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

April 15, 2009

The following item is a Letter of Intent of the government of Liberia, which describes the policies that Liberia intends to implement in the context of its request for financial support from the IMF. 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.

## LETTER OF INTENT

Monrovia, April 15, 2009

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

Dear Mr. Strauss-Kahn:

The attached Supplementary Memorandum of Economic and Financial Policies (MEFP) summarizes the substantial progress made in implementing the PRGF-supported economic program through end-2008, our preparations for implementation of the 2009 program and our policy response to the new macroeconomic challenges for Liberia posed by the global recession.

The attached MEFP complements and updates the MEFP of February 27, 2008 which sets out the objectives of our three year PRGF supported program and the update of December 3, 2008 that describes performance through mid-2008 and details policies for 2009.

Performance under the program through end-December has been generally good. We met most quantitative benchmarks and performance criteria under the program: there was a temporary accumulation of domestic arrears in respect of wages due to the late passage of the budget, and a minor excess of Central Bank spending in the year to December 2008 over the initial expenditure ceiling, although the Bank ended the year with a surplus. On the basis that the deviations were temporary we request waivers of nonobservance for these performance criteria. Our efforts to make the Liberia Anti-Corruption Commission functional by end-September 2008 faced some delays and we request a waiver on the basis of the temporary nature of the nonobservance.

We request modifications of the program in respect of a limited amount of highly concessional financing for critical, high return port rehabilitation consistent with long term debt sustainability as detailed further below and modifications to government revenue and net foreign exchange position of the CBL performance criteria for June and December 2009 in line with program revisions described below. We wish to convert structural performance criteria for June, September and December 2009 into structural benchmarks, consistent with the revised Fund policy on structural conditionality effective May 1, 2009.

The Government of Liberia and the CBL believe that the economic and financial policies outlined in this letter and supplementary MEFP provide an adequate basis for achieving the

objectives and targets of our program. We will consult closely with Fund staff as detailed in our letter of intent of December 3, 2008.

On the basis of this performance, and on the strength of the policies set forth in the attached memorandum, we request that the second review under the PRGF arrangement be completed and that the third disbursement be approved in the amount of SDR 7.0 million.

We are willing to make the contents of this letter and the attached MEFP available to the public. Therefore, we authorize the IMF to arrange for these documents to be posted on the IMF website following Executive Board conclusion of the review.

Sincerely yours,

/s/

Augustine Ngafuan  
Minister of Finance  
Ministry of Finance

/s/

Joseph Mills Jones  
Executive Governor  
Central Bank of Liberia

## **Attachment I. Memorandum of Economic and Financial Policies (MEFP), 2009**

### **I. MACROECONOMIC CONTEXT**

1. The recovery of the Liberian economy continued in 2008 with GDP growth estimated at 7 percent. Increases in the prices of imported food and fuel raised inflation to a peak of 26.5 percent.
2. The deepening global recession has, on balance, substantially weakened our growth prospects in the near term. We are benefiting from a reduction of imported food and fuel prices and this is reflected in a rapid slowdown in consumer price inflation to 6.4 percent in January 2009. Our banking system and foreign exchange market have been largely shielded from financial sector turbulence and the exchange rate has remained stable. However, it is clear that export receipts are weakening owing to falling commodity prices and weak external demand. There are also delays or scaling down of FDI and the related production and exports, a recent downturn in remittances, incipient weakness in some government revenue items, and a sharp reduction in CBL interest income.
3. Accordingly, we expect slower GDP growth and lower exports in 2009 and 2010 with an eventual rebound in 2011-2012, and a slowing in the growth of government receipts. Against this background, we plan to reduce and simplify personal and corporate income taxes to help stimulate investment, with the revenue impact partially offset by an increase of goods and services taxes.

