International Monetary Fund

Liberia and the IMF

Press Release:
IMF Executive Board Completes Fifth Review Under Extended Credit Facility for Liberia and Approves US$6.82 Million Disbursement
December 8, 2010

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

November 19, 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.

SUPPLEMENTARY LETTER OF INTENT

Monrovia, November 19, 2010

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) outlines the implementation of Liberia's economic program supported by the Extended Credit Facility (ECF) through September 2010, and recent economic policy actions and commitments. It supplements the Memorandum of Economic and Financial Policies of June 7, 2010. On the basis of our performance so far, and on the strength of the policies set forth, we request that the fifth review under the ECF arrangement be completed and the sixth disbursement in the amount of SDR 4.44 million be approved.

We believe that our policies 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. Maintaining our policy of openness and transparency, we consent to the publication on the IMF external website of this letter, the accompanying Supplementary Memorandum of Economic and Financial Policies, and the related Staff Report for the Article IV Consultation and Fifth Review under the ECF.

Sincerely yours,

________/s/______
Augustine Ngafuan
Minister of Finance
Ministry of Finance

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

Attachments

ATTACHMENT I. LIBERIA: SUPPLEMENTARY MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2010

1. **Economic developments are encouraging and should support a continued acceleration of growth over coming years, together with a pick-up in employment**. After a slowdown in 2009, economic activity is strengthening in 2010 with subdued price inflation. Real GDP growth should rise above 6 percent from 4½ percent in 2009. Exports have rebounded on account of rising rubber production and prices. Foreign direct investment commitments are up sharply. So far this year we have ratified agreements for: two more iron ore mines (bringing the number of ratified iron ore concessions to four); a second large-scale palm oil plantation; and the rehabilitation of the Port of Monrovia. In addition, a major multinational oil company is joining other companies in conducting offshore oil exploration.

2. **In September, the Legislature approved several Acts that will significantly support private sector development and strengthen governance**, including: the Commercial Code; the Commercial Courts Act; and a revised Public Procurement and Concessions Act.

3. **All quantitative performance criteria under the program through end-June 2010 were observed** (Table 1a). We also met three out of four structural benchmarks set for completion under the program for end-June 2010. Completion of the remaining benchmark, computerized government asset registry, is expected to be completed by end-December 2010 (Table 2). However, there have been unforeseen difficulties in completing the compilation of the national accounts data, and this will result in some delay in meeting the end-September benchmark. Our intention is to finalize the publication of the national accounts at the beginning of 2011.

4. **Liberia has finally returned to a sustainable level of public debt**. The announcement by Paris Club creditors of the cancellation of all remaining claims, and the completion of the buyback of commercial debt with the last two remaining creditors were welcome developments. We will aim to conclude remaining Paris Club bilateral agreements by March 2011. Our efforts to reach agreement on HIPC terms with non-Paris Club creditors are intensifying. While remaining committed to maintaining low debt vulnerability, we are now seeking highly concessional financing to fund our pressing investment needs. In this context, we will prepare procedures for submitting borrowing requests to the Debt Management Committee by end-October.

5. **The 2010/11 Budget was approved by the Legislature in September**. An expansion of revenue is anticipated on account of one-off signature payments for concession agreements, and increased sales taxes and excises on luxury goods and communications. As announced in 2009, the top rates of corporate and personal income tax will be lowered from 35 to 25 percent on January 1, 2011, somewhat moderating the revenue increase. Significant expenditure increases relate to the regularization of several thousand qualified volunteer teachers and nurses onto the payroll, pay increases for police and armed services personnel,

election administration, and capital projects. Spending in support of PRS deliverables accounts for 65 percent of total budgeted spending. Budget financing is presently limited to a drawdown of uncommitted deposits in the amount of one percent of GDP and intra-year treasury bill financing, which we expect to begin shortly. A supplementary budget will be tabled should new financing sources become available.

