International Monetary Fund

Liberia and the IMF

Press Release:
IMF Executive Board Completes Sixth Review Under the Arrangement under the Extended Credit Facility and Approves US$7 Million Disbursement for Liberia
June 27, 2011

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

June 7, 2011

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, 2011

Mr. John Lipsky
Acting Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Lipsky:

The attached Supplementary Memorandum of Economic and Financial Policies details the implementation of Liberia's economic program through early 2011. In light of the performance registered in implementing the economic program and our future policy intentions we request that the sixth review under the ECF arrangement be completed and the seventh disbursement in the amount of SDR 4.44 million be approved. We request that the Extended Credit Facility (ECF) be extended to March 31, 2012 to complete and consolidate the ECF-supported economic and structural reform program through end-December 2011, and that performance criteria be set for June 30, 2011 and December 31, 2011. With a continuing balance of payments need we also request additional access in the amount of SDR 8.88 million to be equally disbursed after the completion of two additional program reviews scheduled for September 15, 2011 and March 15, 2012.

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 consult closely with the IMF staff on the adoption of such measures, and in advance of any revisions to the policies contained in the MEFP. We will provide the Fund with all information necessary to monitor implementation of the program supported by the ECF in a timely manner. We consent to the publication on the IMF website of this letter, the accompanying memorandum of policies, and the related staff report for the Sixth Review under the ECF.

Sincerely yours,

_______/s/_______	_______/s/_______
Augustine Ngafuan	Joseph Mills Jones
Minister of Finance	Executive Governor
Ministry of Finance	Central Bank of Liberia

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

ATTACHMENT I

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2011

JUNE 8, 2011

I. RECENT MACROECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

1. **Estimates for 2010 suggest that GDP growth continued to pick up, although less rapidly than we had initially hoped**. Food production and services are supporting growth. Rubber production continued to decline due to the aging tree stock. Also, the expected restart of timber exports was delayed by bottlenecks in the transport infrastructure. The external environment was initially somewhat benign with rising rubber export prices, though imported food and fuel price increases were increasingly apparent by the end of the year.

2. **With inflation in single digits and the exchange rate broadly stable, financial markets expanded substantially**. The banking service branch network expanded significantly in 2010 and the banking sector balance sheet expanded by nearly one third. However, credit expansion was accompanied by an increase in the share of nonperforming loans.

3. **Fiscal developments in FY2011 were characterized by strong tax revenue performance, though execution of capital spending was, at least initially, slow**.

- Tax revenues are expected to exceed budgeted levels on account of buoyant income tax, withholding tax, and customs receipts.
- Projected budgetary grants will likely fall short of budget estimates on account of temporary delays.
- Current spending is on track, but capital expenditure is, so far, well short of budget this year, due to capacity constraints in both the public and private sectors. We have taken steps to address this situation (see below).
- Against this background, a supplementary budget of US$24 million was approved by the legislature in April 2011. The supplementary expenditure is allocated to capital spending, urgent current spending, and domestic arrears clearance in approximately equal proportions. We also allocated US$15 million from a one-time petroleum payment to deferred expenditure, as provided for in the FY2011 budget.

4. **Performance under the ECF-supported program was good**. All quantitative performance criteria through end-December 2010 were comfortably met. However, implementation of the remaining three structural benchmarks was slower than expected:

- Publication of national accounts data has been delayed, though we expect to publish provisional or experimental data after the completion of consultations with data users.
- The ASYCUDA system in Customs has been extended to the Monrovia oil terminal. However, extension to the international airport has been delayed due to funding difficulties.
- Regular financial reporting by state owned enterprises to the Ministry of Finance, as envisaged in the Public Financial Management Act, has been slow to start and this will require corrective actions in the months ahead (see below).

II. ECONOMIC AND FINANCIAL POLICIES

A. Program Objectives

5. Our principal economic objectives for 2011 are to maintain broad macroeconomic and financial stability, promote the broad-based growth of employment, and to deliver improved public services as detailed in the Liberian Poverty Reduction Strategy (PRS).