### **II. PROGRAM IMPLEMENTATION THROUGH END-2008 AND 2009 PROGRAM**

#### **A. Fiscal Policy**

4. The fiscal program is on track through end-December: we exceeded the revenue target; accumulated no external arrears; and continued implementing our no-borrowing policy. However, delays in the passage of the 2008/09 budget led to wage arrears in July 2008 that were cleared in August.
5. We are currently preparing the budget for fiscal year 2009/10 consistent with the principles of a balanced budget. Our initial budget circular was consistent with revenue projections agreed at the first review under the Fund-supported program, but the impact of the global financial crisis—in particular the fall in commodity prices and slowdown in growth—are adversely affecting the revenue outlook for 2009/10. Consequently, we will need to restrain our expenditures and revise the program revenue targets downward.
6. In response to the global financial crisis, we intend to submit shortly legislation to reduce the top marginal income and corporate income tax rates from 35 to 25 percent in order to stimulate growth and to simplify the structure of personal income tax. The draft legislation also proposes to raise the GST rate from its low level in steps from 7 percent to 10 percent.

We will submit in April 2009 a revised Investment Incentives code and amendments to the Liberian Revenue Code (LRC) that provides a transparent schedule of investment incentives for selected economic sectors beyond the general tax provisions of the LRC. The amendments also contain fiscal regimes for natural resources and large agriculture projects that were developed with assistance from the Fund.

## **B. Monetary Policy**

7. The CBL has continued to contribute to improving macroeconomic conditions, including through regular foreign exchange sales to maintain broad exchange rate stability, which is the intermediate monetary target aimed at maintaining low inflation. CBL operations under the program are broadly on track with a continued build-up in the net foreign exchange position and no new arrears.

8. The CBL posted a small budget surplus in 2008, although actual spending was marginally above the ceiling originally set for end-December. Higher than expected revenues made it possible to increase capital spending under the program, mainly to secure Liberian dollar currency notes. The CBL intends to have a balanced budget in 2009. This should be seen in the context of a significant decline in interest income of the CBL—the major source of the bank’s income—due to the global financial crisis. In the circumstances, we will review our reserves investment policy, with due regard to risk and liquidity, and our spending plans as prudence would dictate. The Board of the CBL will revisit the budget at mid-year taking due account of the current circumstances. Due to lower nominal GDP in 2009, we expect lower Liberian dollar currency demand and accordingly have revised down our net foreign exchange position target moderately while maintaining the objective of a steady build up of reserves.

9. We have revised foreign exchange sale and purchase auction regulations (structural benchmark March 2009). These provide a more effective tool in support of broad exchange rate stability, including through direct sales to the foreign exchange bureaus association as necessary. A summary of the auction results will be posted by the next day on the CBL website.

10. Our banking system continues to expand, is better capitalized and is highly liquid. The number of licensed operating banks has increased from six to eight and all banks now met the increased minimum capital requirement of US\$6 million. We continue in our efforts to improve the ability of the banking system to extend credit and to reduce high lending margins. The Government is in the process of establishing a dedicated commercial court to address contract cases and to enable banks to collect collateral on non-performing loans. Meanwhile, the credit reference system operated by the Central Bank is being improved.

11. As regards supervision, quarterly offsite and twice yearly onsite inspections continue with active follow up and CBL directives concerning deficiencies that have been identified. The quarterly off-site inspection report submitted to the Compliance Committee of the CBL

will be enhanced as necessary to more adequately deal with the circumstances of individual banks. The adequacy of the existing foreign exchange exposure prudential limit is being kept under review.

### **C. Governance and Public Financial Management**

12. To demonstrate our firm commitment to the implementation of our anti-corruption strategy, we have established a legal taskforce in the Ministry of Justice including prosecution of cases resulting from the ongoing audits by the General Auditing Commission (GAC). We are also establishing a new criminal court to deal specifically with corruption cases by end-September 2009. In parallel, we are awaiting passage of key supportive draft legislation that defines corrupt practices, a code of conduct providing for asset declaration by public servants, and on whistle blowers' protection.

