

## International Monetary Fund

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**Liberia:** Staff-Monitored Program: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

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February 27, 2008

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The following item is a Letter of Intent and a Memorandum of Economic and Financial Policies of the government of Liberia. The document, which is the property of Liberia, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website. This memorandum describes the policies that is implementing in the framework of a staffmonitored program. A member's staff-monitored program is an informal and flexible instrument for dialogue between the IMF staff and a member on its economic policies. A staff-monitored program is not supported by the use of the Fund's financial resources; nor is it subject to the endorsement of the Executive Board of the IMF.

Monrovia, February 27, 2008

Mr. Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431  
USA

Dear Mr. Strauss-Kahn:

1. Liberia has made tremendous progress since the government took office in early 2006, including by advancing economic reconstruction, restoring macroeconomic stability and strengthening governance. This has been recognized by donors in the form of continued technical and financial assistance and their support for normalizing relations with the international institutions, particularly with respect to the debt relief process. The IMF has played an important role in this process through its engagement with Liberia under the staff-monitored program (SMP) and the provision of extensive technical assistance. We are pleased that the broad objectives of the SMP have been met, evidenced by the continued strong macroeconomic recovery and maintenance of a relatively stable macroeconomic environment. In particular, the financial picture of both the government and the Central Bank of Liberia (CBL) has improved reflecting in large measure steps we have taken to strengthen governance. Both the quantitative and structural benchmarks set under the SMP were useful in helping to achieve the program objectives and were largely met notwithstanding some minor delays.
2. Despite the achievements of the past two years, further reforms are needed to ensure a sustainable recovery over the long term. We remain committed to implementing our comprehensive program to further strengthen public financial management, monetary policy, the financial sector and governance. Our policy framework over the next few years will be guided by the Poverty Reduction Strategy Paper that we are now finalizing.
3. The economic policies for 2008-10 are described in the attached Memorandum of Financial and Economic Policies (MEFP). Based on the strong policy track record we have established under consecutive SMPs since February 2006, we are requesting three-year arrangements under the Poverty Reduction and Growth Facility (PRGF) and Extended Fund Facility (EFF) in the amounts of SDR 239.02 million and SDR 342.77 million, respectively. We are also requesting access to interim assistance under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative, and have provided all the necessary information to the staff in support of their request for a decision by the IMF and World Bank for Liberia to qualify for enhanced HIPC assistance.

4. The Government of Liberia and the CBL believe that the policies set forth in the attached MEFP are adequate to achieve the objectives of our program, but we will take any additional measures that may become necessary for this purpose. We will continue to consult closely with the IMF staff on the adoption of such measures, and in advance of any revisions to the policies contained in the MEFP. In addition, we will provide the Fund with all information necessary to monitor implementation of the program supported by the PRGF and EFF in a timely manner. Two program and financing assurances reviews will be conducted during the first year of the program and are expected to be completed by end-October 2008 and end-April 2009.

5. Moreover, after the period covered by these arrangements, and while Liberia has outstanding financial obligations to the IMF arising from loan disbursements under the arrangements, we will consult with the IMF from time to time, at the initiative of the government, or whenever the Managing Director of the IMF requests consultation on Liberia's economic and financial policies.

6. We remain committed to transparent policy-making and are willing to make the contents of this letter and those of the attached MEFP and technical memorandum of understanding, as well as the staff report on the request for the three-year PRGF and extended arrangements, available to the public.

Sincerely yours,

/s/

Antoinette M. Sayeh  
Minister of Finance

/s/

Joseph Mills Jones  
Governor of the CBL

Attachments: Memorandum on Economic and Financial Policies  
Technical Memorandum of Understanding

**Attachment I – Memorandum of Economic and Financial Policies  
for January 2008–December 2010**

**INTRODUCTION**

1. This memorandum describes our economic program for January–December 2008 as part of our medium-term strategy through 2010, for which support is being requested from the IMF Poverty Reduction and Growth Facility (PRGF) and Extended Fund Facility (EFF). We also outline our performance on the staff-monitored program (SMP) through December 2007.
2. Over the past two years the SMP has supported our efforts to resume sustainable growth after almost 14 years of conflict. It has helped us maintain macroeconomic stability and strengthen our core institutions and policies. Nevertheless, immense challenges are ahead in rebuilding the Liberian economy and improving the welfare of our citizens.
3. The government views a formal Fund-supported arrangement as one of the main instruments to support its policies and objectives, as outlined in the interim Poverty Reduction Strategy Paper (I-PRSP) and being further developed in a full PRSP for 2008–11. A three-year PRGF- and EFF-supported program would also provide a framework that would help Liberia to normalize its relations with external creditors and restore its external sustainability. We expect that satisfactory performance on the program would support our effort to reach the completion point for the enhanced HIPC Initiative and receive beyond-HIPC debt relief.

**RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE ON THE SMP**

4. Since taking office in January 2006 the government has implemented a number of policies to promote economic reconstruction and development. Supported by a recovery in rubber production, construction activity, a large donor presence, and diamond exports after UN sanctions were removed, after GDP declined by over 30 percent in 2003, real GDP growth is estimated to have risen from 2.6 percent in 2004 to 9½ percent in 2007. The exchange rate of the Liberian dollar to the U.S. dollar has been relatively stable over the past year, depreciating by 4.8 percent in the 12 months through December 2007. Year-on-year inflation (as measured by the new harmonized CPI) has also been mostly stable and in the low double digits. Inflation in December was 11.7 percent; with food prices excluded, it was just 5.7 percent.
5. Fiscal management has improved notably since the government took office two years ago as we worked to increase revenues and strengthen public expenditure management. On the revenue side, we strengthened revenue administration and broadened the tax base by, among other actions, (i) reorganizing domestic tax administration; (ii) reducing tax exemptions; (iii) eliminating noncash payment of taxes; (iv) reinforcing preshipment

inspection; (v) strengthening customs; and (vi) introducing an automated tax payment system, with the help of USAID. As a result, in fiscal year 2006/07 revenue excluding grants exceeded the SMP target of US\$120.9 million by 21 percent. Meanwhile, with assistance from the IMF, we completed the first-phase review of the Liberia Revenue Code (LRC) and all tax regulations and submitted for legislative approval an administrative procedure law to establish a transparent process for issuing new regulations, and a revised national investment code to limit special tax incentives to those provided for in the LRC.

