International Monetary Fund

Liberia and the IMF

Press Release:
IMF Executive Board Completes Fourth Review Under Liberia's ECF Arrangement and Approves US$6.55 Million Disbursement
June 23, 2010

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

June 7, 2010

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, June 7, 2010

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

Dear Mr. Strauss-Kahn:

The global financial crisis continues to impact our economic growth and employment creation efforts, notably through reduced foreign investment flows and a reduction of government revenues, although signs of recovery are now evident. In this context, we have strengthened our efforts to implement our economic program. We have also completed, to the best of our ability, all of the governance, debt management, social, and public financial management reforms envisaged as HIPC completion point floating triggers, which should bring us to the completion point by June 2010.

The attached Supplementary Memorandum of Economic and Financial Policies (MEFP) outlines the implementation results of the ECF arrangement through March 2010 and our macroeconomic policy framework after the completion point.

All quantitative performance criteria under the program through end-December 2009 were observed. We also met all seven structural benchmarks set for completion under the program during October 2009–March 2010, as well as two earlier benchmarks that were met with delay.

We believe that the policies set forth in the attached supplementary MEFP are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate for this purpose. We will continue to consult closely with Fund staff as detailed in our letter of December 3, 2008.

We request modifications of the monitoring framework for end-December 2010 in respect of fiscal and monetary performance criteria in view of our much improved public debt position after the completion point as detailed in the attached Supplementary MEFP and the Technical Memorandum of Understanding (TMU).

On the basis of this performance, and on the strength of the policies set forth in the attached memorandum, we request that the fourth review under the ECF arrangement be completed and the fifth disbursement in the amount of SDR 4.44 million be approved.

Maintaining our policy of openness, we consent to the publication of this letter, the attached MEFP, and the accompanying Executive Board documents on the IMF external website.

Sincerely yours,

/s/
Augustine Ngafuan
Minister of Finance
Ministry of Finance

/s/
Joseph Mills Jones
Executive Governor
Central Bank of Liberia

SUPPLEMENTARY MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2010

I. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

1. **Our economy is beginning to exit from over a year of setbacks mostly rooted in the global economic downturn**. Budget implementation has been hampered by shortfalls of grants and non-tax revenues. However, public expenditure was correspondingly reduced, and we met the zero borrowing program objective. External investment interest is reviving with significant progress towards restarting iron ore mining and oil palm production, timber exports have resumed, while exports of rubber have stabilized, albeit well below pre-crisis levels. Domestic food production through early 2010 has been buoyant, while growth is accelerating, particularly in construction and communications.

2. **Performance against the quantitative program has been excellent** (Tables 1a-b). All performance criteria at end-2009 were met: the CBL net external foreign exchange floor was exceeded, the CBL implemented a balanced budget in 2009, the adjusted total revenue floor was observed with a small margin, no external or domestic borrowing occurred and no new domestic or external arrears were accumulated. An indicative target on the share of PRS spending in total revenue and grants was met for December 2009; and fiscal indicative targets for end-March 2010 were also met.

3. **We registered good progress in implementing structural reforms under our economic program.** The first public financial management implementation report has been completed detailing progress through end-December 2009 in modernizing information systems, adopting a chart of accounts, setting up a consolidated fund, budget preparation in accordance with the PFM act, and in improving fiscal reporting, accounting and internal audit. A second implementation report is scheduled for May 2010. The ASYCUDA system was operational in the Freeport of Monrovia from January 2010. Tax audits recommenced in January within the context of a risk-based program and improvements in audit integrity. The national accounts establishment survey has been completed albeit with some under-reporting by large enterprises. A Fund expert advised on preliminary national accounts data in April 2010. Installation of debt management software faced logistical delays, but the system was up and running by end-May 2010.

II. HIPC INITIATIVE COMPLETION POINT

4. **We have completed the remaining actions necessary to reach the HIPC Initiative completion point**, with the intention of benefitting from comprehensive debt reduction by mid-2010.

- The first year of PRS implementation (through March 2009) proved challenging, but the adoption of a proactive approach to address underlying financial, logistical and staffing constraints (detailed in our implementation report issued to the Bank and Fund boards) has re-established momentum.

- Efforts to strengthen public financial management have borne fruit including through implementation of the landmark Public Financial Management Act and its regulations, successive external audits of key government ministries, reconciling tax payments made by firms in extractive industries and forestry, strengthening payroll management and publishing procurement contracts.

