☐ LOAN ☒ GRANT	☒ INFORMAL ☐ FORMAL ☐ NONE	Dec.30,1981-Feb.28,1982	Dec. 30, 1981

15. COMMODITIES FINANCED
NA

16. PERMITTED SOURCE
U.S. only:
Limited F.W.:
Free World:
Cash $ 6,000,000 ($16,000,000 total)

17. ESTIMATED SOURCE
U.S.:
Industrialized Countries:
Local:
Other:

18. SUMMARY DESCRIPTION

The purpose of this program grant amendment is to help the Government of Liberia (GOL) deal with its ongoing fiscal/balance of payments crisis by providing the resources needed to meet its minimum requirements for offshore dollar balances through December 31, 1981. The impact of the joint GOL/International Monetary Fund (IMF) stabilization program, as well as GOL needs, are being assessed regularly as a basis for the continuing U.S. cash grant assistance program.

The provision of this program grant amendment will further strengthen US/Liberian relations by once again illustrating the U.S. ability to respond effectively during Liberia's time of crisis, and reconfirm the wisdom of Liberia's policy of maintaining close ties with the free world financial and economic system, while keeping the Libyans and Eastern European countries at bay.

19. CLEARANCES	DATE
AFR/CWA:F. Spencer	
GC/AFR: E. Dragon	
AAA/AFR/DP: I. Coker	Dec 31/1981
AFR/DR:N. Cohen (Subs)	
DAA/AFR: W.H. North	

20. ACTION

☒ APPROVED ☐ DISAPPROVED

F. S. Ruddy — Dec. 31, 1981

AUTHORIZED SIGNATURE — DATE

Assistant Administrator for Africa

TITLE

CLASSIFICATION:

A. Summary and Recommendations

Immediately after the April 1980 coup, the new GOL found itself faced with worsening inflation, deteriorating terms of trade, disinvestment and capital flight, difficulty in financing its oil import bill, general lack of confidence, a drop off in business activity, and inadequate resources to meet all of its legitimate needs. At the same time, in the heady early days of the revolution, the GOL doubled the minimum salary of soldiers and civil servants, thus substantially increasing its recurrent obligations. These factors led to a rapidly crumbling financial situation. The United States Government has provided economic support funds (ESF) in the form of program grants to assist the Government to revive its economy and reestablish political stability. These program grants helped the GOL meet specific fiscal needs: budgetary support and foreign exchange to ensure adequate resources for essential external obligations, i.e., oil payments, rice imports and foreign debt servicing. Four program grants have been provided to the GOL: one in FY 80, two in FY 81 and one in FY 82.

1. ESF Program Grant I

On August 26, 1980 the first ESF grant agreement ($5 million) was signed by the GOL. These funds were allocated to help selected Liberian ministries responsible for economic and social development to continue activities. Without assistance these ministries would have had to suspend ongoing activities due to the GOL's inability to fund adequately its recurrent budget.

2. ESF Program Grant II

A second grant of $7 million was provided on December 18, 1980 as Liberia's fiscal crisis continued to deteriorate, despite efforts to meet the terms of the IMF standby agreement. The major reason for the continuing crisis was the inexperience of Liberia's new government, which resulted in excessive expenditures, and reduced international and local business confidence.

3. ESF Program Grant III

In early 1981, the USG undertook a reappraisal of the GOL's likely needs for the remainder of the U.S. fiscal year in the light of more realistic projections of the GOL's fiscal requirements. Particular attention was given to the Government's inability to meet the country's essential foreign obligations. Ever since overseas lines of credit dried up on the wake of the 1980 coup d'etat, the National Bank has had difficulty in transferring dollars overseas to make offshore payments. As a result of this analysis, and a policy decision to commit the United States Government to provide the financial resources necessary to meet Liberia's most pressing needs, the USG provided another program grant, $25 million, on May 19, 1981. These funds were considered adequate to meet this objective through September 30.

4. ESF Program Grant IV

On November 20, 1981 a fourth program grant was provided and was used to help the GOL meet its requirements under the IMF standby agreement.

Thus far ESF support has enabled the GOL to (a) continue to pay its oil bills, (b) meet IMF targets on debt servicing, and (c) continue to pay government workers. It has also ensured that sorely needed funds continue to flow to selected key development projects and has helped the GOL's adherence to the IMF standby arrangement and its quarterly performance criteria. Liberia, in December, received another tranche from the IMF under this arrangement.

Yet, the timing of our ESF flows and the IMF tranches are not always in synchronization with Liberia's needs to make certain offshore payments when these come due. On its part, the GOL has projected certain of these cash flows on a prorated basis, but actual cash requirements are such that a $6 million shortfall is likely to occur before the end of December 1981. It is therefore recommnded that the US Government approve an amendment to Liberia Program Grant IV (669-K-604) of $6 million, thus increasing the amount of the Grant from $10 million to $16 million.

