International Monetary Fund

Liberia and the IMF

Press Release:
IMF Executive Board Completes First Review under PRGF Arrangement for Liberia and Approves US$10.8 Million Disbursement
December 22, 2008

Country's Policy Intentions Documents

E-Mail Notification
Subscribe or Modify your subscription

Liberia: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

December 3, 2008

Monrovia, December 3, 2008

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

Dear Mr. Strauss-Kahn:

The attached memorandum updates our policy framework supported by the Poverty Reduction and Growth Facility (PRGF) as set out in our Memorandum of Economic and Financial Policies (MEFP) of February 27, 2008. It describes our policies for the period January-December 2009.

Liberia was significantly affected by the sharp rise in world food and fuel prices in the first half of 2008; year-on-year inflation peaked at almost 27 percent in August, and the trade deficit in the first three quarters of the year was double that recorded in the same period of last year. Recognizing its limited own resources, the government formulated a comprehensive food security policy with the assistance of key international donors to protect the most vulnerable segments of our society. However, despite these challenges, economic activity remained strong, with real GDP growth of around 7 percent, and we made further good progress in implementing our poverty reduction strategy. We are cognizant of the risks posed by current global financial market turmoil, and the possibility for spill-over into the real sector, but are optimistic about our economic prospects for 2009.

Performance under the PRGF-supported program through June 2008 has been strong; we have met all of the quantitative benchmarks and performance criteria under the program, as well as all of the structural benchmarks and performance criteria, although the performance criterion relating to the merger of the Bureau of the Budget into the Ministry of Finance was met with a slight delay. Legislation to allow the Bureau of the Budget to be merged into the Ministry of Finance (an end-June 2008 performance criterion), a key element of our program to strengthen public finance management, was passed by the legislature in September 2008. Since then we have made strong progress to effect the merger, including through the employment of a change management adviser to advise us on the new organizational structure of the Ministry of Finance. We are confident that the merger will be completed by end-December 2008, and we therefore request a waiver of nonobservance with respect to this performance criterion.

The Government of Liberia and the CBL believe that the economic and financial policies set forth in the attached memorandum provide an adequate basis for achieving the objectives and targets of our program, but we will take any additional measures that may become necessary for this purpose. We will 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. We will provide the Fund with all information necessary to monitor implementation of the program supported by the PRGF in a timely manner. 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. Two program and financing assurances reviews will be conducted during the second year of the program and are expected to be completed by end-October 2009 and end-April 2010.

On the basis of this performance, and on the strength of the policies set forth in the attached memorandum, we request that the IMF complete the first review under the PRGF arrangement and approve the second disbursement (in the amount of SDR 7.0 million).

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 for the 2008 Article IV consultation discussions and first review under the PRGF available to the public.

Sincerely yours,

/s/	/s/
Augustine Ngafuan	Joseph Mills Jones
Minister of Finance	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–December 2009

I. Introduction

1. This memorandum describes the Government of Liberia's achievements in 2008 under the program supported by the IMF's Poverty Reduction and Growth Facility (PRGF) and Extended Fund Facility (EFF). We also describe our annual program of economic and financial policies for January to December 2009.

2. Under our economic program in 2008, we have maintained broad macroeconomic stability and successfully implemented critical structural reforms aimed at strengthening governance, public financial management, and financial sector stability. Our economic achievements thus far, and our program for 2009, reflect our continued commitment to sound economic policies consistent with the national medium-term objectives that we have outlined in our three year Poverty Reduction Strategy (PRS) which was established in April 2008.

II. Poverty Reduction and growth strategy

3. Our three-year PRS that is supported by the PRGF/EFF arrangement was finalized in April 2008 following a participatory process involving all levels of society and our international partners. The central objectives of the PRS are to firmly establish a stable and secure environment across Liberia; to be on an irreversible path toward rapid, inclusive and sustainable growth and development; to rebuild the capabilities of and provide new opportunities for Liberia's greatest asset–its people–and to have established responsible institutions of justice, human rights, and governance.

4. The strategy to achieve these objectives is built on four pillars: (i) consolidating peace and security; (ii) revitalizing the economy; (iii) strengthening governance and the rule of law; and (iv) rehabilitating infrastructure and delivering basic services. All four pillars are critical for establishing the foundation for sustained growth and development, and actions in one pillar reinforce actions taken in others.

5. In the context of this memorandum, the basic strategy for economic growth and poverty reduction is particularly important. There are three basic prongs to our growth strategy:

- First, we must rebuild our infrastructure, particularly roads. The PRS process revealed that across the country, Liberians' number one priority is better roads, which Liberians see as essential for creating jobs and new economic opportunities, revitalizing agriculture, reducing prices, strengthening local governance, facilitating access to health and education services, increasing the effectiveness of the police and other security forces, and helping to maintain peace.