6. On the expenditure side, to tackle the build-up of domestic arrears and the weak controls of past administrations, we introduced, with donor support, an interim commitment control system to ensure that allotments to line ministries are in line with the revenues available. We also revised our public procurement guidelines to increase transparency and adhere to prudent standards. While expenditure approvals lagged behind cash resources for most of fiscal year 2006/07, reflecting the legislature's late approval of the budget, continuing challenges with the new public procurement process, and capacity constraints in line ministries, spending accelerated significantly in the last two months of the year, allowing us to fully implement the budget on a commitment basis. In the first half of the current fiscal year, spending outpaced that in the corresponding period a year ago by 30 percent. Nonetheless, we are reviewing the procurement act with a view to minimizing regulations that have slowed spending. Civil servants across the country are now paid on time, and we are committed to ensuring that all civil servants are paid before the end of each month.

7. The 2007/08 budget targets a deficit of 1.8 percent of GDP, financed mostly by the 2006/07 budget surplus. Public revenues are forecast to increase by 16 percent over 2006/07, even if we exclude the impact of the one-time Arcelor Mittal payment. To serve our developmental priorities, the budget allocates US\$36.9 million (more than 18 percent of the budget) to health and education, which represents 4.8 percent of GDP, up from 3.8 percent in the 2006/07 budget. Given the low wages paid to civil servants, the budget supports an increase in the minimum government wage from US\$30 per month to US\$55. Revenues in the first six months of the current fiscal year outperformed our already ambitious projections: they increased 46 percent compared to the same period a year ago. After lagging in the first two months of the fiscal year, the pace of expenditures has picked up, as noted.

8. The Central Bank of Liberia (CBL) continued in 2007 to use the exchange rate to gauge changes in the demand for Liberian dollars; it accordingly held foreign exchange auctions to keep the exchange rate relatively stable. In response to downward pressure on the exchange rate, the CBL gradually increased the frequency and size of auctions while still accumulating the planned amount of net liquid foreign exchange assets. Year-on-year reserve money growth rose to 26.7 percent in 2007 from 23.9 percent in 2006; broad money growth

(M2) rose to 40.1 percent from 34.4 percent. Developments in M2 stemmed mostly from fluctuations in U.S.-dollar-denominated liabilities.<sup>1</sup>

9. The CBL continued to strengthen the financial system. With IMF technical assistance, the CBL enhanced bank supervision and implemented plans to build the capital base of banks. To this end, a *Manual for the Reconstruction, Closing, and Liquidation of Insolvent Banks* was drafted, and supervision staff were trained. A Compliance Committee was established to ensure that banks comply with all laws, regulations, and directives, and comprehensive on-site inspections were completed for all operating banks. Significant progress was made in recapitalizing the banking system. By the end of 2007, the capital adequacy ratio of the system exceeded 8 percent. The CBL also submitted to the courts for final resolution four of the formerly licensed abandoned and nonoperating banks. The CBL continued to be cautious in considering applications for new bank licenses, instead encouraging potential applicants to partner with existing Liberian banks. A license was granted to one nonbank financial institution. The CBL, supported by the IFC and UNDP, commenced work on formulating the legal and regulatory framework for the microfinance sector and related capacity building. Further progress was made in improving the financial position of the CBL. Agreement between the government and the CBL to regularize the government's obligations boosted CBL revenues in the second half of 2007. Together with positive balances in government accounts at the CBL, it helped the CBL achieve a budget surplus of US\$1.8 million in 2007 against a target of US\$0.05 million. Net CBL liquid foreign exchange assets rose by US\$13.2 million in 2007.

10. The trade balance narrowed slightly in 2007 (to about 36 percent of GDP). Export growth remained strong (increasing by 44 percent) on account of continued solid growth in rubber exports and resumption of diamond exports after UN sanctions were lifted early in the year. Nevertheless, Liberia's export base remained highly concentrated, with rubber exports accounting for about 90 percent of total exports. While the overall balance of payments is estimated to have stayed in deficit, the gap was more than offset by the continued accumulation of external payments arrears.

11. A HIPC debt sustainability analysis prepared by staff of the IMF and World Bank confirmed that Liberia is eligible to participate in the enhanced HIPC Initiative. At end-June 2007, the NPV of debt to exports was an estimated 1,576 percent, and the ratio of debt to GDP was 468 percent.<sup>2</sup>

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<sup>1</sup> Broad money includes all deposit liabilities of commercial banks denominated in U.S. and Liberian dollars, and currency outside banks in Liberian dollars. While the amount of U.S. dollar currency in circulation is likely to be large in the highly dollarized and cash-based economy, the CBL has no means to measure it.

<sup>2</sup> Refers to the NPV of debt after traditional debt relief.

