

Liberia: Report on Post-Conflict Economic Situation and Prospects for January–June 2004—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Liberia

This Report on Post-Conflict Economic Situation and Prospects for January–June 2004 for Liberia was prepared by a staff team of the IMF, following discussions that ended on **March 1, 2004**, with the officials of Liberia on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on February 12, 2004.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

The following documents have been released and are included in this package, together with the staff report on post-conflict economic situation and prospects for January–June 2004:

- a staff statement of **March 1, 2004** updating information on recent developments.
- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its March 1, 2004 discussion** of the staff report.
- a statement by the Executive Director for Liberia.

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INTERNATIONAL MONETARY FUND

LIBERIA

**Report on Post-Conflict Economic Situation and Prospects
for January–June 2004**

Prepared by the African Department

(In consultation with Finance, Fiscal Affairs, Legal, Monetary and Financial Systems,
Policy Development and Review, and Statistics Departments)

Approved by Amor Tahari and Matthew Fisher

February 12, 2004

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EXECUTIVE SUMMARY

- **The internal conflict has largely destroyed the economy.** Real GDP is estimated to have declined by 30 percent in 2003. Exports contracted sharply, also reflecting the UN ban on timber exports. Humanitarian aid and remittances have helped to sustain imports. Commercial banks are very fragile.
- **Prospects for economic recovery depend on the re-establishment of security throughout the country and the pace of donor activities.** The full deployment of UN troops is expected to help lead to the return of refugees to their homes and resumption of agriculture. Donor activities have already begun to stimulate the economy in the Monrovia area.
- **The transitional government has made progress in implementing first measures to boost revenue, restore an orderly budget process, and address key governance issues.** The centralization of revenue collections has increased these significantly, and government accounts have been transferred to the Central Bank of Liberia (CBL). Imports of rice have been liberalized, and similar steps are being taken for petroleum products.
- **Further steps are envisaged in these areas for the first half of 2004.** Revenue is expected to be bolstered further through quick-yielding measures in the taxation of sales and imports, and budgetary cash planning and monitoring is to be improved. Audits are to be conducted for the main revenue-generating agencies and the CBL.
- **Adherence to a basic overall framework for economic management is expected to lead to a more stable macroeconomic environment during that period.** The budget through June refrains from the use of domestic financing, and increasing donor activities and sustained remittances are projected to lead to a modest increase of deposits and international reserves.
- **The financial system will require substantial strengthening.** Commercial banks, already fragile before the 2003 hostilities, have suffered from rising non-performing loans. The CBL is running an operational deficit and needs to move to transparent and market-based instruments for monetary policy.
- **Significant pledges for reconstruction and humanitarian aid were made at a donor conference in February 2004.** Donors agreed to provide support under a common, government-led framework.
- **The transitional government has demonstrated its desire to improve relations with the Fund.** Discussions were held in a largely collaborative manner, and monthly token payments to the Fund have resumed. The staff supports the authorities' request for a resumption of the Fund's technical assistance in light of pressing capacity-building needs.

I. INTRODUCTION

1. **An IMF mission met with the new Liberian authorities in Monrovia and Accra during December 1–13, 2003, at the request of Mr. Gyude Bryant, chairman of the National Transitional Government of Liberia (NTGL) that took office in October 2003.**¹ Mr. Bryant had requested the Fund's assistance to (i) help assess the current economic situation; (ii) assist in preparing a budget and basic economic program for the first half of 2004; and (iii) conduct an assessment of technical assistance needs. The mission also evaluated progress in implementing a first set of measures to strengthen revenue collection and the budget process, and to address key governance issues. The mission met with the Chairman of the NTGL, the Minister of Finance, the Governor of the CBL, and senior officials from the main revenue-generating agencies, the Forest Development Authority (FDA), Bureau of Maritime Affairs (BMA), and Liberia Petroleum and Refining Corporation (LPRC), as well as senior officials from other ministries.

2. **Liberia's relations with the Fund deteriorated steadily prior to the NTGL's taking office.** Liberia has been in continuous arrears to the Fund since 1984 and has been ineligible to use the Fund's general resources for the past 16 years. A declaration of noncooperation was issued in 1986, and the Executive Board decided to suspend the country's voting and related rights in March 2003 owing to a protracted lack of cooperation, including as regards payments to the Fund.² As of end-January 2004, Liberia's arrears to the Fund amounted to SDR 503 million, or 706 percent of quota.³ Liberia's forthcoming obligations—consisting only of charges and interest on principal and net SDR charges—are estimated to amount to about SDR 5.2 million annually.⁴ **Chairman Bryant has expressed his commitment to normalize relations with the Fund.**

¹ The staff team comprised Messrs. Schwidrowski (head), Thomas, Senatla, and Ponce Brito (Research Assistant), Ms. Arantes (Administrative Assistant) (all AFR), and Mr. Honda (FIN). The mission worked closely with parallel missions from the Fiscal Affairs Department (FAD), Monetary and Financial Systems Department (MFD), and Statistics Department (STA) that assessed technical assistance needs in their respective areas. A World Bank team visited Monrovia at about the same time, to contribute to an evaluation of reconstruction needs led by UN agencies.

² The review of Liberia's overdue obligations to the Fund that was scheduled to take place by September 5, 2003 was postponed as no new economic information had become available. On that occasion, the Executive Board called for the next review to be concluded by March 5, 2004.

³ Liberia's quota under the Eighth General Review of Quotas is SDR 71.3 million. Liberia cannot consent to its new quota of SDR 129.2 million under the Eleventh General Review of Quotas, as long as it remains in arrears to the Fund.

⁴ All Fund credit outstanding to Liberia is in arrears. The Fund does not apply special charges on the General Resources Account (GRA) interest obligations overdue for more than six months.

3. **During the 2002 Article IV consultation and review of Liberia's overdue financial obligations to the Fund in March 2003, the Executive Board stressed a number of factors that highlighted the deterioration in policies and the lack of response to Fund advice.** Directors expressed concern about the weak revenue performance, the lack of progress on fiscal transparency and accountability, and poor expenditure controls, which had resulted in mounting wage and other arrears and a collapse of social services. Substantial governance issues needed to be addressed and critical structural reforms, particularly in the petroleum and rice sectors, had not been undertaken. Directors also noted the inadequate level and irregularity of Liberia's monthly payments to the Fund, and the lack of steps to normalize relations with other external creditors.

II. RECENT POLITICAL AND ECONOMIC DEVELOPMENTS

4. **Intermittent civil wars have largely destroyed Liberia's physical and economic structures, as well as the government's capacity to devise and implement policies.** The internal conflict between 1989 and 1997 was followed by a period of some recovery, but internal hostilities resumed in 2000 and intensified in late 2002. As a result, about one-third of the population is estimated to be internally displaced, and the fighting that extended to Monrovia in mid-2003 led to widespread destruction and looting, including of government facilities. Government functions largely collapsed, owing to the displacement of most civil servants.

5. **Poverty, already pervasive prior to the last round of hostilities, must have deepened further.** The last survey of household expenditure, conducted by the United Nations Development Program (UNDP) in August 2000, indicated that 76 percent of the population was living on less than US\$1 per day.⁵ In 1999, Liberia ranked 174 out of 175 countries on the UNDP's aggregate human development index.⁶

6. **Following the signature of a peace agreement and the departure of President Taylor in August 2003, Mr. Gyude Bryant took power in mid-October as head of a two-year transitional government.**⁷ The NTGL is expected to prepare the country for elections in October 2005, and to begin to rebuild governmental capacity. Government posts have been assigned to the previously warring parties based on a power-sharing formula.

7. **In September 2003, the UN Security Council established the United Nations Mission in Liberia (UNMIL) with a broad mandate.** The UNMIL's primary objective is the reestablishment of security throughout Liberia through the deployment of 15,000 peacekeepers. The UNMIL is also expected to support the demobilization and reintegration

⁵ UNDP, "Poverty Profile of Liberia" (Monrovia: January 2001).

⁶ UNDP, "Human Development Report," 2001.

⁷ An interim government headed by Mr. Taylor's Vice-President Moses Blah was in place between August and October 2003.

of about 35,000 former combatants; assist humanitarian aid activities; and help with the formation of a new army and police force. As of end-January 2004, 9,000 peacekeepers had arrived, and 12,000 former soldiers had been disarmed.

8. **The intense hostilities during 2003 further worsened an already dire economic situation.** Real GDP is estimated to have contracted by about 30 percent in 2003 (Table 1). Most of the decline took place in the second half of the year, owing to the intensification of the internal conflict and the UN ban on timber exports, in effect since July. The displacement of the rural population led to the disruption of agricultural activities, and commerce also slowed sharply. Prices were subject to large swings, owing to temporary conflict-related supply shortages and a volatile exchange rate; the 12-month rate of inflation stood at 14 percent in August 2003.⁸

9. **The fiscal position in the first nine months of 2003 showed a collapse of revenue and an expansion of conflict-related spending that crowded out virtually all non-security-related outlays.** Monthly revenue collections fell to about 60 percent of their level in 2002, related to the growing disruptions of economic activities and the ban on timber exports (Table 2). Expenditure was increasingly geared to military outlays. The recorded deficit of US\$1.6 million (equivalent to 0.4 percent of GDP) was financed through forced borrowing from the CBL and other (unidentified) sources.

10. **Monetary and external developments mirrored the deceleration of economic activity.** Broad money declined by 20 percent from December 2002 to September 2003 on a drop in Liberian dollar deposits that reportedly reflected a move toward U.S. dollar cash holdings (Table 3). By contrast, deposits in U.S. dollars were broadly stable, related to strong remittances and higher donor activity. International reserves dwindled to negligible levels, and the exchange rate was volatile. Commercial banks closed temporarily as hostilities approached the Monrovia area, and one bank has remained closed since May 2003. The banks' financial position, already fragile before the 2003 hostilities, has weakened further due to increasing nonperforming loans.⁹ Exports fell sharply, but imports declined by less, sustained by larger remittances and some donor-financed humanitarian aid inflows. Due to the lack of external financing and international reserves, further arrears were incurred on official debt-service obligations.