- Second, we must quickly revive our traditional sources of economic growth – rubber, timber, mining and cash crops – and ensure that the benefits accrue to all Liberians in a sustainable manner. Concession contracts aim to balance the need to generate competitive returns for investors with the need for robust and transparent financial flows. The Government is working hard to revitalize agriculture as the bedrock of the economy, as it provides livelihoods for the majority of Liberians, and this has become even more important in the context of the global food crisis. A vibrant agricultural sector is central to reducing poverty, providing food security, and ensuring progress toward the Millennium Development Goals.

- Third, the Government is beginning to take strong steps to diversify the economy over the medium term into the competitive production of labor-intensive downstream products, manufactured goods, and services. It aims to create an open economy with a strong business environment with low tariff and non-tariff barriers, strong linkages to international markets, minimal government intervention except where necessary to address market failure, and low levels of red tape and unproductive regulation.

6. In all of these activities, the private sector will be the main driver of growth. Of course, economic growth alone will not ensure poverty reduction. But taken together with actions across the pillars—creating a peaceful and secure environment, building strong institutions of governance, and delivering effective health and education services—these actions will provide the foundation for rapid, sustainable and equitable growth. The actions described in this memorandum are all taken to further the objectives of Liberia's PRS.

7. For the three-year period 2008/09-2010/11, we estimate the total cost of implementing the PRS at US$1.6 billion. We expect to be able to finance about a third of this with our own resources, which leaves a funding gap of approximately US$1.1 billion, or about US$370 million per year. While the precise level of donor support is uncertain—improving data collection and strengthening aid management is one of our key priorities—present donor support, while extremely important, does not fill the funding gap, and is not always fully aligned with the PRS.[1] In particular, our highest priority in the PRS, infrastructure, continues to need funding. Owing to the near absence of donor support through the budget, we are actively working on a mechanism to better coordinate and manage aid in line with the PRS priorities. We expect our national budget to be the central instrument for coordination of donor assistance and PRS alignment. We would therefore welcome higher levels of budgetary support to provide us with greater fiscal space over time.

[1] According to the OECD, total official development assistance (ODA) to Liberia in 2006 was US$269 million. We are in the process of refining our detailed estimates of the PRS programs and of donor support following the June 2008 Berlin Partners' conference.

We have made great strides in improving our public financial management systems. Going forward, we remain committed to deepening and strengthening the PFM reform program.

III. Recent Economic Developments

8. Liberia's economy continued its strong recovery in 2008 with growth estimated at about 7 percent. The pace of economic growth continues to reflect our natural resource sectors—in particular agriculture, domestic forestry activity, and mining; the service sector also continues its strong recovery supported by a large donor presence, construction services, and the expansion of government activity.

9. Liberia has, however, been hit hard by the global surge in food and fuel prices. In 2008, our trade deficit is estimated to have widened by 17 percent of GDP owing to these shocks. Rice is an important part of Liberians daily diet, and the surge in international prices—around 120 percent in the twelve months to September—poses a severe risk to food security as two thirds of rice consumption in Liberia is imported. To mitigate the impact of these shocks, we have (given our limited resources) implemented a number of measures: (i) with the help of our development partners expanded food aid to vulnerable households, including school children; (ii) secured rice seed and farm tools for small farmers and approved two large concession agreements for commercial rice production; and (iii) suspended the rice import levy as well as import duties on agricultural tools and raw materials. The suspension of the rice import levy resulted in a revenue loss of about US$3 million in Fiscal Year (FY) 2007/08 and will cost a further US$8 million in FY2008/09. To mitigate the poverty impact of higher prices, we also increased the minimum wage for civil servants by close to 30 percent in our FY 2008/09 budget and eliminated the withholding tax on annual incomes of up to US$840. These measures are consistent with our broader civil service and tax reform strategies. To provide some limited relief to users of public transportation in greater Monrovia, we have provided a small fuel subsidy to the public transit authority in Monrovia, while maintaining our policy of full pass through of all international fuel prices to the domestic market.

10. Notwithstanding the rise in international food and oil prices, we have maintained broad macroeconomic stability supported by our implementation of a cash-based balanced budget, and the achievement of broad exchange rate stability. While the overall inflation rate reached 20 percent year-on-year in September, core inflation, i.e. excluding food and fuel prices, was just over 7 percent. The Liberian dollar/U.S. dollar exchange depreciated by 3.2 percent in the twelve months to September. Given the high degree of dollarization and openness of the economy, the broad stability of the exchange rate has been significant in restraining domestic inflation. For 2009, we expect inflation to subside significantly to single-digit levels as international food and oil prices fall somewhat from their currently high levels and domestic food production increases.