- The passage of the new Investment Act and the repeal of the Investment Incentives Act of 1973 transfer investment incentives to the Liberian Revenue Code (LRC), and eliminate administrative discretion in granting fiscal incentives. Remaining incentives have been designed to attract private investments in strategic sectors, promote the use of local raw material in manufacturing, and increase activity in the least developed counties.

- We have made further improvements in our debt management capacity and revised our debt strategy for the post-Completion Point period.

- We have also progressed in raising the geographical coverage of primary health care services; and as a part of our broad governance agenda, the Liberia Anti-Corruption Commission has extended its education, prevention and enforcement operations.

III. Economic and Financial Policies

A. Program Objectives

5. **Our core economic and social objectives remain unchanged**: maintaining a broadly stable macroeconomic environment; creating a vibrant private sector, underpinned by both Liberian entrepreneurial development and foreign direct investment; improvements in critical infrastructure, particularly roads, electricity supply, portable water, ports and housing; and improved health and education services, the latter being key to creating the cadre of human resource capacity that will support a broad-based development strategy. The overarching goal is to improve living conditions for the Liberian people, which is essential to maintaining peace and social cohesion.

6. **For the past few years, it has been necessary to focus on relieving the inordinate debt burden of the country, for which we have received invaluable support from the international community under the HIPC Initiative**. Reaching the completion point under this initiative should free up additional fiscal space that will help advance us towards the rapid economic growth needed for post-conflict reconstruction and development. Our efforts to increase fiscal space will include: strengthened domestic tax administration and resource mobilization; more efficient use of existing resources; and greater donor support, with an increasing share channeled through the budget over the medium-term. We will also need to

tap other sources of external financing in a prudent manner. For this reason, development of an ambitious but practical, medium-term public sector investment program—that will more sharply focus donor assistance on priority areas within a coherent program structure—must be a major component of our agenda.

B. Fiscal Policies

7. **In its preparation and substance, the FY11 budget reflects our ongoing commitment to responsible public financial management and sound fiscal policies**. The budget was prepared in close accordance with the new PFM law, including the first-time use of a Budget Framework Paper. Revenue has been realistically projected so as to increase the likelihood of full budget execution and minimize disruptions from unanticipated funding shortfalls. Total resources will increase substantially largely on account of increased budget support grants. However, the deferred implementation of income tax reductions will depress tax revenues in terms of GDP. We expect to be able to increase expenditure by about 2½ percent of GDP in FY11. Moreover, the effectiveness of expenditure will rise, as we will direct an increased share—65 percent of revenues—towards PRS objectives (indicative target).

8. **We may consider a supplementary budget to incorporate loan-financed capital expenditure after the completion point**. We intend to borrow only for capital projects, except in the event of a national emergency and for cash management purposes, thereby maintaining a positive basic balance.[1] Such financing would be considered for strategic projects with high rates of return that address the pressing needs of the economy on concessional terms. Any such borrowing would need to be consistent with our updated debt management strategy (¶19).

9. **Our program does not envisage borrowing from the CBL by the central government** (performance criterion). However, in the event of a temporary delay in external budget support or ratified concession signature payments against the program baseline, the CBL may extend short-term credit to the central government up to a ceiling of US$20 million to cover the external financing gap. Such credit will be lent at mutually acceptable terms, including interest rates, and would be repaid on receipt of delayed budget support (see Annex I, TMU).

10. Overall public sector borrowing over the medium term will be governed by our recently updated debt management strategy (see below).

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[1] The basic balance is defined as total revenue and grants excluding project grants minus total expenditure excluding domestic and foreign financed investment spending. All foreign financed projects would be treated as investment spending.

C. Monetary and Financial Policies

11. **While our reserve position is considerably strengthened by the SDR allocation, our efforts will continue to promote the use of Liberian dollars that could further enhance reserve adequacy**. To this end, we are committed to continuing to intervene through foreign exchange sales and purchases to contain excessive volatility in the exchange rate taking into account the need to maintain an adequate level of reserves. We are also promoting the use of Liberian dollars in government transactions and through mobile money transfers.