III. REPORT ON DISCUSSIONS

11. **The discussions took place against the background of economic stagnation in most of the country owing to a still fragile security situation.** While activity in the Monrovia area was picking up, resulting from the establishment of a broadly safe environment and increasing donor activities, all other areas of Liberia were still suffering

⁸ The index may be seriously flawed in view of its outdated weights and selection of items (which date from 1964).

⁹ Non-performing loans increased from 8 percent of loans in September 2002 to 18 percent of loans in September 2003.

from a lack of UN presence and sporadic fighting. As a consequence, internally displaced persons had not yet begun to move back to the countryside, and the year-end planting season was largely lost.

12. **The authorities were aware of the need to quickly establish a program to rebuild government facilities and address deeply rooted governance issues.** Most government institutions were only beginning to recover from widespread looting that had also severely constrained the capacity to provide even basic economic information. Notwithstanding these adverse conditions, a first set of measures to rebuild an orderly budget process, increase revenue collections, and improve key governance aspects was already being implemented. While this early action reflected the authorities' commitment to move resolutely in these areas, they recognized that further steps were urgently needed. **Building on the first set of actions and the scarce economic data available, the mission worked with the authorities to design a basic economic program for the first six months of 2004.**

13. **Extensive external assistance is required in the short term to address urgent humanitarian and reconstruction needs and rebuild capacity for economic management.** The open discussions with the mission and the resumption of regular monthly payments to the Fund reflect the authorities' desire and willingness to quickly improve relations with the Fund, also with a view to preparing for the resumption of the Fund's technical assistance in key areas. Efforts are also under way to obtain financial and technical assistance from bilateral donors and the World Bank.

A. Implementation of Early Measures

14. **The NTGL has made progress in implementing a first set of measures, announced in October 2003, to strengthen revenue collections and resume an orderly budget process.** The centralization of revenue collections at the Ministry of Finance ended the practice of government institutions levying and retaining taxes and fees for unbudgeted purposes. As a consequence, average revenue collection rose to US\$5 million per month in October 2003–January 2004, compared with average monthly collection of just US\$1.3 million in the third quarter of 2003. All government accounts have also been centralized at the CBL (Box 1).

15. **A “mini-budget” for the period from October 2003 to January 2004 was approved by parliament.** Revenue, which was conservatively projected to reach about US\$12 million, was largely based on collections from the maritime register and from imports, while expenditure focused on the resumption of current civil service pay and the rehabilitation of government premises. The mini-budget also contained a contribution to the demobilization process.

16. **The authorities also included sizable but uncertain external support in their budget,** contrary to the staff's advice. After consulting with the relevant donors, the staff had indicated that the envisaged external budget support was not secured, and that it would be preferable to prepare contingent spending plans in case such grants were forthcoming. While higher-than-projected revenue offset the shortfall of external support on this occasion, the

staff advised strongly against including doubtful financing items in future budget exercises. The authorities concurred with this recommendation.

Box 1. Measures Taken by the NTGL to Strengthen Economic Management

Reflecting discussions by the Executive Board at its February 2002 meeting on Liberia, the Managing Director wrote to the Minister of Finance of Liberia, informing him of the Executive Board's decision to initiate procedures to suspend Liberia's voting and related rights in the Fund. The Managing Director also urged the authorities to implement a series of measures to improve budgetary oversight and transparency. The NTGL has moved quickly to implement all measures mentioned in the Managing Director's letter:

Recommended Measures	Status
Centralization of all revenue collections at the Ministry of Finance	Done.
Centralization of all government accounts at the CBL	Done.
Removal of tax exemptions on petroleum products and rice	Done. Government has also abolished the issuance of custom duty drawbacks and tax credits.
Independent audits of BMA, FDA and LPRC	To be conducted with assistance from the European Union (EU). CBL also included.
Demonopolization of imports of rice and petroleum products	For rice, done. For petroleum products, being implemented.

17. **In the area of governance, the NTGL has also taken a number of steps to address pressing issues.** Until the NTGL took office, imports of rice and petroleum products were handled through monopolies. Retail prices, as fixed by government, substantially exceeded import costs and taxes. Reportedly, the accruing significant rents were largely used to fund the internal conflict. The NTGL has removed the import monopoly for both product groups, and revised retail prices to reflect import cost, trade margins, and taxes. It has also reinstated the general sales tax that had been suspended for both goods. As a consequence, retail prices have dropped significantly while tax collections increased. For petroleum products, a formula has been introduced to adjust retail prices each quarter, in line with international price movements, but further steps are needed to create a fully competitive environment (see para. 27). The NTGL has also suspended the use of all tax credits and drawbacks for imports, while the Ministry of Finance conducts a review of these instruments. To eliminate “ghost workers,” all civil servants are now obliged to pick up their paychecks in person, supplying proper documentation.

B. Economic Program and Prospects for the First Half of 2004

18. **Economic prospects for the first half of 2004 depend crucially on the establishment of security outside Monrovia and the pace of donor activities.** The speed

of deployment of UN peacekeepers throughout the country will define the rate at which internally displaced persons and disarmed combatants return to their homes and resume productive activities, especially in agriculture. No resumption of timber activities is expected during the first six months of 2004 as the UN Security Council decided recently to extend the ban on exports for another year, owing to lack of progress in meeting the requirements for lifting the sanction, particularly with regard to the establishment of a transparent accounting system for timber-related revenue (Box 2). By contrast, increasing donor presence and a possible beginning of reconstruction could provide a significant economic stimulus for certain sectors, especially in the Monrovia area.

Box 2: Timber Sector and Sanctions

Timber production and export has been a major industry in Liberia. In 2002, the sector accounted for 18 percent of real GDP, generated 18 percent of total tax revenue, and created 60 percent of the export earnings. Forest exploitation was undertaken by about 30 logging companies, employing about 5,000 to 8,000 workers.

Share of Timber Sector in Major Economic Aggregates, 2002–03
(In percent)

	2002	2003
Real GDP	17.6	12.0
Tax revenue	17.9	6.1
Exports	60.3	57.3

In May 2003, the UN Security Council decided to impose a ban on the export of timber products, effective July 2003. The decision was based on information that proceeds from timber exports were used largely to finance the internal conflict.

The ban was recently extended through December 2004. The Security Council stated that a transparent accounting system needs to be in place, and the NTGL in control of the logging areas, before the sanction could be lifted (the logging areas are currently controlled by one rebel group). A review of timber concessions and development of a sustainable logging plan should also be conducted.

19. **Based on this outlook, real GDP is envisaged to recover modestly in the first half of 2004.** It is projected to grow by 16 percent, compared with the second half of 2003, mainly on the strength of manufacturing and services (related to donor activities) while agriculture is likely to remain subdued. However, annualized GDP per capita in the first half of 2004, projected at US\$130, would still remain significantly below its 2002 levels.

20. **The “core budget” for February–June 2004 will limit expenditure to expected domestic revenue, as external budget support is uncertain at this stage.** The authorities, in conjunction with the mission, developed cautious revenue projections for the first half of

2004, based on the growth scenario discussed above.¹⁰ On the expenditure side, payments of current salaries will remain a priority, as will outlays for refurbishing government buildings. In light of the experience with the previous mini-budget, the authorities agreed with the staff that contingent spending plans should be drawn up in case revenue collections were higher than expected, or external budgetary support was forthcoming. The staff also suggested the preparation of a supplementary budget following the donor conference on reconstruction, planned for early February 2004.

21. **Monetary developments will be dominated by the expected flow of external assistance and the envisaged issuance of currency to accommodate a rebound in the demand for Liberian dollars.** The staff stressed the need to rebuild international reserves from their extremely low level, while ensuring that the exchange rate and prices regain stability. As the demand for Liberian dollars is expected to recover in line with the reactivation of the economy, and with the resumption of civil service pay, a buildup of international reserves to about US\$6 million (about ½ month of imports) could be achieved by mid-2004. However, because of the uncertainty as to the extent of the increase in demand for local currency, the authorities agreed to monitor exchange rate and price developments closely as they moved forward with the issuance of Liberian dollars. U.S. dollar-denominated deposits are also projected to increase modestly through that period, owing to the expected increase in donor assistance and continued strong remittances.

22. **External developments are expected to reflect an increase in donor activities.** The external accounts will be dominated by increasing foreign assistance, strong remittances, and associated imports, while exports are likely to stagnate at low levels, owing mainly to the continued sanctions on timber exports.

C. Fiscal Policy Measures

23. **Based on discussions with the staff, the authorities intend to implement a number of measures to further strengthen revenue collections in the first half of 2004.** These include the expansion of coverage of the general sales tax (GST) to services for which collections are relatively easy (such as restaurant and cell phone services), the extension of pre-shipment inspections to all imports, and the universal use of a taxpayer identification number (TIN) to facilitate cross-checking of tax payments. The authorities also intend to broaden the mandate of the Large Taxpayer Unit to include taxes on sales and imports, as well as excise taxes. To prepare for a further strengthening of the revenue effort, the authorities envisage requesting technical assistance for a comprehensive review of current tax exemptions, and will consider options to delegate the management of customs and ports temporarily to foreign private agents.

24. **A number of steps are also envisaged to improve the budget process and controls.** To strengthen cash management, the government bank accounts at the CBL will be

¹⁰ The projections also reflect some seasonal decline in collections of maritime and customs revenue, compared to the last quarter of 2003.

consolidated into a single treasury account, and regular meetings will be held to analyze commitments and cash outlays.¹¹ The Ministry of Finance will conduct regular reconciliations between revenue, expenditures, and movements in government bank accounts, and produce regular budget reports. The authorities also intend to request technical assistance to (i) improve the expenditure management process including through installation of a robust computerized system; (ii) establish an external audit function, and (iii) bring the procurement process in line with international standards.

D. Governance Issues

25. **The authorities worked with the staff on a set of measures to address a number of governance issues whose resolution will be critical for economic recovery and the rebuilding of trust in the functioning of government.** These include (i) fulfillment of the conditions required for a lifting of the UN ban on timber exports; (ii) financial and systems audits of the major revenue-generating government agencies and the CBL; (iii) steps to fully liberalize petroleum product imports; and (iv) regularization of government's domestic debt and arrears.