IV. PROGRAM IMPLEMENTATION THROUGH 2008

A. Fiscal Policy

11. In the execution of the FY 2007/08 cash-based budget, we made substantial gains in revenue collection as revenues rose by close to 40 percent compared to FY 2006/07. This is almost 10 percent higher than the budget target. Our strong performance reflects the continued strong economy, iron ore concession payments, and gains from the reorganization of domestic tax administration. Total expenditures (including payment of arrears) increased by about 50 percent relative to the previous fiscal year, broadly in line with the budget. Budget implementation was supported by further progress in strengthening the procurement capacity of line ministries which reduced the rejection rate of vouchers at the commitment stage. We observed the program target for the fiscal balance by a comfortable margin and did not accumulate any new domestic payment arrears (Table 1).

12. We have made considerable progress advancing the legislative agenda for improving public financial management. On March 14, 2008, the Legislature passed legislation to limit transfers between budget lines without legislative approval to a cumulative total of no more than 20 percent (end-March 2008 performance criterion). This Law will help us to improve accountability and predictability of budget execution. In September the Legislature passed the law for the merger of the Bureau of Budget (BoB) into the Ministry of Finance (MoF). This Legislation was an end-June 2008 performance criterion, Table 2), which is a key step toward overcoming the present segmentation of budget preparation and execution. We have put in place a high level committee to make final recommendations on integration issues and expect to complete the merger by end-December 2008 (end-December 2008 benchmark). In September, we also submitted a new comprehensive Public Financial Management Act to the Legislature (an end-December performance criterion). We are working closely with the relevant legislative subcommittees with a view to approving this important legislation in January 2009.

13. The budget for FY 2008/09 continues our policy of maintaining a cash-based budget that precludes borrowing. The budget consists of a base budget and a contingent budget. Expenditure items in the latter will only be spent if contingent revenue projections are realized (they are more uncertain than those in the base budget) and if the base budget is not experiencing underperformance in revenue. We are in the process of formalizing procedures to be adopted before end-December 2008 for the execution of Contingent Budget expenditure, consistent with our Financial Rules and commitment control system. The expenditure allocations in the base budget (US$270.2 million, including debt repayments) are consistent with our commitment to allocate at least 55 percent of our total resources to PRS implementation. These expenditures will be financed through collection of US$249 million in revenue and the remainder through cash reserves accumulated in the previous fiscal year. Part of the projected revenue collection, however, is related to concession payments (about US$28.5 million linked to the Western Cluster and Bong mining concessions). With due

diligence on Bong Mines finalized, and the process of re-tender for the Western Cluster begun, we expect to complete the concession awards in early 2009, but they could slip into the following fiscal year. On the upside, we expect to receive about US$19 million in budgetary support from the African Development Bank (AfDB) and the World Bank that was not included in the budget. Nevertheless, to guard against revenue risks, we are currently considering contingency measures for reducing expenditures in case cash shortages materialize. We are also working on a cash flow framework to help improve our cash planning and management.

14. We recognize the need to strengthen the commitment control process for county development funds (CDF) which have increased in recent years. We have received financial reporting for spending in the previous fiscal year and field inspections are underway. The budget act for FY 2008/09 also specifies guidelines for improved accountabilities for these funds that we intend to enforce. We are also conducting joint project monitoring exercises with the Ministry of Internal Affairs and the United Nations Development Program (UNDP). Improving the effectiveness of CDF spending as well as its transparency and accountability, is an ongoing priority.

15. We have made progress in preparing a medium-term fiscal framework (MTFF, end-December 2008 benchmark), which serves as a first step toward introducing a medium-term perspective to budget preparation. We have developed a detailed MTFF-template that captures most of our fiscal activities, but the underlying projection and financial programming methodologies need to be further refined as our capacity for macroeconomic analysis develops.

B. Governance and Public Financial Management

16. We have made substantial progress in setting up an institutional framework for combating corruption. The Liberia Anti-Corruption Commission (LACC) Act was signed into law by the President on August 21, following which the Chairperson and other Commissioners were appointed and confirmed by the legislature (establishment of the LACC is an end-September 2008 performance criterion). Members of the LACC have been commissioned by the President. The LACC is charged with investigating acts of corruption discovered or reported to have occurred in public, private, and civil society sectors of Liberia, and also has independent prosecutorial powers. We expect that with donor support, the LACC will be fully functional by end-December 2008.

17. The Extractive Industries Transparency Initiative (EITI) is an integral part of our policy to achieve accountable and transparent resource governance. To promote this initiative, we issued in September 2008 a proclamation making disclosure and publication of information on revenue and payment transactions covered under EITI binding on all government agencies as well as extractive companies operating in Liberia. We also intend to

proceed with the drafting of specific legislation that will deepen our commitment to the EITI principles in Liberia.

18. In line with our commitment to greater transparency, the General Auditing Commission (GAC) has completed several audits including of the MoF, the consolidated revenue and expenditure accounts of the government for FY 2006/07, and several commissions, funds and autonomous agencies. The GAC has highlighted the need for improvements in public financial management systems, procedures, and reporting, including internal audit capacity, on which we are actively working as part of our broad PFM reforms.