6. **PRS implementation advanced**. However, capacity constraints substantially slowed the rate of implementation of deliverables across the four main pillars during the third PRS year (April 2010–March 2011). A stakeholder consultation in late 2010 agreed to extend the PRS to end-2011 in order to provide more time for the completion of outstanding deliverables. Preparations have begun for a successor to the PRS, Liberia Economic Growth Strategy, beginning 2012 which will support implementation of a long-term strategy aimed at achieving middle-income status by 2030. We are also strengthening justice and security through the formation of five regional hubs that will decentralize these functions with support from the UN Peacebuilding Commission over the period 2011–15.

B. Macroeconomic Outlook and Risks

7. **Economic prospects for 2011 and over the medium term remain favorable provided that external risks are contained**. Iron ore exports are expected to start in the third quarter of 2011 which will support more rapid growth of income. Risks to growth are centered on a continued rise in international food and fuel prices which would raise inflation and squeeze private consumption. Moreover the influx of Ivorian refugees is placing pressure on food supplies in border areas, and raising security costs.

8. **The balance of trade is weakening mainly on account of higher food and fuel import prices, that are only partially offset by higher rubber export prices**. In order to maintain an adequate level of foreign exchange reserves in face of elevated import levels we request an extension of the ECF arrangement with additional access of SDR 8.8 million.

C. Fiscal Policies

9. **The FY2012 budget submitted to the Legislature May 5, 2011 balances macroeconomic stability and development concerns**. Core revenue estimates are based on the amended Liberia Revenue Code—submitted to the Legislature in May 2011— incorporating income tax reductions and sales tax increases on selected services, non-tax payments under ratified concession agreements, and donor support commitments. In addition, the budget envisages a significant amount of contingent revenues and grants on account of not yet ratified concessions in the iron ore and palm oil sectors, withholding taxes from the transfer of offshore oil exploration blocks, and receipts from monetizing a bilateral commodity grant that is expected in early 2012.

10. **Total expenditure in FY2012 will depend on the extent to which contingent revenues and grants are realized**. Core spending covers the minimum spending requirements of ministries and agencies, full requirements for education and health sectors, priority investment projects in infrastructure, and debt servicing. Contingent spending allocations and execution procedures are defined in an annex to the budget and apply to all ministries and agencies except those in the education and health sectors. A quarterly review of contingent budget performance will be undertaken. In view of the considerable upside on revenues and grants, the budget does not envisage a need for additional financing, except in respect of concessional financing from the World Bank for budget support and projects (US$20 million, 1.6 percent of GDP). The PRS objective of social and other priority spending proved difficult to monitor precisely, accordingly we have narrowed the objective to ensure that US$88.9 million or 23.9 percent of total spending is devoted to education and health as an indicative program target (see Technical Memorandum of Understanding).

11. **The FY2012 capital spending program is focused on a few strategic projects in ports, energy and transport**. Implementation delays experienced in FY2011 resulted from: capacity constraints in line ministries for project design; procurement delays for multiple relatively small projects; and late passage of the budget. Moreover, limited equipment and experience of resident contractors slowed execution, particularly in the infrastructure sector. In FY2012, we will concentrate funds on fewer and larger projects to accelerate implementation. The investment program will continue to emphasize infrastructure, leveraging private and donor financing where possible.

12. **A continued increase of food and fuel prices would represent the principal fiscal risk in FY2012**. Heavy reliance on imports and high incidence of poverty makes the Liberian economy vulnerable to rising commodity prices with adverse consequences for poverty alleviation and social stability. In addition, intensified refugee inflows from Côte d'Ivoire have already lowered food reserves in affected areas. We will mitigate the impact on the most vulnerable sector of the population by expanding—together with donor support—our already existing system of targeted transfer measures. These comprise "conditional cash/voucher" programs in urban areas, "cash- and food-for-work" programs in

rural areas, and school feeding programs. Should staple food prices, particularly rice, rise significantly higher than expected, we would also consider providing, temporary, well-targeted, consumption subsidies. In this event, the FY2012 budget may need to be revised. To mitigate the effect of rising fuel prices, we are considering subsidies for public transportation.

