International Monetary Fund

Liberia and the IMF

Press Release:
IMF Executive Board Concludes the Second Review under the Extended Credit Facility Arrangement with Liberia
December 11, 2013

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

November 25, 2013

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Letter of Intent

Monrovia, November 25, 2013
Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Madame Lagarde,

The attached Memorandum of Economic and Financial Policies (MEFP) outlines the implementation of Liberia's economic program supported by the Extended Credit Facility (ECF) through August 31, 2013, and summarizes recent economic and financial policy actions and the government of Liberia's commitment for the rest of 2013 and for 2014.

The Liberian economy remains on a solid footing despite a weak global economy. Real GDP growth in 2013 is now estimated at 8.1 percent, slightly higher than in 2012 driven by stronger than expected iron-ore production and the acceleration in public and private investment in the first half of 2013. Year-on-year inflation reached 8 percent in September 2013, above our previous estimates reflecting higher-than-anticipated international and domestic food prices and the pass-through of the recent exchange rate depreciation. Reserves coverage as of end-June 2013 fell to 2.7 months, lower than envisaged under the program reflecting in part the Central Bank of Liberia's (CBL) increased intervention in the foreign exchange market.

Fiscal results were largely in line with program targets. Total revenue and grants exceeded the program target by about half a percentage point of GDP, though core revenues fell short of the program target by a small margin. Total spending was somewhat above the program, owing in part to the absorption into the government payroll of teachers and health workers that were previously financed by donors and had to be financed by the use of deposits; as well as the increase in capital spending, including the rehabilitation of the hydropower plant and the road network. As a result, the overall fiscal deficit including grants for FY2013 amounted to 1.6 percent of GDP, of which an amount of US$22 million or 1.1 percent of GDP was financed by the use of deposits, including collections from FY2014 revenue.

We met three out of six performance criteria (PC), and are requesting waivers for the three missed PCs. The floor on revenue collection of the central government (core revenues) was missed by a small amount (US$1.4 million), owing to lower-than-expected taxes on international trade; mineral royalties, and forestry and agricultural revenue. The PC on the floor on foreign reserves of the CBL was missed by US$14 million reflecting in part larger sales of U.S. dollars to mitigate exchange rate pressures. The PC on gross central bank financing to the government was missed by US$1.4 million, due to a temporary overdraft on one of the government accounts at the central bank that was repaid in July (although the consolidated government accounts were in surplus as of end-June). Two out of the eight structural benchmarks (SB) for the second review were fully met on time and two were implemented with a small delay. We have also received full cash and procurement plans from key spending Ministries and Agencies by end-October (prior action). Less progress was achieved towards the last three structural benchmarks, though we expect to meet the SB on the collateral registry by end-December 2013.

We remain committed to maintaining an adequate reserves buffer and intend to take appropriate policy actions in order to be able to meet the end-December 2013 and end-June 2014 targets. The issuance of CBL bills has already helped reduce reliance on the foreign exchange auction. We have also amended the foreign exchange auction regulation to require all allocations of foreign exchange to be offered through the foreign exchange auction, with all individual participants bidding through commercial banks. Furthermore, steps are being taken to strengthen liquidity management by enhancing coordination between the Central Bank and the Ministry of Finance including the joint preparation of monthly liquidity forecasts.

We have adopted measures and plan to strengthen them to ensure that capital spending, particularly energy related projects, is executed according to the amounts included in the program, including by distributing and releasing the budget allotment schedule upon budget approval to the Ministries and agencies that have presented satisfactory procurement plans, and requiring the five key Ministries and three Agencies to submit their procurement plans by end-September.

We will ensure that spending is aligned with a realistic revenue envelope. On the expenditure side, we remain committed to the fiscal rules introduced last fiscal year and we plan to work with the Legislature to ensure they can be adhered to in order to create the much needed fiscal space for capital spending. The increase in revenue by the Legislature from the draft Budget amounts to about US$29.7 million, of which about half is at risk. Therefore, we will not release these amounts for additional expenditure until the additional revenues materialize. Moreover, as authorized in the FY2014 Budget Act, we have approved, in consultation with the Legislature in November 2013 (prior action) a risk-management strategy that identifies budgetary savings in the amount of US$30 million to compensate for the FY2013 overruns. To ensure budget implementation is in line with these policy commitments, we will strengthen liquidity management and move towards the Treasury Single Account.

On the basis of the performance registered in implementing the economic program and on the strength of our future policy commitments we request that the second review under the ECF arrangement be completed and the third disbursement in the amount of SDR 7.382 million be approved. In completing the second review, we are requesting a waiver for the PCs on (i) the floor on total revenue collection of the central government; (ii) on the floor on CBL's net foreign exchange position; and (iii) gross domestic credit to the government. We are also requesting modifications of the ceiling on domestic borrowing for end-December 2013 and end-June 2014 to accommodate a slight increase in the domestic T-Bill program and some US$10 million in financing from a domestic commercial bank for critical energy projects. In addition, we are requesting modifications to the timeline for the implementation of structural benchmarks for end-December 2013 and end-June 2014 as well as approval of structural benchmarks that have been agreed with Fund's staff for end-December 2014 (Attachment 1 Tables 4, and 5). The structural benchmarks relate to further measures to strengthen PFM, develop the financial system, enhance national account statistics, and improve project implementation.

To monitor progress in implementing our reform agenda, the program includes a set of quantitative performance criteria, indicative targets, and structural benchmarks, outlined in the MEFP and the Technical Memorandum of Understanding (TMU). We have reached understandings with Fund staff regarding changes to definitions in the TMU to resolve definitional issues on external debt.

We believe that the economic and financial policies set forth in the attached MEFP provide an adequate basis for achieving the objectives and targets of our program, but we will take any additional measures that may become necessary for this purpose in close consultation 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 as outlined in the TMU.

We consent to the publication on the IMF website of this letter, the accompanying MEFP, TMU, and the related staff report for the second review under the ECF.

Sincerely yours,

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

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

Attachment 1. Memorandum of Economic and Financial Policies of the Government of Liberia for FY2013/14

Introduction

1. **The Government of Liberia remains committed to achieving broad based economic growth and consolidating macroeconomic stability**. This Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments since the first review and performance under the Extended Credit Facility (ECF) arrangement approved by the IMF Board on November 19, 2012. It also updates macroeconomic policies and targets for FY2014 (July 2013 to June 2014) and up to end-December 2014.

Recent Macroeconomic Developments

2. **Recent economic developments are broadly favorable**. Real GDP growth in 2013 is now estimated at 8.1 percent, slightly lower than in 2012, supported by the strong performance of iron-ore production. At the same time, non-mining activity has picked up in the first half of 2013 reflecting increased activity in construction associated with robust public and private investment including infrastructure projects. The Government recognizes the need to enhance efforts to diversify the economy in order to ensure broad-based economic growth with increased opportunities for employment with significant implications for sustainable reduction in poverty. In this connection, emphasis will be placed on policies and programs intended to accelerate infrastructure and to create a more enabling environment for the growth of the private sector. Capital investment-related imports are also increasing. Inflation at end-September 2013 was 8.2 percent, somewhat above previous projections, owing primarily to higher-than-anticipated international and domestic food prices and the pass-through of the recent exchange rate depreciation.

3. **The Liberian dollar depreciated by 7 percent from end-2012 to June 2013**. Against the backdrop of a 16 percent terms of trade deterioration since January 2013, the depreciation pressures also reflect, in part, the rise in Government spending in Liberian dollars by about 38 percent in the first half of 2013, compared with the same period last year. In order to mitigate exchange rate pressures, the CBL stepped up its interventions and increased its sales of foreign exchange through the foreign exchange auction amounting to US$52.3 million in the 6-month period ending June 2013, compared with US$37.1 million for the same period a year ago. Starting in July 2013, the CBL also issued CBL bills to help manage the Liberian dollar liquidity. Partly owing to the higher-than-expected intervention in the foreign exchange market, reserves declined to about 2.7 months of imports, lower than the 3 months import cover targeted under the program.