12. We achieved all but one of the quantitative SMP benchmarks through December 2007 (Table 1), and all but one of the structural benchmarks. The CBL still reached the program objective of a balanced budget, achieving a surplus of US\$1.8 million, despite missing the ceiling on expenditure due to higher capital expenditure necessary to the work of the CBL. We are now preparing a medium-term national statistical plan (end-December 2007 benchmark) and expect it to be finalized by end-March 2008 (Table 2).

## **POLICIES FOR THE THREE-YEAR PROGRAM**

### **Medium-Term Strategy**

13. Building on our recent achievements in the SMP, our policy framework contains measures to strengthen macroeconomic stability, increase economic growth and job creation, reduce poverty, and move Liberia closer to the MDGs. The government's policy framework, for which we are requesting PRGF and EFF support, is informed by its I-PRSP; a full PRSP will be finalized by mid-2008. Our poverty reduction strategy rests on four pillars:

- ***Consolidating peace and security.*** Key objectives are rebuilding the armed forces and police following the civil war in preparation for the eventual drawdown of the peacekeeping force; measures include drafting a medium-term national security strategy, training security forces, and creating an early warning system to prevent conflicts. In addition, efforts are being accelerated to identify jobs for excombatants, integrate and resettle internally displaced people and refugees, and reduce unemployment.
- ***Revitalizing the economy.*** Key objectives are to maintain macroeconomic stability; support overall recovery in agriculture, mining, and forestry; improve the management of state-owned enterprises; and support private sector development through such measures as improving services infrastructure, increasing access to financing, reforming land ownership and tenure, rationalizing corporate and import taxes, reforming the investment code, and overhauling burdensome administrative and regulatory procedures.
- ***Strengthening governance and the rule of law.*** Key objectives are reforming and rebuilding the public sector, decentralizing political governance, strengthening the rule of law and respect for human rights, introducing conflict management mechanisms, encouraging broad participation in governance, and reducing corruption.
- ***Rehabilitating infrastructure and delivering basis services.*** Key objectives are rebuilding physical and social infrastructure, including roads, ports, telecommunications, electricity generation, water and sanitation, schools and health care facilities, and improving service delivery.

14. The program for 2008–10 targets annual real GDP growth of 11½ percent. This is based on the resumption of logging and diamond mining since U.N. sanctions were lifted; new investments in iron ore and gold mining; increased activity in the areas of cocoa, coffee, and oil palm production; improved prospects for light manufacturing; and continued strong performance in the service sector. The program also aims to contain inflation to single digits based on prospects for increasing food production and continued prudent macroeconomic policies. The external current account deficit is expected to be large, given the substantial import requirements relating to rehabilitation and reconstruction. This illustrates the importance of continued financial support from international partners on concessional terms.

15. To strengthen PFM, and transparency more broadly, we intend to draw up a medium-term strategy (two to three years) of PFM reforms, with technical assistance from the IMF and World Bank, that could be supported by donors. As PFM continues to improve, the government expects donors to offer increased budget support, which would allow resources to be better coordinated and allocated more efficiently. These reforms will help establish a strong PFM system and phase out the cash management committee at the Ministry of Finance.

16. Civil service reform will be crucial to our efforts to build institutions and capacity. Building on the progress made by removing ghost names from the payroll, increasing basic salaries, and introducing a senior executive service program, the government will complete a medium-term comprehensive civil service reform strategy by mid-2008, covering inter alia compensation and pension reform.

17. The program aims to further increase revenues by advancing comprehensive tax and customs reforms, improving taxpayer compliance, and broadening the tax base. It targets an increase in revenues (excluding grants) by an average of 18 percent per year up to 2010.

18. The government will continue to target a balanced budget and does not plan to engage in any new domestic or external borrowing until (i) external and domestic debt is back on a sustainable footing, (ii) a debt management strategy covering both external and domestic debt has been finalized, and (iii) institutional arrangements for debt management have been strengthened. In the interim, the government will require substantial grant financing from donors to support Liberia's economic reconstruction, particularly in light of the infrastructure financing challenges.

19. To strengthen monetary policy, we will continue to work with the IMF to formulate policy tools to manage liquidity. Steps will also be taken to better coordinate fiscal and monetary policy. Issues relating to determination of an appropriate currency regime will remain under active consideration. We will also continue to focus on building the banking sector and the legal framework to improve private sector access to credit and to develop a modern national payments system. We appreciate the IMF's commitment to providing technical assistance for the payments system initiative. However, we will also need support



from other partners, especially for adoption of the technology needed to support such a system.

20. The financial position of the CBL has improved since early 2006 but needs more reinforcement. The recent arrangement with the Government of Liberia to service its obligation to the CBL and the maintenance of positive balances in government accounts at the CBL have helped to improve the revenue stream of the bank. However, undercapitalization of the bank is a major constraint on the CBL's ability to effectively carry out its mandate with functional independence. The Government will explore ways to address over time the issue of CBL capitalization.

21. Liberia's national statistical capacity is minimal after years of civil war. With much activity in the informal sector and only limited information available on the formal sectors, real GDP may be underestimated. To build the capacity of the Liberian Institute for Statistics and Geo-Information Services (LISGIS) and other agencies, we have started with the support of donors to prepare a national statistical development strategy (NSDS), which is expected to be finalized by April 2008. Meanwhile, LISGIS completed a core welfare indicators questionnaire and a demographic and health survey that is helping to inform preparation of the PRSP. Also, a national population census and a business establishment survey are underway.

### **The Program for January–December 2008**

22. The government's program for 2008 builds on its achievements in the SMP and is consistent with the poverty reduction strategy. Based on continued implementation of sustainable macroeconomic policies, it aims to further strengthen PFM and the banking sector and to implement our anticorruption and domestic debt resolution strategies.

