International Monetary Fund

Liberia and the IMF

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November 18, 2015

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

December 3, 2015

The following item is a Letter of Intent of the government of Liberia, which describes the policies that Liberia intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Liberia, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Letter of Intent

Monrovia, December 3, 2015

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C.

Dear Madame Lagarde,

In March 2014, Liberia was hit by the unprecedented outbreak of the deadly Ebola Virus Disease (EVD). The outbreak permeated the social and economic fabric of our country, significantly undermining our economic activities and thwarting our medium-term development program—the Agenda for Transformation (AfT). However, the measures put into place, including actions aimed at preventing and controlling infection rates, increasing community engagements and ensuring safe burials, as well as the support of our development partners and the international community, have led to successful containment of the epidemic. On September 3, 2015 our country was declared Ebola free for the second time by the World Health Organization (WHO). Liberia became the first of the three most-affected countries in West Africa to have been declared Ebola free after more than a year of battling the epidemic, even though more recently there have been a few isolated cases. We are grateful to the IMF for the financial support it provided to Liberia during the crisis for a total of US$130 million through an ad-hoc augmentation under the ECF, disbursement under the Rapid Credit Facility (RCF), and debt relief under the Catastrophe Containment and Relief (CCR) Trust.

The economic impact of Ebola has been compounded by the steep decline in commodity prices. Prior to the outbreak, our country had been growing at about 8 percent on average since 2011, domestic institutions were being re-built and social and health indicators were improving. However, the epidemic weakened activity in all sectors of the economy, with real GDP growth declining from close to 8½ percent in 2013 to 0.7 percent in 2014. As the country embarked on the road to recovery in 2015 after the devastating Ebola crisis, it is being further confronted by the sharp decline in prices of our major exports, namely iron ore and rubber. As a result, planned investments in the mining sector have been put on hold by existing mining operators. A prolonged period of low commodity prices would significantly undermine our tax and export revenues, and could significantly weaken our medium term growth prospects.

We remain fully committed to the objectives set under our ECF-supported program, although the Ebola outbreak weakened our capacity and led to delays in program implementation. Taking into account the extremely challenging context, looking back to June and December 2014, our performance remained broadly satisfactory. We met most of the end-June 2014 quantitative performance criteria (PCs) and indicative targets (ITs) except the floor on government revenues, net foreign exchange reserves position, and the ceiling on net domestic assets of the central bank. We missed the floor on government revenues owing to shortfalls in tax and nontax revenues. The floor on net foreign exchange position was missed following a placement of reserves with a domestic bank. Nonetheless, revenue performance improved markedly in FY2015 in part with the establishment of the Liberia Revenue Authority (LRA) on July 1, 2014. We met only two out of seven end-December 2014 PCs due to the Ebola outbreak. We met three out of seven structural benchmarks (SB) (payroll cleanup, publication of FY2016 budget calendar, and pilot on integration of credit-financed projects into the Integrated Financial Management Information System (IFMIS)), whereas the SBs on enhancing cash and liquidity management, strengthening the quality of national accounts and submitting the insurance law were completed but with a delay.

Our policy priorities over the next two years will be shaped by the Economic Stabilization and Recovery Plan (ESRP) and the re-prioritized actions from the AfT. The objective of the ESRP is to enable a faster recovery, improve public services delivery, and address resilience gaps brought to the fore by the Ebola crisis, in line with our medium term development agenda. For the FY2016, we will focus our efforts on supporting the post-Ebola recovery, and we will incorporate same in our budget key ESRP projects. In particular, we plan to increase health and education spending substantially, as these sectors have been severely impacted by the Ebola crisis.

The government remains committed to improving public financial management. The GAC audit report on Special Procurement of the Ministry of Public Works for Construction of Roads and Bridges throughout Liberia was published June 2015. In addition, the government is developing a time bound action plan to implement the recommendations of the GAC audit.

Monetary policy will continue to aim at containing inflation while maintaining an adequate reserves buffer. The Central Bank of Liberia (CBL) will continue to issue CBL notes to manage Liberian dollar liquidity. In addition, steps are being taken to strengthen liquidity management by enhancing coordination between the Central Bank and the Ministry of Finance and Development Planning which include the joint preparation of monthly liquidity forecasts. The Government, operating within the scope of available fiscal space which is susceptible to falling commodity prices and has hardly recovered from the impact of the Ebola crisis, will continue to make sales of US dollars to the CBL to enable it continue intervention in the foreign exchange market to smooth out exchange rate volatility taking into account the need to accumulate adequate reserves.

We remain committed to implementing the recommendations of the safeguards assessment mission. The CBL will develop a 3-year action plan to strengthen the operational efficiency of the CBL. In addition, we will update the CBL's investment guidelines in order to ensure the safety and liquidity of the CBL's international reserves.

We will continue to ensure that our financial system remains on a solid footing. The weak economic activities resulting from the Ebola outbreak affected the performance of the banking system which led the Central Bank to take measures to minimize the impact of the crisis. The CBL will conduct a detailed assessment by the end of 2015 in order to determine the impacts of these policy measures. In the meantime, we will conduct high frequency monitoring of bank liquidity to preserve confidence in our financial system. The CBL is also developing a framework for crisis preparedness and management with technical assistance from the IMF.

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 fourth review under the ECF arrangement be completed and a disbursement in the amount of SDR 7.382 million be approved. In completing the fourth review, we are requesting the following: (i) the extension to December 31, 2016 and re-phasing of the program with new fifth and sixth review targets to be set for end-December 2015 and end-June 2016; (ii) waivers for the missed PCs on the floor on total revenue collection of the central government and the net foreign exchange position of the CBL; and (iii) the replacement of the PC on zero non-concessional borrowings and the IT on public external borrowing with a new performance criterion on the present value of newly contracted external borrowings, in line with the new debt limit policy.

We believe that the economic and financial policies described in the MEFP of November 19, 2012, its subsequent supplements, together with the attached supplementary MEFP provide an adequate basis for achieving our macroeconomic objectives. However, we did not meet agreed targets primarily attributable to the Ebola crisis and falling commodity prices. Consequently, to enhance our ability to meet the targets and achieve these objectives, the government stands ready to take any additional measures that may be required. The government will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in this attached MEFP, in accordance with the Fund's policies on such consultation. The government will also provide the Fund staff with all the relevant information required to complete program reviews and monitor performance on 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 fourth review under the ECF.

Sincerely yours,

__/s/__	__/s/__
Hon. Amara M. Konneh	Dr. Joseph Mills Jones
Minister of Finance and Development Planning	Executive Governor
Ministry of Finance and Development Planning	Central Bank of Liberia

Attachment I. Memorandum of Economic and Financial Policies

INTRODUCTION

1. **On November 19, 2012, the IMF's Executive Board approved a three-year arrangement under the Extended Credit Facility (ECF) in support of Liberia's economic reform program**. The program includes critical steps and policy reforms to achieve macroeconomic stability and promote broad-based economic growth. This Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and performance under the Extended Credit Facility (ECF) arrangement. It also updates macroeconomic policies and targets for the remaining of 2015 and for 2016.

BACKGROUND AND RECENT DEVELOPMENTS

2. **Liberia has largely defeated the Ebola epidemic**. The country was declared Ebola-free by the World Health Organization (WHO) on September 3, 2015, even though there have been a few new cases in the Monrovia suburbs.[1] In addition to the large-scale international response to the crisis, this success is the result of the effective implementation of policy measures aimed at getting to and maintaining zero new infections by the Government of Liberia. These measures included appropriate actions aimed at: controlling and preventing infection rates; deepening community engagement in the containment of the virus; ensuring safe and dignified burial of victims; improving active surveillance; enhancing sub-regional coordination among the three affected nations; and providing mental and psychosocial services for survivors and family members of victims. However, to sustain a zero Ebola infection rate, the Government of Liberia is working with its counterparts in Guinea and Sierra Leone in designing strategies aimed at containing the further spread of the virus (e.g., enhanced border surveillance). The three most affected countries are also working together to stimulate economic activities across the sub-region.