4. **The fiscal outturn for FY2013 was broadly in line with the targets set in the program, though off-budget project execution was below the amounts envisaged**.

- Total revenue and grants exceeded the program estimates by about half a percentage point of GDP and increased by near 2 percentage points of GDP relative to FY2012. These results reflect the collection of one-off revenues and the increase in budget support grants. However, core revenues of the central government fell short of the program target by a small margin of US $1.4 million reflecting lower-than-anticipated (i) taxes on international trade; (ii) mineral royalties; and (iii) forestry and agricultural-related revenues.

- Total spending was somewhat above the program, owing in part to the absorption into the government payroll of teachers and health workers that were previously financed by donors and had to be financed by the use of deposits; as well as the increase in capital spending, including the rehabilitation of the hydropower plant and the road network. On-budget domestically- and grant-financed capital spending exceeded the original program target by 2.2 percentage points of GDP—largely reflecting the pickup in project execution during the dry season, which was financed by additional budget support grants and US$15 million in domestic borrowing. Off-budget capital spending was below the program target reflecting delays in securing external financing as well as some capacity constraints within the implementing ministries and agencies.

- As a result, the overall fiscal deficit including grants for FY2013 amounted to 1.6 percent of GDP, of which an amount of US$22 million or 1.1 percent of GDP was financed by the use of deposits, including collections from FY2014 revenue. The remainder of the deficit was financed by borrowing from commercial banks, the issuance of 90-day Treasury bills, and external financing in the form of off-budget International Development Agency (IDA) credits.

- As agreed at the time of the first ECF review, the government repaid the US$20 million overdraft with the Central Bank, as well as US$4.5 million on the bridge financing to rehabilitate the port by June 2013. Currently, an amount of US$8 million remains outstanding on the bridge financing, and we plan to repay US$4 million by December 2013 and US$4 million by June 2014. We are coordinating internally with the Comptroller and Accountant General and the Department of the Budget to ensure that budgetary provisions are applied on a timely basis and we will coordinate with the CBL when the payments come due.

5. **After slowing down in the first half of 2013, credit to the private sector has started to pick up in July**. The slow credit growth was due, in part, to the CBL ongoing reform that insists on banks improving their credit management, so that banks are now exercising caution in extending new credits due to high nonperforming loans, which lower profitability through high loan loss provisions, and are stepping up efforts in collecting overdue debts. Together with stern measures by the CBL on delinquent borrowers including publishing their names in the local newspapers, barring them from the use of the banking system, and foreclosing their properties based on rulings by the commercial court, these efforts led to a reduction in nonperforming loans from 25 percent at end-2012 to 19 percent at end-June 2013.

6. **The establishment of the commercial court has also brought some relief to the financial system, especially in fast-tracking the hearing of cases**. There are a number of cases that the commercial court has adjudicated since its establishment. The CBL has been engaging a number of development partners for the enhancement of its existing credit reference system. The credit reference system, though rudimentary, has been helpful to the banks in identifying delinquent borrowers.

Program Performance

7. **Although we have faced some challenges in implementation, we remain fully committed to meeting the targets agreed under the program**. Three out of the six quantitative performance criteria (PC) and two out of the four indicative targets (IT) under the program through end-June 2013 were met.

- The PC on the floor on revenue collection of the central government (core revenues, i.e., excluding contingent revenue, made up primarily of one-off concession-related revenues) was missed by US$1.4 million; the shortfall was due to lower-than-expected taxes on international trade; mineral royalties, and forestry and agricultural revenue.

- The PC on gross central bank financing to the government was missed by US$1.4 million, due to a temporary overdraft on one of the government accounts at the central bank that was repaid in July (although the consolidated government accounts were in surplus as of end-June).

- The PC on the floor on foreign reserves of Central Bank of Liberia's (CBL) was missed by US$14 million reflecting in part larger sales of U.S. dollars to mitigate exchange rate pressures, and higher CBL operational expenses. We remain committed to maintaining an adequate reserves buffer and intend to take appropriate policy actions in order to be able to meet the end-December 2013 target. We have already started to gradually reduce the amounts of foreign exchange offered through the foreign exchange auction, and the CBL Board has approved amendments to the foreign exchange auction regulation requiring all allocations of foreign exchange to be offered through the weekly auction to all individual participants bidding through the commercial banks with which they have an account. Furthermore, steps are being taken to strengthen liquidity management by enhancing coordination between the central bank and the Ministry of Finance including the joint preparation of monthly liquidity forecasts. Meanwhile, greater use will be made of CBL bills to help manage liquidity.

- The indicative ceiling on gross external borrowing by the public sector was missed by a small amount, as the amount of new external borrowing agreements ratified by the Legislature in FY2013 amounted to US$226.3 million, equivalent to 4.9 percent of GDP in NPV terms, somewhat higher than the 4 percent annual average set under the program.

- The indicative target on the floor on social and other priority spending was missed, reaching US$150 million or 25.5 percent of expenditure from July 2012 to June 2013 due to lower than expected social spending, though public investment in the energy sector rose to US$10 million.

8. **We have continued to push through with the implementation of our structural reform agenda**.

- The 8 largest State Owned Enterprises (SOEs) started their regular reporting on their financial performance to the SOE unit at Ministry of Finance, starting with the quarter ending

March 2013;[1] and the Natural Resource Revenue Unit in the Large Tax Payers Unit in the Ministry of Finance was established in January 2013 (end-June benchmarks).

- The Civil Service Management (CSM) module within our integrated financial management and information system (IFMIS) and the Human Resource Management Information System (HRMIS) sub-module within the CSM were activated on July 10, 2013 (end-June benchmark) and used for printing of salary checks for all active government employees, (i.e., the regular and supplementary payrolls); the President wrote to all Ministries and Agencies (M&As) in June setting out requirements to submit work plans, spending plans, and procurement plans based on the draft Budget for recurrent and project budgets. Most M&As submitted their recurrent cash plans but procurement plans were delayed to after the budget was approved (end-June benchmark); and, after some delays, we successfully started implementing monthly sweeping of balances in operational accounts of eight M&As held at the CBL into the treasury's operational account in mid-August (end-June benchmark), and concluded the September 2013 sweeping. The Insurance Act has been revised and will be sent to the Legislature at the start of their next session in January 2014 (end-June benchmark).

- Additionally, significant progress was achieved towards the establishment of the collateral registry at the CBL and the International Finance Corporation (IFC) is now in the process of procuring a solution provider for the infrastructure set up; and we expect that the registry can be established by end-December 2013 (end-June benchmark, reset for December 2013).

- The commencement of the Household Income and Expenditure Survey (HIES), was missed (end-August benchmark). This is expected to commence in January 2014 and be published by mid-2015. We also expect to publish revised national accounts for 2008–11 and preliminary estimates for 2012, using the results of the establishment survey, by end-June 2014 (end-June 2013 benchmark, re-set for end-June 2014).

Objectives and Economic and Financial Policies for 2013–14

9. **The short-term economic outlook remains favorable**. As mentioned above, real GDP growth is now estimated at 8.1 percent for 2013 and has been revised upwards to 6.8 percent in 2014. The better outlook reflects stronger activity in the mining and non-mining sectors. Monetary policy will continue to aim at containing inflation with year-on-year consumer price inflation for end-December 2013 projected at 8.5 percent and gradually declining to around 6.5 percent in 2014.

10. **The medium term outlook is also favorable, with broadly balanced risks**. In particular, non-mining activity is expected to accelerate in 2015–17 reflecting the pickup in public investment associated with higher domestic and external resources and improvements in institutional capacity. Higher iron-ore activity from new projects will also positively impact growth in the medium term. The current account is expected to improve in 2015–17. Although an

[1] Liberia Electricity Company (LEC), Liberia Maritime Authority (LMA), Liberia Petroleum and Refinery Company (LPRC), Liberia Telecommunications Authority (LTA), Liberia Water and Sewerage Company (LWSC), National Oil Company of Liberia (NOCAL), National Ports Authority (NPA) and Roberts International Airport (RIA).

increase in public investment-related imports and lower projected commodity prices for exports are expected, starting in 2015, the second phase of the production at the Yekepa mine and other iron-ore production projects should come on stream, increasing exports and narrowing the current account deficit.