23. The economic outlook for 2008 is broadly favorable. Real GDP growth is projected to remain at about 9½ percent in 2008, supported mostly by the resumption of logging and diamond mining and continued growth in services. Inflation is expected to fall to the single digits. The trade deficit is projected to widen to 62 percent of GDP as the economic recovery continues and donor-financed imports stay high.

### **Fiscal Policy**

24. In 2008 we will continue our efforts to strengthen tax and customs administration. Among other measures we will (i) strengthen taxpayer auditing, enforcement, and taxpayer services; (ii) begin to implement the integrated tax automation system; (iii) strengthen the administration of property taxes; (iv) implement the outsourcing of customs administration; and (v) continue revising the LRC. We will also begin to consider the feasibility of transitioning to a value-added tax and of establishing a revenue authority.

25. Efforts will continue to finalize our tax reform program (consistent with the recommendations of FAD tax policy missions), including: (i) reducing the top corporate and personal income tax rate from 35 percent to 30 and 25 percent, respectively; (ii) increasing the goods and services tax (GST) from 7 percent to 10 percent for all goods and services except food, and reducing the threshold; (iii) phasing in implementation of the ECOWAS common external tariff (CET); (iv) introducing additional tax categories for businesses with turnover above the GST threshold; and (v) facilitating tax payments at commercial banks.

26. Building on progress over the past two years, we plan to draft a medium-term strategy to reform PFM and a comprehensive PFM law for submission to the legislature by mid-2008. Consistent with this strategy, we intend to complete the merger of the Bureau of the Budget (BoB) into the Ministry of Finance by year-end. In the interim, we are implementing measures to give the Ministry of Finance more control over budget implementation by ensuring that the BoB works closely with the Ministry in the reinvigorated Budget Committee, chaired by the Minister of Finance. These measures increase the transparency of transfers between budget lines and require legislative approval for large transfers. Guidelines have also been developed to ensure that expenditures from the county development fund, which are under the control of local authorities, are executed transparently. We will continue strengthening the budget preparation process, consulting frequently with the legislature to ensure the budget is approved in a timely way.

27. We will continue to implement the interim commitment control system to ensure that public expenditure is kept within available monthly cash revenues and follows the prioritized cash plans. To further improve budget implementation, we will strengthen the payment system and eliminate weaknesses at ministries in preparing spending vouchers. We will improve the cash management approval process and cash and procurement planning, in part by further training procurement committees within line ministries. We will also continue to improve the comprehensiveness and timeliness of fiscal reports, including by preparing a GFSM-compatible chart of accounts and regularly reporting public expenditures on both a commitment and a cash basis. Recognizing that timely auditing will strengthen institutions and transparency, we will develop a strategy to improve internal auditing. While the 2007/08 budget has started refocusing public expenditure toward critical poverty-reducing areas, we will continue to work to direct more resources to health, education, infrastructure, and rural development.

28. The government, with support from DFID and the World Bank, will undertake comprehensive civil service reform to strengthen institutions by restructuring civil service compensation and building capacity. To this end, we will seek to create fiscal space by continuing to remove ghost workers from the public payroll and comprehensively review ministries and agencies to identify appropriate functional requirements and staffing levels. We will complete the first phase of establishing the Senior Executive Service by filling the first 21 of 100 positions. A comprehensive civil service reform strategy will be ready by June 2008.

29. To further improve budget planning and reporting, we have begun to draft a multiyear macrofiscal framework to guide line ministries in expenditure planning and will compile donor data for presentation in the budget and fully cost poverty reduction programs to identify financing gaps. Donor cooperation in providing the required data will be critical to ensure that this objective is achieved. Initial steps have been taken to implement the GFSM 2001 framework to improve the reporting of fiscal data and facilitate analysis of macrofiscal policy. To further improve transparency, monthly revenue and expenditure outturns are being posted on the Finance Ministry website, and quarterly fiscal reports are published in local newspapers.

30. We will continue implementing our domestic debt resolution strategy. We have already made payments to most small claimants and have begun regular payments on restructured claims of financial institutions. We began reconciling and consolidating obligations to state-owned enterprises and appointed an external auditor to verify claims previously classified as contestable so that we can fully assess domestic obligations. Preparations are being finalized to establish a trust fund to ensure that resources are available to implement the strategy over the long term.

### **Monetary and Exchange Rate Policies and Financial Sector Reforms**

31. The primary objective of monetary policy is price stability. Given the limited scope for monetary policy in the current dual currency and dollarized environment, and recognizing that the exchange rate represents the main transmission mechanism through which monetary imbalances affect prices, the CBL will continue to use it as the main indicator of domestic monetary conditions. The CBL will manage Liberian dollar liquidity with the aim of keeping the exchange rate relatively stable. Having limited monetary policy instruments, the CBL will use the foreign exchange auction as the principal tool to pursue this objective. To strengthen its ability to conduct monetary policy, the CBL will (i) collect more data on volumes in the foreign exchange market and the flow of remittances; (ii) continue efforts to regularize the large number of informal foreign currency traders; and (iii) finalize plans for possible introduction of credit and deposit auctions. Meanwhile, it will work more actively to enhance public understanding of its monetary policy, which has already been publicized.

32. The CBL is targeting its net liquid foreign exchange position to reach a minimum of US\$47.6 million by year-end (Table 3). The government and the CBL will coordinate modalities for achieving this target.

33. The CBL will continue to assess the dual currency arrangement as part of its efforts to strengthen the financial system and maintain macroeconomic stability. Meanwhile, the government will take steps to support demand for the Liberian currency.