3. **The economic impact of the Ebola outbreak has been far-reaching, affecting all sectors of the economy and delaying implementation of our medium-term development program, *the Agenda for Transformation***:

- **Economic growth**. Real GDP growth is estimated to have declined from 8.7 percent in 2013 to 0.7 percent in 2014 owing to a sharp decline in agriculture (particularly domestic food production), mining, and services, as a result of the Ebola outbreak. Diamond and cocoa production in the first half of 2015 was higher than in the first half of 2014, whereas rubber, iron ore, and cement production remained below 2014 levels.

- **Inflation and exchange rate.** After increasing to 13.5 percent in September 2014, inflation declined to 6.5 percent (year-on-year) in September 2015 owing to low food and energy prices. Stepped up intervention by the CBL helped contain the depreciation of the Liberian

[1] The WHO issued its first Ebola-Free Declaration on May 9, 2015. In June 2015, however, a few isolated cases were confirmed. The WHO declared Liberia Ebola-free again on September 3, 2015.

dollar at 6.8 percent between December 2014 and August 2015, thereby limiting the impact on inflation and the purchasing power of the poorest segments of the population. International reserves have been hovering around 2.7 percent of essential imports since the first quarter of 2015.

- **Public finances**. Fiscal policy in FY2015 was expansionary. Tax revenue collection exceeded the budget target by about 12⅔ percent due to improve compliance stemming from the establishment of the Liberia Revenue Authority (LRA), even though the Ebola epidemic had a significant negative impact on tax revenue collection from mining and telecommunications. Expenditure was significantly scaled up but the execution of the public investment program was delayed by the late approval of the FY2015 budget and the impact of the crisis which further constrained implementation capacity. The overall fiscal balance for FY2015 was a deficit of US$163 million (8.1 percent of GDP) compared to $39 million (1.9 percent of GDP) in FY2014.

- **Balance of payments**. The current account worsened from 28.2 percent of GDP in 2013 to 31.4 percent of GDP in 2014 as exports declined sharply due to the crisis but also by the abrupt and continue fall in commodity prices, which were partially offset by higher Ebola-related current transfers. Preliminary data suggest a significant further deterioration of current account; driven by around 50 percent drop in the value of iron ore and rubber exports (y/y) through July 2015.

- **Financial sector**. Non-performing loans as a percent of total loans reached 19.3 percent in July 2015 compared to a 15 percent in July 2014. This uptick reflected the slowdown in economic activity which also affected credit supply. Credit to the private sector is recovering in 2015 but the high NPLs could negatively impact the pace of recovery.

PERFORMANCE UNDER THE PROGRAM

4. **Program performance through end-June 2014 was mixed**. All end-June 2014 performance criteria (PCs) except the revenue floor and the net foreign exchange position of the CBL were met. The revenue floor was missed by US$22 million, owing to shortfalls in tax and non-tax collection. Nonetheless, revenue performance improved markedly in part with the establishment of the Liberia Revenue Authority (LRA) on July 1, 2014. The floor on the net foreign exchange position was missed since a placement of €47 million with a domestic commercial bank, incorrectly reported as part of end-June 2014 gross reserves, does not technically count as a reserve asset. The operation was reversed in August 2015.

5. **The government also met all indicative targets for end-June 2014 with the exception of the ceiling on net domestic assets (NDA)**. The NDA target was missed owing to a decline in commercial banks' U.S. dollar required reserves at the CBL following the reduction of the statutory requirement from 22 to 15 percent in April 2015. Regarding end-December 2014 performance, the government met only two out of seven PCs due to the Ebola outbreak.[2] The indicative target on

[2] Domestic borrowing of the central government exceeded the end-December 2014 ceiling because of the disbursement under the ECF augmentation via the Central Bank of Liberia.

gross external borrowing was also missed because of earlier-than-anticipated ratification of a US$144 loan from India Exim Bank to finance an electricity transmission and distribution project.

6. **Implementation of our structural reform agenda has been delayed by Ebola outbreak, though we nonetheless achieved important milestones**:

- The government met three out of seven structural benchmarks (SB) for end-March 2014 and end-June 2014 namely, payroll cleanup, publication of FY2016 budget calendar, and pilot on integration of credit-financed projects into IFMIS. However, the SBs on enhancing cash and liquidity management, strengthening the quality of national accounts, and submitting the insurance law were completed but with a delay. All end-December 2014 structural benchmarks were missed because of the Ebola outbreak.

- Improvements have been made in cash management through the setting up of an institutional framework, the drafting of new cash management guidelines, the development of consolidated cash planning and reporting templates and operation of the Treasury Single Account (TSA) arrangement under which government bank accounts resident at the Central Bank of Liberia have been amassed under a single account for better and improved cash management. Discussions are being held on the possibility of identifying and linking government bank accounts at commercial banks to the TSA. Capacity building needs in the unit have been identified, and government and Development Partners including the IMF are committed to supporting training and to providing other technical assistance programs for the unit.

- Other reforms undertaken include the roll out of IFMIS to 17 additional Ministries and Agencies (M&As) to support PFM Operations. This has increased the number of M&As that are now connected to IFMIS to 36. The quality of internal audit functions has also improved with a transition to a risk-based audit methodology (rather than transaction-based). Progress has also been made in revising the PFM Law. An issues and options paper to amend the PFM Law was developed and a report to the proposed changes to the PFM Law has been submitted to the government for review. The Government is committed to finalizing the review of the draft amendments and submitting a bill to the Legislature in FY2016 for enactment.

OBJECTIVES OF ECONOMIC AND FINANCIAL POLICIES FOR 2015–16

Policy priorities for the Government over the next two years will be shaped by the Economic Stabilization and Recovery Plan (ESRP) and the re-prioritized actions from the Agenda for Transformation. This will include the resumption of major public investment projects in infrastructure, agriculture, education, health, private sector development, and security.

7. **The macroeconomic outlook remains challenging**. Growth is projected to remain weak at 0.3 percent in 2015, with a gradual recovery taking hold in 2016 largely driven by the gold sector and a rebound in services. The expected protracted weakness in global commodity prices is likely to contribute to a further decline in exports, tax revenue, and value-added in the mining sector, and dent medium-term growth prospects as new investments are being delayed or cancelled. Therefore,

over the medium term, our baseline projections envisage annual average growth in 2016–18 to decline from 8¾ percent pre-crisis to about 4.9 percent. Inflation has increased to 7.3 percent and is expected to remain at around 8 percent in 2015–16 as depreciation pressures dampen the impact of lower international oil prices.

8. **Risks to the outlook are tilted to the downside**. Liberia's containment measures have been highly effective, owing to successful early identification and isolation of this last case, and contact follow-up, even though isolated cases are still possible, as demonstrated recently. However, while the epidemic has for now largely been contained in the region, a wider-scale recurrence may also be possible particularly in light of the porous borders. A recrudescence of the Ebola virus would dampen the recovery, particularly by deterring investment activity. Slower-than-projected growth prospects for emerging markets and China could further depress commodity prices and lead to further delays and cancellation of planned mining and rubber investments. The withdrawal of UNMIL could pose security risks, which could however be gradually mitigated by the full implementation of the government's security sector transition plan.

A. Fiscal Policy

9. **In FY2015, the government focused fiscal policy on the fight against Ebola**. The government's measures included spending on social welfare services, such as feeding of patients in health facilities, including Ebola Treatment Units (ETUs), as well as providing security, safe drinking water and sanitary supplies to quarantined communities. In order to balance this increased expenditure demand and to ensure proper fiscal management, the government cut back on non-essential spending by placing a moratorium on all non-essential purchases, such as vehicles and office supplies, reducing fuel and lubricant expenditure by 25 percent and limiting non-essential foreign and domestic travels. Maintaining government spending has been critical to supporting demand in the economy and preventing further collapse in confidence and general business activity.