13. **In view of potential fiscal risks, we will strengthen oversight of state-owned enterprises' financial operations**. To this end, we will increase the resources of the PFM Reform Coordination Unit to facilitate production of a first quarterly report detailing state enterprise financial activities and plans, and will set this as a structural benchmark for the Seventh Review (rephased from Sixth Review).

D. Monetary and Financial Policies

14. **The principal objective of monetary policy remains to support price stability**. Due to a high dependence upon food and fuel imports, inflation is likely to increase during 2011, but continued discipline in monetary and fiscal policy can help prevent a second round inflationary impact. The CBL will continue to use the foreign exchange auction to help maintain broad stability in the exchange rate. The introduction of Government of Liberia treasury bills, which should commence soon, will be an additional tool for managing liquidity.

15. **We intend to maintain foreign exchange reserve holdings at an adequate level over the medium term. The demand for Liberian dollars could increase by the equivalent of US$10 million during 2011, which** would be reflected in CBL net purchases in the foreign exchange auction. However, the actual accumulation of reserves would be determined by market conditions which may be more or less favorable. To preserve our flexibility to conduct monetary policy, including for foreign exchange market intervention and for the potential impact of local currency treasury bill sales, our end-2011 reserve target (including holdings of SDRs) will increase by US$14.1 million from the end-December 2010 target of US$274.5 million.

16. **The banking system remains liquid and well capitalized, and credit growth is brisk—however the CBL is concerned about the increase of nonperforming loans**. In response, the CBL has intensified the cycle of on-site targeted credit examination complemented by more robust off-site surveillance, consistent with the risk-based supervision methodology. The CBL is also assisting commercial banks in strengthening their internal risk management guidelines. In order to improve the overall credit environment with respect to the enforcement of financial contracts, the CBL spearheaded efforts to develop a new Commercial Code and a law to establish a new commercial court—both approved by the Legislature in 2010.

17. **Progress towards adopting a risk-based supervision framework is on track**. The CBL completed a walk-through evaluation of the risk management systems of individual

commercial banks in 2010. Steps will be taken in strengthening the risk-based supervision framework. The focus for 2011 includes on-site examination training for the CBL staff and the pilot examinations of each commercial bank. The CBL has required commercial banks to adopt international financial reporting standards (IFRS) by end-2012, and has begun work to build commercial banks' capacity in this regard. Technical assistance has been requested from the IMF to help ensure a smooth transition to IFRS.

18. **The CBL continues to press ahead with new initiatives and payments system modernization to expand financial intermediation, including to the unbanked**.

- In December 2010, the CBL launched a credit stimulus initiative with a total placement of US$5 million with several commercial banks in support of medium-term credit needs of Liberian-owned small to medium-sized businesses. The CBL is also examining the modalities of increasing finance, on affordable terms, to microfinance institutions.

- A project to modernize the payments system began in December 2010 with the aim of extending the West African Monetary Zone payments system to Liberia. We expect to formulate a legal framework for the modernized nationwide payments system on a timely basis so as not to affect the implementation of the project.

- The CBL plans to work with commercial banks to introduce mobile banking in the near future. The development of an appropriate regulatory and supervisory framework for this undertaking is underway.

19. **Efforts aimed at developing a capital market are being intensified by the CBL**. The commencement of the treasury bill market will be a major first step toward the development of financial markets. The CBL will also consider the introduction of Central Bank Notes if conditions warrant. To support an orderly process the CBL will develop an appropriate road map and interim regulations pertaining to capital markets (new structural benchmark for 8^{th} ECF Review).

20. **The CBL has strengthened its internal management and financial controls**. Based on a satisfactory track record in implementing the recommendations of the 2008 Safeguards Assessment, the internal auditor of the CBL has conducted a Monetary Data Reporting Package (MDRP) audit since the second half of 2010. The MDRP audit report for the second half of 2010, completed in February 2011, highlighted minor discrepancies between CBL accounting records and data reported to the Fund. Compliance with program targets was not affected and the relevant corrections have been made.