B. Background

Liberia's economic difficulties, which became apparent in 1979, were aggravated by the April 1980 military takeover, as well as by external economic factors over which Liberia has no control. The crisis has essentially five elements: (a) a domestic economy which began to stagnate in 1977 and has registered a negative real growth rate of between minus 4 and 5 percent annually over the past two years; (b) a public sector foreign exchange crisis due to increased and accelerating external financial obligations, posed against reduced foreign exchange and revenue earnings to service these obligations; (c) near fiscal collapse which has its origins in large and persistent budget deficits which can only be financed by severe austerity measures, bringing expenditures into line with domestic revenues; (d) no liquidity at the National Bank because of government overdrafts, and (e) a lack of confidence by the business sector in the current government's ability to put its fiscal/financial house in order, which in turn is reflected in reduced levels of liquidity, investment and business activity, and, therefore, revenues. These elements are interrelated and, therefore, interact with each other. A solution to the current crisis has to address all five elements, while no one party, external or domestic, can resolve the situation by itself. Despite a favorable trade balance, Liberia has a considerable current account deficit caused by a large negative "service component". The GOL has virtually no foreign exchange and only very limited lines of credit to finance its external transactions. This situation is illustrated by monthly recurring last minute scrambles to pay oil bills, service debt and find cash to pay government workers. This reflects a loss of confidence in the National Bank of Liberia (Central Bank) which in turn is due to GOL's resort to overdrafts at the bank to help finance its fiscal deficits. The latter is the root cause of the problem. The fact that Liberia uses the U.S. dollar as its currency — although fundamentally beneficial — limits the Government's monetary flexibility, tends to exaggerate problems in short-term adjustments to liquidity constraints and makes financial control more difficult. The budget deficit has grown sharply since 1979. By IMF definitions it grew from $88 million in 1979/80 to $100 million in 1980/81 and may exceed this figure in 1981/82. This amounts to roughly 10 percent of GDP and constitutes more than 40 percent of domestic revenues. The deficit has its origins in reduced revenues, reflecting slow downs in major export industries as well as in the domestic economy, but more significantly in expenditures. The expenditure side of the problem consists of the following parts: (a) a bloated civil service with an unaffordably large salary component, (b) a large number of unprofitable and mismanaged public corporations which are a drain on public funds, (c) ineffectual attempts at expenditure control, and (d) mounting debt service (a legacy of the 1976-1980 Plan implementation and the 1979 OAU conference hosted here).

Government salaries and debt servicing are the main causes of the deficit. The average monthly government wage bill (recurrent only) amounts to $13 million. Wages constitute 64.5 percent of total recurrent expenditures. Debt service requirements are projected by GOL for the remainder of the decade are as follows (GOL's figures):

1981/82 - 25.3 percent of revenues; 1982/83 - 28.3 percent of revenues; 1983/84 - 28.4 percent of revenues; 1984/85 - 27.1 percent of revenues; 1985/86 - 24.4 percent of revenues; 1986/87 - 19.2 percent of revenues; 1987/88 - 13.7 percent of revenues; and 1988/89 - 11.2 percent of revenues. Any significant shortfall in revenues (likely) will push debt service well beyond 30 percent of revenues until 1986.

The Government has tried to control expenditures, but only with limited success and with concomitant mounting levels of unpaid checks. Despite heavy new taxes (one of the heaviest burdens in Africa) and a tough IMF agreement to hold down expenditures, spending targets for FY 1981/82 are currently being exceeded. Meanwhile, the economy falters. All of the major sectors in the economy are negatively affected by adverse trends in the world economy. It will not be easy to overcome this crisis, as the external economic environment is likely to remain uncongenial for several years. However, longer term prospects for the Liberian economy are good. The country is rich in natural resources and has considerable unexploited reserves (iron, diamonds, timber, uranium) while cash crop markets for rubber, coffee and cocoa are expected to recover from cyclical lows.

C. Gap Analysis

1. Projected Cash Inflow (Rounded)

	Nov	Dec	Jan	Feb
a. Sources:				
1) Revenue	28.2	18.6	33.4	18.9
2) Grants	6.0	6.0	6.0	6.0
3) Loans	4.2	4.3	4.2	4.2
Total Sources	30.4	28.9	43.6	29.1
b. Uses				
1) Payroll	13.2	12.6	13.5	13.2
2) Other recurrent	8.2	7.1	7.1	7.3
3) Interest on debt	8.0	2.2	1.9	2.2
4) Principal on debt	.7	1.3	3.0	.2
5) Development Budget	9.3	12.1	8.7	10.8
a) Internally	(5.3)	(4.1)	(3.7)	(5.3)
b) Externally	(4.0)	(8.0)	(5.0)	(5.5)
Total Uses	39.4	35.4	34.2	33.6

Note: "Grants" and "Loans" includes prorated projections of ESF and IMF.

6

2. End of October (Cumulative) Cash Flow Summary (Rounded)

	Estimated	Actual
a. Sources		
1) Revenue	85.8	77.6
2) Grants	24.0	12.5
3) Loans	16.9	14.1
Total Sources	126.7	104.2
b. Expenditures	127.4	121.1
c. Gap	.8	17.0
d. Previous deficit	49.6	49.6
e. New deficit	.8	17.0
f. Closing Balance (Total deficit)	50.3	66.6

3. Financing of Deficit (Rounded)

	Estimated	Actual
a. Increase in credit to GOL by NBL	5.0	26.4
b. Unpaid checks	24.3	26.3
c. NBL overdraft	21.0	13.9
Total	50.3	66.6

4. Projection of Offshore Payments and Receipts - As of December 17, 1981 (Rounded)

a. Receipts	
1) IMF draw-down	11.5
2) NHSB account at First Chicago	4.1
Total	15.6
b. Payments	
1) Oil facility	10.4
2) Payroll	10.0
3) Repayment of Commercial Bank Advances	3.9
Total	24.3
c. Gap	8.7

Note: See Table 3 on page 15 of the original PAAD for projections for all of FY 82.

The gap, therefore, is technically $8.7 million. The balance (difference between actual gap and the proposed $6 million level of this PAAD amendment) of $2.7 million is thought to be manageable. Much of the payroll is used by the recipients to pay creditors, who in turn deposit the proceeds into their accounts. Therefore, GOL officials feel that it should not be necessary to have on hand in cash the full $10 million for the payroll.

D. Implementation Arrangements

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