34. The CBL will continue working to strengthen domestic banks, and is moving to ensure that banks will be restructured and recapitalized. Accordingly, the Compliance Committee will continue to monitor implementation of corrective measures recently

specified by the CBL. Moreover, onsite inspections are being carried out at each bank twice a year.

35. Consistent with the envisaged expansion of the banking system, the CBL will give priority to strengthening its capacity to supervise domestic banks. Current IMF technical assistance in the form of a resident adviser for the Supervision Department is an important step in this direction. The hiring of additional staff for the department has been budgeted. A more vibrant and competitive banking system, buttressed by a strong capital base and credible business plans, is critical for financing the private sector. The CBL will therefore consider applications for banking licenses from internationally reputable banks outside Liberia, while recognizing the need to carefully manage entry into the Liberian market.

36. The CBL board of governors approved a balanced budget for 2008. The bank will continue its efforts to improve its financial position, rebuild net foreign exchange assets, and introduce additional monetary policy instruments. With assistance from the IMF, preparations will continue to implement the International Financial Reporting Standards as the accounting framework in 2008.

### **External Policies**

37. With improved economic prospects and support from our international partners, Liberia's balance of payments position is expected to be manageable for the medium term. Nevertheless, large investment and reconstruction needs will put pressure on the current account. The current account deficit, excluding grants, is expected to widen by about 27 percentage points, to 94 percent of GDP, in 2008 as import growth accelerates with a surge rise in foreign direct investment. This underscores the importance of continued financial assistance from the international community in the form of grants. The deficit is, however, projected to shrink over the medium term as domestic savings rise .

38. An important objective of the PRGF-supported program is to rebuild Liberia's international reserves. The CBL therefore intends to use initial PRGF and EFF disbursements to rebuild Liberia's SDR holdings up to its allocation of SDR21 million.

39. Given that Liberia external debt is unsustainable, our debt management strategy will emphasize financing development expenditures through grants and will focus on regularizing relations with external creditors. The government will observe the zero ceiling on new external borrowing set by the PRGF and EFF until debt is once again sustainable. Having verified Liberia's external debt and arrears to most creditors, we intend to request debt relief on favorable terms from the Paris Club, some members of which have already committed to granting full relief on all debt in arrears. We also intend to seek relief from other bilateral creditors on terms comparable to the Paris Club's and seek similar relief from our private creditors. The government expects that with obligations rescheduled and other debt relief, actual cash payments would not rise significantly during the program.

40. With assistance from our financial advisors, we estimate Liberia's stock of debt to private creditors at US\$1.5 billion as of June 30, 2007. Because we have limited resources to service or resolve our debt, any proposal to resolve commercial debt would be contingent on the generosity of donors and would adhere to HIPC guidelines.

41. Liberia's trade regime is relatively liberal. Our average unweighted tariff compares favorably with those of neighboring countries. To further enhance trade, we intend to commence our transition to the ECOWAS CET in 2008 and to fully harmonize before 2012.

42. The government is committed to improving the quality of balance of payments data; here we welcome approval by the IMF of a resident technical advisor for the CBL for one year.

### **Structural Reforms**

43. Besides structural reforms in the fiscal and financial sectors, we will also implement other reforms to support our poverty reduction objectives. We will therefore continue to reform the security and judicial sectors, rebuild physical and social infrastructure, and support private sector development through continued reforms in agriculture, mining, and forestry, among other areas. The government will take steps to eliminate the barriers to entering the formal sector identified by the World Bank Foreign Investment Advisory Services. We are also finalizing arrangements to resume logging and timber exports and have concluded a contract to manage the chain of custody so as to better secure forestry revenues. We are implementing the Liberia Extractive Industries Transparency Initiative with support from donors.

44. To further improve governance, the government will begin implementing its recently approved anticorruption strategy. Once the supporting legislation has been passed, we will take action to establish the Liberia Anticorruption Commission. This entity, which will have the power to investigate and prosecute corruption cases, should begin operating this year. To fully implement our anticorruption strategy, we will continue to need financial and technical support from donors, in particular to make the Anticorruption Commission fully functional.

45. We plan to deal with our legacy of direct state involvement in commercial enterprises. We will be guided in this regard by the President's vision that government should only be doing what cannot or should not be done by the private sector. Port reform is high on our agenda with the initiation of a BoT to improve facilities, revenues, and import/export processes. Building on prior analytical work, such as the CBL and Ministry of Agriculture's examination of agricultural parastatals, we plan to complete the dissolution of moribund institutions while rehabilitating strategic institutions. In general, we hope to move state-owned enterprises toward increasing private participation and exposure to market competition. The government will divest itself of shares in commercial banking institutions, making its shares available to the Liberian public for purchase.

**Data Issues and Technical Assistance**

46. Recognizing the importance of accurate and timely statistics as we formulate and evaluate macroeconomic policy and implement the full PRSP, the government will finalize a prioritized NSDS and present it to our international partners to seek their financial and technical support for its implementation. Liberia is already receiving support from international partners to strengthen our economic governance and capacity.

**PROGRAM MONITORING**

47. The first year of the three-year PRGF- and EFF-supported program would be monitored on the basis of biannual quantitative performance criteria for June 30 and December 31, 2008, and indicative targets for March 31 and September 30, 2008 (Table 3). Structural conditionality for the program (Table 4) draws on the I-PRSP.