12. **Program modifications for CBL operations are needed after the completion point**. The revised monitoring framework covers external reserves, net domestic assets, payment arrears and central bank lending. Working in close collaboration with the Ministry of Finance we will start monitoring net domestic assets (NDA) of the CBL under the program (new indicative target) to strengthen our liquidity forecasting operations. Accordingly, we request that the performance criterion on the budget balance of the CBL be discontinued after reaching the HIPC completion point. Given the need to maintain foreign reserves, the CBL is committed to not incurring significant overall cash deficits.

13. **Our preparations for starting a treasury bill market are advancing.** Treasury bill auction regulations will be adopted and publicize by end-June 2010 (structural benchmark). To make the treasury bill market fully operational, we plan to set up settlement, payments and depository system with IMF technical assistance. It is anticipated that initially short-term bills of 90 days maturity would be sold by auction to commercial banks. We will aim to achieve zero net borrowing with treasury bill issuance used solely for cash management purposes. Maximum utilization would be set at US$10 million in FY11 (performance criterion on domestic financing). The CBL would only participate in the market with non-competitive bids and the proceeds would be held in escrow to be used solely for monetary management purposes. Supported by donors' technical assistance, a modernized payments system will be developed to improve interbank settlements and support mobile banking and payments.

14. **The CBL has continued to implement measures to strengthen internal management and financial controls**. The backlog in check processing was cleared. The special audit of CBL data reporting for end-2009 was completed in April 2010 with a clean report of findings. Internal Audit staffing has been strengthened to implement risk-based audit and to get the international financial reporting standards (IFRS) audit system ready.

15. **We have made progress in strengthening the domestic banking system**. All commercial banks now meet the increased minimum capital requirement of US$8 million. The share of non-performing loans in bank portfolios declined in 2009. The CBL approved a risk-based supervision policy framework in December 2009 to upgrade banking supervision from the traditional compliance-based approach. We will continue to train supervision staff

with technical assistance from the IMF and develop a capacity building program for commercial banks to comply with IFRS by 2012. We will also introduce an electronic financial analysis surveillance system by 2013. We are reviewing foreign exchange position guidelines for commercial banks to address issues related to capital denominated in foreign currency (US dollars) that result in long open positions for hedging purposes.

16. **Efforts continue to safeguard the banking system from financial contagion risks**. In light of extensive foreign ownership of commercial banks, we aim to reach memoranda of understandings with regional supervision authorities to establish information sharing in monitoring banking systems. A memorandum of understanding has already been signed with the Central Bank of Nigeria.

D. Public Financial Management and Governance

17. **Implementation of public financial management reforms has advanced significantly** as detailed in successive implementation reports. Key advances include:

- Adherence to the FY11 budget preparation timetable, including an analytical budget framework paper to inform ministries and agencies, and an annex with state enterprise financial reports and plans;

- Appointment of the DMC and issuance of a revised debt management strategy to govern post completion point policies;

- Creation of a unified accounting function in the Ministry of Finance by merging the functions of the Comptroller General and Bureau of General Accounting;

- The rapid expansion of direct deposit of civil service salaries nationwide, which is nearing completion. We intend to capitalize on this momentum by extending direct deposit to the Legislature and all other recipients of budgetary paychecks in Monrovia by June 2010;

- Progress toward introducing an integrated financial management information system (IFMIS). Suppliers have started deployment of a common IT platform for several financial applications. IFMIS testing will begin in FY11 with full implementation by the start of FY12 (a delay of a year due to procurement issues).

18. **Looking ahead we intend to press ahead with PFM reforms**. We plan to expand the rollout of the ASYCUDA customs system to the Monrovia oil terminal and the Robertsville International Airport (new structural benchmark for December 2010). We also intend to strengthen financial oversight of state owned enterprises in FY11 as envisaged in the PFM Act. Actions in this regard will include initiating regular quarterly reporting of financial data and annual budgets (new structural benchmark for January 2011). On the

internal revenue side we shall commence the automation project integrated tax administration software (ITAS) by July 2010.

E. Debt Management and External Policies

19. **After the HIPC Initiative completion point we will maintain low debt vulnerabilities through the following policies**:

- The public sector will not contract or guarantee non-concessional debt with non-residents with original maturities of one year or more. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent. Exceptions to this policy will be decided on a case-by-case basis in consultation with Fund staff. Key considerations are: concessional funding is insufficient; that the project is critical to economic development; and has high economic and social rates of return.