19. We have begun the preparatory work for introducing an IFMIS, which is targeted to become fully operational on July 1, 2010. The World Bank is supporting us with this project. We will implement this system in a phased modular approach, with the first phase encompassing (i) a general ledger (critical for accounting and reconciliation functions), (ii) a cash management module (for handling bank reconciliation and cash forecasting), (iii) an accounts payable module (critical for commitment control), (iv) an accounts receivable module for recording revenue receipts), (v) a budget preparation module, and (vi) a payroll management module. We have finalized the project charter that defines the major goals and objectives of this project, contains a risk analysis, and sets milestones and key dates.

C. Monetary Policy

20. The CBL has met all of the quantitative program targets through June, and all structural program conditionalities. We achieved our key objectives of implementing a balanced operational budget and further building up the net foreign exchange position. The latter increased to US$47 million in September from US$35.1 million at end-2007. Monetary policy in the first three quarters of 2008 was aimed at maintaining relative stability of the Liberian dollar/U.S. dollar exchange rate, the main policy anchor. While year-on-year inflation accelerated in the year, this was mostly because of large increases in international commodity prices and in the prices of domestically produced food items. We are cognizant that a sustained real appreciation can undermine our international competitiveness. The growth strategy outlined in the PRS also suggest that reforms in the real sector, in particular infrastructure development, are the critical factors for reducing production costs and developing our economic potential.

21. We have made substantial progress in strengthening the domestic banks as evidenced by a strong increase in the capital adequacy of the banking system. We also established a system for regular on-site and off-site inspection of each operating bank, and will continue its implementation in 2009. We took stock of all operating banks and published a list of banks licensed to operate in Liberia as part of our strategy for the resolution of abandoned and non-operating banks (end-March 2008 benchmark). The number of banks operating in Liberia increased to six, with the opening of a new bank in July 2008. The CBL has granted provisional licenses to two additional banks, one with a focus mainly on microfinance, whose

ownership includes the International Finance Corporation and the African Development Bank.

D. External Policies and Debt Resolution

22. As covered in our PRS, Liberia's comparative advantage lies in natural resource-based industries. This was also confirmed by the Diagnostic Trade Integration Study which explored options for promoting trade and growth. We also recognize that over time we should not rely solely on natural resources, and must take steps to diversify our economy and increase competitiveness in downstream products, manufacturing and services. To realize our economic potential, the study makes recommendations to strengthen financial services, the investment climate (infrastructure development is the foremost challenge), improve customs and trade facilitation, and develop sectoral strategies to promote agricultural and natural resource sectors.

23. Cabinet endorsed our debt management strategy for addressing Liberia's external and domestic debt overhang as well as establishing the institutional and legal framework for debt management (end-June 2008 benchmark):[2]

- The resolution strategy for Liberia's external debt overhang is based primarily on the Heavily Indebted Poor Country (HIPC) Initiative. Following the decision point under the HIPC Initiative in March 2008, we negotiated in April a generous restructuring of our bilateral debt with the Paris Club. Since then, we have signed individual agreements with the U.S.A, Germany and Denmark, and are close to finalizing agreements with several other countries. We are seeking comparable debt relief terms from our non-Paris Club and commercial creditors. Regarding the former, China has announced its intention to forgive all our outstanding debt, and IFAD, the Saudi Fund, OFID, and BADEA have agreed to treat our debt on terms fully consistent with the HIPC initiative. To settle our commercial debt, we are now working on a potential buy-back operation with support from the World Bank and other donors within the framework of the IDA Debt Reduction Facility. The reconciliation of outstanding claims of commercial creditors has already been concluded.

- We have completed the validation of our domestic debt claims by creditors and, after application of a discount, accepted claims of US$300.5 million, with the Central Bank of Liberia being our largest creditor. We have finalized agreements with the CBL, LBDI, and ECOBANK whose total discounted claims amount to US$267.9 million, and we expect to settle these claims over the next 40 years. We have also made significant progress with payments on vendor and other claims.

---

[2] The strategy has been approved by the President, and was presented to and endorsed by Cabinet during its meeting on June 20, 2008. It is being implemented during FY 2008/09.

- To strengthen our institutional debt management capacity, we have assigned responsibility for recording and managing public debt statistics, reviewing loan documents, and assessing concessionality levels of new borrowing to the Debt Management Unit within MoF. The immediate task is rebuilding the debt database and implementing a secure record keeping mechanism for existing loan documents. We have also begun a discussion with development partners for assistance to procure a debt management software package. Given our limited debt management capacity at this stage and the external debt overhang, we are not planning to contract or guarantee any new debt in 2009 (this applies also to state-owned enterprises and the CBL).