Table 1. Liberia: Quantitative Indicators 2007-08 (cumulative basis from end of fiscal year, unless otherwise noted)

(Millions of US\$)

	Mar. 07		Jun. 07		Sep. 07		Dec. 07		Mar. 08
	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.
<b>Fiscal</b>									
Floor on revenue collections	84.5	105.9	120.9	146.8	40.9	43.8	77.3	88.7	139.5
Floor on fiscal balance <sup>1</sup>	-19.5	24.0	-19.5	16.7	-13.7	11.2	-13.7	10.1	-13.7
Ceiling on new noncash tax/duty payment (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new domestic borrowing (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new external borrowing (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new domestic arrears/payables (excluding the arrears arising from the current debt outstanding) (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>CBL</b>									
Ceiling on expenses	1.3	1.0	2.6	2.3	3.9	3.5	5.3	6.9	1.4
Ceiling on payments arrears (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Floor on CBL's cash-based budget balance	-0.1	0.7	0.0	1.3	0.1	1.8	0.0	1.8	0.0
Floor on CBL's net foreign exchange position	22.7	24.3	26.8	29.8	29.3	31.5	31.6	34.9	34.6
<b>Other</b>									
Floor on payments to the Fund (in US\$) (continuous basis)	540,000	540,000	720,000	720,000	180,000	180,000	360,000	360,000	540,000

<sup>1</sup> Starting in September 2007, the fiscal balance, on a commitment basis, is defined as the difference between (a) total central government revenue plus budget support (excluding project grants), and (b) total current expenditure plus investment expenditure (excluding foreign-financed investment expenditure), payment of arrears, amortization, and payments to the domestic trust fund. The program target for the floor on fiscal balance allows for a deficit given the accumulation of surpluses in the government's account at the central bank from the previous fiscal year.

**Table 2. Structural Benchmarks for January 2007–March 2008 SMP**

<u>Measures</u>	<u>Target Dates</u>	<u>Status</u>
<b>Fiscal Policy</b>		
Commence implementation of the domestic debt resolution strategy, and develop a plan to settle cross-debts between the government and state-owned enterprises.	End-March 2007	Implemented by mid-April 2007
Submit a balanced cash-based budget for 2007/08 for legislative approval.	End-May 2007	Implemented by May 17
Develop and implement a comprehensive plan to reform the investment incentive code and submit legislation to repeal Section 204(e) of the Liberia Revenue Code of 2000, as well as the 2004 Act amending the code, which allowed the government to enter into ad hoc tax concession agreements with individual investors.	End-June 2007	Implemented by end-September
Reorganize administration of domestic taxes by taxpayer segmentation.	End-June 2007	Implemented by end-June
Adopt legislation to merge the Bureau of the Budget into the Ministry of Finance and to limit transfers between budget lines without legislative approval to a cumulative total of no more than 30 percent.	End-March 2008	
Prepare a chart of accounts, consistent with GFSM 2001-compatible budgetary classifications.	End-March 2008	
<b>Financial Sector</b>		
Establish clear audit selection and rotation procedures and criteria for the CBL to select an internationally reputable audit firm to conduct the CBL's future external audits, pursuant to ISA, beginning in fiscal year 2007.	End-March 2007	Implemented by mid-June 2007
Develop a restructuring plan for the remaining undercapitalized banks consistent with the CBL's Bank Reconstruction and Resolution Policy.	End-June 2007	Implemented by January 2008
Appoint an auditor, consistent with the criteria above, to audit the CBL's financial accounts for 2007.	End-September 2007	Implemented by end-September
Publish a list of banks licensed to operate in Liberia as part of the strategy for the final resolution of abandoned and nonoperating banks.	End-March 2008	



**Table 2. Structural Benchmarks for January 2007–March 2008 SMP (Concluded)**

<b>Other Areas</b>		
Replace the Monrovia CPI with the Harmonized CPI.	End-February 2007	Implemented by end-February 2007
Submit required legislation for establishment of an independent anticorruption agency for legislative approval, consistent with the government's anticorruption strategy.	End-September 2007	Implemented by end-September 2007
Submit for legislative enactment an administrative procedure law that establishes a transparent process for the issuance of regulations pursuant to the Liberia Revenue Code of 2000, and submit legislation to repeal other laws and revoke regulations that are inconsistent with the law.	End-September 2007	Implemented by January 2008
Develop a comprehensive national statistical development strategy.	End-December 2007	Ongoing

Table 3. Liberia: Quantitative Performance Criteria and Indicative Targets, 2008

(Millions of US\$)

	Mar. 08	Jun. 08	Sep. 08	Dec. 08
	Prog.	Prog.	Prog.	Prog.
<b>Performance criteria and indicative targets<sup>1</sup></b>				
<b>Fiscal<sup>2</sup></b>				
Floor on revenue collections	139.5	185.7	43.3	91.7
Floor on fiscal balance <sup>3</sup>	-13.7	-13.7	0.0	0.0
Ceiling on new noncash tax/duty payment (continuous basis)	0.0	0.0	0.0	0.0
Ceiling on new domestic borrowing (continuous basis)	0.0	0.0	0.0	0.0
Ceiling on new external borrowing (continuous basis)	0.0	0.0	0.0	0.0
Ceiling on new domestic arrears/payables (excluding the arrears arising from the current debt outstanding) (continuous basis)	0.0	0.0	0.0	0.0
Ceiling on new external arrears (continuous basis)	0.0	0.0	0.0	0.0
<b>CBL<sup>4</sup></b>				
Ceiling on expenses	3.9	5.5	6.9	8.5
Ceiling on payments arrears (continuous basis)	0.0	0.0	0.0	0.0
Floor on CBL's cash-based budget balance	-1.7	-1.1	-0.3	0.4
Floor on the CBL's net foreign exchange position	36.4	40.0	43.9	47.5

<sup>1</sup> Performance criteria at end-June and end-December 2008.<sup>2</sup> Cumulative; fiscal year basis.<sup>3</sup> Starting in September 2007, the fiscal balance, on a commitment basis, is defined as the difference between (a) total central government revenue plus budget support (excluding project grants), and (b) total current expenditure plus investment expenditure (excluding foreign-financed investment expenditure), payment of arrears, amortization, and payments to the domestic trust fund. The program target for the floor on fiscal balance allows for a deficit given the accumulation of surpluses in the government's account at the central bank from the previous fiscal year.<sup>4</sup> Cumulative; calendar year basis.