13. We have encountered some delays in getting the Liberia Anti-Corruption Commission (LACC) functional by end-September (PC) due to late passage of the law establishing the LACC. The Commission became operational in December 2008 following the appointment of Commissioners, the recruitment of key staff and the establishment of working premises. Nevertheless, we recognize that the Commission needs strengthening in order to execute its core functions as envisaged in the law, i.e. a detailed work program with key deliverables, staffing for its enforcement function (investigators, auditors and lawyers) and approval of operational procedures and a staff code of conduct drafts of which are being prepared. We are also now close to securing additional donor technical assistance for institutional strengthening. We made a modest appropriation for the Commission in the 2008/09 budget but this was based on expectation of supplementary donor financing, which has not yet materialized. We have provided additional budgetary appropriations that will enable the Commission to strengthen its operations by mid-April 2009 and will make adequate budgetary appropriations for its operations in the budget for 2009/10. We will continue our efforts to seek additional donor financing and technical assistance to ensure the effective role of the Commission.

14. The first report of the Liberia Extractive Industries Transparency Initiative was published on February 9, 2009 and presented a reconciliation of payments made by mining, oil and logging companies to the Ministry of Finance and three other government agencies. Of the nearly US\$30 million in payments received from extractive industries less than 1 percent were not reconciled.

15. We completed the merger of the Bureau of Budget into the Ministry of Finance (PC for end-December) by instituting operational procedures that ensure closer coordination between the Department of Budget with other departments and units in the Ministry of Finance. To improve budget preparation, we developed a medium-term fiscal framework (benchmark for end-December 2008) that served as the basis for our 2009/10 budget circular.

16. Public financial management (PFM) reforms remain a cornerstone of the program. Efforts are underway to substantively improve PFM systems, including in the areas of budgeting, procurement, accounting, internal and external auditing. To base our PFM systems on a sound legal footing, we have submitted a PFM Act to the Legislature (PC for end-December 2008).

17. Looking ahead we are broadly on track with our PFM plans:

- The PFM law we submitted in 2008 awaits legislative approval and we expect to adopt the implementing regulations shortly (benchmark for end-June 2009).
- As part of our project to implement an Integrated Financial Management and Information System (IFMIS) to automate PFM operations, we are in the process of developing a comprehensive chart of accounts and public sector accounting standards (benchmark for end-June 2009). We expect to complete this work by June. We intend to implement double-entry accounting in the Ministry of Finance starting fiscal year 2009/10; to achieve this objective, we will procure shortly an accounting module that complements our current treasury IT system and begin training accountants in its use.
- We have experienced difficulties in fully reconciling all checks between the Ministry of Finance and the Central Bank of Liberia due to the large amount of payroll checks to be processed. This was a contributing factor to instances of multiple cashing of checks. We have referred staff involved to investigation and reconstituted the reconciliation unit. Going forward, we intend to automate the reconciliation process in 2009 by fully employing the reconciliation and cash-book function of our treasury system and linking it to the check printing system which is to be upgraded as well. We have started to clear the backlog of un-reconciled checks with a view to fully eliminating these by the end of the fiscal year.
- We have introduced cash-flow management procedures that better align expenditure commitments with our available resources and revenue forecast. We have defined priority and non-priority expenditure categories and adjusted the latter (mostly capital expenditures) if needed for cash-flow management purposes. We are also refining our cash-flow forecasts.
- The external audit of central government's accounts for fiscal year 2007/08 is underway and we are making best efforts to complete this audit in order to meet the end-March 2009 program PC. The Auditor General is also making good progress on completing the audit of five key ministries for 2006/07, which we expect to complete by April 2009. A 2007/08 audit of these ministries will follow.
- To enhance the efficiency of our procurement process, we submitted amendments to the procurement act to the legislature in April 2009. The implementing regulations

have been completed and will be issued upon passage of the amendments to the procurement act.

#### **D. External Policies and Debt Management**

18. Consistent with the PFM Law, we will update our national debt strategy by June 2009. This will include explicit principles for new borrowing post-HIPC completion point, including loan terms and conditions, project rates of return and a debt sustainability framework. The strategy will discuss plans for management of contingent liabilities, borrowing from CBL for liquidity purposes, state owned enterprise borrowing, and borrowing from donors.

19. The updated domestic debt strategy will consider modalities for utilizing domestic financing sources after we have reached the completion point. This expands the range of options we have for retiring domestic supplier arrears, for example by issuing domestic bonds. The feasibility of establishing a domestic debt trust fund is unlikely because of unavailability of donor funding. Moreover, the long-term revenue accruing from iron ore concession agreements may enable us to meet long-term obligations from restructured debt of the Central Bank without a trust fund.