6. **We have taken steps to promote full and orderly execution of the 2010/11 budget**. Budget execution in 2009/10 was complicated by overly optimistic estimates of both revenue and expenditure in the context of global recession. While arrears were avoided through strict adherence to our risk-management plan, the deviation of planned from actual expenditure created considerable dislocation and undermined spending efficiency. In 2010/11 we have balanced ambition and caution in estimating revenue and in given due recognition to potential risks. On the expenditure side, we have carefully matched spending units' twelve-month cash plans with the expected profile of revenue and intra-year domestic financing. As a result, ministries and agencies will be in a better position to develop planning expertise and to carry out their work programs more efficiently.

7. **Improvements continue in public financial management**. The direct payment of central government civil servant salaries has expanded greatly and now includes all of Monrovia and some rural counties. We are making efforts to include the remaining government agencies, and are investigating alternate arrangements for government workers in the more remote areas. Further progress has been achieved in creating a computerized asset registry with a few remaining ministries and agencies expected to be completed by end-December 2010. Efforts to regularize payrolls have expanded to cover 15 ministries, with considerable financial savings from eliminating fraudulent payments. An external audit of pension payments is expected to be completed by end-2010; while a concerted effort is being made to develop our internal audit capacity. We are building capacity in state-owned enterprises to comply with public reporting requirements under the Public Financial Management Act. We are confident that quarterly reporting to the Ministry of Finance will begin in early 2011 (benchmark).

8. **The computerization of government treasury and revenue functions is now proceeding**. An integrated financial management information system will be the basis for government accounting incorporating the new chart of accounts from July 1, 2011. We will continue to roll out the ASYCUDA system in customs—expanding it to the Monrovia oil terminal and international airport by end-December 2010 (benchmark)—and begin implementing the IT system in the Bureau of Internal Revenue.

9. **Monetary and financial conditions are stable**. Pressure for exchange rate depreciation against the US dollar has lessened substantially since the beginning of the year partly because of action taken by the CBL to smooth developments in the foreign exchange market. Supported by a stable exchange rate and international oil price, inflation has moderated since the second quarter of 2010. Assuming these conditions remain, inflation is projected to be around 5 percent to end-2010. Net domestic assets of the CBL are slightly

below expectation at mid-year, reflecting higher-than-anticipated government and commercial bank deposits at the CBL. Private sector credit growth has slowed since the onset of the financial crisis but is now expected to stabilize at a reasonably buoyant pace of expansion.

10. **Our efforts to transform the financial system to support inclusive, broad-based growth are ongoing**. We intend to consolidate our existing initiatives and to strengthen our medium-term financial sector reform agenda as a center pillar of the overall growth strategy. The Liberian public and other stakeholders will be informed of this enhanced framework. A regulatory framework to establish a privately-managed credit reference bureau has been formulated. The new Commercial Court Act will help strengthen creditors' rights and improve borrower's access to bank credit. The new Commercial Code provides for lease and mortgage financing. Following the issuance of regulations in June, a treasury bill program will be launched later in 2010. The Central Bank of Liberia has revised the Anti-Money Laundering Law of 2002 for submission to the Legislature following consultations with stakeholders. The CBL has improved internal controls and established a satisfactory track record in implementing the recommendations of the 2008 Safeguards Assessment. Against this background, the next Monetary Data Reporting Package audit will be carried out by the CBL internal audit department.

11. **Regional and multilateral trade agreement negotiations are advancing**. We are on track to begin migrating to the ECOWAS Common External Tariff by mid-2011. As regards WTO accession, Liberia has been accorded observer status, and hopes to conclude accession negotiations in 2012.

12. **We will persevere with our efforts to develop national accounts statistics**. Preliminary results of the labor force survey confirm high levels of vulnerable employment status (self employment in the informal sector). The validation of national accounts data has taken longer than expected to complete due to a poor rate of response from some large formal sector enterprises, data issues, and difficulties in estimating the size of the informal sector. Publication of new estimates is anticipated in February 2011 (delayed from September 2009). We are preparing, with World Bank support, a household expenditure survey which will, inter alia, support national accounts compilation going forward.