10. **The implementation of the domestically-financed Public Sector Investment Program (PSIP) was impacted by the delayed approval of the FY2015 budget and the onset of the crisis**. However the government prioritized investment spending through the crisis period to stimulate the economy.

11. **As a result of this effort, government spending was scaled up significantly during the crisis**. Total government spending (on a cash basis, including off-budget items) increased from 29 percent of GDP in FY2014 to 40 percent of GDP in FY2015, largely financed by external grants and concessional loans. Total domestic revenue collection for FY2015 amounted to US$437 million, about 4.8 percent above our revised FY2015 budget target, as higher tax collection was partly offset by a decline in non-tax revenue. In addition, our development partners provided a total of US$206 million in budget support, of which US$183 million in additional financing for the Ebola crisis. For the fiscal year, the overall fiscal deficit amounted to US$163 million or 8.1 percent of FY2015 GDP.

12. **The FY2016 budget approved by the legislature in September 2015 maintains a broadly accommodative fiscal stance**. Total spending (on a cash basis, including off-budget items) is projected to increase by 3.2 percent from FY2015 due mainly to an increase in capital expenditure. The total resource envelope for FY2016 budget is US$623 million (see Text Table 1). Our priorities for the year will be to support the post-Ebola recovery, and we have incorporated in our budget key ESRP projects under our three intervention pillars, namely social sectors, infrastructure, private sector support and agriculture. In particular, we have increased health and education spending substantially (by about US$2.6 million and US$15.8 million, respectively or 0.1 and 0.8 percent respectively of FY2016 GDP), as these sectors have been severely impacted by the Ebola crisis.

Text Table 1. FY2015 and FY2016 Budget
(Millions of U.S. dollars)

	FY2015				FY2016
	Pre-Ebola Budget (Jul. 2014)	Approved Budget (Nov. 2014)	Actual Outturn (Commitment)	Actual Outturn (Cash)	Approved Budget (Sep. 2015)
Total revenue and grants	531	527	497	497	540
Total revenue	504	417	437	437	474
Tax revenue	415	339	382	382	412
Non-tax revenue	89	78	55	55	61
Grants	27	109	60	60	66
Total expenditure	535	609	599	594	605
Current expenditure	439	512	546	540	539
Capital expenditure	96	97	54	54	66
Overall balance	-4	-82	-102	-96	-65
Financing	4	82	102	96	65
Borrowing	28	109	146	146	59
of which: IMF		48	94	94	-
Amortization (-)	-24	-26	-22	-22	-18
Deposit in CBL (-)	0	0	-22	-28	24
Memorandum					
Budget resource envelope	559	635	643	643	623
Off-budget expenditure	179	190	215	215	225
of which: Loan financed	158	134	79	79	108
Commitment carryover					6
Unexecuted Ebola spending				12	-12
Overall balance, incl. off-budget items	-162	-217	-181	-163	-178

13. **The government will intervene to support the commodity-exporting sector to alleviate the impact of the decline in world prices, given its importance in the Liberian economy**. Among the support measures, the government is considering postponing the collection of taxes, royalties, and social contributions due in FY2016 to the next fiscal year. Any relief will be temporary, transparent, and publicly announced. The government will also determine the cost to the budget of these measures, and commit to find compensating revenues or undertaking expenditure cuts.

14. **The government's Economic Stabilization and Recovery Plan (ESRP) is designed to enable a faster recovery and address resilience gaps highlighted by the crisis**. The three-year plan articulates the spending needed to bring the country back in line with the path laid out in the Agenda for Transformation. However, notwithstanding the resources we intend to allocate to ESRP interventions, our Recovery Plan remains vastly under-funded. We are seeking donor and private sector financing of the measures included in the ESRP totaling US$812 million by FY2017, which includes US$438.8 million for our comprehensive plan to rebuild the health sector.

B. Structural Fiscal Policies

15. **We are following up on the conclusions of the GAC audit report on Special Procurement of the Ministry of Public Works for Construction of Roads and Bridges throughout Liberia which was published June 2015.** The audit highlighted severe deficiencies in spending controls and we remain committed to resolving these problems. In order to maintain

Text Table 2. Unfunded Road Commitment (Millions of U.S. dollars)	
Size of unfunded commitment	92
Amount paid	47
FY2014	15
FY2015	32
Outstanding	46
FY2016 budget allocation	23
FY2017 payment	23

Source: Liberian authorities.

liquidity in the banking sector during the Ebola crisis, we were unable to maintain our previous commitment under the program to suspend further payments to contractors for contracts being audited until the GAC audit would be finalized. However, payments for a total of US$26.8 million were made directly to banks that were exposed to contractors and only for contracts that were fully executed and had evidence of works completed (Certificate of Completion). Based on updated information from the Ministry of Public Works, the amount outstanding under these contracts as of October 1, 2015 is US$46 million (Text Table 2). Furthermore, we have included in the draft FY2016 budget only amounts assessed by the GAC audit as legitimate liabilities of the government, or a total of US$23 million, for works already completed.

16. **The government will develop a public action plan to implement the PFM weaknesses underlined in the GAC audit report**. This action plan will be shared with major stakeholders for their inputs (*prior action*) before finalization and will include:

- Review of the PFM Act (with the support of FAD) to improve compliance of ministries and agencies to the Act and the Public Procurement and Concessions Act, including review and amendment to the existing sanction provisions in PFM and public procurement and concessions Act;
- Application of the criteria for sole sourcing according to section 55(1) of the PPC Act 2010 and the internal audit unit in respective ministries;
- Establishment and staffing of a project evaluation function in the Public Investment Unit of MFDP;
- Submission of economic and financing analyses of all new PSIP projects in the FY2017 budget to the Minister of Finance and Development Planning (*structural benchmark*);
- Development of a multi-year implementation schedule for existing multi-year projects;
- Establishment of domestically-financed public investment project database (*structural benchmark*);
- Expansion of the existing externally-financed public investment project databases to cover cost overrun, project implantation delay, and payment arrears (*structural benchmark*);
- Launch of a regular donor meeting to collect necessary information to update the database (*structural benchmarks*);
- Extension of the coverage of IFMIS to part of the externally-financed projects (15 by end-December 2015 and additional 10 projects by end-June 2016—*structural benchmarks*); and
- Assess the current practices of public investment management and develop an action plan to reform the current system.

Ahead from these actions, the Ministry of Finance and Development Planning established the aid flow database covering all externally-financed public projects. The database allows us more closely monitor the progress of public projects financed by both external grants and loans.

17. **More broadly, the government continues to make significant efforts in it PFM reform implementation programs to improve budget credibility, financial accountability, transparency and reporting**. Below are key areas where Government has made some marks in public financial management:

- ***Credible and comprehensive budgeting***. The Department of Budget and Development Planning is continuing with the preparation of Medium-Term Expenditure Framework (MTEF) budgeting. The department has finalized the MTEF manual to guide the preparation and implementation of the Budget. A Budget Working Group was set up within the MFDP to drive the budget preparation process and to collaborate with various budget committees in M&As and other key stakeholders to facilitate the early preparation of the budget. The Department [has embarked] on intensified MTEF training to cover all technicians involved in the budget process between last quarter of 2015 and second quarter of 2016.

- ***Robust IT systems to support PFM operations***. The Ministry of Finance and Development Planning (MFDP) is deepening the implementation of IFMIS to support PFM operations. The Ministry intends to roll out IFMIS to 60 M&As by 2017, from 36 at present. IFMIS is helping to improve budget execution, timely reporting and enhanced compliance with basic controls. Feasibility studies are underway to use the IFMIS framework for budget development as a means to ensuring timely completion and submission of the draft budget. The Ministry has also completed the review of the business processes for enhanced expenditure and cash management within the GoL, and the implementation of the stringent security policies over the management of the GoL IFMIS application and database. An Information and Communication Technology (ICT) policy was also approved by the Ministry and is currently operational.