E. Other Structural Reforms

24. The civil service reform strategy was endorsed by Cabinet in June 2008 (end-June 2008 benchmark). The goal of this reform is to create a robust, professional, and adequately compensated civil service that effectively and efficiently delivers high quality services to the people aimed at improving and sustaining their quality of life. The strategy comprises six key reform components: (i) restructuring and right sizing; (ii) pay and pension reforms; (iii) improving public service delivery; (iv) human resources management; (v) leadership development; (vi) gender equity. Work is advancing on the implementation of the bio-metric identification cards, and on the pay and pension reform strategies.

25. We also finalized in July 2008 a National Statistical Development Strategy (end-March 2008 benchmark). This strategy lays out the institutional arrangements to improve the comprehensiveness, quality and timeliness of critical national statistics required to monitor the PRS implementation. In light of their importance, we have prioritized economic statistics, including national accounts, and the household income and expenditure surveys to be completed by 2010.

V. 2009 PROGRAM

A. Fiscal Policy

26. We plan to submit early in 2009 a number of amendments to the Liberia Revenue Code (LRC):

- <u>Changes to income taxation:</u> effective in early 2009, we intend to reduce the top personal income and corporate tax rates from 35 to 30 percent and lower the presumptive income tax rate from 4 to 2 percent on turnover. We also intend to enact a minimum income tax threshold.

- <u>Investment incentives:</u> the revised investment code will restrict all tax exemptions to those contained in the LRC, which is a completion point trigger under the HIPC Initiative. To limit the scope for discretionary tax incentives, we will also repeal section 204(e) of the LRC, and replace it with a more transparent schedule of investment incentives for selected economic sectors beyond the general provisions of the LRC.

- Income taxation of agricultural, renewable, and natural resources (mining and petroleum): this amendment will codify general fiscal terms for the most important concession agreements, thereby further restricting the scope for discretion and ensuring best practice in an area that is vital for our economic development and that will become a key revenue source over the medium to long run.

- Reform of the Goods and Services Tax (GST): to strengthen our revenue potential and harmonize our tax rates with those of our neighbors, we will raise the GST rate on all goods and services (except food) in a number of steps from 7 to 10 percent, and we will extend the GST coverage to telecommunication services, gambling services, hotel services, and airline tickets. The raising of GST rates will be done on a phased implementation basis, beginning with telecommunications services.

- External tariff reform: we are committed to a phased implementation of the ECOWAS common external tariff (CET) by 2012 and will begin this process in 2009 by adopting the ECOWAS tariff book. In a first step toward tariff harmonization, we will reduce rates that are above the CET. The revenue impact will be compensated for by an increase in excise taxes in line with our medium term tax reform program.

27. The next phase of our revenue administration reform centers on automation of tax and customs administration. The World Bank is supporting us in procuring and installing an integrated tax administration system (ITAS); for the automation of customs administration, we intend to use budget support resources from the AfDB to acquire the ASYCUDA system developed by UNCTAD. To enhance customs services, we plan for March 2009, the opening of a one-stop customs facility in the port of Monrovia that will house representatives from customs, the port authority, the PSI company, and the CBL.

28. We are planning several initiatives for 2009 to improve budget execution:

- Improving procurement practices: we have reviewed the Public Procurement Concession Act and prepared a number of amendments (e.g., raising of thresholds for competitive biddings) to be submitted to the Legislature in early 2009. Following legislative passage, we are going to prepare and issue a comprehensive set of implementing regulations and manuals that will provide detailed instructions on the correct application of the law. We will also begin to publish regularly procurement information and summaries of contract awards. Finally, we will continue our training programs to strengthen procurement capacity within line ministries and to ensure smooth implementation of the procurement plans of the Ministries and Agencies (M&As).

- Further strengthening of payroll management: building on a pilot program for direct deposit of salaries and allowances currently under way in some M&As, we plan to introduce this more widely in 2009. As part of the implementation of our civil service reform strategy, we also aim to approve a pay reform strategy that consolidates base salaries and allowances and help make the civil service more attractive for qualified staff by decompressing the pay scale.

- Better reconciliation between MoF and CBL: currently, the large number of checks issued and the need for manual reconciliation represents a major bottleneck. To move toward automatic reconciliation, we plan to fully deploy a software system with accounting and reconciliation functions. This will also help us to move toward a double-entry accounting standard within MoF. To this end, we intend to approve the accounting standards and an updated chart of accounts currently under development by end-June 2009 (end-June 2009 benchmark). Following completion of the training program for MoF accountants, we will adopt double entry accounting by end-June 2009 in MoF. Training programs will continue for accountants of other line ministries in preparation of extension of double-entry accounting throughout the government.