21. **The CBL has operated a balanced operational budget without accumulating arrears for several years**. It is requested that the continuous performance criterion for CBL arrears be discontinued forthwith.

E. Public Financial Management, Revenue Administration and Governance

22. **We continue our systematic improvement in Public financial management (PFM)**. Key actions carried out recently include:

- A comprehensive PFM Reforms Strategy and Medium-Term Action Plan will be finalized in May 2011. This program has been designed to ensure that reforms proceed incrementally with appropriate centralized control and coordination, with a strong focus on capacity building.
- Strategic plans for comprehensive reform of tax administration and customs have been developed.
- Extensive training of civil servants is being conducted in the use of the International Public Sector Accounting System (IPSAS), the new IT systems, and the public procurement system. Extensive training is also being provided in all ministries and agencies to help them interpret and comply with the PFM law.
- The gap in internal audit capacity is being addressed through an internal audit strategy that builds capacity in eight critical ministries.
- In other areas, the Civil Service Agency (CSA) has largely completed a biometric employee verification and identification system,

23. **We have taken a number of measures to accelerate the procurement process**. We have significantly reduced the time required for purely administrative steps by prioritizing project expenditure. In preparation for the FY2012 budget, ministries and agencies were required to submit draft bid documents along with their project proposals and were encouraged to begin the bidding cycle prior to budget approval. Technical assistance is urgently needed to help line ministries fulfill the procurement requirements in a timely fashion.

24. **We are deepening reforms of public financial management and revenue administration**. Actions plans have been developed and implementation structures put in place that we expect will permit rapid advances in the year head.

- Our key IT programs currently under development will become operational. The pilot phase of IFMIS will be launched in the Ministry of Finance, CSA, GAC and Central Bank of Liberia (new benchmark Seventh Review of the ECF). ASYCUDA will be extended to the international airport (revised benchmark for Seventh Review). The ITAS system in tax administration will also become operational in phases starting in April 2011 in the Large Taxpayer Unit.
- In light of the large share of revenue expected to be generated from natural resources in the future, starting with the commencement of iron ore shipments in 2011, we

intend to upgrade our capacity to monitor the fiscal aspects and obligations of the larger projects. To this end, we intend to establish a small mining concessions tax assessment team in the Large Taxpayer unit (new benchmark Eighth Review). We will seek technical assistance to build the necessary skill. In a related measure, in anticipation of the discovery of offshore petroleum reserves, we are reviewing the National Oil Company of Liberia (NOCAL) and Petroleum acts to remove fiscal provisions and, in line with best international practice, to separate the regulatory and commercial functions of NOCAL. We anticipate draft amendments will be prepared by end-2011.

- We will also strengthen our audit capacity to reduce fraud and waste. The General Auditing Commission will assist key ministries (including Health, Education, and Public Works) through assessing their compliance with basic financial controls, agreeing on remedial actions, and monitoring implementation of these actions during the remainder of 2011.

- External audits of the consolidated government accounts for FY2009 and FY2010 will be submitted to the legislature by mid-2011.

- We will appoint a Central Internal Audit Governance Board and establish audit committees in eight key ministries.

- We will finalize the costing of our strategy of reform in the Bureau of Internal Revenue and Customs and develop detailed action plans for the 2011/12 fiscal year.

F. Debt Management and External Policies

25. **Substantial progress has been made on completing external debt rescheduling and debt reduction**. We finalized all but one bilateral agreement with Paris Club creditors before the March 2011 deadline. The final bilateral is close to completion. Regarding non-Paris Club official debt: China has provided full cancelation of the eligible debt; an agreement has been reached with Kuwait on terms broadly comparable to HIPC debt reduction. Negotiations with other non-Paris Club creditors—ECOWAS, the Saudi Fund, BADEA and OFID—have advanced. However, little progress has been achieved with Taiwan, Province of China (almost half of the total non Paris Club official debt).