20. We seek a one-off modification of the 2009 program to enable a limited amount of highly concessional borrowing for a critical infrastructure need: after many years of neglect during the Liberian conflict, the main wharf of the Freeport of Monrovia is badly damaged, inefficient and its continuing operation is imperiled. In view of the criticality of the investment, we request an adjustment of the program to allow for up to US\$50 million of highly concessional financing with a grant element of at least 60 percent to repair the main wharf of the port. This modest level of concessional financing is expected to have a minimal impact on Liberia's debt indicators after the HIPC completion point and is consistent with long term debt sustainability. Before the requested adjustment is effected we would, in consultation with Fund and Bank staff, ascertain that:

- The commercial debt buy-back operation is completed.
- Our main development partners have limited or no grant financing available for port rehabilitation.
- The investment is assessed to have a high rate of economic return. We will request and be guided by World Bank staff advice on project feasibility and execution risks.

21. We are making progress in the implementation of our HIPC Initiative debt restructuring:

- Bilateral negotiations with our external creditors have progressed smoothly. We have signed (or finalized) agreements with nearly all our bilateral and multilateral creditors



with several agreements to be signed shortly. For the few remaining creditors, we have made proposals with a view to reaching agreement for comparable debt treatment as soon as possible.

- We launched a buyback of US\$1.2 billion commercial debt with World Bank and other donor financing in January 2009. We anticipate a high level of participation that would enable finalize the transaction by end-April.
- We are making progress in rebuilding our debt database taking advantage of the bilateral debt negotiations to assemble missing debt records. We have identified donor financing to procure appropriate debt management software by end-December 2009. In the meantime, we have posted an external debt stock report for end-2008 on the Ministry of Finance website.

### **E. Poverty Reduction and Other Structural Reforms**

22. We continue to implement our Poverty Reduction Strategy (PRS), which was finalized in April 2008. Rebuilding our devastated infrastructure, in particular roads, continues to be a high priority and we are working to make maximum use of the dry season to address the infrastructure gap. We continue to seek further sources of funding for our many basic infrastructure needs. A National Security Sector Reform Strategy has been completed, and representatives of the security institutions are increasingly being deployed throughout the counties and towns of Liberia to provide protection, preserve the peace, and respond to other security needs of citizens.

23. We are moving forward in producing comprehensive, reliable and timely key economic statistics for the first time in over 20 years. We are on track to finalize the 2008 National Accounts survey by end-2009 (benchmark). Our plans to conduct a household income and expenditure survey are delayed to 2010 owing to a lack of funding. With IMF assistance we have completed balance of payments statistics for 2004-07, and expect to complete the 2008 accounts by end September 2009 (Benchmark). We have secured donor support for the completion of a labor force survey later in 2009.

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.	1 <sup>st</sup> Review	Act.
<b>Performance criteria and indicative targets 1/</b>									
<b>Fiscal 2/</b>									
Floor on revenue collections 3/	139.5	143.4	185.7	200.8	43.3	46.2	91.7	90.8	92.8
Floor on fiscal balance 3/ 4/	-13.7	19.6	-13.7	3.3	0.0	-1.7	0.0	-20.4	-16.1
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	not met	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	0.0	0.0
<b>CBL 5/</b>									
Ceiling on expenses	3.9	2.3	5.5	4.4	6.9	5.8	8.5	8.9	9.3
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	-1.7	0.4	-1.1	0.7	-0.3	1.5	0.4	0.0	0.1
Floor on CBL's net foreign exchange position	36.4	39.4	40.0	42.5	43.9	47.1	47.5	47.5	49.4

1/ Performance criteria at end-June and end-December 2008.

2/ Cumulative; fiscal year basis.

3/ Reflecting updated information, actual data for September 2008 have been revised downwards by US\$1.1 million from the data reported in EBS/08/141.

4/ 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.

5/ Cumulative; calendar year basis.

