International Monetary Fund

Liberia and the IMF

Press Release:
IMF Executive Board Completes Eighth Review Under the ECF Arrangement for Liberia and Approves US$6.8 Million Disbursement
May 9, 2012

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Liberia: Letter of Intent, and Technical Memorandum of Understanding

April 20, 2012

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.

LIBERIA: SUPPLEMENTARY LETTER OF INTENT

Monrovia, April 20, 2012

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Madame Lagarde,

The ECF-supported program, approved in 2008, is coming to a successful conclusion. Over the last four years, Liberia has made substantial progress towards achieving macroeconomic stability, rebuilding institutions, and restoring debt sustainability. This Letter of Intent outlines our recent economic performance and some of the economic policies we intend to implement during the course of the remainder of 2012.

All quantitative performance criteria and indicative targets under the ECF-supported program through end-December 2011 were comfortably met (Table 1). While we have made notable progress to implement the remaining structural benchmarks, continued efforts are needed (Table 2): particularly in the area of providing more robust financial oversight of state-owned enterprises by the Ministry of Finance; more specifically by strengthening reporting performance. In this context, we request that the eighth and final review under the ECF-supported program be completed and the last disbursement in the amount of SDR 4.44 million be approved.

Regarding the performance of the economy, preliminary estimates indicate a real GDP growth of about 6–7 percent in 2011. The exchange rate against the US dollar was broadly stable, and reserves increased. Strong exports were supported by high rubber prices and the restart of iron ore production after more than two decades. Persistent high food and oil prices contributed to an uptick in inflation and an increased trade deficit.

Economic prospects for 2012 and over the medium term remain favorable. The expansion of iron ore exports will support high GDP growth in 2012 and in the medium term. Downward risks are mostly linked to the increased volatility of international commodities prices, which could raise inflationary pressures and depress private consumption growth.

Recent fiscal developments were characterized by strong revenues, which, among others, enabled increased spending on priority areas of education and health. However, the overall fiscal balance, including grants, recorded a small surplus in the first half of FY 2012, which coincided with the program period. In the second half of the fiscal year, we will seek to boost capital expenditure to facilitate sustained economic growth and development.

For FY2013, we intend to intensify the development orientation of the budget by focusing more on infrastructure investments, agriculture and youth empowerment. This will be done in the context of a medium-term expenditure framework, which is the new approach to budgeting that has been adopted by the Government. Also, the oversight responsibility of the Ministry of Finance for financial operations of SOEs will be strengthened in keeping with the Public Finance Management Law.

The CBL continues to contribute to price and exchange rate stability and support financial sector development. Foreign exchange reserves exceeded the program target due to temporary factors, which are expected to unwind during the course of 2012. The CBL will continue to maintain a stabilized exchange rate regime. Interventions in the foreign exchange market will be limited to prevent excessive volatility. We expect that measures to further improve the banking supervision framework, build a national payments system, and the introduction of treasury bills in the near term, will substantially contribute to financial sector development.

We continue to make progress on completing debt restructuring while preserving borrowing discipline. We have built capacity within the Ministry of Finance to begin conducting internal DSA as and when required by the Debt Management Committee. Agreement has been reached with BADEA on debt restructuring, while negotiations with the EIB, ECOWAS, OFID and other non-Paris Club creditors are progressing. We remained committed to a prudent borrowing strategy. New loans were contracted with IDA and IFAD at highly concessional terms, with total disbursements amounting to US$19 million in 2011. Preparations for WTO accession and the adoption of harmonized ECOWAS tariff system are progressing as planned.

Liberia will continue a good working relationship with the Fund and seek further technical assistance as needed.

Finally, we consent to the publication on the Fund website of this letter of intent and the related staff report for the eighth and final review under the ECF-supported program.

Sincerely yours,

______/s/________	______/s/_______
Amara Konneh	Joseph Mills Jones
Minister of Finance	Executive Governor
Ministry of Finance	Central Bank of Liberia

Table 1. Liberia: Quantitative Performance Criteria and Indicative Targets, 2011–12

(Millions of US dollars, unless otherwise indicated)