- ***The use of country systems***. The government is committed to bringing all donor-financed projects on IFMIS to enhance consolidated accounting and reporting. The government has for the first time commenced accounting for and reporting on donor-financed projects (an initial amount of 15 projects) within the Ministry's Projects Financial Management Unit (PFMU) using the Free Balance-based IFMIS. The existing legacy system, Sun Systems, will be shut down permanently and PFMU has been systematically subsumed under the Office of the Comptroller and Accountant General (CAG with effect from July 2015.

- ***Enhanced transparency and accountability in PFM***. The Legislative Budget Office and the Public Accounts Committee (PAC) of the National Legislature are now fully functional and most of their operations are being supported through allocations in the national budget. The PAC has released a number of reports on the Auditor General's audit reports of M&As, and five of these reports have been submitted to the president. The Presidency is expected to require implementation of the PAC recommendations for the M&As.

- ***The State Owned Enterprise (SOE) Financial Reporting Unit has consistently reported the fiscal performance by the SOEs***. The Unit is also building capacity within the SOEs for fiscal reporting. The regular interaction and monitoring by the unit has helped improved the performance of SOEs and contributed to the reduction of government's subventions to these SOEs by approximately 53 percent. This is specific to the eight 8 largest SOEs. Dividend contributions by these entities have been increasing. The government will continue to provide the requisite support to strengthen the unit.

- ***Enhanced Controls and Respect of the PFM legal framework***. The government has been consistently rolling out internal audit functions in various M&As. Internal Audit functions are being implemented in 40 M&As. The Internal Audit Agency (IAA) has started moving towards a risk-based audit methodology so as to ensure that more resources and reform efforts are directed towards entities that are categorized as 'high-risk' in government. The Agency continues to track audit findings and recommendations from external and internal auditors.

- ***Treasury Management***. The government has established a new Cash Management and Financial Approvals Unit with mandate to improve cash planning, forecasting and cash management. A draft cash management framework is now in place and development partners continue to provide technical support to the unit. The new framework will be instituted in July 2015. The unit will also help to enhance the adoption of the proposed Treasury Single Account framework as its reports will inform the smooth and productive operation of the consolidated account. The MFDP is also working in consultation with the Central Bank of Liberia on ways to improve the management of the TSA.

18. **The government believes that further improvements in public financial management (PFM) are critical to ensuring the quality of spending as well as transparency and accountability in the use of public resources**. In this direction, the government undertakes to:

(i) Implement concrete measures to improve public investment planning and execution, focusing on ensuring adequate prioritization, value-for-money and quality of service delivery, including a list of donor financed projects captured by the Aid Management Unit in the FY2016 budget annex, and submission of spending and procurement plans of all M&As for FY2017 (*structural benchmark*) to the PPCC by end-June, 2016. We will also ensure that new domestic projects be fully reflected in the budget (together with any related new debt), be subject to economic and financial analysis before approval, and follow our procurement procedures, regardless of the modality of their financing. For urgent projects proposed after approval of the budget law, we will issue a supplemental budget or seek appropriate legislative consent after the appropriate economic and financial assessments are conducted.

(ii) Maintain ongoing efforts to enhance budget credibility and transparency, including by publishing online quarterly budget execution reports, identifying additional Ebola related expenditure, within 8 weeks of the end of each quarter.

(iii) Continue to improve cash and liquidity management and move towards full implementation of the Treasury Single Account (TSA). In particular, we intend to start the monthly reporting and consolidation of the balances of the M&As accounts at the BDL and commercial banks (*structural benchmark*) and complete the pilot phase of the TSA with zero-balance accounts at the CBL for all Ministries and Agencies.

(iv) Publish quarterly report on financial performance of SOEs (*structural benchmark*). This will improve transparency of SOE activities and strengthen monitoring of public sector contingent liabilities and total public sector borrowing.

19. **The government also undertakes to prepare a medium-term roadmap for PFM reforms**. The road map will include: submission of cash and procurement plans by all ministries and agencies to the MFDP; establishment of the project implementation function in five key ministries; introduction and implementation of effective sanction for payments without appropriate documents; separation of the Comptroller-General function from the Ministry of Finance and Planning; and the development of clear criteria for sole sourcing.

20. **The LRA has been operational since July 2015**. The MFDP under the integrated public financial management reform program (IPFMRP) will support the LRA in developing robust revenue management systems including driving the roll-out of the core modules (covering all categories of taxpayers and tax kinds) of the SIGTAS as well as conducting a forensic systems review of the ASYCUDA. Measures to support the LRA are needed to sustain the positive trend in tax revenue collection. Capacity development in the natural resource sector revenue management, innovation and expansion of automation of the tax administration system to include single windows and a comprehensive staff integrity management program are needed to continue the improvement domestic revenue collection and transparency. The LRA is in the process of developing its 5-year strategic plan that will set the agenda for further reforms in tax administration. This will lead to the creation of a modern LRA through its people, processes, and use of technology, the optimization of revenue collection through fair and transparent enforcement of tax laws and the maximization of voluntary compliance and improved service. These reforms will however require key contributions from external partners to ensure successful implementation, especially in the areas of IT and capacity development.

C. Monetary and Financial Sector Policies

21. **The monetary policy stance of the CBL will continue to be aimed at ensuring a stable macroeconomic environment characterized by broad exchange rate stability and low inflation**. The value of the Liberian dollar broadly stabilized during 2015 apart from some volatility in June and July mainly due to CBL's increased intervention. The CBL will continue to intervene in the foreign exchange market only to smooth out exchange rate volatility, bearing in mind the need to build foreign reserves to guard against external vulnerabilities, and will also continue to issue CBL notes as an additional tool in the management of Liberian-dollar liquidity.

22. **In late December 2014 the CBL introduced exceptional policy measures to help mitigate the impact of the Ebola crisis on banks**. These measures included allowing dispensation on specific regulations to reduce provisioning burdens on NPLs associated with the Ebola crisis so as to help commercial banks restructure loans and refinance to private sector; putting in place a mechanism to provide liquidity support to the banking system should the need arise; extending repayment periods on loans related to ongoing CBL's stimulus initiatives; paying off the outstanding loan obligations of all private schools to banks (exclusively in Liberian dollars, for an amount equivalent to about US$1.3 million); and waiving interest and default charges on loans associated with CBL's stimulus placement for the specified period of the Ebola crisis stated as July 1, 2014 to June 30, 2015). The CBL will phase out the measures by end-December 2015 and is carrying out an assessment of their impact. We will also finalize the study of the impact of the measures introduced in December 2014 by the CBL to soften the impact of the Ebola crisis (*structural benchmark*).

23. **We are undertaking measures to tackle rising NPLs**. Notwithstanding significant efforts over the last three years that contained NPLs from a peak of above 20 percent to below 15 percent, the NPL problem has re-emerged following the economic slowdown triggered by the Ebola crisis and the decline in commodity prices. The central bank will intensify oversight of credit risk management by analyzing asset quality on a bank-by-bank basis while encouraging commercial banks to write off irrecoverable legacy NPLs. This will partly be achieved by enforcement of the December 2014 amendment to the asset quality regulation that obliges commercial banks to write-off fully provisioned loans.

24. **The CBL will develop a crisis preparedness and management framework with IMF technical assistance**. An ongoing review of existing gaps in the safety net system with emphasis on powers and tools for emergency liquidity and bank resolution is laying the ground for the formulation of the framework, which is designed to ensure that any emerging problems in the banking sector are resolved early and efficiently with minimal impact on financial stability. After the review, the CBL will prepare with the assistance of the IMF (MCM) operational procedures specifying terms and conditions for the provision of Emergency Liquidity Assistance (proposed structural benchmark). Consistent with our commitment under the ECF, we will continue to avoid undertaking direct interventions in the economy to preserve our financial position and ability to act as a lender of last resort.