**Table 4. Performance Criteria (in bold) and Structural Benchmarks for the First Year of the PRGF/EFF Arrangements (January–December 2008)**

<u>Measures</u>	<u>Target Dates</u>
<i>Fiscal policy</i>	
<b>Adopt legislation to limit transfers between budget lines without legislative approval to a cumulative total of no more than 30 percent.</b>	<b>End-March 2008</b>
Prepare a chart of accounts consistent with GFSM 2001-compatible budgetary classifications.	End-March 2008
<b>Adopt legislation to merge the Bureau of the Budget into the Ministry of Finance.</b>	<b>End-June 2008</b>
Develop an internal audit strategy for the central government.	End-June 2008
Complete the merger of the Bureau of the Budget into the Ministry of Finance.	End-December 2008
<b>Submit a draft PFM law to the legislature.</b>	<b>End-December 2008</b>
Develop a medium-term macrofiscal framework for the purpose of preparing the 2009/10 budget.	End-December 2008
<i>Financial sector</i>	
Publish a list of banks licensed to operate in Liberia as part of the strategy for resolution of abandoned and nonoperating banks.	End-March 2008
<b>Establish a system of off-site inspection by requiring quarterly submission of prescribed data by all banks, and submit the first written reports to the Banking Compliance Committee.</b>	<b>End-June 2008</b>
<i>Other Areas</i>	
Finalize a comprehensive civil service reform strategy, endorsed by the cabinet.	End-June 2008
Finalize debt management strategy, endorsed by the cabinet.	End-June 2008
<b>Establish a functioning Liberia Anticorruption Commission, consistent with Liberia's anticorruption legislation.</b>	<b>End-September 2008</b>
Develop a comprehensive national statistical development strategy.	End-March 2008

## Attachment II – Technical Memorandum of Understanding (TMU)

1. This memorandum sets out the understandings between the Liberian authorities and the International Monetary Fund (IMF) regarding the definitions of quantitative and structural performance criteria and benchmarks for the three-year PRGF/EFF program, as well as the reporting requirements. The definitions are valid for the start of the program but may need to be revisited during program reviews to ensure that the memorandum continues to reflect the best understanding of the Liberian authorities and the IMF staff in monitoring the program.

### I. QUANTITATIVE PERFORMANCE CRITERIA AND BENCHMARKS

#### A. Test Dates

2. Quantitative performance benchmarks have been set for end-March, end-June, end-September, and end-December 2008.

#### B. Definitions and Computation

3. **For purposes of the program, the government is defined as the central Government of Liberia (GoL).** This definition excludes legally autonomous state-owned enterprises whose budgets are not included in the central government budget. The operations of the central government will be presented in U.S. dollars with all revenues and expenditures that are denominated in Liberian dollars converted at the end-of-period exchange rate.

4. **Government revenue** includes all tax and nontax receipts transferred into the U.S. dollar GoL accounts at the Central Bank of Liberia (CBL), including income and transfers from state-owned enterprises and public institutions (excluding external loans and grants). The GoL accounts at the CBL include the GoL General Account No. 2, the GoL Special Rice Fund, and the Liberian dollar account at the CBL, which is the GoL General Account. Any new accounts opened by the GoL at the CBL or any other local financial agency shall be reported to the IMF. For purposes of the program, the revenues of the GoL are measured on the basis of cash deposits in the four accounts specified converted to U.S. dollars using the end-of-period exchange rate.

5. **The fiscal balance** is defined as the difference between (a) government revenue defined in paragraph 4 of this TMU (including budget support grants, but excluding earmarked external loans and grants); and (b) government current expenditure plus capital expenditure (excluding foreign-financed expenditure for earmarked purposes), payment of arrears, amortization, and payments to the domestic trust fund on a commitment basis.

6. **Noncash tax/duty payment** is defined as any noncash settlement of duty/tax obligations to the GoL through the exchange of goods or services.
7. **New domestic borrowing** is defined as new claims on the central government after the start of the program. It will be measured by the change in the stock of all outstanding claims on the central government (loans, advances, and any government debt instruments, such as long-term government securities) by the banking system. The definition also includes the issuance of debt instruments by the GoL to the nonbank sector. For measurement purposes, all claims in Liberian dollars will be converted at the end-of-period exchange rate.
8. **New domestic arrears/payables of the government** are calculated as the difference between government payment commitments and the actual payments made on such commitments, providing for a processing period of no more than 15 days from the date of commitment. Actual payments are defined as having taken place on the date of issuance of checks by the Ministry of Finance. Government payment commitments include all expenditure for which commitment vouchers have been officially stamped with the Bureau of General Accounting (BGA) seal, and expenditures that are now automatically approved, namely, wages and salaries, pensions, debt payments to the CBL and commercial banks, CBL bank charges, and transfers of ECOWAS levies into the ECOWAS account.
9. **Contracting or guaranteeing of new external debt by the public sector:** For purposes of the program, external debt applies not only to the meaning set forth in point No. 9 of the “Guidelines on Performance Criteria with Respect to Foreign Debt” ( see Decision No. 12274-00/85, August 24, 2000 attached in **Annex I**), but also to commitments contracted or guaranteed for which value has not been received. In this memorandum, the public sector consists of the central government, state-owned enterprises, and the CBL.
10. The government undertakes not to incur arrears on external debt that it owes or guarantees, except for external payments arrears arising from government debt that is being renegotiated with creditors, including Paris Club creditors. Arrears on external debt are defined as any unpaid obligation on the contractual due date. In cases where a creditor has granted a grace period after the contractual due date, arrears are incurred once the grace period expires.
11. **CBL expenses** are defined as the sum of (i) recurrent expenditures and (ii) capital expenditure, on a cash basis.
12. **Arrears of the CBL** are calculated as the difference between payments due on commitments from the start of the program and actual payments made on those commitments. For the purpose of this memorandum, CBL commitments due include all expenditure for which goods and services have been delivered but have not been paid for.