	Jun. 11				Sep. 11				Dec. 11				Mar. 12	Jun. 12
	Program	Adjusted target	Actual	Outcome	Program	Adjusted target	Actual	Outcome	Program	Adjusted target	Actual	Outcome	Projection	Projection
Performance criteria [1/, 2/]														
Floor on total revenue collection of the central government [3/]	327.1	314.9	334.6	Met	61.6	61.6	94.3	Met	170.6	170.6	224.9	Met	252.9	377.4
Ceiling on new noncash tax/duty payment to the central government (continuous basis)	0.0	…	0.0	Met	0.0	…	0.0	Met	0.0	…	0.0	Met	0.0	0.0
Ceiling on new domestic arrears/payables of the central government (continuous basis)	0.0	…	0.0	Met	0.0	…	0.0	Met	0.0	…	0.0	Met	0.0	0.0
Ceiling on new external arrears of the central government (continuous basis)	0.0	…	0.0	Met	0.0	…	0.0	Met	0.0	…	0.0	Met	0.0	0.0
Ceiling on non-concessional external borrowing of the public sector (continuous basis)	0.0	…	0.0	Met	0.0	…	0.0	Met	0.0	…	0.0	Met	0.0	0.0
Ceiling on gross borrowing by the public sector in foreign currency	46.0	…	9.6	Met	46.0	…	9.0	Met	46.0	…	11.4	Met	46.0	46.0
Ceiling on new domestic borrowing of the central government [4/]	10.0	…	0.0	Met	12.5	…	0.0	Met	12.5	…	0.0	Met	12.5	12.5
Floor on CBL's net foreign exchange position [4/, 5/]	276.5	256.7	310.6	Met	279.0	279.0	320.5	Met	288.6	268.6	319.3	Met	292.3	303.1
Ceiling on CBL's gross credit to central government [4/]	0.0	19.8	0.0	Met	0.0	0.0	0.0	Met	0.0	20.0	0.0	Met	0.0	0.0
Indicative Targets														
Ceiling on net domestic assets of the CBL (indicative target) [4/]	-77.6	-57.8	-68.5	Met	-68.7	-68.7	-74.7	Met	-73.3	-53.3	-80.2	Met	-53.8	-47.6
Floor on social and other priority spending (percent of total revenue and grants collected)	65.0	…	69.6	Met	n.a.	…	…	…	n.a.	…	…	…	n.a.	n.a.
Floor on education and healthcare spending (percent of total budgeted expenditure, excluding contingencies)	n.a.	…	…	…	n.a.	…	…	…	25.1	…	28.0	…	n.a.	25.1
Memorandum items:														
Memorandum item: Programmed receipt of one-time signing bonuses and Social Development Fund contributions from new iron ore projects [2/]	42.5	…	30.3	…	0.0	…	n/a	…	22.7	…	27.3	…	26.0	53.8
Memorandum item: Programmed receipt of external budget support and ratified concession payments [2/]	92.6	…	72.8	…	0.0	…	0.0	…	51.1	…	27.3	…	72.3	100.1

1/ Performance criteria at end-June 2011 and end-December 2011 except where marked. All others indicative targets.

2/ Fiscal targets are 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/ 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.

5/ 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.

n.a. = not applicable; … = not available

Table 2. Liberia: Structural Benchmarks and Prior Action, 2011–12

Measure	Target Date	Justification	Status
Publication of validated national accounts data for 2008 by the Statistical agency LISGIS.	Benchmark, February 2011	Provision of critical data for economic surveillance and macroeconomic policy.	Not met. Additional source data needed for reliable national accounts estimates.
Publication of the revised Liberian Revenue Code 2011	Prior action Seventh Review	Publication required for the revised Code to become effective. Revisions have a significant impact on revenues in FY2012 and beyond.	Met. November 14, 2011.
Extend ASYCUDA system to the Monrovia oil terminal and international airport.	Benchmark, Seventh Review	Trade facilitation and tax administration enhancement.	Met. ASYCUDA in place at the oil terminal in 2010 and airport at September 2011.
Regular quarterly reporting of state owned enterprise (SOE) financial operations to Ministry of Finance.	Benchmark Seventh Review	Essential for program monitoring of public sector borrowing.	Not met. Poor compliance by SOEs. State enterprise coordination unit to be set up in 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.	Benchmark Seventh Review	Critical to improving reporting and monitoring of budget implementation.	Not met, though largely completed. Launched in Ministry of Finance. Links to other agencies Completed and operational in February 2012, except GAC.
Create a small mining tax assessment team in the Large Taxpayer Unit with technical assistance if needed.	Benchmark Eighth Review	Taxation of concessions is a major element in the projected revenue increase over the medium term.	Not met, but progress is ongoing. Capacity building technical assistance identified.
Development by the Central Bank of Liberia of a road map and interim regulations for capital market development.	Benchmark Eighth Review	Undeveloped capital markets are an important impediment to private sector development.	Met. Draft road map under review. Draft regulations prepared for CBL bills issuance and nonbank financial institutions.

ATTACHMENT I—LIBERIA: 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 arrangement, 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
September 2011	0.0
December 2011	22.7
March 2012	26.0
June 2012	53.8

4. **For FY2012**, **education and healthcare 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 project expenditure financed by external borrowing.

FY2012 Education and Healthcare Spending in the Core Budget (Millions of US dollars)	
Total Education and Health	**112.6**
Education	**65.4**
Ministry of Education	39.1
University of Liberia	11.8
Monrovia Consolidated School System (MCSS)	3.3
Lofa Community College	0.0
Nimba Community College	0.0
Booker Washington Institution (BWI)	1.9
Gbarnga Central High	0.0
Forestry Training Institution (FTI)	0.5
Cuttington University (CUC)	1.0
National Commission on Higher Education (NCHE)	1.6
W. V. S. Tubman Technical College (WVSTC)	3.4
West African Examination Council (WAEC)	2.1
Liberia Institute for Public Administration	0.7
Health	**47.2**
Ministry of Health and Welfare	36.2
JFK Medical Center (JFKMC)	6.9
Phebe Hospital	1.8
LIBR	0.7
Jackson F. Doe Medical Hospital	1.6

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 Ministry of Finance, 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 non-concessional 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 non-concessional 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 L$/US$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 a disbursement under the ECF arrangement, 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)

September 2011	0.0
December 2011	51.1
March 2011	72.3
June 2012	100.1

II. Program Monitoring

A. Program–Monitoring Committee

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