B. Governance and Public Financial Management

29. We recognize the critical importance of a strong legal foundation for public financial management.[3] We have therefore maintained active dialogue with members of the Legislature with a view to facilitating passage of the PFM Law in early 2009. In anticipation of the new Law, we have also secured technical assistance from the IMF for the preparation of the implementing regulations for the Law, which we intend to issue no later than end-June 2009.

30. We expect to finalize our first EITI report in early 2009.[4] We also intend to proceed with the drafting of specific legislation that will deepen our commitment to the EITI principles in Liberia which also covers activities in the forestry sector.

31. A key objective of our external audit strategy is the completion of successive external audits of five key ministries.[5] We expect the GAC to complete the FY 2006/07 audits of the Ministries of Finance, Health, Education, Public Works, as well as Land, Mines and Energy

---

[3] Implementing the PFM act and supporting financial regulations for at least 12 months is a completion point trigger.

[4] Regular reporting of payments and revenues related to the extractive industry in line with EITI criteria is another completion point trigger

[5] A completion point trigger.

by end-January 2009. The audit reports will be submitted to the Legislature and disclosed publicly. The corresponding audits for FY 2007/08 should be completed within the first half of 2009. The GAC will also audit the central government's accounts for FY 2007/08 and we expect this report to be completed, submitted to Legislature, and made public by end-March 2009, in time for the budget deliberations for FY 2009/10 (performance criterion).

C. Monetary Policy

32. In 2009, monetary policy will continue to aim at maintaining relative exchange rate stability, and with the recent decline in international commodity prices, notably for food and fuel, we anticipate that inflation will decline to single digits by end-year. The CBL will continue to operate a balance budget. However, this is likely to pose a challenge to meeting the operational and developmental needs of the Bank in the wake of lower international interest rates associated with the response in major financial centers to the international financial crisis and the likelihood that its income could also potentially be affected by lower average government cash balances in FY 2008/09. The CBL is therefore targeting a modest build up on its net foreign exchange position to US$62.7 million at the end of December 2009. Meanwhile, the CBL will also conduct foreign exchange auctions aimed at maintaining broad exchange rate stability of the Liberian dollar relative to the U.S. dollar, which is the major anchor for containing inflation. Efforts will also continue to strengthen the monetary policy framework and to strengthen supervision capacity to safeguard the banking system from the contagion risks associated with the ongoing international financial crisis, although Liberian commercial banks have limited exposure to international capital markets. In this regard, the CBL will engage with domestic banks as well as regular public statements to enhance public understanding of the current monetary framework. Given the importance of the foreign exchange auction to its monetary policy, the CBL intends to finalize the foreign exchange auction rules including regulations for the conduct of purchase auctions and the direct placement of foreign exchange through foreign exchange bureaus, and will publicize these rules by end-March 2009. The CBL will also collect more data on volumes in the foreign exchange market and the flow of remittances, and will continue efforts to regularize the large number of informal foreign currency traders. Steps will be taken to support the demand for Liberian dollars, including working with the fiscal authorities to increase the use of the Liberia dollar in government revenue and expenditure operations.

33. We will continue to work closely with all operating banks to ensure they follow prudent credit risk management and loan classification policies, and under supervision of the Banking Compliance Committee, will ensure that banks implement all corrective actions noted in CBL directives. In this regard, we will continue implementing our comprehensive system for quarterly off-site inspections and on-site inspections (two each per bank per year). To implement these inspections will require two full inspection teams, and will require additional staff and training in the Banking Supervision department. We intend to seek continuing IMF technical assistance in this regard. By the end of September 2009, the CBL plans to complete its first half-yearly on-site inspection report for each bank. Going forward,

we expect the number of banks operating in Liberia by mid-2009 to reach a total of nine. However, a temporary moratorium on licensing of additional banks has been put in place, unless there are very clear mitigating circumstances which call for a special dispensation by the Board of the CBL. In any event, particular attention will be given to the limitations of the domestic market as well as the ability of the CBL to effectively exercise its regulatory responsibilities. To further strengthen the domestic financial sector, we will finalize comprehensive anti-money laundering/combating the financing of terrorism legislation. The Inter-Governmental Action Group Against Money Laundering in West Africa, has agreed to assist in the drafting of such legislation.

34. The CBL's income in the first three quarters of 2008 was higher than budgeted (2.4 percent), while expenditures were 15 percent lower than budgeted. This enabled the CBL to comfortably meet the program floor on its budget balance and its expenditure ceiling, and to exceed the programmed accumulation of U.S. dollar reserves by US$3 million (7 percent). For 2009, the CBL will continue to target a balanced budget in order to further strengthen its reserves. During the year we have made substantial progress in strengthening internal management and financial controls, as confirmed by the recent special audit by our external auditors, and we are on target to complete work on implementing the International Financial Reporting Standards accounting system at the CBL beginning with the 2008 financial accounts. We have also strengthened internal controls at the CBL, including implementing the key recommendations from the 2008 IMF safeguards assessment.