13. **The CBL cash-based budget balance** is defined as the difference between (a) total revenues (the sum of interest and noninterest income) on a cash basis; and (b) total current expenditure plus capital expenditure, on a cash basis.

14. **The net CBL foreign exchange position** is defined as the difference between (a) the CBL's gross foreign liquid reserves, as currently defined in the monthly monetary survey. and (b) the sum of its gross foreign liquid liabilities and liquid liabilities denominated in U.S. dollars, as currently defined in the monthly monetary survey.

## **II. PROGRAM MONITORING**

### **A. Program–Monitoring Committee**

15. The Liberian authorities shall maintain a program-monitoring committee composed of senior officials from the Ministry of Finance, the CBL, and other relevant agencies; the IMF Resident Representative will have observer status. The committee shall be responsible for monitoring performance on the program, recommending policy responses, informing the IMF regularly about progress of the program, and transmitting materials necessary for evaluation of benchmarks. The committee shall provide the IMF with a progress report on the program on a monthly basis within four weeks of the end of each month, using the latest available data.

### **B. Data Reporting to the IMF**

16. To allow monitoring of developments on the program, the Ministry of Finance will coordinate and regularly report the following information to the staff of the IMF:

- Detailed reports on monthly revenue and expenditure on both a cash and a commitment basis by budget line and a completed summary table on central government operations (monthly, within three weeks after the end of the month);
- Outstanding appropriations, allotments, and commitments, and disbursements for line ministries and agencies (monthly, within three weeks after the end of the month);
- Disbursements of budget support grants and loans, by donor (monthly, within three weeks after the end of the month);
- Daily balances in the GoL accounts at the CBL. These are the U.S. dollar—GoL General Account No. 2 and the GoL Special Rice Fund—and Liberian dollar accounts—the GoL/CBL Civil Servant Payroll Account No.2 and the GoL General Account. Any new accounts opened by the GoL at the CBL or at any other local financial agency shall be reported to the IMF (daily, within three days from the date of the statement);

- End-of-month balances of all operating and other accounts of the line ministries and agencies receiving budgetary appropriations (monthly within three weeks after the end of the month);
- A table providing the end-of-period stock of domestic arrears accumulated and payments made on arrears during the period, by budget category (wages, goods, and services, etc) (monthly, within three weeks after the end of the month);
- The amount of new domestic debt contracted or guaranteed by the public sector (monthly, within three weeks after the end of the month);
- A detailed report on monthly payments on domestic debt by category and the domestic debt stock (monthly, within three weeks after the end of the month);
- The amount of new external debt contracted or guaranteed by the public sector (monthly, within three weeks after the end of the month);
- The balance sheet of the CBL in the monthly monetary survey (monthly, within two weeks after the end of the month);
- The full monthly monetary survey of the monetary sector, (monthly, within three weeks after the end of the month);
- Monthly detailed table of commercial bank loans and advances by sector (within two weeks of the end of the month);
- Core financial soundness indicators by individual financial institution, including overall profitability of the banking sector (quarterly, within three weeks after the end of the quarter);
- The monthly report on CBL cash revenues and expenditures in U.S. and Liberian dollar terms, on an aggregated basis, including both recurrent and capital expenditure (monthly, within two weeks after the end of the month);
- CBL expenditures on a commitment basis (monthly, within two weeks after the end of the month);
- The report on sales/purchases by the CBL through foreign exchange auctions held by the CBL, including U.S. dollars offered and sold, the auction rate, the number of accepted and rejected bids, and the total value of bids and of rejected bids (weekly);
- Regular sale of U.S. dollars by the Ministry of Finance to the CBL, including amount, date, and rate of exchange (monthly, within two weeks after the end of the month);

- Indicators of overall economic trends, including but not limited to
  - detailed tables of the monthly harmonized consumer price index (within two weeks after the end of the month);
  - daily foreign exchange rates (weekly);
  - export volumes and values by major commodity, import values by SITC classification, import volumes of rice (by commercial and noncommercial use) and petroleum products (monthly, within three weeks after the end of the month);
  - interest rates and commercial bank remittance inflows and outflows (monthly, within three weeks after the end of the month); and
  - production data in value and volume (monthly, within six weeks after the end of the month).
- The report on the status of implementation of the structural performance criteria and benchmarks specified in Table 2 of the MEFP (monthly, within three weeks after the end of the month).

17. The above data and reports will be provided in hard copies and electronically to the IMF Resident Representative to Liberia, Mr. Tharkur ([mtharkur@imf.org](mailto:mtharkur@imf.org)), with copies to the local IMF economist, Mr. Deline ([adeline@imf.org](mailto:adeline@imf.org)), for transfer to the African Department of the IMF in Washington, D.C.



## **Annex 1: Guidelines on Performance Criteria with Respect to Foreign Debt**

Excerpt from Executive Board Decision No. 6230-(79/140), as revised on August 24, 2000

(a) For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.