26. **With regard to the establishment of conditions that could lead to a lifting of the UN ban on timber exports, the staff recommended giving priority to the creation of a transparent accounting system for timber-related revenue.** As the buildup of such a system could take time, the authorities were encouraged to consider the temporary implementation of alternative mechanisms while the envisaged accounting system was being put into place. One possibility would be a trust fund, managed by an international agent with experience in this area (such as the World Bank) and fully integrated into the budget, to ensure that all revenue due is received and that expenditure is directed to social and humanitarian purposes. Such a trust fund could also be used to channel external financial assistance in an accountable fashion, as is for example done in Afghanistan (Appendix VI). The authorities expressed their strong interest in such an arrangement.

27. **The authorities intend to hire international consultants for systems and financial audits of the three major revenue-generating agencies (BMA, FDA, LPRC), with financial support from the EU.**¹² The staff welcomed this initiative and provided comments on the draft terms of reference for the envisaged audits. The staff agreed with the authorities that the audits should adopt an essentially forward-looking perspective to improve overall efficiency in discharging the agencies' functions. They should also determine the agencies' current financial positions, particularly their financial liabilities and payments arrears. In addition, the staff recommended publication of the audit reports. The authorities expected to conclude the audits during the first half of 2004, with a view to beginning the implementation

¹¹ The dual currency system will require two treasury accounts, one in U.S. dollars and the other in Liberian dollars.

¹² The audit of the CBL is discussed in para. 32.

of recommendations on strengthening administrative and financial systems and operations by the start of the 2004/05 fiscal year (July 2004).

28. **In the area of petroleum products, further steps are under consideration to create an adequate framework for fully competitive private imports.** LPRC has prepared standard contracts for future imports, as well as a set of requirements that need to be satisfied by prospective importers.¹³ The staff encouraged the authorities to approve these documents quickly and to appoint the LPRC's Board of Directors. However, while recognizing the need for LPRC to acquire and maintain a strategic reserve of petroleum products for emergency situations, the staff cautioned against LPRC's plans to become an active importer—this would run counter to their supervisory and regulatory function in the petroleum sector. The staff also encouraged the authorities to move to a system of competitive bidding for import contracts.

29. **The staff endorsed the authorities' plans to carry out a comprehensive verification of domestic debts and arrears and to develop a transparent and equitable strategy for their settlement.** Over the years, the government has accumulated sizable liabilities to suppliers, commercial banks, and the CBL, and civil servants have not been paid for almost two years. The staff urged that such a strategy be developed expeditiously as the early settlement of some payments arrears could help boost economic activity and rebuild confidence. Owing to the possibly large size of domestic obligations, a solution to the issue is likely to involve a substantial reduction in the face value of the claims on government.

E. Monetary and Banking Issues

30. **The authorities intend to maintain the current dual currency system for the time being** (Box 3). They noted that, while a transition to a system with one national currency as the sole legal tender may be beneficial in the long term, the removal of the U.S. dollar as legal tender would undermine confidence in the short term; also, such action would not be viable in light of the high degree of dollarization, which further increased in 2003. The alternative—to move to the U.S. dollar as the sole legal tender—was also not considered viable, as the U.S. dollar amounts required to redeem Liberian dollars in circulation were not available.

31. **In light of the expected rebound in demand for Liberian dollars, the staff urged the authorities to move to market-based and transparent instruments of monetary policy.** At present, the CBL's only instrument to influence liquidity is reserve requirements, and the modalities used so far to allocate foreign exchange through banks lack transparency.¹⁴ Also, the CBL discourages interbank transactions, and there are ceilings on

¹³ The requirements include minimum standards of financial solidity and product quality.

¹⁴ Allegedly, no foreign exchange transactions took place in 2003. However, the CBL has not provided the staff with an explanation of what led to the decline of international reserves from US\$1.8 million at end-2002 to US\$0.3 million by September 2003. The CBL has also not provided details on the allocation mechanism being used so far.

lending rates. The staff recommended exploring options to develop money and interbank markets, including for foreign exchange, over the medium term. In the short term, it urged the authorities to move quickly to adopt transparent mechanisms for foreign exchange transactions, such as auctions. The authorities indicated their interest in moving to a more diversified set of monetary instruments but stressed the need for technical assistance in these areas. Regarding foreign exchange auctions, they argued that such auctions had at times been subject to fraudulent practices. The staff responded that other countries had successfully addressed such problems through the appropriate design of the auctions.

Box 3. Liberia's Dual Currency System

Liberia has a dual currency system under which both the U.S. dollar and Liberian dollar are legal tender. However, in practice they are used for different purposes. In addition, the Liberian economy is highly dollarized. This gives rise to a number of issues:

- **Currency use.** The Liberian dollar is used for small-scale cash transactions and, to a limited extent, as the currency for bank deposits. It is thus the main currency used by the poorer and rural segments of the population. The U.S. dollar is widely used for trade and financial transactions and for larger cash payments; it is the currency of choice for the wealthier and urban population and local donor representatives. Changes in the exchange rate, and associated changes in prices measured in local currency, are therefore likely to have different effects on different social strata. For example, a depreciation of the Liberian dollar could have a large negative impact on real incomes of the poor while the wealthier segments of the population would be largely unaffected.
- **Demand for Liberian dollars.** In addition to the demand from lower-income groups, the government is in large part driving the demand for local currency through its payment of the wage bill in Liberian dollars. The exchange rate therefore reacts to seasonalities in the payment of public wages and changes in the volume of transactions in rural areas. Resumption of regular civil service pay and the reactivation of agricultural activities are expected to lead to an increase in the demand for Liberian dollars.
- **Adequate level of international reserves.** Large but unknown quantities of U.S. dollars in cash are circulating in the private sector. It is, therefore, difficult to assess the level of international reserves that should be considered adequate. In any event, the level should be lower than in a system where only the local currency is legal tender.
- **Impact of monetary policies.** The current high degree of dollarization renders monetary policies largely ineffective. Macroeconomic stabilization is, therefore, expected to be achieved mainly through fiscal policies.

32. **The CBL is facing financial difficulties**, as it has not been able to realize regular investment income from international reserves for some time and it continues to be undercapitalized. The CBL also holds substantial but largely unserviced claims on the government from lending over the past decades. In addition, the CBL's operating costs appear high. As a consequence, the CBL has had to rely on its scarce liquid assets to fund part of its operations. The CBL has taken some steps to reduce costs, and the Ministry of Finance has resumed some limited payments on the government's liabilities to the CBL. However, the staff pointed out that these measures were still insufficient to eliminate the CBL's operating deficit and urged the authorities to consider further steps to strengthen the institution's financial situation. In any event, tapping the CBL's limited liquid assets to fund its operations should be a strictly temporary measure.

33. **Looking forward, the CBL needs to be more adequately capitalized, following a thorough audit of its financial position**, including a count of cash in vault and unissued currency. The staff took note of a voluntary audit that was being conducted for the period January-August 2003, and that might help establish some of the data required for an assessment of the CBL's capitalization needs. However, the mission urged the CBL to agree to a comprehensive external audit so as to shed light on its true financial situation and provide a basis for strengthening its accountability and developing further cost-cutting plans.

34. **A medium-term strategy is needed for the recovery of the banking sector**. While the quality of the banks' loan portfolio has deteriorated owing to an increase of nonperforming loans, their income position has remained broadly stable on account of the fees levied on buoyant remittances and other international transactions. The CBL's supervision department is monitoring the situation closely and has agreed to work with the staff on a medium-term strategy for the sector. However, a rapid economic recovery will be a key condition for strengthening the banks' position.

F. External Debt Issues

35. **Liberia's stock of external debt amounted to US\$2.9 billion (650 percent of GDP) at the end of 2003**, about half of which is owed to multilateral institutions. External debt increased by US\$74 million during the year, owing to a further accumulation of arrears and the depreciation of the U.S. dollar (Table 5). Nearly all of Liberia's external debt is in arrears, amounting to US\$2.6 billion at end-2003.

36. **The NTGL is fully aware that Liberia's large external debt overhang is an impediment to long-term economic viability**. While much of the authorities' attention is currently focused on immediate humanitarian and reconstruction needs, the staff noted that a resolution of the external debt situation would likely be a complex and lengthy process, and therefore urged them to start exploring potential options for its settlement, in conjunction with creditors.

G. Relations with the Fund and Possible Staff-Monitored Program (SMP)

37. **The mission recognized the steps taken by the NTGL and its further intentions to improve relations with the Fund**. In a departure from the past, discussions on the

policies were held in a largely collaborative manner. The staff welcomed the authorities' resumption of monthly token payments of US\$50,000 to the Fund that began in January 2004. It indicated that these payments represented an effort in light of a difficult financial and budgetary situation, but that they did not exceed the country's current capacity to pay. As was also explained, a sustained track record of regular payments and implementation of sound policies, and prospects for its continuation, could lead to a formal determination by the Fund's Executive Board that Liberia had credibly begun its cooperation with the Fund. This determination would mark the starting point for the de-escalation process of the current remedial measures, with the expectation that Liberia's cooperation on policies and payments to the Fund would strengthen progressively during that process. Establishment of a sustained track record would also be critical for the eventual resolution of Liberia's arrears to the Fund.

38. **The authorities expressed their interest in moving toward an SMP.** The staff explained that an SMP would be needed to support the establishment of the track record mentioned above, and could also help build confidence in the NTGL's policies. However, an SMP would only be advisable once certain capacity constraints in economic management and in the provision of key economic information are overcome. The authorities agreed that further collaboration in providing key data, in implementing the economic program through mid-2004, and in preparing the 2004/05 budget and economic program would provide adequate opportunities to test their preparedness for an SMP.