- All external debt contracted or guaranteed by the central government and public enterprises will require approval by a Debt Management Committee chaired by the Minister of Finance and separately by the Minister of Finance as envisaged under the Public Financial Management Act.

- Gross borrowing by the public sector in foreign currency in any financial year will not normally exceed a sustainable level of borrowing defined as 3 percent of previous year GDP in present value terms (US$46 million in FY11). The sustainable level of borrowing is set as a performance criterion under the program and would be reviewed periodically in consultation with Fund staff. Borrowing for reserve management purposes by the CBL is excluded from the ceiling.

- Total domestic and external debt of the public sector will not exceed 60 percent of GDP in nominal terms.

20. **Our efforts toward eliminating import permit declarations (IPDs) to facilitate trade are close to completion** (benchmark June 2010). The negative list of goods for which IPDs will still be required will comprise certain foods, health, electrical and medical equipment, military goods and ammunition, and internationally prohibited tradable items. This will help enhance efficiency, reduce business cost and greatly improve our doing business rating in line with our objective to improve the business operating environment.

F. Statistics

21. Our preliminary national accounts data for 2008 suggest that an upward revision of nominal GDP may be appropriate. A program of technical assistance from the Fund and the World Bank will advise on further improvements and the statistical agency LISGIS is expected to release validated national account data by September 2010 and in advance of the fifth review of the ECF arrangement (new structural benchmark).

Table 1a. Liberia: Quantitative Performance Criteria and Indicative Targets, FY2010
(Millions of US dollars, unless otherwise indicated)

	Jun. 09		Sep. 09		Dec. 09			Mar. 10			Jun. 10
	Program	Actual	Program	Actual	Program	Adjusted Target	Actual	Program	Adjusted Target	Actual	Program
Performance criteria and indicative targets [1]											
Fiscal targets [2]											
Floor on total revenue collection [3]	230.3	211.3	39.5	52.7	121.5	102.0	116.6	181.5	185.3	204.9	277.6
Floor on fiscal balance [4]	-20.4	-19.7	0.0	0.8	-4.1	-4.1	-0.9	-4.1	-4.1	19.6	-4.1
Floor on social and other priority spending (percent of total revenue and grants collected) [5]	…	…	…	…	60.0	60.0	63.8	60.0	60.0	60.1	60.0
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	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	0.0	…
Ceiling on new domestic borrowing of the central government	…	…	…	…	…	…	…	…	…	…	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	0.0	0.0
Ceiling on new domestic arrears/payables (continuous basis) [6]	0.0	0.0	0.0	0.0	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	0.0	0.0	0.0	0.0
Central Bank of Liberia [7]											
Ceiling on payments arrears (continuous basis)	0.0	0.0	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	-1.0	-0.2	-0.4	0.8	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Floor on CBL's net foreign exchange position [8]	54.2	58.0	57.1	60.3	248.4	248.4	268.9	251.5	251.5	268.5	261.6
Memorandum item: Programmed receipt of one-time signing bonuses and Social Development Fund contributions from new iron ore projects [9]	…	…	…	…	20.0	…	0.5	20.0	…	23.8	47.4

[1] Performance criteria at end-June 2009 and end-December 2009 except where marked. All others indicative targets.

[2] Cumulative within each fiscal year (July 1-June 30).

[3] Beginning December 2009, an adjuster comes into force stipulating that the floor on total revenue collection will be adjusted downward by any shortfall in receipts of one-time iron ore signing bonuses and contributions into Social Development Funds from new iron ore projects from their programmed level as described in paragraph 4 of the TMU).

[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 previous fiscal years.

[5] Indicative target. Social and other priority spending is defined as the fiscal expenditure on the four basic pillars of PRS spending defined in the Liberian Poverty Reduction Strategy paper, 2008.

[6] Excluding the arrears arising from the current debt outstanding.

[7] Cumulative; calendar year basis.

[8] From December 2009, CBL's net foreign exchange position includes SDR holdings and is based on the scheduled disbursement on the current ECF-supported program. In the event of delays to ECF disbursements the floor would adjust down automatically.

[9] Cumulative; fiscal year basis.