A. Fiscal Policy

11. **Fiscal policy will continue to focus on containing current spending to create space for much-needed capital spending in line with our Agenda for Transformation**. We expect capital spending (including IDA-financed projects) to average 10.5 percent of GDP over the next three years. As a result, the fiscal deficit will widen starting in FY2014 to an annual average of 5.4 percent of GDP over the next five years. The expansionary fiscal framework will contribute to address the country's main infrastructure gaps and developmental needs while also contributing to expand non-mining activity. Important progress has been achieved since the introduction of the medium-term expenditure framework (MTEF) and we plan to strengthen the budget process by following a holistic sector approach to address the main priorities beginning next fiscal year.

12. **The Budget for FY2014 is focused on consolidating strategic activities embarked on in FY2013 and targeting interventions towards achieving the AfT priorities**.

a. Core revenues (tax and non-tax excluding contingent revenues) are projected to reach US$521.8 million (includes US$29.7 million added by the Legislature), a 17 percent increase compared to the FY2013 outturn, driven by increases in taxes on income and profits, goods and services, international trade, royalties and rents and administration fees and fines. The core revenue envelope reflects the adjustments made by the Legislature.

b. Recurrent expenditure in the approved national Budget for FY2014 is US$487 million (net of US$13 million amortization, which is the repayment of debt principal and arrears). Investment spending (in the form of national priority and sector PSIP projects) amounts to US$95 million, which includes some US$42 million in non-infrastructure spending including youth development and capacity development programs. The recurrent ceilings for most M&A's have been held constant through a freeze on operational costs. The general exception stems from the application of salary increases and consideration of key funding pressures anticipated in the ensuing budget. Some discretionary expenditure lines have been reviewed and reduced to create space for public investments, including transport, communications, and foreign travel.

c. PSIP implementation has progressed, with significant public and donor disbursements related to roads and energy during FY2013 (US$5 million for the government funded Thermal Diesel HFO Power Plants and US$10 million for Mt Coffee). KfW and the European Investment Bank are expected to commence disbursements for the Mt. Coffee project by end-2013. Three port projects are now complete (the marginal wharf replacement, container yard construction, and dredging of Freeport and Buchanan), with review work taking place on a fourth (oil jetty replacement). The government is in discussions with potential creditors to finance repairs to the runway at Roberts International Airport (RIA).

d. **We are committed to ensuring that spending is aligned with a realistic revenue envelope**. On the expenditure side, we remain committed to the fiscal rules introduced last fiscal year and we plan to work with the Legislature to ensure they can be adhered to in order to create the much needed fiscal space for capital spending. The increase in revenue by the Legislature from the draft Budget amounts to about US$29.7 million or 1.5 percent of GDP, of which US$14.5 million is at risk. Therefore, we will consider them as contingent revenues and will not release these amounts for additional expenditure until the additional revenues materialize. Moreover, in line with the annual and balanced basis of the budget set in our Public Financial Management Act, we approved, in consultation with the Legislature in November 2013 (prior action) a risk-management strategy which reflects the projected shortfalls in revenue collection, and identifies budgetary savings in FY2014 in the amount of US$30 million in current spending (as reflected in the table below) to compensate for the US$22 million in FY2013 spending overruns (non-budgeted spending) and the repayment of US$8 million to the CBL from the FY2012 bridge financing. However, should there be need for further actions in order to maintain peace and security of the Nation, the Government of Liberia will take the necessary steps accordingly while maintaining macroeconomic stability.

Liberia: FY2014 Budget Risk Management Measures

(in millions of U.S. dollars)

Budgetary Lines	**Amount**
Legislative Amendment Table 2	17
Operational Expenses	3
Unverified claims	2
Fuel for Vehicles	1
Special Allowance	1.5
Legislative Amendment Table 3	1.5
Legislative Amendment Table 4	1.5
Repair & Maintenance Vehicle	0.5
Repair & Maintenance Civil	0.5
Intelligence Services	0.5
Special Operations Services	0.5
FDI for Concession	0.5
Total	30

13. The financial statements for FY2013 submitted to the Legislature in November, 2013 mentionthe budgetary overruns and the need to identify savings, a copy of which has been shared with Fund staff.

14. **To ensure budget implementation is in line with these policy commitments, cash revenue collection and expenditure will be reconciled with spending commitments on a monthly basis**. Reports will be provided to Fund staff. In addition, we will continue to monitor government balances on a daily basis, and we will share with Fund staff the statements from the monthly sweep of government accounts. We also plan to close dormant accounts and transfer idle balances to the consolidated government account, which will facilitate monitoring while also helping to strengthen liquidity management and to move towards the Treasury Single Account.

15. **We are committed to ensure that priority capital spending, particularly on energy-related projects, is executed according to the amounts included in the public sector investment program**. Now that the budget has been approved by the Legislature, we have

distributed and released the budget allotment schedule to the Ministries and agencies that have presented satisfactory procurement plans (prior action), and, to complete a full Government cash plan, five key Ministries and three Agencies with the largest investment programs submitted by end-October 2013, their work, spending and procurement plans for projects that begin their execution in FY2014 (prior action) before allotments can take place.[2]

16. **We are in the process of strengthening key elements of the MTEF budget process**. This includes early strategic guidance on Government priorities to enable Ministries and Agencies to develop projects earlier in the budget preparation cycle. Changes will be guided by the following strategic objectives:

a. Integrating planning and budgeting processes to improve AfT delivery through the Budget;

b. Devolving budget preparation and execution to line ministries to give them greater freedom to meet their service delivery and AfT objectives efficiently;

c. Institutionalizing the Open Budget Initiative to ensure M&As are held to account for their performance; and

d. The Project Management Office (PMO) has been set up within the Department of Budget. The PMO focuses on supporting ministries and agencies to develop project plans (including spending plans, work plans, risk registrar, and procurement plans) in line with the Agenda for Transformation. It is also developing a National Projects System (NPS) database to systematically collect project information to inform budget allocations. The NPS will eventually be linked to IFMIS uploading milestone schedules, cash plans, procurement plan, risk registry and detail project budget.

17. **The Legislature recently approved the merger of the Ministry of Finance with the Ministry of Planning and Economic Affairs**. The new Ministry of Finance and Development Planning will help to streamline the national planning and finance functions while fostering increased aid coordination within the government and with Liberia's development partners, as all of the country's aid coordination functions will now be undertaken in a centralized unit.

18. **The government is also taking a number of measures to continue broadening the tax base and liberalize trade**:

a. ***Value Added Tax***. A white paper has been drafted; Steering Committee established; stakeholder consultations held; and TA is being procured to draft legislation. We expect that the implementation of the Value Added Tax (VAT) will take place under the coordination of the recently approved Liberia Revenue Authority (LRA).

[2] The ministries and agencies include: Ministry of Public Works, Ministry of Agriculture, Ministry of Education, Ministry of Health, and the Ministry of Land, Mines and Energy, the Liberia Electricity Company, the National Port Authority, and the Liberia Water and Sewerage Company.

b. ***Liberia Revenue Authority (LRA)***. On September 12, the Legislature also approved the creation of the LRA. The new semi-autonomous revenue department would be separate from the Ministry of Finance and Development Planning and would focus more on the efficient collection of revenues while working closely with the Ministry. Implementation will be phased in with the beginning of the next fiscal year.

c. ***Common External Tariff***. We have prepared our migration plan and waiting for approval from the Heads of States of ECOWAS. Once the protocol has been approved by the Heads of States, we will domesticate it and begin implementation. Approval by Heads of States is scheduled by end-2013.

d. ***World Trade Organization Accession***. We are working with the Ministry of Commerce to prepare our goods and services offer.