26. **Against this background the external debt outlook has improved and we remain committed to maintaining a sustainable level of debt**. Forthcoming publication and dissemination of guidelines for Government guarantees will further contribute to strengthening the overall debt management framework.

G. Statistics

27. **We are committed to improving the quality of macroeconomic statistics, in particular national accounts**. A draft 2008 Supply and Use Table (SUT) is likely to result in a significant upward revision of estimates of GDP. The data are under review to ensure as reliable a data set as possible in the current circumstances, and final data are unlikely to be released prior to the completion of the 2012 household expenditure survey.

Table 1a. Liberia: Quantitative Performance Criteria and Indicative Targets, 2010
(Millions of US dollars, unless otherwise indicated)

	Mar. 10			Jun. 10			Sep. 10			Dec. 10		
	Prog.	Adj. target	Actual	Prog.	Adj. target	Actual	Prog.	Adj. target	Actual	Prog.	Adj. target	Actual
Performance criteria and indicative targets [1/]												
Fiscal [2/]												
Floor on total revenue collection of the central government [3/]	181.5	185.3	204.9	277.6	260.0	275.0	48.2	48.2	71.6	103.1	103.1	167.9
Floor on social and other priority spending (percent of total revenue and grants collected, indicative target) [4/]	60.0	60.0	60.1	60.0	60.0	70.7	…	…	…	65.0	65.0	83.6
Ceiling on new noncash tax/duty payment to the central government (continuous basis)	0.0	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 of the central government (continuous basis) [5/]	0.0	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 of the central government (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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	0.0	0.0
Ceiling on gross borrowing by the public sector in foreign currency [7/]	…	…	…	…	…	…	46.0	46.0	0.0	46.0	46.0	0.0
Ceiling on new domestic borrowing of the central government [8/]	0.0	0.0	0.0	0.0	0.0	0.0	2.5	2.5	0.0	5.0	5.0	0.0
CBL												
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	0.0
Floor on CBL's net foreign exchange position [8/ 9/]	251.5	251.5	268.5	261.6	254.6	270.7	264.6	264.6	280.4	274.5	274.5	287.5
Ceiling on CBL's gross credit to central government [8/ 10/]	…	…	…	…	…	…	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on net domestic assets of the CBL (indicative target) [8/ 11/]	…	…	…	…	…	…	-37.7	-37.7	-67.2	-28.1	-28.1	-98.8
Memorandum item: Programmed receipt of one-time signing bonuses and Social Development Fund contributions from new iron ore projects [2/]	20.0	…	23.8	47.4	…	29.9	0.0	…	10.0	0.0	…	10.6
Memorandum item: Programmed receipt of external budget support and ratified concession payments [2/]	…	…	…	…	…	…	11.0	…	10.0	27.8	…	34.4

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 1b. Liberia: Quantitative Performance Criteria and Indicative Targets, 2011–12
(Millions of US dollars, unless otherwise indicated)

	Mar. 11	Jun. 11	Sep. 11	Dec. 11	Mar. 12	Jun. 12
	Program	Program	Program	Program	Projection	Projection
Performance criteria and indicative targets [1/]						
Fiscal [2/]						
Floor on total revenue collection of the central government [3/]	210.6	327.1	61.6	170.6	239.6	317.7
Floor on social and other priority spending (percent of total revenue and grants collected, indicative target) [4/]	…	65.0	…	…	…	…
Floor on primary education and primary healthcare spending (percent of total budgeted expenditure, excluding contingencies, indicative target)	…	…	…	21.9	…	21.9
Ceiling on new noncash tax/duty payment to the central government (continuous basis)	0.0	0.0	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	0.0	0.0
Ceiling on new external arrears of the central government (continuous basis)	0.0	0.0	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	0.0	0.0
Ceiling on gross borrowing by the public sector in foreign currency [7/]	46.0	46.0	46.0	46.0	46.0	46.0
Ceiling on new domestic borrowing of the central government [8/]	7.5	10.0	12.5	12.5	12.5	12.5
CBL						
Floor on CBL's net foreign exchange position [8/, 9/]	267.0	276.5	279.0	288.6	292.3	303.1
Ceiling on CBL's gross credit to central government [8/, 10/]	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on net domestic assets of the CBL (indicative target) [8/, 11/]	-82.9	-77.6	-68.7	-73.3	-53.8	-47.6
Memorandum item: Programmed receipt of one-time signing bonuses and Social Development Fund contributions from new iron ore projects [2/]	32.4	42.5	0.0	22.7	22.7	22.7
Memorandum item: Programmed receipt of external budget support and ratified concession payments [2/]	54.4	92.6	0.0	51.1	51.1	51.1