Table 1b. Liberia: Quantitative Performance Criteria and Indicative Targets, FY2011
(Millions of US dollars, unless otherwise indicated)

	Sep. 10	Dec. 10	Mar. 11	Jun. 11
	Program	Program	Program	Program
Performance criteria and indicative targets [1]				
Fiscal [2]				
Floor on total revenue collection of the central government [3]	48.2	103.1	198.5	283.3
Floor on social and other priority spending (percent of total revenue and grants collected, indicative target) [4]	…	65.0	…	65.0
Ceiling on new noncash tax/duty payment to the central government (continuous basis)	0.0	0.0	0.0	0.0
Ceiling on new domestic arrears/payables of the central government (continuous basis) [5]	0.0	0.0	0.0	0.0
Ceiling on new external arrears of the central government (continuous basis)	0.0	0.0	0.0	0.0
Ceiling on non-concessional external borrowing of the public sector (continuous basis) [6]	0.0	0.0	0.0	0.0
Ceiling on gross borrowing by the public sector in foreign currency [7]	46.0	46.0	46.0	46.0
Ceiling on new domestic borrowing of the central government [8]	2.5	5.0	7.5	10.0
CBL				
Ceiling on payments arrears (continuous basis)	0.0	0.0	0.0	0.0
Floor on CBL's net foreign exchange position [8, 9]	264.6	274.5	…	…
Ceiling on CBL's gross credit to central government [8, 10]	0.0	0.0	0.0	0.0
Ceiling on net domestic assets of the CBL (indicative target) [8, 11]	-37.7	-28.1	…	…
Memorandum item: Programmed receipt of one-time signing bonuses and Social Development Fund contributions from new iron ore projects [2]	0.0	0.0	23.1	31.8
Memorandum item: Programmed receipt of external budget support and ratified concession payments [2]	11.0	27.8	47.7	79.0
Memorandum item: Overall fiscal balance[2]	1.6	7.8	-1.2	4.0

[1] Performance criteria at end-June 2010 and end-December 2010 except where marked. All others indicative targets.

[2] Cumulative within each fiscal year (July 1-June 30).

[3] Beginning December 2009, an adjuster comes into force stipulating that the floor on total revenue collection will be adjusted downward by any shortfall in receipts of one-time iron ore signing bonuses and contributions into Social Development Funds from new iron ore projects from their programmed level as described in paragraph 4 of the TMU.

[4] Indicative target. Social and other priority spending is defined as the fiscal expenditure on the four basic pillars of PRS spending defined in the Liberian Poverty Reduction Strategy paper, 2008.

[5] Excluding the arrears arising from the current debt outstanding.

[6] The public sector comprises the central government, the CBL, public enterprises, and other official sector entities as described in paragraph 1 of the TMU.

[7] This is set at the US dollar term on the basis of net present value of debt to 2010 GDP.

[8] Bridge financing from the CBL is available under the program for shortfalls in programmed receipt of external budget support and ratified concession signature payments up to a maximum of US$20 million. In this event, floors will adjust downwards and ceilings adjust upwards by the extent this financing is utilized, up to a maximum of US$20 million.

[9] From December 2009, CBL's net foreign exchange position includes SDR holdings and is based on the scheduled disbursement on the ECF program. In the event of delays to ECF disbursements, the floor would adjust down by the cumulated amount of financing relative to the programmed schedule of disbursements.

[10] Cumulative change from June 30, 2010.

[11] Indicative target. The net domestic assets of the CBL are defined as base money minus the net foreign assets of the CBL converted into the U.S. dollars at program exchange rates as defined in paragraph 18 of the TMU.

Table 2a. Performance Criteria and Structural Benchmarks, 2009

Measures	Target Dates	Justification	Status
Performance criteria:			
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	Met
Program benchmarks:			
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	Met
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	Met with delay in December 2009.
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	Met with delay in December 2009.
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	Met (for all banks operating more than six months).
Full balance of payments statistics for 2008 completed and published by the CBL and LISGIS.	End-October 2009	Improve macroeconomic statistics and program monitoring	Met.
National Accounts establishment survey completed.	End-December 2009	Urgently needed to monitor program performance and post conflict recovery	Met with delay. Revised survey completed April 2010.
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	Met with delay. Interface still to be completed.