25. **We remain committed to implementing the recommendations of the safeguards assessment mission**. The CBL will develop a 3-year action plan to strengthen the operational efficiency of the CBL through prudent budgeting (*prior action*). We will provide quarterly financial statements with comments on the implementation of the CBL financial strategy *(structural benchmark)*. In addition, we will update the CBL's investment guidelines in order to ensure safety and liquidity of the CBL's international reserves by aligning them with best international practices, especially with respect to requirements for placement of international exchange reserves (*prior action*). The CBL will work to ascertain the level of capitalization that is needed to strengthen its balance sheet to meaningfully intervene in pursuit of monetary policy objectives. In this regard, the CBL will work with the central government to explore securitizing part of the government's debt with the CBL as a means of strengthening the ability to conduct efficient liquidity management operations.

26. **The government will continue to improve coordination between the Ministry of Finance and the CBL on liquidity management to help anchor inflation**. With the Ebola crisis now extinguished, we undertake to:

- Continue to hold regular (monthly) meetings of the joint MFDP-CBL-LRA Liquidity Management Committee, with high-level participation by the MFDP and CBL (proposed SB).

- In close coordination with the MFDP, target an amount of reserves accumulation consistent with bringing gross reserves on track to reach about 3 months of essential imports by end-2016. Reaching this target is predicated on the assumption of (i) monthly CBL interventions in the foreign exchange market for an average volume of US$3 million; and (ii) sales of U.S. dollars by the MFDP to the CBL for a total of US$3.25 million on a monthly basis plus the extra US$862,500 weekly allocation.

- Modify the implementation of reserve requirements by allowing banks to meet these, on average, over a maintenance period (*structural benchmark*). This would provide flexibility for banks to manage their liquidity and reduce excess reserves.

- Consider unifying the Liberian and U.S. dollar reserve requirement to support de-dollarization efforts, taking into account the prevailing situation with excess Liberian dollar liquidity in the banking sector.

27. **We continue to make progress with other reforms aimed at strengthening financial sector regulation and infrastructure**:

- The CBL has initiated reforms intended to modernize the payments system in the country also in order to facilitate financial inclusion. Significant progress has been made towards this effort. The system was expected to have been fully implemented and operational by end-2014 but due to the Ebola epidemic, a number of key milestones that began came to a standstill as a result of the eventual withdrawal of contractors from the country. Notwithstanding, the CBL completed the system's infrastructure and has initiated discussion with the various contractors for the resumption of work on the applications software including the Automated Check Processing System (ACP) and the Automated Clearing House (ACH), Real time Gross Settlement Systems (RTGS), Core Banking Application, and the SWIFT migration. Efforts toward the implementation of the National Switch, which is intended for the interoperability of the existing payments networks, also commenced. In 2015, the CBL intends to exert more effort towards the completion of activities that were outstanding in 2014 as a result of the Ebola. The CBL has initiated the remobilization of all contractors to return and resume work to complete the remaining tasks.

- In support of financial inclusion aimed at enhancing access to finance, the CBL established the Collateral Registry in June 2014 as a means of perfecting security interest in movable assets (personal property) and establishing priority of secured parties based on the date and time of registration of a security interest. The system allows for the use of household furniture, farm products, accounts receivables/other rights of payments, equipment, inventory, minerals, motor vehicle, among others as collateral to secure a loan, especially for small businesses and individuals who would not easily access loan from the banking system based on immovable assets requirement. Despite the impact of the Ebola crisis on economic activities in 2014, 61 financing statements have been registered for loans extended to 34 individuals, 6 small firms, 12 medium firms and 9 large firms in the 9-month period to March 2015. The value of the financing statements is put at US$248.8 million and L$34.7 million.

- The Insurance Act was passed into law by the National Legislature on December 22, 2014. The CBL's Board approved various regulations in line with the Act to strengthen oversight of the 20 insurance companies.

D. External Sector Policies

28. **The pace of contracting of external borrowing has remained broadly in line with the pre-crisis period**. As of end-July 2015, the total amount of US$843.5 million in loans signed since the beginning of the ECF arrangement in November 2012—mostly concessional borrowing from traditional creditors (World Bank, African Development Bank, International Fund for Agricultural Development)—implies an 8.3 percent average annual PV of debt to GDP over the program period to end-June 2015. The increase, compared to the 5.3 percent target envisaged at the time of the third ECF review, is partly due to additional Ebola-related loans and lower GDP, which together contributed one percentage point. The combined impacts of the Ebola crisis and the sharp decline in iron ore prices have reduced our debt-carrying capacity.

Text Table 3. Loans Ratified since Nov 2012 by Oct 29, 2015

Project	Status	Funding Agency	Amount (In US$ mil)	Grant Element
Small Tree Crop Revitalization Support	Ratified	IDA	15.0	60%
CSLG Power Systems Re-development	Ratified	IDA	144.5	60%
Redlight Ganta High Way Additional Financing	Ratified	IDA	50.0	60%
Small Tree Crop Revitalization Project	Ratified	AFDB	6.4	60%
Liberia Health Systems Strengthening	Ratified	IDA	10.0	60%
LR Poverty Reduction Support Credit I	Ratified	IDA	10.0	60%
Liberia Accelerated Electricity Expansion Project	Ratified	IDA	35.0	60%
LR Urban & Rural Infrastructure Rehabilitation Project	Ratified	IDA	19.6	60%
LR-Public Service Modernization Project	Ratified	IDA	2.0	60%
LR Poverty Reduction Support Credit I	Ratified	IDA	20.0	60%
Mount Coffee Hydro Project	Ratified	EIB	65.9	37%
Fish Town-Harper Road Project Phase-1	Ratified	AFDB	33.8	60%
Fish Town-Harper Road Project Phase-1	Ratified	Nigeria Trust Fund	9.9	42%
CSLG Power Systems Re-development	Ratified	AfDB	38.3	59%
Support to the fight aginst Ebol	Ratified	AfDB	51.9	58%
Support to the fight aginst Ebol	Ratified	AfDB	7.7	58%
Port Rehabilitation	Ratified	Kuwait Fund	14.0	33%
Transmission and distribution	Ratified	India Exim Bank	144.0	36%
Mano River union road development transport facilitation program	Ratified	AfDB	37.5	52%
Mano River Union road transport program	Ratified	AfDB	36.3	52%
Line of credit for the supply and Erection of 2X5 MW HFO Plants by BADEA	Ratified	BADEA	12.0	53%
Second Poverty Reduction support development policy	Ratified	IDA	20.0	60%
Agriculture Sector Rehabilitation Project	Ratified	IFAD	2.5	58%
RIA runway rehabilitation	Ratified	EIB	27.3	39%
RIA runway rehabilitation	Ratified	BADEA	10.0	51%
RIA runway rehabilitation	Ratified	Saudi Arabia	20.0	49%
Total			**843.5**	

29. **Going forward, we plan to continue to prioritize grants and highly-concessional borrowing to finance our development program**. New borrowing for the remaining of this fiscal year will continue to be aligned with our current debt strategy which is consistent with agreed limits under the ECF as well as the agreed limits under our ECF-supported program. Nonetheless, as a result of the Ebola crisis, coupled with a sharp decline in the prices of our major export commodities, the macro assumptions which underpinned the current debt strategy have changed. Under these new, more challenging external conditions, we intend to continue prioritizing grants financing as a first option or highly concessional loans to support strategic infrastructure projects for economic recovery. At the moment, total loans in the pipeline for FY2016 amount to US$180 million. We will firm up the medium-term pipeline after the review of the current debt management strategy which is expected to take place at the end of FY2016.