19. **On tax administration, the government is continuing its efforts to broaden the revenue base and increase tax compliance**. Planned measures include: tax payer education, particularly for small and medium businesses and taxpayers outside Monrovia; audits for all firms, including banks and insurance companies; and a 'block-mapping' exercise to uncover gaps in the real estate tax base.

20. **The Government—and the Ministry of Finance in particular—is responsible for tracking, managing and mitigating fiscal risks**. These are any events that pose a threat, or opportunity in the case of "upside" risks, to the Government's fiscal position and as a consequence, to the Liberian economy, or vice versa. The FY2014 Budget Framework Paper that accompanied the draft Budget highlights the most relevant revenue, expenditure, debt and execution/operational risks. A number of mitigation or management actions have been taken, including reporting by the new State Owned Enterprise (SOE) Monitoring Unit on SOE's financial positions; the commencement of analysis to consider the potential impact on Liberia and the national Budget of higher crude oil prices stemming from instability in the Middle East; and the prudent use of T-bills in the first few months of issuance to minimize roll-over risk.

B. Governance and Public Financial Management

21. **Further enhancing liquidity and treasury management will be our priority over the coming months**.

- Progress has been made towards the implementation of the Treasury Single Account. The pilot of monthly sweeping of balances in operational accounts of eight M&As[3] held at the CBL into the treasury's operational account (structural benchmark) commenced on August 16, 2013. Daily sweeping is expected to follow by end-December 2013 (structural benchmark). To complement the above effort, the MoF has also developed a bank account registry comprising a substantial portion of M&As' operational bank accounts held at CBL and commercial banks, and we will use this registry to close all dormant accounts with zero

[3] Ministry of Finance, Ministry of Public Works, Ministry of Agriculture, Ministry of Foreign Affairs, Ministry of Health and Social Welfare, Ministry of Land, Mines and Energy, Ministry of Education and Ministry of State.

balances and consolidate accounts with small balances to facilitate monitoring (also by end-December 2013).

- The Treasury Management Liquidity Committee which is critical for cash planning and monitoring functions at a policy level has been formally established and meets regularly.

- The Office of the Comptroller and Accountant General (CAG) is in the process of piloting the migration of donor funded projects, currently managed by the Projects Financial Management Unit (PFMU) to the Government's financial management system (IFMIS). This will allow the streamlining of project bank accounts within the central treasury accounts, in accordance with the Public Financial Management Act, and facilitate the use of country systems. The "go live" event for the pilot process is scheduled for December 2013 after a parallel run phase (with the existing SUN system) from July to September 2013.

22. **We are also making progress in cleaning payrolls at line ministries and agencies**. Migration of payrolls to the IFMIS (CSM module) has been completed. Payrolls for the months of July and August 2013 were generated from the system. Investigations of "double dippers and "ghosts" are underway. The payroll clean-up of 5 Ministries and Agencies[4] with the lowest current enrolment rates, involving verification of HR information against headcount and collection of biometric information, is progressing, but continues to face challenges; employees are spread throughout the counties and the rainy season makes transport and logistics difficult in some areas. The end-December target has been reset for March 2014. A 'pull' strategy requiring the remaining unregistered employees to register in person is currently being considered and HR verification and biometric information collection is expected to be completed for both the regular and supplemental payrolls by March 2014.

23. The new petroleum sector law was approved by the Senate on September 10, 2013, and is now awaiting ratification by the House of Representatives. The amendments to the revenue code have been submitted to the Legislature and are awaiting ratification (end-December 2013 benchmark).

24. The General Auditing Commission (GAC) now has full access to IFMIS and staff have received training in the use of the system. The audit of the FY2011 and FY2012 budgets has been completed, with a draft management letter, containing the outcome of the audits, received in September 2013 (end-December 2013 benchmark). We are committed to implementing the GAC recommendations, including the regular reconciliation of accounts and move towards the Treasury Single Account. In addition, the GAC successfully commissioned 31 audits, 63 percent of the targeted number of Ministries and Agencies were audited. Audits commissioned at these Ministries and Agencies include both Financial and Information Technology (IT) audits. The GAC also presented 79 completed reports, of previous periods, to the newly established Public Accounts Committee (PAC) of the National Legislature and, to improve the response and follow-up to GAC audit findings, the GAC met with the PAC of both houses. The GAC intends to:

[4] HR information check & biometric enrolment rates for the five M&As are: Ministry of Education 70% / 60%, Ministry of Internal Affairs 71% / 57%, Ministry of Health and Social Welfare 63% / 54%, Ministry of Justice 68% / 62%, and the central Legislature 85% / 85%.

engage with the Internal Audit Secretariat (IAS) to initiate more audits of M&As; to undertake an audit of all ICT Financial Systems, which include Freebalance, SIGTAS, ASYCUDA and CS-RDMS; and to complete staff training in security and forensic management.

25. As at July 1, 2013 the Freebalance-based IFMIS was rolled out to 19 M&As covering 62 percent of the draft national budget for FY2014. Over the next 7 months the Freebalance-based IFMIS will be upgraded to improve scalability and devolution of transactional processing using rules based execution to Ministries and Agencies.

26. The Public Account Committee, having been established in FY2013, has conducted two public hearings already. More hearings are expected in the upcoming months. Members of the PAC have been exposed to best practices through country tours and external training.

27. The State Owned Enterprises (SOE) Unit became fully operational in mid-March 2013 (previous structural benchmark), and immediately benefited from an IMF Technical Assistance Mission. The Mission provided guidance for the setting up of the reporting framework, including the information for the Budget Annex for the 2013/14 Budget. The third quarter (end-March) report for the 8 major SOEs[5] has been completed (structural benchmark) and the Unit is now finalizing the annual consolidated report. Most of the SoEs were unable to produce balance sheet reports based on reliable asset information and as such the analysis relied on profit and loss information. Partnerships have been developed between the SOE Unit and the relevant Government agencies. The Unit is working with the PMO on an SOE-specific module for inclusion in the PMO's project management analytical tool; with the Debt Management Unit to ensure close cooperation in the review process during the assessment of SOE borrowings; and with the General Auditing Commission to support audit findings, recommendations and their implementation.

28. Separate reporting of natural resource revenues will commence in the FY2014 first quarter outturn.

C. Monetary Policy and Financial System

29. **Monetary policy will continue to focus largely on containing inflation to low single digits through a stable Liberian-U.S. dollar exchange rate**. Also, the use of CBL Notes will be given central role in the management of system-wide liquidity in the financial system with a view to deepening the money market with the interest rate serving as an effective policy tool in transmitting the monetary policy stance. In the medium-term, intervention in the foreign exchange market through the weekly foreign exchange auctions would be limited to smoothing excessive exchange rate fluctuations.

30. **We are committed to re-build reserves and attain the targets agreed at the time of the first ECF review for end-December 2013 and end-June 2014**. To that effect, we will closely

[5] Liberia Electricity Company (LEC), Liberia Maritime Authority (LMA), Liberia Petroleum and Refinery Company (LPRC), Liberia Telecommunications Authority (LTA), Liberia Water and Sewerage Company (LWSC), National Oil Company of Liberia (NOCAL), National Ports Authority (NPA) and Roberts International Airport (RIA).

coordinate with the government the net injection of Liberian dollars in the economy through the instruments at our disposal (i.e. the foreign exchange auction, the purchases of U.S. dollars from the government and the issuance of T-bills and CBL bills). The reimbursement to the CBL of the US$7 million bank facility by end-December 2013 will also contribute to meeting the reserves target.