D. External Policies and Debt Resolution

35. As part of our resolution strategy for the external debt overhang, we will finalize in 2009 the remaining individual Paris Club agreements and continue our efforts to seek comparable relief from our non-Paris Club creditors. We also expect to complete the commercial debt buy-back operation in early 2009. To improve our debt management capacity, we will complete the purchase of a debt management software early in 2009, upload all relevant data, and make the system fully operational by the end of 2009. With the completion point on the horizon, and having made progress in increasing our debt management capacity, we will begin considering the appropriate timing, amounts, and purposes for possible new concessional borrowing. This analysis will draw on the debt sustainability analysis to be conducted jointly by the Debt Management Unit and the Macro Fiscal Unit. After consultation with the IMF and World Bank, we will incorporate our new borrowing approach into an updated debt management strategy.

36. Regarding domestic debt payments, we will continue to make provisions in the budget for our agreed payments on our restructured debts to the financial institutions, and on payments for the validated and discounted debts within our available revenue envelope.

E. Other Structural Policies

37. A key objective of the National Statistics Development Strategy is the compilation of national accounts. Based on the establishment census completed in 2008, we will establish a sample frame for, and conduct an establishment survey that covers non-agricultural businesses. Using the 2008 population census, we will also establish a sample frame for a household income and expenditure survey. In 2009, we intend to undertake additional surveys, including on agriculture production, and mining. These surveys will provide us with the necessary data to compile a first set of national accounts, with a first set of results expected in 2010. Building on the progress thus far in completing balance of payments statistics for 2004 to 2007, we plan to complete the 2008 balance of payments statistics in 2009.

VI. Program Monitoring

38. The second year of the three-year PRGF- and EFF-supported program will continue to be monitored on the basis of six-monthly quantitative performance criteria for June 30 and December 31, 2009, and indicative targets for March 31 and September 30, 2009 (Table 3). The structural conditionalities for the program shown in Table 4, are consistent with the goals of our PRS.

Table 1. Liberia: Quantitative Performance Criteria and Indicative Targets, 2008

(Millions of US$)

	Mar. 08		Jun. 08		Sep. 08		Dec. 08	
	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Rev. Prog.
Performance criteria and indicative targets [1]								
Fiscal [2]								
Floor on revenue collections	139.5	143.4	185.7	200.8	43.3	47.3	91.7	90.8
Floor on fiscal balance [3]	-13.7	19.6	-13.7	3.3	0.0	-0.5	0.0	-20.4
Ceiling on new noncash tax/duty payment (continuous basis)	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
Ceiling on new external borrowing (continuous basis)	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
Ceiling on new external arrears (continuous basis)	0.0	0.0	0.0	0.0	0.0	...	0.0	0.0
CBL [4]								
Ceiling on expenses	3.9	2.3	5.5	4.4	6.9	5.8	8.5	8.9
Ceiling on payments arrears (continuous basis)	0.0	0.0	0.0	0.0	0.0	...	0.0	0.0
Floor on CBL’s cash-based budget balance	-1.7	0.4	-1.1	0.7	-0.3	1.5	0.4	0.0
Floor on CBL’s net foreign exchange position	36.4	39.4	40.0	42.5	43.9	47.1	47.5	47.5

[1] Performance criteria at end-June and end-December 2008.

[2] Cumulative; fiscal year basis.

[3] 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.

[4] Cumulative; calendar year basis.

Table 2. Performance Criteria (bold) and Structural Benchmarks for the First Year of the PRGF/EFF Arrangements (January–December 2008)

Measures	Target Dates	Status
Fiscal policy		
Adopt legislation to limit transfers between budget lines without legislative approval to a cumulative total of no more than 30 percent.	**End-March 2008**	**Met**
Prepare a chart of accounts consistent with GFSM 2001-compatible budgetary classifications.	End-March 2008	Met
Adopt legislation to merge the Bureau of the Budget into the Ministry of Finance.	**End-June 2008**	**Achieved by September**
Develop an internal audit strategy for the central government.	End-June 2008	Met
Complete the merger of the Bureau of the Budget into the Ministry of Finance.	End-December 2008	
Submit a draft PFM law to the legislature.	**End-December 2008**	**Met**
Develop a medium-term macrofiscal framework for the purpose of preparing the 2009/10 budget.	End-December 2008	
Financial sector		
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	Met
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.	**End-June 2008**	**Met**
Other Areas		
Finalize a comprehensive civil service reform strategy, endorsed by the cabinet.	End-June 2008	Met
Finalize debt management strategy, endorsed by the cabinet.	End-June 2008	Met
Establish a functioning Liberia Anticorruption Commission, consistent with Liberia's anticorruption legislation.	**End-September 2008**	**Expected to be functional by end-December 2008**
Develop a comprehensive national statistical development strategy.	End-March 2008	Achieved by August