Text Table 4. Pipeline Loans for FY 2016 as of October 29, 2015

Project	Funding Agency	Nominal Value (In US$ mil)	Grant Element	Present Value (In US$ mil)
Youth employment	IDA	10	53.3%	4.7
AF ENERGY- Bushrod-Western corodor	IDA	60	53.3%	28.0
Budget support FY15/16	IDA	10	53.3%	4.7
Energy RIA corridor T&D; Gbarnga to Ganta T&D	AfDB	14	57.9%	5.9
Interior-High Way-Gbarng-Konia Road	Abu-Dhabi Fund	15	31.7%	10.2
Interior-High Way-Gbarng-Konia Road	Kuwait Fund	17	37.1%	10.7
Interior-High Way-Gbarng-Konia Road	OFID	20	36.1%	12.8
Interior-High Way-Gbarng-Konia Road	BADEA	12	44.2%	6.7
Interior-High Way-Gbarng-Konia Road	Saudi Fund	20	44.2%	11.2
Total		**178**		**95**

30. **Regional and multilateral trade agreements**. Liberia is a member of ECOWAS and will be implementing the ECOWAS Common External Tariff (CET). The implementation of the CET by ECOWAS member states started on January 1, 2014, but Liberia delayed implementation due to the Ebola crisis. Liberia, as a member of the ECOWAS, is obligated to the implementation of ECOWAS Trade Liberalization Scheme (ETLS). However, it remains the only West African country that is not implementing the scheme because the ETLS protocol is still at the Legislature awaiting enactment. Liberia is in the process of acceding to the World Trade Organization (WTO) by end December 2015 at the upcoming Ministerial Conference in Nairobi, Kenya. Liberia has finalized all bilateral arrangements with most of the Working Party members including the United States, the European Union, Japan, Canada, Chinese Taipei and Thailand.

E. Improving National Accounts and Inflation Statistics

31. **The Ebola crisis has interrupted the Household Income and Expenditure Survey (HIES) within 6 months of its successful roll-out at end-January 2014**. LISGIS began data collection for the Household Income & Expenditure Survey in January 2014. Originally, 12 months of data collection was planned; but in response to the Ebola outbreak only six months of data collection was completed in 2014 when survey team was pulled out of the field. Currently, LISGIS is in the final stages of cleaning the six months of HIES data, and simultaneously searching for experts to complete work in the areas of National Accounts, CPI and Poverty analysis.

32. **LISGIS will continue to work with consultants hired through our partners to improve the quality of national accounts statistics**. The latest GDP dataset provided by the consultant hired was reviewed, but GDP estimates have not been completed up to date. With support from partners, LISGIS will complete and publish the NAAS in the coming months, using the agriculture data attached to the completed six months of the Household Income and Expenditure Survey (HIES). Presently, the National Account section is considering estimating the impact of Ebola on Liberia's GDP.

33. **LISGIS will also make use of the HIES data collected to date (six full months of data) to update the CPI basket and weights, with support from the World Bank and IMF's statistics department**. We envisage publishing the revised CPI weights and basket composition by end-March 2016.

PROGRAM MONITORING

34. **We request the extension and re-phasing of the ECF arrangement**. In order to complete the economic program supported by the ECF and access the remaining Fund resources under the arrangement, we request the extension and re-phasing of the program to December 31, 2016.

35. **Program implementation will be monitored by quantitative performance criteria (PCs) and structural benchmarks, 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 (TMU). Based on the re-phasing, we expect the fifth review to be completed in or after June 2016 based on end-December 2015 and other relevant PCs and the sixth review to be completed in or after December 2016 based on end-June 2016 and other relevant PCs.

Table 1. Liberia: Quantitative Performance Criteria and Indicative Targets, June 2014–June 2016

(Millions of U.S. dollars, unless otherwise indicated)

	Jun. 14			Status	Dec. 14			Status	Jun. 15		Dec. 15	Jun. 16
	Program	Adjusted[12]	Actual		Program	Adjusted[13]	Actual		Target[13]	Prel.	Proposed	Proposed
Performance criteria[1, 2]												
Floor on total revenue collection of the central government[3]	492.1	492.1	470.5	Not met	245.0	245.0	207.7	Not met	428.4	435.2	216.7	473.7
Ceiling on new external arrears of the central government (continuous basis)	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0
Ceiling on new non-concessional external debt of the public sector (continuous basis)[4]	14.2	14.2	14.2	Met	14.2	14.2	14.2	Met	14.2	14.2	…	…
Ceiling on new domestic borrowing of the central government[5]	35.0	35.0	15.4	Met	45.0	45.0	61.5	Not met	144.5	96.3	144.5	144.5
Floor on CBL's net foreign exchange position[6, 7]	245.0	219.8	192.5	Not met	253.0	201.8	178.6	Not met	162.5	160.3	184.3	192.3
Ceiling on CBL's gross direct credit to central government[7]	260.9	276.1	266.4	Met	260.4	308.3	312.8	Not met	355.8	353.3	352.9	352.9
Ceiling on the present value of gross external borrowing by the public sector[8]											97.0	97.0
Indicative Targets												
Ceiling on gross external borrowing by the public sector[9]	265.0	265.0	181.0	Met	153.2	153.2	295.5	Not met	446.6	389.3	…	…
Ceiling on net domestic assets of the CBL[6, 7]	-25.0	0.2	4.5	Not met	-25.0	26.2	-2.1	Met	20.1	-14.1	25.2	25.2
Ceiling on new domestic arrears/payables of the central government (continuous basis)	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0
Floor on social and other priority spending (percent of total actual expenditure, excluding contingencies)[10]	30.0	30.0	35.8	Met	30.0	30.0	34.4	Met	30.0	32.0	32.5	32.5
Memorandum items:												
Total spending on education, health, social development services (percent of total actual expenditure, excluding contingencies)	25.0	25.0	22.9	…	25.0	25.0	21.2	…	25.0	21.4	25.0	25.0
Programmed receipt of external budget support grants and committed external loans[2, 11]	61.6	61.6	36.4	…	18.0	83.6	94.4	…	205.4	206.3	45.0	140.0

Sources: Liberian authorities and IMF staff estimates and projections.

[1] 2015 June is IT. Proposed performance criteria at end-December 15 and end-June 2016 are associated with the proposed extension and rephasing of the ECF arrangement.

[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] 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).

[5] Includes issuance of treasury bills, domestic loans, advances, and any government debt instrument such as long-term securities issued in the domestic market. December 2014 actual borrowing included the disbursement under the ECF augmentation of SDR32.3 million. Targets after December 2014 includes disbursement under the ECF augmentation of SDR32.3 million and the RCF of SDR32.3 million.

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

[7] The floor on net foreign exchange position will adjust downwards and ceilings on CBL gross credit to government and CBL net domestic assets adjust upwards by the extent bridge financing is 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.

[8] Effective after the completion of the fourth review, the new target is set and monitored in PV terms, based on the average annual ceiling under the program period. An adjustor of up to 5 percent applies in case deviations from the ceiling are prompted by a change in the financing terms. For the purpose of program monitoring, the FY 2016 external borrowing target excludes 57.3 mil loans that were signed in FY 2015 but ratified in FY 2016.

[9] Effective from June 30, 2015, the nominal indicative target is replaced by the new PC on PV of grossexternal borrowings by public sectors.

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

[11] The PC excludes the grants for Mount Coffee executed by the Liberian Electricity Company.

[12] Actual targets based on the automatic adjustors.

[13] The end-December 2014 program ceilings for CBL gross credit to government and CBL net domestic assets have been adjusted upward and the program floor on the net foreign exchange position of the CBL will be adjusted downward, by the full amount of the ECF augmentation and RCF at the prevailing market SDR rate and the program SDR rate, respectively.