Table 2. Liberia: Quantitative Performance Criteria and Indicative Targets, 2009

(Millions of US\$)

	Mar. 09	Jun. 09		Sep. 09		Dec. 09	
	1st Review	1st Review	Revised prog.	1st Review	Revised prog.	1st Review	Revised prog.
<b>Performance criteria and indicative targets <sup>1</sup></b>							
<b>Fiscal <sup>2</sup></b>							
Floor on revenue collections	148.6	230.3	230.3	66.7	61.3	133.4	108.4
Floor on fiscal balance <sup>3</sup>	-20.4	-20.4	-20.4	0.0	0.0	0.0	0.0
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	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
<b>CBL <sup>4</sup></b>							
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	-1.4	-1.0	-1.0	-0.4	-0.4	0.0	0.0
Floor on CBL's net foreign exchange position	52.3	55.7	54.2	59.3	57.1	62.7	59.7

<sup>1</sup> Performance criteria at end-June and end-December 2009.<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 3. Performance Criteria and Structural Benchmarks, 2008**

<b>Measures</b>	<b>Target Dates</b>	<b>Status</b>
<i>Add measures from January – June</i>		
<b>Performance Criteria</b>		
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
Adopt legislation to merge the Bureau of the Budget into the Ministry of Finance.	End-June 2008	Achieved by September
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
Establish a functioning Liberia Anticorruption Commission, consistent with Liberia's anticorruption legislation.	End-September 2008	Met with delay due to late passage of legislation and inadequate financing.
Submit a draft PFM law to the legislature.	End-December 2008	Met
<b>Structural Benchmarks</b>		
Prepare a chart of accounts consistent with GFSM 2001-compatible budgetary classifications.	End-March 2008	Met
Publish a list of banks licensed to operate in Liberia as part of the strategy for resolution of abandoned and non operating banks.	End-March 2008	Met
Develop a comprehensive national statistical development strategy.	End-March 2008	Achieved by August
Develop an internal audit strategy for the central government.	End-June 2008	Met
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
Complete the merger of the Bureau of the Budget into the Ministry of Finance.	End-December 2008	Met
Develop a medium-term macro fiscal framework for the purpose of preparing the 2009/10 budget.	End-December 2008	Met

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

Measures		Target Dates	Justification	Status (End March)
<b>Performance criteria:</b>				
1.	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	Ongoing
<b>Program benchmarks:</b>				
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	On track
2.	Adopted accounting standards for the government and a comprehensive chart of accounts.	End-June 2009	Strengthen budget transparency and credibility	On track
3.	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	Drafting of regulations began February 2009
4.	Regulations and guidelines under the Public Procurement and Concessions Act approved by Cabinet and issued.	End-July 2009	Improve the pace and transparency of non wage spending by line ministries and agencies	On track – drafts completed and approved by stakeholders.
5.	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	Will begin July 2009
6.	Full balance of payments statistics for 2008 completed and published by the CBL and LISGIS.	End-October 2009	Improve macroeconomic statistics and program monitoring	On track
7.	National Accounts establishment survey completed.	End-December 2009	Urgently needed to monitor program performance and post conflict recovery	Establishment survey began January 2009
8.	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	Agreement on funding has been reached in principle with the World Bank.