31. **We consider improving access to finance as essential to promote inclusive growth**. In the context of efforts by the CBL to improve the credit culture and recent success in reducing the amount of non-performing loans, the CBL has launched a number of credit stimulus schemes under which the CBL places medium-term deposits at participating commercial banks for on-lending at subsidized interest rates to targeted sectors. Going forward, the CBL will continue to lead the government of Liberia's efforts to promote credit, and help strengthen Liberian entrepreneurship. This will be done in the context of CBL policies that maintain macroeconomic stability, including rebuilding and maintaining an adequate level of reserves as agreed under the current ECF-supported program. Should there be need for further actions to promote credit, alternative approaches and funding sources will be considered, with a view to preserve market-based incentives and maximize effectiveness and efficiency in the allocation and the use of resources. That said, given limited resources and the priority the Government gives to rebuild reserves, it is not the intention of the CBL to roll over placements to existing initiatives once they reach maturity, nor to extend new U.S. dollar resources to these initiatives.

32. **The government Treasury bills (T-bills) program was successfully launched on May 2, 2013**. Since the start of the program, the government has issued treasuries on a monthly basis with a 100 percent average oversubscription. The outstanding amount at end FY2013 was US$5 million, and the average yield was 2.3 percent (annualized). T-bills will contribute to smooth revenue during the course of the year and help build depth in the Liberian financial markets. The government expects to continue to rollover maturing T-bills and to issue additional T-bills as deemed necessary as part of the cash management process. Given the success during the first five months of the T-bill program, we plan to increase of the T-bills program from the current US$5 million limit to US$10 million beginning in December 2013, and up to a maximum of US$15 million beginning in January 2014, which will contribute further improve the government's liquidity management.

33. **The introduction of T-bills and CBL Notes, which are exclusively done in Liberian dollars, are measures by the CBL and the MoF in helping to improve wider use of Liberian dollars and strengthen money market development**. The Clean-Note Policy of the CBL, designed to ensure the continuous presence of quality bank notes in circulation, is still ongoing. Also, in order to ease the constraints faced by market actors due to the lack of coins, especially for small volume transactions, coins (fifty cents and one dollar) are expected to be introduced by the end of 2013. Considerations are being given to the printing of higher denomination CBL notes to help ease large volume transactions taking place in Liberian dollars.

34. The key policy objectives of the CBL relative to the financial system reforms include, but not limited, to the strengthening of the health of the banking sector by enhancing internal controls; pursuing a multifaceted approach to improve profitability of the banking sector including supporting loan syndication to finance critical infrastructure projects; engaging the fiscal authority to consider financing options involving the banks for key public projects;

addressing the problem of delinquent facilities; strengthening internal risk management and corporate governance; improving risk-based supervision; and fast-tracking the reform of the insurance sector.

35. **Efforts to modernize our payments system are ongoing**. The CBL has prepared and submitted the draft Payments System Act to the National Legislature for enactment into law. The House of Representatives has passed it and it is now before the Senate for Concurrence. The Act will provide the legal framework for the regulation and supervision of the National Payments System in Liberia. The CBL is also making effort towards the implementation of the National Electronic Payments Switch as part of the overall payments system modernization effort. The primary goal of this initiative is to provide efficient, reliable, secure, and cost-effective use of shared networks of ATMs and POS terminals as well as interbank electronic funds transfers and clearing services to the Liberian banking industry that meets international standards.

Debt Management, Resolution and External Policies

36. **The Government of Liberia has an opportunity to borrow but must do so wisely**. There is no greater reminder of the burden that misspent debt can be to a country than the HIPC experience we went through. So, more than any country, we know that when we borrow again, it must not be wasted. The ability to borrow transforms Liberia's fiscal capacity, and so it transforms the challenges of managing our public finances and managing our debt. Our new Medium Term Debt Management Strategy (MTDS, end-December structural benchmark) will guide the government in its borrowing. This is a move from reactive to proactive, building for the future not just picking up the pieces from the past. The MTDS will take a comprehensive view of debt and fiscal risks including coverage of SOE guarantees and other government guarantees to banks or contingent claims. All such guarantees or claims will pass through the Debt Management Committee.

37. In the current fiscal year, the Government has engaged a number of creditors in order to meet the urgent demand for resources to finance infrastructure investment and will be working in conjunction with IMF staff to assess and ensure the fiscal sustainability of any new loans and to ensure ECF program thresholds are not breached.

38. In addition to the successful launch of the T-bill program in May, the government also contracted a 15 month line of credit of $19.6 million (of which $10 million is cash backed) at 8 percent, to finance a joint donor-government Thermal Diesel HFO Power Plant. This brought total domestic debt issuance during FY2013 to US$14.9 million.

39. In FY2013 concessional loans ratified by the Legislature to support investment were US$226.3 million equivalent to US$91.4 million or 4.9 percent of GDP in NPV terms. So far in FY2014 a US$65.9 million (US$41.6 million in NPV terms) credit from the European Investment Bank has been approved by the Legislature which together with US$222 million in concessional loan agreements and guarantees in the pipeline will total about US$170 million or 8.3 percent of GDP in NPV terms, slightly above the three-year 4 percent of GDP in NPV terms under the ECF arrangement. However, debt is accumulating at a slower pace on a disbursement basis.

40. An agreement was signed with the Government of India to provide a $144 million loan to finance transmission and distribution of electricity. Current estimates suggest the loan meets the 35 percent minimum concessionality requirement.

41. The central government has guaranteed one external debt agreement, the loan of US$14 million from the Kuwait Fund for Arab Economic Development to the NPA for port rehabilitation (with a grant element of 33.4 percent).

42. The government has continued to settle existing domestic arrears in the form of court judgments regarding debts from pre-HIPC process, and has not incurred any new domestic or external arrears.

Liberia: Concessional Loans Ratified by the Legislature in FY2013 and FY2014

Project	Funding Agency	Amount (millions of U.S. dollars)	Grant Element
West African Power Pool	IDA	144.5	60%
Small Tree Crop Revitalization	IDA	15	60%
Small Tree Crop Revitalization	IFAD	16.8	56%
Redlight to Ganta Highway	IDA	50	60%
Mt. Coffee Hydroelectric Dam Rehabilitation	EIB	65	37%
Total		**291.3**	

Liberia: Loans in the Pipeline

Project	Funding Agency	Amount (millions of U.S. dollars)	Grant Element
Fishtown-Harper Road	ADB	34	60%
	Nigeria Trust Fund	10	42%
Electricity Transmission and Distribution	Indian EXIM Bank	144	36%
Liberia Health Systems Strengthening	IDA	10	60%
IDA Budget Support	IDA	10	60%
Port Rehabilitation	Kuwait Fund for Arab Economic Development	14	33.40%
Total		**222**	

43. **The Aid Management Unit within the Ministry of Finance will work to ensure better management of grants and off-budget aid programs ongoing in Liberia**.

a. The Aid Management Platform has been configured and is now online, though awaiting the formal launch by the Minister of Finance. All projects for FY2014 have been uploaded into the system and it will be used by donors for reporting actual disbursement during this fiscal year.

b. To improve coordination around budget support a Budget Support Working Group, chaired by the Minister of Finance, and a Budget Support Technical Team, chaired by Deputy Minister of Budget, have been established. The Budget Support Technical Team has formulated a Memorandum of Understanding (MoU), a Common Assessment Framework (CAF), and a Reporting Template.

c. Risk analysis of budget support grants has continued and will be used as a tool, in conjunction with the newly established Working Group and Technical Team, to ensure timely disbursement of budget support.

Other Structural Reforms

44. **The government recognizes the importance of good data in the implementation of effective policies, and measures will be taken to improve data collection and forecasting economic variables**.

45. **Some progress was made in compiling and publishing the results of the establishment survey** (structural benchmark), with preliminary results prepared in September 2013. The Household Income Expenditure Survey (structural benchmark) did not commence by end-August as desired due to delays in establishing the Multi Donor Trust Fund providing a portion of the financing for the project. This is expected to be resolved by end-September and work on the pilot surveys is now underway, with the full survey expected to commence in January 2014 and be published by mid-2015. The draft Budget submitted to the Legislature—and the anticipated approved Budget—includes an appropriation for US$1.1 million to support the HIES and establishment survey.