Table 2b. Structural Benchmarks, 2010

Measures	**Target Dates**	**Justification**	**Status (April 2010)**
Program benchmarks:			
Implementation of ASYCUDA in Monrovia Free Port.	End-February 2010	Trade facilitation and tax administration enhancement.	Met January 2010.
Restart tax audits of large taxpayers .	End-March 2010	Absence of tax audits of large taxpayers poses a significant revenue risk.	Met January 2010.
Adoption of comprehensive chart of accounts.	End-March 2010 (rephased from June 2009)	Strengthen budget transparency and credibility	Met January 2010.
Two successive quarterly implementation reports of the PFM law circulated to legislature, cabinet, GAC and development partners.	End-April 2010	Implementing PFM reforms and legislation is critical for delivering government services and mobilizing external support for the budget	Met with delay. 1st quarterly report circulated February 2010. 2nd report drafted in April 2010 and circulated June 3, 2010.
Remove the import permit declaration requirement for imports covered by ASYCUDA. (A positive list containing a limited number of goods that are subject to price controls or affect national security will require clearance by the Ministry of Commerce.)	End-June 2010	Removes a cumbersome administrative barrier that raises operating costs and prices through effective reduction of competition.	Inter-ministerial discussions ongoing.
Treasury bill auction regulation adopted by the CBL Board and publicized.	End-June 2010	Develop domestic capital market, provide an instrument for short-term domestic financing, and facilitate de-dollarization.	Treasury bill framework paper discussed with stakeholders.
Direct salary payments to banks for all Monrovia-based civil servants.	End-June 2010	Reduce scope for fraud and encourage monetization and de-dollarization.	87 percent of Monrovia employees covered at end-March 2010.
Compilation of a comprehensive computerized asset registry by the General Services Agency of all ministries and agencies.	End-June 2010	Enhance transparency and accountability of fiscal operation.	Ongoing., Electronic inventory completed for 85 of 89 ministries and agencies as of June 1, 2010.
Publication of validated national accounts data for 2008 by the Statistical agency LISGIS	End-September 2010 (new benchmark)	Provision of critical data for economic surveillance and macroeconomic policy.	
Extend ASYCUDA system to the Monrovia oil terminal and international airport	End-December 2010 (new benchmark)	Trade facilitation and tax administration enhancement.	
Regular quarterly reporting of state owned enterprise financial operations to Ministry of Finance.	End-January 2011 (new benchmark)	Essential for program monitoring of public sector borrowing.	

TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

This memorandum sets out the understandings between the Liberian authorities and the International Monetary Fund (IMF) regarding the definitions of the quantitative performance criteria and structural benchmarks for the Extended Credit Facility program, as well as the reporting requirements.

I. DEFINITIONS

1. **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. **The public sector** comprises the central government, the Central Bank of Liberia, public enterprises (enterprises and agencies in which the government holds a controlling stake—typically owns more than 50 percent of the shares, but which are not consolidated in the budget), and other official sector entities.

2. **Total revenue collection** includes all tax and nontax receipts transferred into the U.S. dollar GoL accounts at the 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 as well. 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.

3. **The program floor on total revenue collection will be adjusted downward** to the extent that signing bonuses and payments into Social Development Funds from new iron ore projects fall short of the program schedule, cumulative within the fiscal year

Cumulative Signing Bonuses and Social Development Fund Payments
from New Iron Ore Projects, 2010/11
(U.S.$ millions)

	Program path
September 2010	0.0
December 2010	0.0
March 2011	23.1
June 2011	31.8

4. **Social and other priority spending** is defined as fiscal expenditure on the four basic pillars of PRS spending defined in the Liberian Poverty Reduction Strategy paper, 2008.

5. **The overall fiscal balance of the central government through end-June 2010** is defined as—the difference between (a) revenue including grants and earmarked external loans; and (b) government current expenditure, plus capital expenditure plus payment of arrears, amortization, and payments to the domestic trust fund. From July 1, 2010 the overall fiscal balance **of the central government** is defined as—the difference between (a) total revenue including grants; and (b) total expenditure, excluding payment of arrears, amortization, and payments to the domestic trust fund.

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. **Gross borrowing by the public sector in foreign currency** is defined as cumulated new foreign currency claims by residents and non-residents from July 1, 2010 on the public sector excluding borrowing for reserve management purposes by the CBL.

8. **New domestic borrowing of the central government** is defined as new claims on the central government since the start of the program in domestic and foreign currency. 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 plus the net issuance of debt instruments by the GoL to the nonbank sector. For the purposes of measurement, all claims in Liberian dollars will be converted to U.S. dollars at the end of period exchange rate.