IV. ASSESSMENT OF TECHNICAL ASSISTANCE NEEDS

39. **Parallel missions from FAD, MFD, and STA conducted an assessment of technical assistance needs.** The missions found that, despite the largely devastated physical infrastructure, some institutional capacity remained in a few key areas, in part reflecting the implementation of recommendations of previous technical assistance by the Fund and other external partners. The formulation and implementation of a sound macroeconomic framework, however, would still require substantial and continued technical assistance in various areas (Appendices I, II, and III). In the fiscal area, it is critical to strengthen tax and customs administration and the budget process; in the monetary area, technical assistance should focus on central bank operations; and Liberia's capacity to produce statistics on national accounts and prices needs to be rebuilt.

40. **In view of the authorities' demonstrated intent to strengthen policies and the urgency of their institution-building needs, the staff recommends that targeted technical assistance from the Fund be resumed.**¹⁵ If this proposal is approved, the Fund's role in providing technical assistance would be closely coordinated with other interested donors and the World Bank.

¹⁵ A formal decision is proposed in the companion paper "Liberia—Overdue Financial Obligations to the Fund".

V. DONOR ACTIVITIES

41. **The NTGL has, in collaboration with external partners, developed a time-bound plan—called the Results-Focused Transitional Framework (RFTF)—to guide reconstruction efforts through end-2005** (Box 4). The UN and World Bank assessed financial needs for the implementation of the RFTF at about US\$500 million. In addition, the UN has estimated requirements for humanitarian assistance at about US\$135 million for 2004.

42. **Donors have pledged US\$440 million for reconstruction and US\$85 million for humanitarian assistance in an international conference in early February.**¹⁶ The largest pledges were made by the United States and European Union (about US\$200 million each), while other significant commitments were made by the United Kingdom, Germany, Norway, and Ireland.¹⁷ Other donors envisaged contributions to the UNMIL budget.¹⁸ The World Bank announced the disbursement of about US\$50 million in grants during 2004–05.

43. **At the conference, external partners supported the RFTF as the basis for their financial and technical support.** They stressed that the establishment of security is a key pre-condition for the framework's implementation, and also advised to give appropriate attention to humanitarian assistance while reconstruction plans are being implemented. Donors mentioned the need to continuously update the RFTF as external partners begin to specify their support, and welcomed the NTGL's plan to establish a monitoring unit to facilitate this task. The next consultation with external partners is expected in about six months.

¹⁶ The Conference took place in New York on February 5-6, 2004. It was co-hosted by the UN, United States administration, and the World Bank. Key speakers included Messrs. Kofi Annan and Colin Powell.

¹⁷ Further pledges are likely as a number of donors were unable to make multi-annual commitments at this stage.

¹⁸ UNMIL's budget is US\$565 million through June 2004.

Box 4. The Results-Focused Transitional Framework (RFTF)

With the help of external partners, the NTGL has drawn up a set of priority results to be achieved through end-2005. The expected outcomes in nine areas are contained in a time-bound action plan. The plan also proposes mechanisms for the management, monitoring and evaluation of envisaged actions.

The main expected results in the nine areas are:

- Establishment of security through the deployment of some 15,000 UN troops and restructuring and retraining of the armed forces.
- Disarmament, demobilization and reintegration of ex-combatants.
- Provision of transport, household items, and food assistance to returnees and internally displaced persons.
- Strengthening of governance, democratic development and the rule of law.
- Preparations for free, fair and transparent elections.
- Provision of basic social services (health, education, nutrition, water and sanitation).
- Restoration of productive capacity, especially in agriculture.
- Rehabilitation of key public infrastructure (power, transport and communications).
- Strengthening of economic management capacity in areas including financial management and audit, budget and statistics, public sector procurement, financial system, public enterprises, and natural resource management.

VI. STAFF APPRAISAL

44. **The transitional government has inherited a largely devastated economy, dysfunctional government institutions, and deeply rooted governance issues.** Concerted efforts of the international community are needed to rebuild the economy and government functions. Taking into account the limited time and capacity available to the NTGL, it is important that the authorities focus on a carefully prioritized set of concrete actions to achieve significant change in identified priority areas. Broad-based domestic support for this strategy will be a precondition for its sustainability.

45. **Prospects for economic recovery in the near future depend on the solid reestablishment of security and the pace of humanitarian and reconstruction assistance.** The cautious macroeconomic framework for the first half of 2004, envisaging a cash-based budget and some modest recovery of deposits and international reserves, aims at establishing

a more stable macroeconomic environment while a moderate economic recovery may take place.

46. **The authorities have demonstrated their resolve to quickly begin to address difficult issues.** The swift adoption and implementation of measures to strengthen revenue collection, return to an orderly budget process, and tackle a number of key governance issues have already led to tangible results. However, continued progress in these areas will be essential.

47. **Envisaged measures to further boost revenue are appropriate as they aim at improving collections where feasible in the short run.** Swift extension of sales taxes to a number of services will be particularly important to this end. To further strengthen budget processes and controls, it will be crucial to implement a robust computerized financial management system. Swift conclusion of audits of the main revenue-generating agencies and the CBL should lay the groundwork for a more detailed and appropriately focused agenda to improve governance. Petroleum product imports need to become fully market-based, including through a move to competitive bidding on contracts.

48. **Liberia's financial sector needs to be substantially strengthened to be able to play its role in economic recovery.** Options to improve the overall position of commercial banks should be explored as a priority. The CBL should take swift action to strengthen the efficiency of its operations and its accountability framework. Measures to diversify monetary operations also need to be considered. In the short term, the staff urges the monetary authorities to move to transparent and market-based foreign exchange transactions, such as auctions.

49. **Donor activities should become increasingly connected to government processes, and be fully recorded in the budget data.** External partners need to work with government to establish mechanisms that allow donor funds and certain sensitive revenue flows to be managed and monitored in a transparent and fully accountable fashion. Such mechanisms, if properly designed, can contribute significantly to capacity building and ensure a growing degree of ownership over time.

50. **Broad-based technical assistance is essential to rebuild capacity in many areas of economic management.** The authorities should work with the staff and other interested external partners to establish a coherent and fully coordinated strategy in this area.

51. **The authorities have taken significant steps to improve relations with the Fund.** A continued strengthening of cooperation in implementing sound and increasingly strong policies will be a key condition for normalizing relations with the Fund and other creditors over time. In this regard, maintaining an open and continuous dialogue with the staff will be crucial.

Table 1. Liberia: Selected Economic and Financial Indicators, 1999-2004

	1999	2000	2001	2002	2003	2004
				Est.	Est.	Proj. Jan-June
(Annual percentage change, unless otherwise indicated)						
National income and prices						
Real GDP 1/	22.9	22.4	4.9	3.3	-29.5	16.4
Consumer prices (annual average)	2.0	5.3	12.1	14.2	15.0	...
Consumer prices (end of period)	8.1	3.2	19.3	11.1	13.0	11.0
Nominal GDP (in millions of U.S. dollars)	441.8	541.5	534.4	561.8	442.2	206.8
GDP deflator (in U.S. dollars)	0.0	0.2	-5.9	1.8	8.2	5.3
External sector (in U.S. dollar terms) 1/						
Exports of goods, f.o.b.	37.6	104.3	6.4	15.1	-35.6	-57.3
Imports of goods, c.i.f.	31.4	-0.4	6.3	-12.3	-15.8	-2.3
Terms of trade	-4.9	7.9	-21.4	14.1	21.2	-2.3
Exchange rate (Liberian dollars per U.S.dollar; end of period)	39.5	42.8	49.5	65.0	50.0	...
Central government operations 2/						
Total revenue and grants	24.1	15.5	-18.5	4.7	-34.1	-14.3
Of which : tax revenue	19.2	20.5	-18.3	15.8	-40.1	-20.8
Total expenditure and net lending	9.1	31.7	-12.3	9.2	-43.8	-26.0
Of which : current expenditure	9.2	18.0	-14.9	-36.2	-5.8	...
capital expenditure	47.0	88.5	-8.6	65.7	-62.2	...
Money and banking (stocks, in billions of Liberian dollars) 3/						
Net foreign assets	...	...	-31.6	-36.8	-34.8	-41.5
Net domestic assets	...	...	33.6	48.7	37.2	44.7
Net domestic credit	...	...	44.9	64.1	48.9	58.3
Net claim on government	...	...	43.8	62.9	47.4	56.4
Claims on nongovernment	...	...	1.1	1.2	1.4	1.8
Other items, net	...	...	-11.4	-15.4	-11.7	-13.5
Reserve money	...	...	...	10.3	-12.1	36.7
Broad money 4/	...	...	...	32.9	-16.6	30.9
Velocity (GDP relative to broad money)	...	...	13.2	12.6	9.1	7.8
(In percent of GDP)						
Central government operations (calendar year)						
Total revenue and grants	16.7	15.8	13.0	12.9	10.8	13.5
Of which : tax revenue	14.0	13.7	11.4	12.5	9.5	11.9
Total expenditure and net lending	14.4	15.4	13.7	14.2	10.2	15.7
Of which : current expenditure	9.2	8.8	7.6	4.6	5.5	...
capital expenditure	4.3	6.6	6.1	9.6	4.6	...
Overall fiscal balance (cash basis)	2.3	0.3	-0.7	-1.3	0.7	-2.2
External sector						
Current account balance, including grants (deficit, -)	-28.1	-15.6	-20.3	-1.1	-7.6	-11.2
Of which : public interest payments due	-17.9	-16.8	-12.7	-8.0	-10.1	-14.0
Current account balance, excluding grants (deficit, -)	-44.6	-25.3	-26.6	-12.7	-12.0	-24.1
Trade balance (deficit, -)	-28.8	-12.0	-12.9	-4.6	-11.4	-24.6
Exports, f.o.b.	13.3	22.2	23.9	26.2	21.4	9.8
Imports, c.i.f.	-42.1	-34.2	-36.9	-30.7	-32.8	-34.3
Public sector external debt outstanding (total)	574.5	473.8	486.4	497.6	649.1	703.3
(In millions of U.S. dollars, unless otherwise indicated)						
Current account balance including grants (deficit, -)	-124.2	-84.4	-108.5	-6.1	-33.5	-23.2
Trade balance (deficit, -)	-125.3	-62.0	-65.9	-15.3	-50.4	-50.8
Gross official reserves 3/	...	...	...	1.8	0.3	6.4
(in months of imports of goods and services)	...	...	...	0.1	0.3	0.5

Sources: Liberian authorities; and Fund staff estimates and projections.