Program Monitoring

46. Program implementation will be monitored with quantitative financial targets and structural benchmarks (Tables 1, 4 and 5 below), and semi-annual reviews. Definitions of key concepts and indicators, as well as reporting requirements, are set out in the accompanying Technical Memorandum of Understanding. The third review will be completed by May 15, 2014 based on end-December 2013 and other relevant PCs.

Table 1. Liberia: Quantitative Performance Criteria and Indicative Targets, 2012–14

(Millions of US dollars, unless otherwise indicated)

	Dec. 12		Status	Mar. 13		June 13		Status	Sep. 13	Dec. 13		Mar. 14		June 14	
	Program	Actual		Program	Actual	Program	Actual		Program	Program	Revised	Program	Revised	Program	Revised
Performance criteria [1, 2]															
Floor on total revenue collection of the central government [3]	203.0	214.5	Met	325.7	324.9	447.5	446.1	Not met	120.3	230.3	230.3	347.8	347.8	492.1	492.1
Ceiling on new external arrears of the central government (continuous basis)	0.0	0.0	Met	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new non-concessional external debt of the public sector (continuous basis) [4, 10]	0.0	0.0	Met	0.0	0.0	14.2	0.0	Met	14.2	14.2	14.2	14.2	14.2	14.2	14.2
Ceiling on new domestic borrowing of the central government [5]	15.0	0.0	Met	15.0	0.0	15.0	5.0	Met	15.0	20.0	30.0	20.0	35.0	20.0	35.0
Floor on CBL's net foreign exchange position [6, 7]	210.0	216.3	Met	207.0	212.3	232.0	217.9	Not met	232.0	237.0	237.0	241.0	241.0	253.0	253.0
Ceiling on CBL's gross direct credit to central government [7]	290.0	293.3	Not met	290.0	293.4	268.9	270.3	Not met	268.9	268.9	264.9	268.9	264.9	260.9	260.9
Indicative Targets															
Ceiling on gross external borrowing by the public sector [8]	126.7	0.0	Met	126.7	144.5	118.2	226.3	Not met	118.2	118.2	118.2	118.2	118.2	118.2	118.2
Ceiling on net domestic assets of the CBL [6, 7]	-10.0	-47.6	Met	-19.0	-12.6	-17.0	-21.5	Met	-17.0	-17.0	-17.0	-17.0	-17.0	-25.0	-25.0
Ceiling on new domestic arrears/payables of the central government (continuous basis)	0.0	0.0	Met	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Floor on social and other priority spending (percent of total actual expenditure, excluding contingencies) [9]	30.0	30.6	Met	30.0	27.6	30.0	25.5	Not met	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Memorandum items:															
Memorandum item: Total spending on education, health, social development services (percent of total actual expenditure, excluding contingencies)	…	…	…	…	…	…	…	…	…	…	25.0	…	25.0	…	25.0
Memorandum item: Programmed receipt of external budget support grants and committed external loans [2]	4.4	15.0	…	…	30.9	33.5	45.7	…	12.6	53.3	53.3	55.9	55.9	83.5	83.5
Memorandum item: Overall fiscal balance [2]	…	…	…	…	…	…	…	…							

[1] Test dates for performance criteria at end-December 2012, end-June 2013, end-December 2013, and end-June 2014, otherwise indicative targets.

[2] Fiscal targets are cumulative within each fiscal year (July 1-June 30).

[3] Total central government revenue collection includes all tax and non-tax receipt but excludes all contingent revenues and budget support grants.

[4] Nonconcessional financing will be adjusted by amount of agreed nonconcessional borrowing tied to projects independently evaluated as of high economic return.

[5] Includes issuance of treasury bills, domestic loans, advances, and any government debt instrument such as long-term securities issued in the domestic market.

[6] Includes SDR holdings net of ECF liabilities. SDR holdings converted at program exchage rate of 1 SDR=1.5844 US dollar.

[7] Bridge financing from the CBL is available under the program for shortfalls in programmed receipt of external budget support and committed external financing 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.

[8] Three-year average annual ceiling in NPV terms. Revised amount reflects the annual average for the remaining two years of the program given the space not used up to June 2013.

[9] Includes spending on education, health care, social development services, and energy.

[10] The modification of this PC was requested to include US $14.2 million loan which was signed between the authorities and the Kuwaiti Development Fund for the rehabilitation of Port Greenville. At the time of the First Review the loan did not come into effect. The grant element of the loan is 34 percent (1 percent below the concessionality threshold).

Table 2. Liberia: Structural Benchmarks and Prior Actions, for the First Review

Measure	Target Date	Justification	Current Status
Enhancing budget programming, control and monitoring			
Submit FY 2013/14 draft budget to Legislature for approval	End-April 2013	To ensure timely approval and execution of the budget.	Met.
Set up the state owned enterprises (SOE) Unit at Ministry of Finance (MoF).	First Review	Improve monitoring of public sector contingent liabilities and total public sector borrowing.	Met. Staffing and training completed in March–April 2013.
Fully connect the General Auditing Commission (GAC) to the Integrated Financial Management Information System (IFMIS) giving GAC full access to IFMIS.	First Review	Improve expenditure control for effective budget implementation.	Met. Connection completed in March 2013.
Set up the Treasury Single Account approach at Ministry of Finance.	First Review	Move towards stronger central government liquidity management to reduce idle balances at line ministries and agencies accounts.	Not met. M&As have provided to the Ministry of Finance relevant details on all accounts held for operational purposes at the Central Bank and commercial banks, awaiting further action.
Improving capital spending execution and curbing current expenditure			
Establish Project Management Office (PMO) at Ministry of Finance	End-Dec. 2012. First Review	Monitor progress in capital spending associated with PRS2 and debt sustainability.	Met. Staffing completed and office became operational in March 2013. PMO assisting implementing M&As in preparing public investment projects for inclusion in FY2013/14 budget.
Developing the Financial System			
Issue government treasury bills.	First Review	Support financial market development and add a liquidity management tool to the central bank, and for treasury cash management purposes.	Met. T-bills issued on May 2, 2013.

Table 3. Liberia: Structural Benchmarks and Prior Actions for Second Review, end-June 2013[1]

Measure	Target Date	Justification	Current Status
Enhancing budget programming, control and monitoring			
Immediately distribute to ministries and agencies the budget allotment schedule upon budget approval, particularly those M&As that have submitted their cash and procurement plans.	Prior Action for Second Review	Ensure timely execution of public investment and other priority spending, including the budget for the household income expenditure survey.	Met. Budget signed into Law on October 21 with allotment schedule distributed on October 25.
Ministries and Agencies (M&As) submit to the Department of Budget and the Project Management Office of the MoF by end-June 2013 their cash and procurement plans for investment projects included in the FY2013/14 budget.	End-June 2013 Prior Action for Second Review	Improve execution rate of public sector investment projects by ensuring that cash and procurement plans are ready at the start of the new fiscal year (July 1, 2013).	Not met. Majority of M&As submitted their cash plan to the Department of Budget but not their procurement plans for investment projects included in FY2014 budget. The prior action is for 5 Ministries and 3 Agencies to submit their procurement plans by end-October 2013. This has been met.
Approve a risk management strategy indentifying US$30 million in savings in the FY 2014 budget, in consultation with the requisite Legislative committees.	Prior action for second review	Compensate for the FY2013 overruns of US$30 million.	Met. The Risk Management Strategy has been approved by Cabinet. The Risk Management Strategy Letter has been sent to spending Ministries and Agencies in November 2013, with copy to the requisite Legislative committees.
Regular reporting by 8 largest State Owned Enterprises (SOEs) on their financial performance to the SOE unit at Ministry of Finance, starting with the quarter ending March 2013.	End-June 2013	Improve monitoring of public sector contingent liabilities and total public sector borrowing.	Met. SOEs have commenced regular reporting of their financial performance to MoF's SOE unit (quarter ending in March 2013 included). Instead of eight as stated in the benchmark, eleven have reported.
Create the Resource Revenue Unit in the Large Tax Payers Unit in the Ministry of Finance.	End-June 2013	Support effective taxation of the natural resource sector.	Met. Operational since early 2013.