13. **Delivery of 2008–11 PRS objectives has improved**, as indicated by the second year implementation report. We have begun stakeholder consultations for a successor national development strategy, "Liberia Rising 2030", aimed at rapid, inclusive growth. To better prioritize investment projects into a coherent program aligned to the national development strategy, we will extend our project budget into a multi-year investment program. This will cover selected spending ministries and link closely to the medium-term expenditure framework being prepared for the FY2012 budget with support from the World Bank and other donors.

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

	Sep. 09		Dec. 09			Mar. 10			Jun. 10		
	Program	Actual	Program	Adjusted Target	Actual	Program	Adjusted Target	Actual	Program	Adjusted Target	Actual
Performance criteria and indicative targets [1/]											
Fiscal targets [2/]											
Floor on total revenue collection [3/]	39.5	52.7	121.5	102.0	116.6	181.5	185.3	204.9	277.6	260.0	275.0
Floor on fiscal balance [4/]	0.0	0.8	-4.1	-4.1	-0.9	-4.1	-4.1	19.6	-4.1	-4.1	-3.8
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	60.0	70.7
Ceiling on new noncash tax/duty payment (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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	…	…	…
Ceiling on new domestic borrowing of the central government	…	…	…	…	…	…	…	…	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	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	-0.4	0.8	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Floor on CBL's net foreign exchange position [8/]	57.1	60.3	248.4	248.4	268.9	251.5	251.5	268.5	261.6	254.6	270.7
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	…	29.9

1/ Performance criteria at end-December 2009 and end-June 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.

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	Projection	Projection
Performance criteria and indicative targets [1/]				
Fiscal [2/]				
Floor on total revenue collection of the central government [3/]	48.2	103.1	210.6	294.5
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	37.4	42.5
Memorandum item: Programmed receipt of external budget support and ratified concession payments [2/]	11.0	27.8	54.4	92.6

1/ Performance criteria at end-December 2010 except where marked and indicative targets at end-September 2010.
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.
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.
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.

Table 2. Structural Benchmarks, Dec. 2009–February 2011

Measures	**Target Dates**	**Justification**	**Status October 25, 2010**
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.
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 in June 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.	Not met. Implemented with delay in September 2010.
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.	Met. Approved and issued by the CBL board in June 2010.
Direct salary payments to banks for all Monrovia-based civil servants.	End-June 2010	Reduce scope for fraud and encourage monetization and de-dollarization.	Met. All Monrovia-based civil servants in ministries as well as civil servants in 8 of 15 counties paid by direct bank payment.
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.	Not Met. 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 (rephased to February 2011)	Provision of critical data for economic surveillance and macroeconomic policy.	Not met. Source data are under validation
Extend ASYCUDA system to the Monrovia oil terminal and international airport	End-December 2010	Trade facilitation and tax administration enhancement.	Ongoing
Regular quarterly reporting of state owned enterprise financial operations to Ministry of Finance.	End-January 2011	Essential for program monitoring of public sector borrowing.	Ongoing

ATTACHMENT II. LIBERIA: AMENDMENT TO THE TECHNICAL MEMORANDUM OF UNDERSTANDING

This memorandum sets out the understandings between the Liberian authorities and the International Monetary Fund (IMF) regarding amendments to the Technical Memorandum of Understanding (TMU) attached to the Letter of Intent dated June 7, 2010. The TMU is amended for changes to the total revenue collection adjustor (paragraph 3) and the external financing adjustor (paragraph 19).

I. DEFINITIONS

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

Program Schedule for Cumulative Signing Bonuses and
Social Development Fund Payments from New Iron Ore
Projects, 2010/11
(In millions of U.S. dollars)

December 2010	0.0
March 2011	37.4
June 2011	42.5

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)

December 2010	27.8
March 2011	54.4
June 2011	92.6