1/ For 2004, growth rates compared to second half of 2003.

2/ For 2004, growth compared to first half of 2003.

3/ In 2001 and 2002, monetary and reserves numbers are as of September.

4/ Defined as Liberian currency outside banks plus demand, time, and savings deposits in Liberian and U.S. dollars; end-June 2004 compared with end-December 2003.

Table 2. Liberia: Summary of Central Government Operations, 1999-June 2004 1/

	1999	2000	2001	2002	2003		2003 Est.	2004 Proj. Jan.-June
					Jan.-Sep.	Oct.-Dec.		
(In millions of U.S. dollars)								
Total revenue and grants	73.8	85.3	69.5	72.7	31.0	16.9	47.9	28.0
Tax revenue	61.7	74.3	60.7	70.3	29.5	12.6	42.1	24.6
<i>Of which:</i> maritime revenues	15.2	17.9	11.0	13.4	7.6	3.7	11.2	5.5
stumpage fees and land rental	1.7	6.7	8.4	13.0	2.6	0.0	2.6	0.0
Nontax revenue	3.8	4.6	4.1	2.4	1.6	1.2	2.8	3.4
Grants	8.3	6.3	4.6	0.0	0.0	3.0	3.0	0.0
Total expenditure and net lending (cash basis)	63.5	83.6	73.3	80.1	32.6	12.3	45.0	32.5
Current expenditure	40.5	47.8	40.7	26.0	13.3	11.2	24.5	27.4
Wages and salaries 2/	10.5	18.4	17.6	13.4	3.8	7.3	11.1	13.9
Goods and services	17.0	21.3	18.2	5.9	3.7	3.1	6.8	12.1
Interest on debt	3.8	5.1	4.0	6.3	5.5	0.5	6.0	0.8
External	0.6	0.4	0.6	0.6	0.2	...	0.2	...
Domestic	3.2	4.7	3.4	5.7	5.3	0.5	5.8	0.8
Subsidies, transfers, and net lending	9.2	3.0	0.9	0.4	0.3	0.3	0.4	0.6
Capital expenditure 2/	18.9	35.7	32.6	54.1	19.3	1.1	20.4	5.1
Internally financed	12.5	29.4	28.0	54.1	19.3	1.1	20.4	5.1
Externally financed	6.4	6.3	4.6	0.0	0.0	0.0	0.0	...
Errors and omissions	5.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall surplus/deficit (cash basis) 3/	10.3	1.7	-3.9	-7.3	-1.6	4.5	2.9	-4.5
Financing 4/	-10.3	-1.7	3.9	7.3	1.6	-4.5	-2.9	4.5
(In percent of GDP, unless otherwise indicated)								
Total revenue and grants	16.7	15.8	13.0	12.9	...	...	10.8	13.5
Tax revenue	14.0	13.7	11.4	12.5	...	...	9.5	11.9
Nontax revenue	0.9	0.9	0.8	0.4	...	...	0.6	1.6
Grants	1.9	1.2	0.9	0.0	...	...	0.7	0.0
Total expenditure and net lending	14.4	15.4	13.7	14.2	...	...	10.2	15.7
Current expenditure	9.2	8.8	7.6	4.6	...	...	5.5	...
<i>Of which:</i> wages and salaries	2.4	3.4	3.3	2.4	...	...	2.5	6.7
Capital expenditure 2/	4.3	6.6	6.1	9.6	...	...	4.6	...
Overall surplus/deficit (cash basis)	2.3	0.3	-0.7	-1.3	...	...	0.7	-2.2
Memorandum item:								
GDP at current prices (millions of U.S. dollars)	441.8	541.5	534.4	561.8	...	...	442.3	206.9

Sources: Liberian authorities; and Fund staff estimates and projections.

1/ Calendar year; the fiscal year covers the period July-June.

2/ Includes military outlays.

3/ Excludes accumulation of sizable arrears on domestic and external debt interest, suppliers' credits, and wages.

4/ Until October 2003, there was no reliable information on the composition of financing.

Table 3. Liberia: Monetary Survey, June 2002 - June 2004
(In millions of Liberian dollars, unless otherwise noted)

	2002 Jun.	2002 Dec.	2003 Jun.	2003 Sep.	2003 Dec. Est.	2004 Jun. Proj.
Net foreign assets	-45,896	-36,816	-50,767	-33,832	-34,795	-41,549
<i>Of which: Fund credit and overdue charges</i>	-45,350	-36,607	-50,105	-33,289	-34,676	-41,424
Net domestic assets	48,496	39,714	53,481	36,165	37,213	44,715
Net domestic credit	63,616	53,571	69,612	46,566	48,904	58,253
Net claims on government	62,175	52,383	67,718	45,379	47,362	56,423
<i>Of which: Fund credit and overdue charges</i>	45,350	36,607	50,105	33,289	34,676	41,424
Claims on private sector	1,237	1,109	1,801	1,124	1,474	1,751
Claims on public enterprises	53	65	79	49	54	65
Claims on nonbank financial institutions	151	14	14	14	14	14
Other items, net	-15,120	-13,920	-16,202	-10,448	-11,691	-13,538
Monetary aggregates						
Currency outside banks (Liberian banknotes and coins only)	948	1,045	1,021	943	943	1,291
Commercial banks' reserves at Central Bank of Liberia 1/	159	196	151	151	148	200
Reserve money 2/	1,107	1,241	1,172	1,095	1,091	1,491
Commercial bank deposits 3/	1,652	1,853	1,693	1,390	1,475	1,875
Total demand deposits	1,121	1,318	1,153	900	965	1,228
<i>Of which: Liberian dollar-denominated deposits</i>	162	168	121	112	112	153
<i>Of which: U.S. dollar denominated deposits (in millions of U.S. dollars)</i>	13.7	17.7	14.1	16.3	17.1	17.9
Time, savings, and other deposits	532	535	540	490	510	647
<i>Of which: Liberian dollar-denominated deposits</i>	96	94	160	163	163	217
<i>Of which: U.S. dollar denominated deposits (in millions of U.S. dollars)</i>	6.2	6.8	5.2	6.8	7.0	7.2
Broad money (M2) 4/	2,600	2,898	2,714	2,333	2,418	3,166
Liberian dollar component	1,206	1,307	1,301	1,218	1,217	1,662
U.S. dollar component (in millions of U.S. dollars)	19.9	24.5	19.3	23.0	24.0	25.1
Memorandum items:						
Broad money (changes from Dec. 2002 onward, in Liberian dollars) 5/	...	...	...	-19.5	-16.6	30.9
Liberian dollar component broad money (in Liberian dollars) 5/	...	...	...	-6.8	-6.9	36.5
US dollar component broad money (excluding banknotes, in U.S. dollars) 5/	...	...	...	-6.0	-1.9	4.4
Velocity (GDP relative to broad money)	15.1	12.6	11.9	10.2	9.1	7.8
Currency/deposits (Liberian dollars only)	367	398	364	344	344	349
Nominal GDP (annualized basis)	39,270	36,465	32,281	23,809	22,110	24,822

Sources: Liberian authorities; and Fund staff estimates.

1/ Derived from commercial banks' balance sheets (Liberian dollar denominated).

2/ Liberian dollar currency outside banks and commercial banks reserves (Liberian dollar denominated) held at central bank.

3/ One bank has been excluded from the deposit May.

4/ Defined as Liberian currency outside banks plus demand, time, and savings deposits in Liberian and U.S. dollars.

5/ For June, September and December 2003, compared to December 2002. For June 2004, compared to December 2003.

Table 4. Liberia: Balance of Payments, 1999- 2004
(In millions of U.S. dollars, unless otherwise indicated)

	1999	2000	2001	2002	2003	2004
				Est.	Est.	Proj. Jan.-Jun
Trade balance	-125.3	-62.0	-65.9	-15.3	-50.4	-50.8
Exports, f.o.b.	58.9	120.3	127.9	166.5	94.8	20.3
<i>Of which:</i> rubber	33.1	57.1	54.0	59.2	39.3	19.7
timber	23.4	61.0	69.2	100.4	54.3	0.0
Imports, c.i.f.	-184.1	-182.2	-193.8	-181.7	-145.2	-71.1
Petroleum	-21.8	-35.7	-37.7	-60.5	-25.3	-12.7
Rice (incl. food aid)	-22.4	-27.5	-27.6	-38.1	-49.0	-22.1
Donor	-45.9	-40.3	-15.2	-19.5	-19.0	-24.0
Other	-94.0	-78.7	-113.3	-63.6	-51.9	-12.3
Services (net)	5.4	13.9	14.7	19.3	1.5	-2.8
Income (net)	-107.4	-118.1	-110.7	-87.0	-64.2	-32.1
<i>Of which:</i> public interest payments due	-79.0	-91.2	-67.8	-44.8	-44.5	-29.1
Current transfers (net)	103.0	81.7	53.4	76.8	79.6	62.4
Donor/nongovernmental organization transfers (net)	71.8	54.4	32.1	42.6	19.5	33.6
Private transfers (net)	31.2	27.3	21.3	34.2	60.1	28.8
Remittances	16.0	12.8	10.2	20.8	50.3	20.9
Maritime	15.2	14.5	11.0	13.4	9.8	7.9
Current account balance	-124.2	-84.4	-108.5	-6.1	-33.5	-23.2
Current account balance, excluding grants	-196.0	-138.9	-140.6	-48.7	-53.0	-49.9
Capital and financial account	3.4	0.1	-10.2	-15.0	-34.7	-12.0
Official financing	-25.1	-24.6	-22.5	-22.4	-23.5	-9.1
Disbursements	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-25.1	-24.6	-22.5	-22.4	-23.5	-9.1
Private financing	28.5	24.8	12.3	7.4	-11.2	-2.9
Direct foreign investment	27.0	20.8	8.3	2.8	0.0	0.0
Other investment (incl. trade credit)	1.5	3.9	4.0	4.7	-11.2	-2.9
Errors and omissions	17.1	-31.1	29.2	-45.0	0.0	0.0
Overall balance	-103.7	-115.4	-89.5	-66.1	-68.2	-35.3
Financing	103.7	115.4	89.5	66.1	68.2	35.3
Change in official reserves (increase -)	0.2	0.2	-0.2	-0.5	1.5	-6.1
Arrears (accrual +)	103.5	115.2	89.7	66.6	66.7	41.3
Use of Fund credit (net change in arrears)	14.5	14.3	15.4	8.7	7.5	3.3
Increase in non-Fund arrears	89.1	100.9	74.3	58.0	59.2	38.1
Memorandum items:						
Current account balance (in percent of GDP)						
Including grants	-28.1	-15.6	-20.3	-1.1	-7.6	-11.2
Excl. grants	-44.4	-25.6	-26.3	-8.7	-12.0	-24.1
Excl. grants and public interest payments due	-10.2	1.3	-7.6	6.9	2.5	2.8
Trade balance (in percent of GDP)	-28.4	-11.4	-12.3	-2.7	-11.4	-24.6
Public sector external debt (medium and long term)						
Debt outstanding, including arrears	2,538.2	2,565.3	2,599.4	2,796.0	2,870.2	2,910.3
(in percent of GDP)	574.5	473.8	486.4	497.6	649.1	703.3
Debt-service charges	104.1	115.8	90.3	67.2	68.0	38.2
(in percent of GDP)	23.6	21.4	16.9	12.0	15.4	18.5
Terms of trade (1997=100)	104.4	112.6	88.6	107.0	122.3	119.5
International reserves	...	...	...	1.8	0.3	6.4
International reserves (in months of imports)	...	...	...	0.1	0.0	0.5
GDP at current prices (in U.S. dollars)	441.8	541.5	534.4	561.8	442.2	206.9