[1] The target dates have been revised to monitor implementation by a specific test date, instead of by the time of a specific program review.

Table 3. Liberia: Structural Benchmarks and Prior Actions for Second Review, end-June 2013 (concluded)

Measure	Target Date	Justification	Current Status
Enhancing budget programming, control and monitoring (cont.)			
Activate the Civil Service Management (CSM) module within IFMIS and the Human Resource Management Information System (HRMIS) sub-module within the CSM.	End-June 2013	Reduce payments to ghost workers and increase fiscal space for capital investment. The activation of the CSM module will contribute to ensure that the illegal introduction of new staff to the payroll is effectively restricted.	Implemented with delay. CSM module within IFMIS and HRMIS sub-module within CSM has been activated since early July with salary checks for all government employees now being printed through the system.
Implement monthly sweeping of balances in operational accounts of eight M&As held at the CBL into the treasury's operational account.	End-June 2013	Improve cash management with a view to eliminate idle accounts.	Implemented with delay. A pilot phase of monthly sweeping commenced on August 16, and sweeping for the month of September 2013 was concluded.
Developing the Financial System			
Submit to Legislature a revised Insurance Act	End-June 2013	Streamline regulation in the insurance sector and establish the central bank as the sole regulator of all insurance agencies.	Not met. Following discussions with discussions with the Ministry of Justice concerns related to the application of other laws, the revised Insurance Act is expected to be submitted to the Legislature in January 2014. Proposed to be re-set for end-March 2014
Establish a collateral registry at CBL	End-June 2013	Support more secure lending practices and prevent borrowers from contracting loans from multiple banks based on the same collateral.	Not met. Proposed to be reset for end-December 2013. The Collateral Registry Regulations to guide the operations and management of the registry has been published. The CBL is waiting for the completion of the procurement process by the selection of a solution provider by IFC.
Enhancing national accounts statistics			
Compile and Publish Results of Establishment Survey	End-June 2013	Survey results needed to validate national accounts data needed for macroeconomic policy.	Not met. Proposed to replaced by a new benchmark on compilation of national accounts for end-December 2014. Compilation of the Establishment Survey still ongoing with preliminary results expected by September 2013. TA from the Fund has been required for October 2013 to validate preliminary results.

Table 4. Liberia: Structural Benchmarks for Third Review, end-December 2013

Measure	Target Date	Justification	Current Status-Risks
Enhancing budget programming, control and monitoring			
Commence daily sweeping of balances in operational accounts of all M&As held at the CBL into the treasury's operational account.	End-Dec. 2013	Improve cash management with a view to eliminate idle accounts.	On track. Daily sweeping to begin by end December 2013.
Improving capital spending execution and curbing current expenditure			
Complete forward looking medium term debt strategy consistent with fully costed PRS2.	End-Dec. 2013	Ensure consistency between borrowing plans and PRS2 and maintaining debt sustainability.	On track. First draft of public debt policy has been drafted. The revised medium-term debt strategy will reflect recommendations provided by the Fund.
Submit to the Legislature the draft petroleum sector law and the amendments to the revenue code.	End-Dec. 2013	Ensure the tax regime for the petroleum sector generates the appropriate level of revenues to the GoL based on international best practice.	Already met. Drafts will be circulated for comments from FAD.
General Auditing Commission (GAC) to complete audit of the FY2011/12 budget using the Integrated Financial Management Information System (IFMIS).	End-Dec. 2013	Improve expenditure control for effective budget implementation.	Met. Audit has been completed with the draft management letter (outcome of audit) issued at end-September.
Developing the Financial System			
Establish a collateral registry at CBL	End-Dec. 2013	Support more secure lending practices and prevent borrowers from contracting loans from multiple banks based on the same collateral.	Proposed to be reset from end-June 2013. The Collateral Registry Regulations to guide the operations and management of the registry has been published.
Enhancing national accounts statistics			
Commence Household Income and Expenditure Survey.	August 2013	Survey needed to validate national accounts data.	Not met. Survey will start in January 2014. Proposed to be replaced with new benchmark on national accounts by end-June 2014.

Table 5. Liberia: Structural Benchmarks for 2014

Measure	Target Date	Justification	Current Status-Risks
Enhancing budget programming, control and monitoring			
Launch pilot phase of the TSA with zero-balance accounts for seven largest ministries.	End-June 2014	Improve cash management with a view to eliminate idle accounts.	Newly proposed.
Complete clean-up of payrolls of 5 Ministries and Agencies (M&As) and upload the cleaned payrolls to IFMIS	End-Dec. 2013 Reset for March 2014.	Reduce payments to ghost workers and increase fiscal space for capital investment.	Proposed to reset for March 2014. There are now 5 payrolls that remain to be cleaned up, but the process of cleaning up has been extended to March 2014 with risks of further delays to June 2014 due to the size and complexity of remaining payrolls.
Complete pilot phase for the migration of credit-financed projects to the Government's Integrated Financial System (IFMIS).	End-June 2014	Strengthen the tracking of off-budget government spending and comprehensiveness of the budget in line with the PFM Act.	Newly proposed. Pilot phase in progress.
Enhancing national accounts statistics			
Compile national accounts for 2008–13 using the results of the Establishment Survey	End-June 2014	Streamlining earlier conditionality and focusing on key program objective to produce enhanced national accounts statistics.	Newly proposed. To replace previous benchmarks on the Household Income and Expenditure Survey and the Establishment Survey.
Developing the financial system			
Submit to Legislature a revised Insurance Act	End-March 2014	Streamline regulation in the insurance sector and establish the central bank as the sole regulator of all insurance agencies.	Proposed to reset for end-March 2014. The revised Insurance Act is expected to be submitted to the Legislature in January 2014.
Convert into T-bills 20 percent of non-marketable Central Government debt held by the CBL	End-December 2014	Support the develop of the financial system	Newly proposed.

Attachment 2. 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 and structural performance criteria and benchmarks for the three-year Extended Credit Facility (ECF), as well as the reporting requirements. The definitions are valid at the start of the program but may need to be revisited during the program reviews to ensure that the memorandum continues to reflect the best understanding of the Liberian authorities and the IMF staff in monitoring the program.

Quantitative Performance Criteria and Benchmarks

A. Test Dates

1. Quantitative performance criteria have been set for end-December 2013 and end-June 2014 and indicative quantitative performance benchmarks have been set for end-September 2013 and March 2014.

B. Definitions and Computation

2. **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 (CBL), and 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).

3. **Total Central Government revenue collection** includes all tax and nontax receipts (excluding contingent revenues) transferred into the GoL Revenue 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 Revenue Accounts in U.S. dollars, the Revenue Accounts in Liberian dollars, the Civil Servants Payroll Accounts in Liberian dollars, the General Operations Accounts in U.S. dollar, the General Operations Accounts in Liberian dollars, the GoL Special Rice Fund, and all Ministries and Agencies operational and other accounts. 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 Revenue Account in U.S. dollars, the Revenue Account in Liberian dollars, and the GOL Special Rice Fund converted to U.S. dollars using the end of period exchange rate.

4. **For end-December 2013 and end-June 2014, social spending is defined as education, health, social development services, and energy sector spending** from the FY2014 budgets of the units listed below (payment vouchers approved by the Ministry of Finance) excluding contingent expenditure. It is evaluated as a share of total expenditure (payment vouchers approved by the Ministry of Finance), where total expenditure excludes contingent expenditure tied to contingent revenues and off budget expenditure tied to off-budget credit financed projects.