Table 3. Liberia: Quantitative Performance Criteria and Indicative Targets, 2009

(Millions of US$)

	Mar. 09 Prog.	Jun. 09 Prog.	Sep. 09 Prog.	Dec. 09 Prog.
Performance criteria and indicative targets [1]				
Fiscal [2]				
Floor on revenue collections	148.6	230.3	66.7	133.4
Floor on fiscal balance [3]	-20.4	-20.4	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
CBL [4]				
Ceiling on payments arrears (continuous basis)	0.0	0.0	0.0	0.0
Floor on CBL’s cash-based budget balance	-1.4	-1.0	-0.4	0.0
Floor on CBL’s net foreign exchange position	52.3	55.7	59.3	62.7

[1] Performance criteria at end-June and end-December 2009.

[2] Cumulative; fiscal year basis.

[3] 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.

[4] Cumulative; calendar year basis.

Table 4. Performance Criteria and Structural Benchmarks for January–December 2009

Measures		Target Dates	Justification
Performance criteria:			
1.	Regulations for the new comprehensive Public Financial Management Act issued by the Minister of Finance.	End-June 2009	Critical to implement the new PFM Law from FY 2009/10
2.	First half-yearly on-site inspection report completed for each commercial bank, and reports, including directives and follow-up actions, approved by the Compliance Committee.	End-September 2009	Important for continued reinforcement of the soundness and stability of the banking system
3.	External audit of the central government's accounts for Fiscal Year 2007/08 completed by the General Auditing Commission and submitted to the legislature.	End-March 2009	Critical measure of credible budget execution progress
4.	National Accounts establishment survey completed.	End-December 2009	Urgently needed to monitor program performance and post conflict recovery
Program benchmarks:			
1.	Revised foreign exchange auction procedures including guidelines on purchase auctions and direct foreign exchange sales adopted by the CBL Board and made public.	End-March 2009	Transparency in the auction is important to stabilizing the exchange rate—the main anchor for monetary policy in Liberia
2.	Adopted accounting standards for the government and a comprehensive chart of accounts.	End-June 2009	Strengthen budget transparency and credibility
3.	Regulations and guidelines under the Public Procurement and Concessions Act approved by Cabinet and issued.	End-July 2009	Improve the pace and transparency of nonwage spending by line ministries and agencies
4.	Full balance of payments statistics for 2008 completed and published by the CBL and LISGIS.	End-October 2009	Improve macroeconomic statistics and program monitoring
5.	Debt management software installed to support data storage, analysis, reporting and interface between the CBL and the Ministry of Finance.	End-December 2009	Critical safeguard against the re-accumulation of unsustainable debt after Liberia's exit from the HIPC process

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 the quantitative and structural performance criteria and benchmarks for the three-year PRGF/EFF program, as well as the reporting requirements. The definitions are valid at the start of the program but may need to be revisited during the 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 and end-September 2009, and quantitative performance criteria for end-June and end-December 2009.

B. Definitions and Computation

3. **For the 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 comprising 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 also. For the purposes of the program, the revenues of the GoL are measured on the basis of cash deposits in the four accounts specified above 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) 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 since 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 the purposes of measurement, 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 the checks by the Ministry of Finance. Government payment commitments include all expenditure for which commitment vouchers have been approved by the Director of the Bureau of General Accounting (BGA), and expenditure 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 the 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 payments arrears on external debt that it owes or guarantees, with the exception of 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 following the expiration of the grace period.

11. **Payment 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, the CBL's commitments due include all expenditure for which goods and services have been delivered but have not been paid for.

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

13. **The CBL's net foreign exchange position** is defined as the difference between (a) the CBL's gross foreign 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

14. 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 on this committee. The committee shall be responsible for monitoring the performance of the program, recommending policy responses, informing the IMF regularly about the progress of the program, and transmitting the supporting materials necessary for the 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

15. To allow monitoring of developments under 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 comprise the U.S. dollar: GoL General Account No. 2; 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 also (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 program 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 three 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 banks loans and advances by sector (within three week of end of month);

- The core set of financial soundness indicators by individual financial institution, including the 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. dollar and Liberian dollar terms, on an aggregated basis (including both recurrent and capital expenditure) (monthly, within three weeks after the end of the month);

- CBL expenditures on a commitment basis (monthly, within three weeks after the end of the month);

- The report on foreign exchange sales/purchases by the CBL through foreign exchange auctions held by the CBL (weekly), including U.S. dollars offered and sold, the auction rate, the number of accepted and rejected bids, the total value of bids and of rejected bids;

- Regular sale of U.S. dollars by the Ministry of Finance to the CBL, including amount, date, and rate of exchange (monthly, within three 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 three 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 non-commercial 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).

16. 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) with copies to the local IMF economist, Mr. Deline (at adeline@imf.org) for further 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.