Table 5. Liberia: External Public Debt, Debt Service, and Arrears, 1999-2003
(In millions of US dollars, end of period)

	1999			2000			2001			2002			2003		
	Stock	Arrears	Debt service	Stock	Arrears	Debt service	Stock	Arrears	Debt service	Stock	Arrears	Debt service	Stock	Arrears	Debt service
All creditors	2,581	2,244	105	2,565	2,272	116	2,599	2,331	90	2,796	2,539	68	2,870	2,603	64
Principal	1,454	1,117	26	1,403	1,110	24	1,389	1,120	22	1,453	1,197	22	1,470	1,220	23
Interest	1,126	1,126	79	1,162	1,162	91	1,211	1,211	68	1,342	1,342	46	1,400	1,383	41
Multilateral	1,375	1,203	48	1,354	1,194	51	1,346	1,195	38	1,464	1,314	23	1,513	1,335	22
IMF	645	645	14	627	627	14	618	618	16	676	676	9	717	717	8
Principal	309	309	48	292	292	51	282	282	38	304	304	23	320	320	21
Interest	336	336	14	335	335	14	337	337	16	373	373	18	398	398	18
IBRD	299	297	11	293	293	10	293	293	5	334	334	2	336	336	2
IDA	113	23	3	111	26	3	110	29	3	114	33	3	115	37	4
African Development Bank	0	165	15	234	169	18	234	173	11	248	187	7	253	192	5
Others	319	73	5	88	78	6	91	82	3	92	84	2	92	53	2
Official bilateral	695	546	23	730	596	23	743	625	22	778	673	22	782	694	21
Commercial	425	425	34	441	441	41	470	470	30	513	513	23	534	534	22
Short term	43	43	0	41	41	0	41	41	0	41	41	0	41	41	0

Sources: Liberian authorities, and Fund staff estimates.

Liberia: Summary of Fiscal TA Needs Assessment

A. Background and Overview

Years of war and conflict have left the **government's physical infrastructure in a complete state of disrepair:**

- Electricity is not available except via generators.
- There are no telephone communications except cellular.
- Buildings lack doors and windows but at least are minimally usable.
- As a result of looting, desks, chairs, copy machines and other basic office equipment are not widely available.
- Basic office supplies (paper, pencils, etc.) are scarce.
- Important historical records were destroyed.

Despite this, there are some **positive signs** that give hope for reform:

- Through donor support, computers have been selectively placed to help provide strategic data reports.
- The staff is knowledgeable, and many have a good understanding of basic processes and would benefit from a capacity-building program.
- Some foreign-trained Liberians have returned to assume key positions.
- Several previous recommendations provided by the IMF and other international organizations have been implemented.

Systems and procedures designed to provide integrity are in place in some areas of fiscal management. Some of these are the direct result of past technical assistance and were implemented without much international support. **The basic procedures are good, but they tend to be repetitive and burdensome, sometimes with an unclear purpose,** and often missing the big picture. There is basic checking of information but no real auditing. Reports tend to be narrow – separate revenue and expenditure reports but not a full fiscal report that also includes financing. The more overriding concern, however, is the **pervasive view that there are widespread governance problems.**

The **recommended approach** will have to be multifaceted:

- Strategic placement of experts to help with certain areas (e.g. budget preparation)
- Apply an integrated project approach to technical assistance (TA), in which there will be several experts and systems that involve computerization and other equipment.
- All aspects of fiscal management should be the responsibility of the Ministry of Finance.
- Perform financial audits in areas with credible alleged governance problems.
- Management contracts are required in areas where there is a perception of financial irregularity.
- Establish a trust fund (complete with auditing) that could serve as a financing source for government expenditures, but with the goal of using government procedures (after some modifications); the fund established in Afghanistan could serve as a model.
- Training should concentrate on familiarizing the staff with best practices in revenue and expenditure management and policy. Computer training would also be necessary as information technology (IT) is introduced.

- When conditions permit, evaluate how various processes can be extended beyond Monrovia.

B. Revenue Administration

Current situation

In spite of the severe economic and political conditions prevailing in Liberia since the last IMF revenue mission in 2000, significant progress has been made in implementing many reforms (the new tax code, general sales tax, large taxpayers' unit, harmonized system, and single administrative document). Furthermore, the staff has demonstrated a solid understanding of its responsibilities. However, basic tools and training are virtually nonexistent. Procedures in revenue administration, while sound, are generally antiquated, with excessive rework, duplication, and manual cross-checking at virtually all steps of transaction processing and revenue accounting. The view is pervasive among clients and the international community that corruption is widespread in customs and to a lesser extent in the Direct and Indirect Tax Departments.

Short-term needs

The following short-term actions should be taken by the National Transitional Government of Liberia (NTGL) (over the next three months):

- Amend the contract with the Bureau of Inspection Valuation Assessment and Control (BIVAC) to provide for BIVAC supervision of the ship/aircraft unloading and manifest control process in Monrovia and performance of the exit gate function. BIVAC should report its findings in monthly reports, which should be made widely available within the government and to selected international and bilateral institutions.
- Revoke by administrative order the current practice of exempting companies from preshipment inspection (PSI) or voluntary participation, so that BIVAC's additional responsibilities can be financed through an expanded base of importers subject to PSI, rather than through an increase in the fee rate.
- Share BIVAC contract negotiations between the Ministry of Finance and the Ministry of Industry and Commerce in the short term; transfer BIVAC contract negotiations and overall responsibility to the Ministry of Finance in the long term, as the primary purpose of the contract is revenue protection.
- Seek external financing to conduct an external audit of all manifests received since October 14, 2003, in order to ensure that all goods are accounted for and all revenues owing are collected.
- Reduce the redundancy of having eight agencies perform goods examination for imports, in accordance with internationally accepted best practice.
- Seek technical assistance to assess the fiscal impact of all revenue exemptions and recommend steps to reduce tax expenditures and the discretionary powers granted by the legislature. The Ministry of Finance should fulfill its reporting obligations under the tax code regarding tax expenditures and specifically report on action taken to reduce and better control tax expenditures.

- The large taxpayers' unit should report to the Deputy Minister of Revenue, and its mandate should be expanded to include customs, excise, and general sales tax (GST).
- Consider revoking the suspension of the GST on restaurant services, and consider accelerating the application of the GST on new services – which was already planned as phase 2 of tax reform (e.g., courier services, accountants, lawyers, car rentals, video rentals, cell phone services, and others). The extension of the GST to new services would require a proposal to the legislature in the next budget exercise.
- Implement the previous IMF recommendation to make the taxpayer identification number (TIN) mandatory for all import permits, customs, GST and tax documents, and revoke the practice of charging a fee for it.
- Implement an appeals process for disputes regarding tax matters, as in the tax code.
- Evaluate various options over the medium term for management of customs (and the port) utilizing a steering committee with representatives from the Ministry of Finance, other government stakeholders, and donor(s) as appropriate.

C. Public Expenditure Management

Current situation

Despite severe constraints, the authorities have been able to maintain a public expenditure management (PEM) system that has a number of good features. In particular, they are able to produce timely end-of-month cash and commitment expenditure reports and revenue reports, and are able to achieve a degree of reconciliation of their accounts with the Central Bank of Liberia (CBL). Overall, the mission noted that, although the staff had an understanding of the critical PEM issues, implementation weaknesses would need to be corrected. The current system has an excessive number of steps, many of which are redundant and serve no apparent purpose, the fiscal reports are not complete, budget execution is too concentrated in the Ministry of Finance, and monitoring is inadequate to enable management to take corrective measures, cash planning is minimal, and the staff has not received recent training in PEM. Furthermore, the budget preparation process is extremely fragmented. With some procedural changes and with a technical assistance program – including the provision of equipment – the ministry could run a PEM system with the appropriate degree of transparency and control. However, this would have to be supplemented by additional auditing – most likely, with significant international oversight – with a view to addressing alleged governance issues.