	End Dec. 2013	End June 2014
Total Education, Health, Social Development Services, and Energy Spending		
Education		
Ministry of Education		
University of Liberia		
Monrovia Consolidated School System (MCSS)		
Booker Washington Institution (BWI)		
Gbarnga Central High		
Forestry Training Institution (FTI)		
Cuttington University (CUC)		
National Commission on Higher Education (NCHE)		
W. V. S. Tubman Technical College (WVSTC)		
West African Examination Council (WAEC)		
Liberia Institute for Public Administration		
Agricultural and Industrial Training Bureau		
Zorzor Rural Teacher Training Institute		
Webbo Rural Teacher Training Institute		
Kakata Rural Teacher Training Institute		
Bassa County Community College		
Bomi County Community College		
Nimba Community College		
Lofa Community College		
Gboveh Community College		

	End Dec. 2013	End June 2014
Health		
Ministry of Health and Welfare JFK Medical Center (JFKMC) Phebe Hospital LIBR Jackson F. Doe Medical Hospital Liberia Medicines and Health Regulatory Authority National Aids Commission		
Social Development Services		
Ministry of Youth & Sports Ministry of Gender & Development Liberian Refugee Repatriation and Resettlement National Commission on Disabilities National Veterans Bureau Liberia Agency for Community Empowerment		
Energy Sector		
Thermal diesel (HFO) power station Transmissions and distribution Mount Coffee rehabilitation, transmission, and distribution to Bushrod Island		

5. **Social and other priority spending will be adjusted downward** by the undisbursed amounts from budgeted external financing (grants and borrowing) allocated to projects in the energy sector within the public sector investment program.

6. **New domestic borrowing of the Central Government** is defined as new domestic claims by residents on the central government since the start of the program. It will be measured by the change in the stock of all outstanding claims on the central government (domestic

loans; advances; government guarantees; and contingent financial liabilities as stipulated in paragraph 7; and any government debt instruments, such as treasury bills and long-term government securities issued in the domestic market) by the banking system. The definition also includes the issuance of debt instruments by the GoL to the nonbank sector. For the purposes of measurement, claims in Liberian dollars will be converted at the end of period exchange rate.

7. **Contingent financial liabilities of the central government (external and internal) include but are not limited to** (i) any guarantee of the performance or payment obligations of any private or public entity; (ii) any agreement, including any indemnification agreement, to hold another private or public entity harmless or to provide insurance or similar protection against risk of loss; (iii) any guarantee of economic return to another public or private entity including any guarantee of profit, income or rates of return; (iv) any agreement to provide financial support to another private or public entity in connection with specified activities of such other entity; and (v) any other agreement as provided by regulations under Liberia's Public Financial Management Act.

8. **Gross external borrowing by the public sector** is defined as cumulated new external claims by non-residents from July 1, 2012 on the public sector excluding borrowing for reserve management purposes by the CBL.

9. **The definition of external debt (both concessional and non-concessional) by the public sector**, for the purposes of the program, refers to the debt owed to non-residents, and it applies not only to the meaning set forth in point No. 9 of the "Guidelines on Performance Criteria with Respect to External Debt" (Executive Board Decisions No. 6230-(79/140) August 3, 1979, as amended and effective December 1, 2009 attached in Annex I), but also to commitments contracted or guaranteed for which value has not been received. External debt is considered as contracted or guaranteed for program monitoring purposes once the loan agreement has been ratified by the Legislature.

10. **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).

11. **The ceiling for contracting and guaranteeing nonconcessional external debt by the public sector will be set at US$14 million continuously throughout the program period unless modified**. The ceiling for contracting and guaranteeing nonconcessional debt excludes short-term (debt contracted for the period less than one year) import-related credits, rescheduling arrangements, and borrowing from the Fund.

12. **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.

13. **New domestic arrears/payables of the government** are calculated as the difference between government payment commitments and the actual payments made on such commitments, providing for a processing period of no more than 15 days from the date of commitment. Actual payments are defined as having taken place on the date of issuance of the checks by the Ministry of Finance. Government payment commitments include all expenditure for which commitment vouchers have been approved by the Director of the Bureau of General Accounting (BGA), and expenditure that are now automatically approved, namely, wages and salaries, pensions, debt payments to the CBL and commercial banks, CBL bank charges, and transfers of ECOWAS levies into the ECOWAS account.

14. **CBL gross direct credit to central government** is defined as the sum of claims on central government, including loans, advances, guarantees and contingent financial liabilities as defined in paragraph 7, accounts receivable, bridge financing, overdrafts, and any government debt instrument as defined in the monetary survey template excluding CBL purchases of treasury bills in the secondary market. The gross credit to the government is expressed in U.S. dollars. Claims denominated in Liberian dollars are valued at end-of-period exchange rate.

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; and (b) the sum of its gross foreign liquid liabilities, ECF arrangement liabilities, and liquid liabilities denominated in U.S. dollars. The net foreign exchange position of the CBL is presented in the U.S. dollar. Assets and liabilities denominated in SDR are valued at a fixed rate of the U.S. dollar against SDR, 1.5844. Other currencies are valued at cross-rates against the U.S. dollar as of end-June, 2012.

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 Liberian dollars in circulation plus reserve deposits of commercial banks in Liberian dollars at the CBL, plus sight deposits of commercial banks in Liberian dollars at the CBL and plus vault cash of commercial banks in Liberian dollars. 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 grants and committed budgeted external loan disbursements 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 Committed Budgeted External Loan Disbursements

(In millions of U.S. dollars)

September 2013	12.6
December 2013	53.3
March 2014	55.9
June 2014	61.6

Program Monitoring

A. Data Reporting to the IMF

18. 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:

- Monthly fiscal reconciliation reports, where cash revenue and expenditure with spending commitments are reconciled (monthly, within three weeks after the end of the month);
- Detailed reports on monthly core and contingent 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);
- A detailed report on disbursements of budget support grants and budgeted and off-budget loans, by donor and by project (monthly, within three weeks after the end of the month);
- Monthly sweeping reports showing the end of the month balances of the GoL accounts at the CBL and of all operations and other accounts at the CBL of the M&As (monthly, within three weeks after the end of the month). End-of-month balances of all operating and other accounts at the CBL of the line ministries and agencies receiving budgetary appropriations (monthly within three weeks after the end of the month);

- End-of-month balances of all operating and other accounts at the CBL of all other public institutions (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.), including payment and stock of existing arrears from the previous ECF Arrangement, (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 amount of new domestic debt contracted or guaranteed by the public sector (monthly, within three weeks after the end of the month);

- A detailed report on monthly payments on external debt by category and creditors and the stock of external debt (monthly, within three weeks after the end of the month);

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

- The 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 for the banking system, including the overall profitability of the banking sector (quarterly, within three weeks after the end of the quarter);

- The report on the results of foreign exchange sales/purchases by the CBL through foreign exchange auctions held by the CBL (weekly) and other currency exchange facilities;

- 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 (monthly);

  - export volumes and values by major commodity, import values by standard international trade classification (SITC), import volumes of rice (by commercial and noncommercial 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 the Ministry of Finance within 45 days after the end of the quarter;

- A detailed report on liquidity forecasting up to 6 months ahead, including: (i) projected government's cash flows (revenue, expenditure, repayments and disbursements of loans including T-bills) by currency; (ii) projected flows to the CBL's net exchange position, including but not limited to planned U.S. dollar sales in the foreign exchange auction, and planned foreign exchange transactions with the Government; and (iii) projected flows of Liberian dollar liquidity, including but not limited to planned CBL Notes issuance (monthly, within six weeks after the end of month);

- The report on the status of implementation of the performance criteria and structural benchmarks specified in Tables 1, 4 and 5 of the MEFP (monthly, within three weeks after the end of the month).

19. 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.

20. Moreover, we will provide the Fund with such information as the Fund requests in connection with the progress in implementing the policies and reaching the objectives of the program.

Annex 1. Guidelines on Performance Criteria with Respect to External Debt

Excerpt from Executive Board Decision No. 6230-(79/140) August 3, 1979, as amended in 2009

(a) The term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. The debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.