1/ Performance criteria at end-June 2011 and end-December 2011 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/ 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 2011–12 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 (NDA) of the CBL are defined as base money minus the net foreign assets (NFA) of the CBL converted into the U.S. dollars at program exchange rates.

Table 2. Liberia: Structural Benchmarks September 2010–December 2011

Measure	**Target Date**	**Justification**	**Status**
Publication of validated national accounts data for 2008 by the Statistical agency LISGIS	February 2011	Provision of critical data for economic surveillance and macroeconomic policy.	Not met. Draft report circulated to stakeholders in February 2011.
Extend ASYCUDA system to the Monrovia oil terminal and international airport	End- December 2010 Re-phased to Seventh Review	Trade facilitation and tax administration enhancement.	Not met. ASYCUDA extended to the oil terminal, but extension to airport was delayed due to lack of finance.
Regular quarterly reporting of state owned enterprise (SoE) financial operations to Ministry of Finance.	End-January 2011. Re-phased to Seventh Review	Essential for program monitoring of public sector borrowing.	Not met. Poor compliance by SoEs. Corrective measures identified by Ministry of Finance.
Launch of pilot phase of the Integrated Financial Management Information System (IFMIS) linking Ministry of Finance, Civil Service Agency, Central Bank and GAC.	Seventh Review	Critical to improving reporting and monitoring of budget implementation.	
Create a small mining tax assessment team in the Large Taxpayer Unit with technical assistance if needed.	Eighth Review	Taxation of concessions is a major element in the projected revenue increase over the medium term.	
Development by the Central Bank of Liberia of a road map and interim regulations for capital market development.	Eighth Review	Undeveloped capital markets are an important impediment to private sector development.	

ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING

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.

Program Schedule for Cumulative Signing Bonuses and Social Development Fund Payments from New Iron Ore Projects

(In millions of U.S. dollars, cumulative from start of fiscal year)

	Program path
December 2010	0.0
March 2011	37.4
June 2011	42.5
September 2011	0.0
December 2011	22.7

4. **For FY2012, education and health spending** is defined as total spending from the FY2012 budget of the units listed below (payment vouchers approved by the Ministry of Finance). It is evaluated as a share of total budgeted expenditure, where total budget expenditure excludes contingency expenditure, off budget expenditure, and donor-financed items.

Education:
Ministry of Education University of Liberia Monrovia Consolidated School System (MCSS) Booker Washington Institution (BWI) Forestry Training Institution (FTI) Cuttington University (CUC) National Commission on Higher Education (NCHE) W. V. S. Tubman Technical College (WVSTC) West African Examiniation Council (WAEC)
Health:
Ministry of Health and Welfare JFK Medical Center (JFKMC) Phebe Hospital LIBR

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 on a commitment basis (payment vouchers approved by the Ministry of Finance).

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. **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 and non-competitive purchases in the primary 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.

15. **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. The net foreign exchange position floor at end-June 2011 and end-December 2011 is US$25 million below the projected net foreign exchange position. 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.

16. **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 14**.** 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.

17. **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 up to a maximum of US$20 million. The adjuster will be calculated on a cumulative basis from the start of the financial year (July 1).

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
September 2011	0.0
December 2011	51.1

II. PROGRAM MONITORING

A. Program–Monitoring Committee

18. 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

19. 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).

20. 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.