Short-term needs

The short-term actions (next three to six months) that could be taken by the NTGL include the following:

- Generate comprehensive monthly fiscal reports, with explanatory notes, to ensure in-year monitoring (formats were provided to authorities). These could be overseen by a fiscal analysis unit within the Ministry of Finance, reporting directly to the Minister of Finance.
- Incorporate in the annual budget appropriation law—including for the upcoming budget for the last half of fiscal year 2003/04—certain features, including provisions to ensure a cash budget, and identify revenue policy changes and their revenue implications. When

transmitting the draft budget to parliament, the ministry should indicate the financial impact of each policy measure, and spell out that parliament will have to reduce expenditures accordingly for any revenue policy change that it fails to adopt.

- Introduce more effective cash planning; operationalize the proposed Cash Management Committee.
- Ensure full bank reconciliation of both revenues and expenditures, and reconciliation of daily and monthly reports with month-end bank balances.
- Conduct a weekly analysis of commitments, taking account of their time profile; restrict validity of checks to six months.
- Ensure that government of Liberia accounts in commercial banks are (and remain) closed and consolidate all government of Liberia accounts into a single treasury account.
- Ensure that the practice of existing direct debits on the government of Liberia accounts is stopped. Enter into a formal agreement between the government of Liberia and the CBL on the role of the CBL as a fiscal agent of government.
- Seek technical assistance in the expenditure management process as a way to streamline the processes and ensure more transparency and better control. This may entail limited computerization and transfer of some responsibility to international advisors.
- Establish an externally managed and audited trust fund to provide a source of budget financing as an encouragement to donors to work through the NTGL PEM system.
- Seek technical assistance to establish both external audit responsibility and a reformed procurement process consistent with international best practices.
- Modify procedures to increase the degree of delegated authority in budget execution (this will likely depend upon the degree of computerization).
- Establish a system to obtain donor data on a regular basis, even if not channeled through the budget, to ensure comprehensiveness and transparency of budget coverage.
- Include all extrabudgetary funds in the budget to make it more comprehensive.
- Over the medium term, work toward merging the primary responsibility for all aspects of budget preparation and execution under the Ministry of Finance, to coordinate fiscal management.

Liberia: Early Findings and Initial Priority Technical Assistance Recommended in the Monetary and Financial Systems by the IMF Mission in December 2003

A. Early Findings

In summary, the IMF mission found that substantial and urgent support is needed from donors and technical assistance providers to prevent the further erosion of the confidence in the currency and the financial system of Liberia, which could dramatically affect the ability of the new authorities to handle an already complex and difficult economic situation.

State of the financial sector

With regard to the financial sector, the mission found the following:

- The fragile situation of Liberia's monetary and financial systems is threatening the upswing in economic activity expected during 2004. An undercapitalized banking system is not a good source of finance for economic growth, and potential liquidity problems, despite the present good liquidity ratios, make the financial system vulnerable. It is critical that the Central Bank of Liberia (CBL) maintain confidence and operate credibly, both to address potential liquidity concerns and satisfy donor concerns for payment surety.
- The CBL and the three banks legally operating in the country are recording weak earnings, two are troubled, and the system is thin on liquidity.
- Problems in the real economy, as well as an uncertain stock of Liberian banknotes in the market and a very limited reserve of unissued banknotes in the vaults of the CBL, are leading to a complex liquidity situation for the national currency.
- The economic consequences of Liberia's cash economy and rudimentary payment system have not been made better by the security situation.

Central bank and banking operations

In this area, the mission found the following:

- The CBL has good facilities and infrastructure.
- The absence of a developed financial market infrastructure limits monetary operations, and the monetary framework and instruments used are not market oriented. Limits on interest rates distort credit and savings market pricing.
- Mounting cash-handling problems in an already heavily cash-based economy threaten to deepen the financial blockage, spreading to and putting at risk the larger economy.
- The CBL and the banks appear to have relatively well-designed, computerized accounting systems. Financial data are normally available, but accounting rules and standards require some updating to reflect international best practices.

- The bank supervision function has generally competent staff but would benefit from exposure to more modern examination techniques.

Financial legislation

- New key financial sector laws were enacted in the late 1990s and are generally of a high standard. Based on international experience over the last five years, a thorough assessment is required to review the CBL's governance and accountability.
- Financial sector by-laws, regulations, instruction, rules, etc., have not been continuously modernized.

B. Initial Priority Technical Assistance

Financial legislation

Actions recommended include the following:

- Review CBL Act to identify (i) any issues of governance and accountability while preserving necessary central bank independence; (ii) distribution of profits; (iii) nature of lending to the government of Liberia; and (iv) rights and obligations on statistics and information.
- Review Financial Institutions Act to (i) allow interbank deposits and lending; and (ii) clarify rights and obligations on statistics and information.
- Draft Payment Law and regulations for payment transactions and settlement systems.
- Draft law/procedures for anti-money laundering/combating the financing of terrorism (AML/CFT).

Central bank modernization

The following actions were recommended in this area:

- Review CBL governance and administration.
- Review the CBL role as government fiduciary and the agency agreement with contracts for provision of CBL/Ministry of Finance services.
- Develop liquidity forecasting capacity and design short-term debt instruments to establish a money market and facilitate monetary operations.
- In order for the government of Liberia to obtain required stocks of Liberian currency, ensure that the CBL initiate a transparent, fair, and accountable system (such as auctions) on behalf of the government to exchange U.S. dollars for Liberian dollars.
- Review the regulatory framework's compliance with Basel Core Principles and strengthen supervision of commercial banks and foreign exchange bureaus.

Financial sector reforms

The mission recommended that the following reforms be implemented:

- Provide a market-based vision for banking sector restructuring and competition.
- Design a framework and advise on resolution of insolvent and troubled banks.
- Strengthen the Liberian Bankers' Association.
- Review licensing and regulation of foreign exchange bureaus.

Currency and payment

The mission made the following recommendations:

- Evaluate CBL's cash currency operations.
- Plan nationwide payment, clearing, and settlement systems.
- Set up oversight of payment system.
- Design appropriate payment system.

Accounting and financial disclosure

Technical assistance recommended in this area includes the following:

- Enhance CBL accountability and credibility by conducting an independent external audit to include validation and valuation of assets (including but not limited to a full-scope cash count of vault cash and uncirculated currency) and the core functions of the central bank.
- Update accounting standards used by the CBL and banks.
- Advise on the use of International Financial Reporting Standards (IFRS) and the reporting framework required under these standards for the CBL and the banks.
- Revise the chart of accounts for the CBL and for the banking sector.

Outline of a Technical Assistance (TA) Implementation Plan

Indicated in the table below are TA assignments that the IMF would be prepared to address in the monetary and financial systems areas either alone or in collaboration with other donors or TA providers.

TA Assignment	TA Provider
Financial legislation	
CBL Act amendment	IMF
Financial Institutions Act amendment	IMF
Payment Law/regulations	IMF
AML/CFT legislation/procedures	IMF
Central bank modernization	
New governance/organization	IMF
Revised by-laws and rules	IMF
Liquidity forecasting	IMF
Short-term debt instruments	IMF
CBL auctions (exchange of U.S. dollars for Liberian dollars)	IMF
Supervision of banks and foreign exchange bureaus	IMF
Financial sector reforms	
Banking sector restructuring	IMF
Resolution of insolvent/troubled banks	
Strengthen Bankers Association	
Regulation of foreign exchange bureaus/microfinance	
Currency and payment	
CBL's cash currency operations	
Nationwide payment system	IMF
Setting up of oversight of payment system	
Accounting and financial disclosure	
Accounting regarding IMF membership	
Use of IFRS	
Chart of accounts	
Review of the valuation of CBL holdings	

Liberia: Needs Assessment for Technical Assistance in Statistics and Recommendations by the IMF Mission in December 2003

Introduction

The mission assessed technical assistance needs in statistics covered by the IMF's technical assistance program (national accounts, prices, government finance, monetary, and balance of payments statistics). In doing so, it updated the findings and recommendations of the "Report on the IMF Multisector Statistics Mission to Liberia, May 1998."¹ The earlier report distinguished between actions that could be taken by the Ministry of Finance (MOF), Central Bank of Liberia (CBL), and Ministry of Planning and Economic Affairs (MPEA), taking into account their existing resource capacity, and actions that required significant donor involvement. To provide some insight into the present institutional capacity of these agencies to produce statistics, the following reviews progress made in implementing the IMF's recommendations on the statistical work plans of these agencies and experience in recent donor-funded projects in the statistical area. This is followed by a review of the prerequisites for donor support in restoring Liberia's pre-conflict capability for producing statistics, and a listing of the work programs of the main data-producing agencies for which donor assistance is needed.

Present institutional capacity

Following the 1998 mission, the IMF provided technical assistance in the form of visits by experts in **monetary and balance of payments statistics** (both to the CBL). As a result, the CBL has a well-established monthly reporting system by commercial banks and a monetary statistics database that broadly meets the operational needs of the authorities and the IMF. However, there are emerging problems of classification in data reported by commercial banks, and there is a need to require banks to report in a standard format in accordance with international accounting and statistical standards; this need should be addressed through further technical assistance. The balance of payments statistics project was less successful, although progress was made in establishing a reporting system for foreign currency remittances. It was evident that, outside the monetary sector, the CBL does not have the capacity to undertake regular statistical surveys needed for balance of payments compilation and has suffered from a reluctance by some government agencies to coordinate their data collection activities with the CBL, or share available data with the CBL. The mission judged that the CBL did have the capacity to produce a summary balance of payments statement and would benefit from further technical assistance, for which purpose resources in the CBL were broadly adequate to provide necessary support. However, to support this work, there is a need to revise existing central bank legislation to give the CBL legal authority to mandate the

¹ The report was presented to the authorities and is not a public document. However, it can be made available by the IMF to others with the permission of the authorities.

reporting of statistics needed for balance of payments compilation, and the CBL needs to build its capacity to conduct statistical surveys.²

The 1998 mission made a number of recommendations in **government finance statistics** (GFS) that it considered could be implemented by the MOF with existing institutional capacity and without further technical assistance. The MOF has subsequently implemented the *1986 Government Finance Statistics Manual (GFSM86)* classifications for budgetary receipts and payments on a cash basis for all the institutional units of budgetary central government; these classifications are used to report monthly aggregates consistent with *GFSM86* fiscal groupings. Appropriate exchange rates are now used to express summary statements on budgetary activities in Liberian dollars. For budgetary central government, the MOF has also instituted procedures for reconciling its own records of receipts and payments with financial statements provided by the CBL, and it has made efforts to update and reconcile outstanding debt amounts with creditor sources, with the result that it has established a database on external and domestic debt in which creditor and debtor sources have been largely reconciled. Also, the analytic presentation of budgetary central government broadly corresponds to *GFSM86* except for the treatment of lending minus repayments, grants-in-kind, arrears, and interest.