Table 2a. Liberia: Structural Benchmarks for the Fourth ECF Review (End-March to June 2014)

Measure	Target Date	Justification	Current Status-Risks
Enhancing budget programming, control and monitoring			
Complete clean-up of payrolls of 5 Ministries and Agencies and upload the cleaned payrolls to IFMIS.	End-March 2014	Reduce payments to ghost workers and increase fiscal space for capital investment.	Met. Validation of the payroll and issuance of biometric cards completed for all ministries and agencies in March 2014 with the removal of about 4,000 ghost workers.
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.	Not met. The implementation of TSA has been stalled mainly due to the lack of technical infrastructure and limited capacity.
Ministries and Agencies to submit to the Department of Budget the cash and procurement plans for both recurrent and PSIP expenditure starting in FY2015.	End-June 2014	Improve execution of public investment.	Not met. Rescheduled to June 2016. Due to the limited capacity in the ministries and agencies and the delay in the budget formulation process, submission of cash and procurement plans were not appropriately conducted.
Publish the FY2016 budget calendar which will, inter alia, require that discussions of the strategic orientations of the budget between the Ministry of Finance and M&As take place before the end of December 2014.	End-June 2014	Ensure sufficient time for consultations on the strategic orientation of the budget.	Met. June 30, 2014.

Table 2a. Liberia: Structural Benchmarks for the Fourth ECF Review (End-March to June 2014) (concluded)

Measure	Target Date[1]	Justification	Current Status-Risks
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.	Met.
Enhancing national accounts statistics			
Compile national accounts for 2008–13 using the results of the National Accounts Annual Surveys.	End-June2014	Streamlining earlier conditionality and focusing on key program objective to produce enhanced national accounts statistics.	Not met. Survey was originally scheduled to last for a period of 12 months. The survey started January 2014 and to date, two quarters of data have been collected. The data collection for the remaining two quarters was interrupted due to the Ebola outbreak. Data collected during the first 6 months of 2014 has been entered and is currently undergoing validation.
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.	Not met. However, achieved with delay. The revised Insurance Act was passed into law by the National Legislature on December 22, 2014.

Table 2b. Liberia: Structural Benchmarks for the Fifth ECF Review (End-December 2014)[1]

Measure	Target Date	Justification	Current Status-Risks
Enhancing budget programming, control, and monitoring			
Complete pilot phase of the TSA with zero-balance accounts at the Central Bank of Liberia for all ministries and agencies.	End-December 2014	Improve cash management with a view to eliminate idle accounts.	Not met.
Hold regular (monthly) meetings of the Liquidity Management Committee, with high-level (department director or deputy governor at least) participation by the CBL.	End-December 2014	Strengthen liquidity management.	Not met. The Liquidity Working Group has started meeting on a weekly basis in May 2015.
PMO to compile and develop a database of all ongoing domestically and external credit-financed investment projects.	End-December 2014	Strengthen the monitoring, particularly, of multi-year investment projects to ensure adequate budgetary allocations.	Not met. Rescheduled to March 2016 for domestically financed projects and to May 2016 for externally financed projects. Due to the Ebola crisis, the public sector functioning was affected.
Developing the financial system			
Technical working group composed of MFDP and CBL staff to prepare a proposal as to timing and possible terms of conversion of part of Central Government debt held by the CBL.	End-December 2014	Provide the CBL with a stock of T-bills that can be used to conduct monetary policy.	Not met. See the target of regular meetings of the Liquidity Management Committee.

[1] Originally scheduled at the time of the third review.

Table 3. Liberia: Prior Actions for the Fourth ECF Review (December 2015)			
Measure	**Target Date**	**Justification**	**Current Status-Risks**
Enhancing budget programming, control and monitoring			
Submit to main stakeholders a public action plan for the GAC's recommendations on issues identified in the GAC road project audit reports published in June 2015.		Address extra-budgetary spending and PFM issues.	Prior action.
Strengthening the CBLs financial position and external buffers			
Develop a three-year financial plan for the CBL aimed at a gradual return to financial viability.		Strengthen the CBL's financial position by cutting expenditures to boost resilience to shocks.	Prior action.
Update investment guidelines by aligning them with best international practices, especially with respect to requirements for placement of international reserves.		Strengthen safeguards to shield the CBL from counterparty risk.	Prior action.

Table 4. Liberia: Proposed Structural Benchmarks for the Fifth ECF Review (End-December 2015 to End-May 2016)

Measure	Target Date	Justification	Current Status-Risks
Enhancing budget programming, control and monitoring			
Extend IFMIS coverage to 15 externally-financed projects.	End-December 2015	Strengthen project execution and monitoring.	Newly proposed.
Launch a quarterly regular donor meeting to collect necessary information to monitor externally-financed projects.	End-January 2016	Strengthen the monitoring of external assistance, particularly of multi-year investment projects.	Newly proposed.
Public Investment Unit (PIU) to compile and develop a database to cover all domestically-financed investment projects. The database must include total project cost, actual expenditure, future commitments cost overruns, implementation delay, and arrears.	End-March 2016	Strengthen the monitoring of investment projects to ensure adequate budgetary allocations, particularly, of multi-year projects.	Delayed from December 2014.
Submit economic and financial analyses of all Public Sector Investment Plan (PSIP) projects to the Minister of Finance and Development Planning before approved by the Department of Budget for the FY2017 budget.	End-March 2016	Strengthen public investment management.	Newly proposed.
Publish quarterly reports on the financial performance of State Owned Enterprises (SOEs) for FY2016Q1 and Q2.	End-March 2016	Improve transparency and monitoring of public sector contingent liabilities and total public sector borrowing.	Newly proposed.

Table 5. Liberia: Proposed Structural Benchmarks for the Sixth ECF Review, End-June to September 2016			
Measure	**Target Date**	**Justification**	**Current Status-Risks**
Enhancing budget programming, control and monitoring			
All M&As to submit to the PPCC the spending and procurement plans for both recurrent and PSIP expenditure based on the draft FY2017 budget. Coverage of PSIP expenditure in submitted procurement plans to be at a minimum of 90 percent.	End-June 2016	Improve execution of public investment.	Rescheduled from June 2014.
Extend IFMIS coverage to additional 10 large externally-financed projects.	End-June 2016	Strengthen project execution and monitoring.	Newly proposed.
Publish quarterly reports on the financial performance of SOEs for FY2016Q3 and Q4.	End-September 2016	Improve transparency and monitoring of public sector contingent liabilities and total public sector borrowing.	Newly proposed.
Developing the financial system			
For Q2 2016, provide quarterly financial statements with comments on the implementation of the CBL financial strategy.	End-October 2016	Ensure that efforts are being implemented to facilitate a gradual return to financial viability.	Newly proposed.
Starting September 2016, modify the implementation of reserve requirements by allowing banks to meet the requirements, on average, over a maintenance period.	End-September 2016	Strengthen liquidity management.	Newly proposed.

Attachment II: Technical Memorandum of Understanding

This memorandum sets out the understandings between the Liberian authorities and the International Monetary Fund (IMF) regarding the definitions of the quantitative 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 2015 and end-June 2016.

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. dollars, 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 2015 and end-June 2016, social spending is defined as education, health, social development services, and energy sector spending**. Education, health, and social spending consist of the payments from the FY2016 budget of the units listed below (payment vouchers approved by the Ministry of Finance and Development Planning (MFDP)) excluding contingent expenditure. Energy spending consists of the payments from the FY2016 budget and off-budget spending financed by external loans and grants. It is evaluated as a share of total expenditure

(payment vouchers approved by the MFDP). Total expenditure consists of spending under the FY2016 budget, excluding contingent expenditure tied to contingent revenues, and off-budget energy spending financed by external loans and grants.