**Table 5. Triggers for Liberia's Floating Completion Point**

Trigger	Status
<p><i>PRSP</i></p> <ul style="list-style-type: none"> <li>Prepare a full PRSP through a participatory process and implement satisfactorily its recommended actions for at least one year, as evidenced by an Annual Progress Report submitted by the government to the staffs of IDA and the IMF</li> </ul>	<p>Full PRSP was finalized in April 2008. On track.</p>
<p><i>Macroeconomic stability</i></p> <ul style="list-style-type: none"> <li>Maintain macroeconomic stability, as evidenced by satisfactory performance under a PRGF/EFF-supported program</li> </ul>	<p>The second review under the PRGF scheduled for May 2009.</p>
<p><i>Public financial management</i></p> <ul style="list-style-type: none"> <li>Quarterly Publication in the Procurement bulletin and monthly publication in the Website of all signed procurement contracts over US\$25,000 for goods, US\$10,000 for consulting services, and US\$50,000 for works and all signed-sole source procurement and concessions contracts which have been identified by the PPCC as a result of the PPCC's compliance monitoring activities for at least 6 months leading up to the completion point</li> <li>Complete successive annual external audits of five key government ministries (Health, Education, Public Works, Finance and Lands, Mines and Energy), prepared under the authority of the General Auditing Commission, submitted to the legislature and disclosed publicly</li> <li>Implement the new PFM law and supporting financial regulations for at least 12 months leading up to the completion point</li> </ul>	<ul style="list-style-type: none"> <li>Audit of Ministry of Finance has been completed; remaining four audits for FY2006/2007 started in February 2009.</li> <li>PFM law has been submitted to parliament; Fund is providing TA to develop regulations.</li> </ul>
<p><i>Social sectors</i></p> <ul style="list-style-type: none"> <li>Ensure that the Basic Package of Health Services is delivered in at least 40 percent of all health facilities nationwide</li> <li>Complete a harmonized and regularized Ministry of Education payroll</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing.</li> </ul>
<p><i>Debt Management</i></p> <ul style="list-style-type: none"> <li>Develop a debt management strategy in consultation with partners and establish a debt management unit recording all information on external and domestic public and publicly guaranteed debt, including for state owned enterprises, and ensure it is operational for at least 12 months leading up to the completion point</li> <li>Publish, on a quarterly basis and on a government website, data on external and domestic public and publicly guaranteed debt, including debt stocks and terms and conditions of new loan agreements for at least 6 months leading up to the completion point</li> </ul>	<ul style="list-style-type: none"> <li>Debt management strategy has been adopted by authorities in June 2008 and a debt management unit has been established.</li> <li>First quarterly data report for end-December 2008 posted on the internet February, 2009.</li> </ul>
<p><i>Governance</i></p> <ul style="list-style-type: none"> <li>Implement a revised investment incentive code to ban granting tax exemptions outside the Liberia Revenue Code</li> <li>Regular public reporting of payments to, and revenues received by, the government for the extractive industries (mining and minerals) in a participatory manner in line with EITI criteria during at least the year leading up to the completion point</li> <li>Establish an independent Anti-Corruption Commission consistent with the Anti-Corruption Act, and ensure it is operational for at least 12 months leading up to the completion point</li> </ul>	<ul style="list-style-type: none"> <li>Investment code has been revised with special fiscal provisions moved to the Liberia Revenue Code and was submitted to Legislature in April 2009.</li> <li>The EITI published its first annual report in February 2009.</li> <li>Anti-Corruption Commission established in September 2008 and operational from December 2008.</li> </ul>

## 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.

### I. QUANTITATIVE PERFORMANCE CRITERIA AND BENCHMARKS

#### A. Test Dates

2. Quantitative performance benchmarks have been set for 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. **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.

10. **The government undertakes not to contract or guarantee new external debt by any public sector entity.** 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.

11. **The ceiling on contracting or guaranteed new external debt will be adjusted upwards** in the amount of up to US\$50 million when the following conditions are met: (i) the commercial debt buy-back operation is completed; (ii) the contracted loan has a grant element of at least 60 percent and can be used only to finance rehabilitation of port facilities; (iii) the investment is assessed to have a high rate of economic return; (iv) the World Bank staff has conducted an assessment of project feasibility and execution risks.

**Concessionalality:** The concessionalality of external loans will be based on a currency-specific discount rate according to the currency of the contract and the maturity date of the operation. For loans with maturities equal to or greater than 15 years, the 10-year average of the OECD's commercial interest reference rate (CIRR) will be used. The six-month average CIRR rate will be applied to loans with maturities of less than 15 years. In all cases, the



CIRR rates will be adjusted by the relevant margins specified in concessionality spreadsheets prepared by the IMF to account for the maturity dates of the operation. Maturity will be determined on the basis of the original loan contract.

12. **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.

13. **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.

14. **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**

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 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**

16. 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).

17. The above data and reports will be provided in hard copies and electronically to the IMF Resident Representative to Liberia, with copies to the local IMF economist, Mr. Deline (at [adeline@imf.org](mailto: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.