9. **New domestic arrears/payables of the central 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 Economic Community of West African States (ECOWAS) levies into the ECOWAS account.

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. **Contracting or guaranteeing of new external debt by the public sector applies to borrowing with non-residents with original maturities of one year or more**. 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 External Debt" (see Decision No. (79/140) adopted August 3, 1979, as amended August 31, 2009, effective December 1, 2009 attached in **Annex I**), but also to commitments contracted or guaranteed for which value has not been received.

12. **The concessional nature of debt** will be determined on the basis of the commercial interest reference rates published by the Organization for Economic Cooperation and Development (OECD). A debt is defined as concessional if, on the date of signature, the ratio between the present value of debt computed on the basis of reference interest rates and the face value of the debt is less than 65 percent (equivalent to a grant element of at least 35 percent).

13. **The ceiling for contracting and guaranteeing nonconcessional external debt by the public sector will be set at zero continuously throughout the program period except as agreed with Fund staff**. The ceiling for contracting and guaranteeing nonconcessional debt excludes short-term import-related credits, rescheduling arrangements, borrowing from the Fund.

14. **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.

15. **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. The CBL budget balance is monitored as a performance criterion under the arrangement through end-June 2010.

16. **CBL gross credit to central government** is defined as the sum of claims on central government, including loans, advances, accounts receivable, and any government debt instrument as defined in the monetary survey template excluding CBL purchases of treasury bills in the secondary market. The gross credit to government is expressed in U.S. dollars. Claims denominated in Liberian dollars are valued at a fixed rate of the Liberian dollar against the U.S. dollar denominated claims, 72.00 as of September 30, 2009. Other currencies are valued at cross-rates against the U.S. dollar as of September 30, 2009.

17. **The net foreign exchange position of the CBL** is defined as the difference between (a) the CBL's gross foreign reserves including SDR holdings, 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. In the event of delays to ECF disbursement, the floor of the net foreign exchange position of

the CBL will be adjusted down by the cumulative amount of financing relative to the programmed schedule of disbursements. The net foreign exchange position of the CBL is presented in the U.S. dollar. SDR holdings are valued at a fixed rate of the U.S. dollar against SDR, 1.5844 as of September 30, 2009. Other currencies are valued at cross-rates against the U.S. dollar as of September 30, 2009.

18. **The net domestic assets of the CBL** are defined as base money minus the net foreign assets of the CBL converted into United States dollars at program exchange rates as defined in paragraph 16**.** Base money is defined as the stock of currency in circulation plus reserve deposits of commercial banks at the CBL, plus sight deposits of commercial banks at the CBL and plus vault cash of commercial banks. The net foreign assets of the CBL are defined as foreign assets minus foreign liabilities of the CBL balance sheet.

19. **External financing adjustor.** The program ceilings for CBL gross credit to government and CBL net domestic assets will be adjusted upward and the program floor on the net foreign exchange position of the CBL will be adjusted downward, by the amount of the difference between actual and programmed external budget support and ratified concession signature payments. The adjuster will be calculated on a cumulative basis from July 1, 2010.

Cumulative Program External Budget Support and
Ratified Concession Signature Payments
(In millions of U.S. dollars)

September 2010	11.0
December 2010	27.8
March 2011	47.7
June 2011	79.0

II. Program Monitoring

A. Program–Monitoring Committee

20. 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

21. 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 report on monthly payments on domestic debt by category and the domestic debt stock (monthly, within three weeks after the end of the month);
- A report on monthly payments on foreign currency 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);

- The detailed table of commercial banks loans and advances by sector (monthly, 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);

- CBL cash revenues and expenditures in U.S. dollar and Liberian dollar terms, on an aggregated basis (including both recurrent and capital expenditure), and CBL expenditures on a commitment basis (periodically in the context of program reviews);

- 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, foreign exchange auction sales to non-bank customers;

- 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 standard international trade classification (SITC), 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);

- Quarterly reports of state owned enterprise financial operations submitted to Ministry of Finance.

- 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).

22. 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 (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 External Debt

Excerpt from Executive Board Decision No. 6230-(79/140), as revised on August 24, 2000, as amended effective December 1, 2009.

(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 this paragraph, 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.