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
Health
Ministry of Health
JFK Medical Center (JFKMC)
Phebe Hospital
LIBR
Jackson F. Doe Medical Hospital
Liberia Medicines and Health Regulatory Authority
National Aids Commission

Total Education, Health, Social Development Services, and Energy Spending (concluded)
Social Development Services
Ministry of Youth & Sports
Ministry of Gender Children & Social Protection
Liberian Refugee Repatriation and Resettlement
National Commission on Disabilities
National Veterans Bureau
Liberia Agency for Community Empowerment
Energy Sector
Thermal diesel (HFO) power station
Transmission and distribution
Mount Coffee rehabilitation, transmission, and distribution to Bushrod Island

5. **The Social and other priority spending targets 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, direct or implicit, 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 public sector external debt as from July 1, 2012, excluding borrowing for reserve management purposes by the CBL.

9. **The definition of external debt (both concessional and nonconcessional) 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 paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted

December 5, 2014 (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 all conditions for its entrance into effect have been met, including ratification, if required.

10. **A debt is defined as concessional if, on the date of signature, the ratio between the present value of debt and the face value of the debt is less than 65 percent** (equivalent to a grant element of at least 35 percent). The discount rate used for this purpose is 5 percent for all the loans signed after July 3, 2014. For all the loans signed before July 3, 2014, the discount rate will be determined on the basis of the commercial interest reference rates published by the Organization for Economic Cooperation and Development (OECD) on the date of signature.

11. **Present value (PV) of new external debt** is defined as debt contracted or guaranteed by the public sector with original maturities of one year or more, including debt for which value has not yet been received and private debt for which official guarantees have been extended. For the purpose of program monitoring, the FY2016 external borrowing target excludes US$57.3 million loans that were signed in FY2015 but ratified in FY2016.

12. **PV on new external debt adjustor**. The program ceiling for PV of new external debt will be adjusted upward up to a maximum of 5 percent of the external debt ceiling set in PV terms, in case deviations from the PC on the PV of new external debt are prompted by a change in the financing terms (interest, maturity, grace period, payment schedule, upfront commissions, management fees) of a debt or debts. The adjustor cannot be applied when deviations are prompted by an increase in the nominal amount of total debt contracted or guaranteed.

13. **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.

14. **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 90 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 and Development Planning. Government payment commitments include all expenditure for which commitment vouchers have been approved by the Expenditure Department, and expenditures 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.

15. **CBL gross direct credit to the central government** is defined as the sum of claims on the 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. An overdraft is defined as a negative outstanding balance of the

consolidated government account at the CBL (i.e., the sum of 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. dollars; and the General Operations Accounts in Liberian dollars). The gross credit to the government is expressed in U.S. dollars. Claims denominated in Liberian dollars are valued at the end-of-period exchange rate.

16. **The net foreign exchange position of the CBL** is defined as the difference between gross reserve assets and gross reserve liabilities. The net foreign exchange position of the CBL is presented in U.S. dollars. Assets and liabilities denominated in SDRs 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.

17. **Gross reserve assets of the CBL** include the following: (i) monetary gold holdings of the CBL; (ii) holdings of SDRs; (iii) the reserve position in the IMF; (iv) foreign convertible currency holdings; (v) foreign denominated deposits held in central banks and other banks; (vi) loans to foreign banks redeemable upon demand; (vii) foreign securities and (viii) other unpledged convertible liquid claims on non-residents. It excludes the following: (i) any foreign currency claims on residents; (ii) capital subscriptions in international institutions; (iii) foreign assets in nonconvertible currencies (iv) gross reserves that are in any way encumbered or pledged, including, but not limited to (a) assets blocked when used as collateral for third-party loans and third party payments or pledged to investors as a condition for investing in domestic securities; (b) assets lent by CBL to third parties that are not available before maturity and are not marketable; (c) foreign reserves blocked for letters of credit.

18. **Gross reserve liabilities of the CBL** are defined as sum of the following (i) outstanding short-medium term liabilities of the CBL to the IMF; (ii) all short-term foreign currency liabilities of the CBL to non-residents with an original maturity of up to, and including, one year, and (iii) all foreign currency deposits of domestic banks and government with the CBL. SDR allocations are excluded from gross reserve liabilities of the CBL.

19. **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.

20. **External financing adjustor**. 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, floor on net foreign exchange position will adjust downwards and ceilings on CBL gross credit to government and CBL net domestic assets adjust upwards by the extent this financing is utilized, up to a maximum of US$20 million. The adjustor will be calculated on a cumulative basis from the start of the financial year (July 1)

21. **Adjustor for the September 2014 ECF augmentation and the February 2015 RCF**. The net foreign reserves floor and the ceilings on both CBL's gross direct credit to the central

government and CBL's net domestic assets would be adjusted by the full amount of the ECF augmentation and RCF to allow for on-lending of the equivalent of the additional Fund support.

Cumulative Program External Budget Support and Budgeted External Loan Disbursements (Millions of U.S. dollars)	
September 2015	33.6
December 2015	45.0
March 2016	79.98
June 2016	140.3

PROGRAM MONITORING

A. Data Reporting to the IMF

22. To allow monitoring of developments under the program, the Ministry of Finance and Development Planning will coordinate and regularly report the following information to the staff of the IMF:

Data Reporting Requirements for Program Monitoring

Reporting Agency	Table/Report	Frequency	Timing
Fiscal			
MFDP	Monthly fiscal reconciliation reports, where cash revenue and expenditure with spending commitments are reconciled	Monthly	Within three weeks after the end of the month
MFDP	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
MFDP	Outstanding appropriations, allotments and commitments, and disbursements for line ministries and agencies	Monthly	Within three weeks after the end of the month
MFDP	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
CBL	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

Data Reporting Requirements for Program Monitoring (continued)

Reporting Agency	Table/Report	Frequency	Timing
CBL	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
CBL	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
MFDP	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
Balance of Payments and Debt			
MFDP	Quarterly reports of state owned enterprise financial operations submitted to the Ministry of Finance and Development Planning	Quarterly	Within 45 days after the end of the quarter
MFDP	The report on the status of implementation of the performance criteria and structural benchmarks specified in Tables 1, 3, and 4 of the MEFP	Monthly	Within three weeks after the end of the month
CBL	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
MFDP	The amount of new external debt contracted or guaranteed by the public sector	Monthly	Within three weeks after the end of the month
MFDP	The amount of new domestic debt contracted or guaranteed by the public sector	Monthly	Within three weeks after the end of the month
MFDP	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

Data Reporting Requirements for Program Monitoring (continued)			
Reporting Agency	**Table/Report**	**Frequency**	**Timing**
MFDP	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
Monetary and Exchange Rate			
CBL	The balance sheet of the CBL in the monthly monetary survey	Monthly	Within three weeks after the end of the month
CBL	The full monthly monetary survey of the monetary sector	Monthly	Within three weeks after the end of the month
CBL	The detailed table of commercial banks' loans and advances by sector	Monthly	Within three weeks after the end of the month
CBL	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
CBL	The report on the results of foreign exchange sales/purchases by the CBL through foreign exchange auctions held by the CBL and other currency exchange facilities	Weekly	Within a week
CBL	A report on the results of T-bills and CBL bills issuances	Monthly	Within one week after the end of month
CBL	Regular sale of U.S. dollars by the Ministry of Finance and Development Planning to the CBL, including amount date, and rate of exchange	Monthly	Within one week after the end of month
CBL	Daily foreign exchange rates	Daily	Every working day
CBL	Interest rates	Monthly	Within three week after the end of month

Data Reporting Requirements for Program Monitoring (concluded)			
Reporting Agency	**Table/Report**	**Frequency**	**Timing**
CBL	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
Real			
CBL	Production data in value and volume	Monthly	Within six weeks after the end of the month

23. 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.

24. 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. Guidelines on Performance Criteria with Respect to External Debt

Excerpt from Executive Board Decision No. 15688-(14/107), adopted December 5, 2014

Paragraph 8

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

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

   (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until 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 lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

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