Other recommendations in the area of GFS were contingent on a significant expansion in MOF capacity and on donor resources. These recommendations remain relevant and include an expansion of the MOF's fiscal database to cover data for (i) the consolidated central government account, according to *GFSM86* definitions (this should include central government units with individual budgets, such as the Forest Development Authority, the National Port Authority, and the National Social Security and Welfare Corporation)³ and should also include the development budget currently managed by the MPEA; (ii) all public enterprises, according to the requirements of *GFSM86*; and (iii) expenditures in Liberia by foreign donors that are not funded through central government accounts (included as a memorandum item in *GFSM86* and of particular importance for Liberia). An attempt should also be made to establish a migration path to the *2001 Government Finance Statistics Manual (GFSM01)*, which would allow the MOF to convert, over time, its fiscal database from cash to accruals accounting (including, for example, wage and tax arrears and also including

² As an example, the CBL should collect data on the balance of payments transactions of foreign owned logging companies. The design of the questionnaire should take into account the likelihood that the local offices of these companies maintain limited accounts on their operations, possibly confined to local expenditures, and may be unable or reluctant to report investment income. A balance of payments expert could help address these issues of questionnaire design, but this would have little impact if the CBL lacked a mandate to require statistical reporting. The Forestry Development Authority would be required only to provide a register of logging companies.

³ In the present mission, it was concluded that the National Port Authority should be treated as a public enterprise in the GFS classification and the Bureau of Maritime Affairs should be treated as a unit of central government.

contingent liabilities). With the increasing role of the local government in priority expenditure, there is an emerging need to compile and monitor data for the whole of the general government.

The program listed above would benefit from the development of a Computerized Integrated Financial Management System, establishment of a comprehensive budget classification system for the full scope of GFS, and establishment of a separate high-level and visible statistical compilation unit with trained staff reporting to the Minister or Deputy Minister for Expenditure and Debt Management. The statistical compilation unit should advise on the scope of the fiscal database to be maintained, including the use of the GFS framework, which would help both release synergies and address some of the deficiencies resulting from the present diffuse arrangements for statistical compilation. Subject to an expansion in MOF capacity and donor support, the program would require technical assistance in setting up a database consistent with *GFSM01*.

The 1998 mission concluded that the MPEA had virtually no capacity to resume data collection and compilation of **national accounts statistics**, but it did make recommendations in **external trade and consumer price statistics** that it considered could be implemented by the MPEA with existing institutional capacity and without further technical assistance:

- **In consumer price statistics**, the resumption of the old Monrovia consumer price index was recommended. Because the weights, selection of outlets, and selection of pricing items were outdated, it was recommended that steps be taken to deal with items that had disappeared from the market, and that a modified Laspeyres formula be adopted to address series where substitution had taken place. In the event, these steps were not taken, although the Monrovia consumer price index was reintroduced. As a result, the index may be seriously flawed. Because of the lack of computer resources in the MPEA, the index is now compiled on the CBL's computers. Plans to compile a new national consumer price index are contingent on the completion of a national Household Income and Expenditure Survey (HIES).
- **In external trade statistics**, the compilation of external trade statistics based on data collected by Bureau of Inspection Valuation Assessment and Control (BIVAC) International was recommended with appropriate coverage adjustments, and with the preparation of methodology and computer programs in support of the compilation of indices of foreign trade volume and unit values. In the event, this was not done due to lack of capacity in the MPEA.
- **In national accounts statistics**, the resumption of the annual national accounts questionnaire for industrial enterprises was recommended as a step toward compiling GDP at current market prices. In the event, this was possible only with financial support from the United Nations Development Program (UNDP) and only for 2002, and even then the outcome was

disappointing, owing to nonresponse. The MPEA remains unable to compile reliable estimates of GDP at current and constant market prices.

Substantial donor support will be needed to reestablish MPEA's capacity to compile national accounts statistics in the longer term. Such a work program should include (i) establishment of a national business register; (ii) resumption of an annual Establishment Survey and an Annual National Accounts Questionnaire for manufacturing, mining, utilities, and agriculture; and (iii) completion of an HIES. This work program should be undertaken in parallel with the compilation of detailed central government accounts (by the MOF), the compilation of statistics on agriculture production (by the Ministry of Agriculture (MOA)), the compilation of foreign trade volume and unit value indices and producer and consumer price indices (all by the MPEA), and the compilation of short-term indicators on production, employment, and earnings (by the Ministry of Commerce and Industry and the Ministry of Labor (MCI)).

In its present degraded state, the MPEA is not capable of performing the critical role that would be required of it in supporting such a work program, especially given its likely involvement in conducting a population census in 2004. Also, the two main donor-funded statistical projects of recent years, the 1999/2000 United Nations Population Fund Demographic and Health Survey (for which the MPEA was the host agency) and the 2001 FAO Agricultural Production Survey (for which the MOA was the host agency), both fully extended the available resources of the host agencies, including resources shifted from their other activities. The 2002 UNDP national accounts project appears to have suffered from the failure of the MPEA to successfully complete the national enterprise register or the national accounts questionnaire.

Because the capability of the MPEA appears to have been degraded more than other data-producing agencies, and given the importance of the MPEA's mandate to compile statistics, it is recommended that the Department of Statistics of the MPEA be reconstituted as an autonomous National Statistics Office, with a clear mandate and adequate resources to implement it. Such a step could help to rebuild public perceptions of the integrity of this key data-producing agency. Failure to take appropriate action could seriously weaken efforts by donors to fund statistical projects.

Prerequisites for donor support

The attached table provides a list of projects in statistics that, with donor support, would allow to reestablish its pre-conflict statistical capacity. The priority/sequencing indicated takes account of the extent to which some projects are dependent on others. Thus, the National Accounts Compilation Project could not begin until the Annual Establishment Survey and the Annual National Accounts Questionnaire have been reestablished and could not be completed until the HIES has been conducted and the national consumer price index compiled (and further refined with the national producer price index). All of these projects could be delayed if the population census has to be held back until after refugees have returned.

The design of donor-funded projects is likely to reflect the capacity of the host agency to implement a particular project and, by implication, a larger or smaller role for the donor. For example, some projects in the subject areas listed in the table would not be implemented if the host agency did not have the capacity to support the project, such as adequate manpower and computer and office resources dedicated to the project. Prior agreement is needed between the authorities and the donors as to the statistical responsibilities of each of the data-producing agencies that is to be supported. This review should address issues of duplication in present arrangements. An example is the project to develop foreign trade volume and unit value indices, which is listed under the MPEA. The project envisages the use of the BIVAC database as source data, and would require close consultation among the MPEA, BIVAC, and the MCI. The MPEA is listed as the host agency because of its prior competence in compiling volume and unit value indices. The compilation of such indices using trade data collected by the MPEA from the Customs Department would have to wait until after the contract with BIVAC to collect and compile trade statistics had been terminated.

IMF's technical assistance program

The IMF's competencies in providing technical assistance in statistics are listed in the table. As IMF technical assistance usually comprises short, peripatetic, or longer-term assignments by experts, for its success such technical assistance requires that the host agency has adequate manpower, and computer, and office resources to support the project, and that there be adequate legal and institutional support. In a large project such as the national accounts compilation project, IMF involvement, if requested, would probably be part of a coordinated effort involving other donors.

IMF technical assistance in statistics to its member countries is also closely linked to their involvement in the IMF's data dissemination standards. As Liberia is participating in the IMF's General Data Dissemination System (GDDS), it has assigned a GDDS Coordinator, Mr. Edward Liberty, Minister of Statistics, to facilitate Liberia's participation. The IMF's technical assistance in statistics to Liberia is likely to be guided by efforts made to implement the GDDS. These require the development of published metadata that describe the scope and coverage of current national statistics in the areas covered by the GDDS, draw attention to the main deficiencies in these data, and summarize current plans for improvement by the data-producing agencies. To facilitate implementation of the data dissemination objectives of these agencies, the table includes projects to develop websites by the key agencies (the MOF, CBL, MPEA, and MCI).

Donor-Assisted Projects in Statistics by Host Agency

Projects Listed by Host Agency	Priority or Sequencing	Donor Competence
Ministry of Planning and Economic Development		
Population Census	2004	
Foreign trade volume and unit value indices	2004	
Review of Monrovia consumer price index	2004	IMF
Annual Establishment Survey and National Accounts Questionnaire	2004	
National Accounts Compilation Project	2004–08	IMF
Household Income and Expenditure Survey	2005	
Establishment of a website for data dissemination	2005	
National consumer price index	2006	IMF
National producer price index	2007	IMF
International trade statistics (2007 – following the completion of the BIVAC contract)	2007	
Ministry of Agriculture		
Agriculture Census	2006	
Ministry of Finance		
Integrated Financial Management System	2005	
Establish GFS database	2005	IMF
Computerized external debt database ¹	2005	
Computerized public enterprise database	2005	
Establish a website for data dissemination	2005	
Establish a timeline for conversion to <i>GFSM01</i>	2005	IMF
Central Bank of Liberia		
Balance of payments statistics	2004–05	IMF
Monetary statistics	2004	IMF
Establishment of a website for data dissemination	2005	
Ministry of Commerce and Industry		
Establishment of a website for data dissemination	2005	
Ministry of Labor		
Labor Force Survey	2007	

¹ Software for the management of external debt databases is provided by the United Kingdom (the Commonwealth Secretariat) and by the UN Conference on Trade and Development.

Liberia: Relations with the Fund

(As of January 31, 2004)

I. Membership Status: Joined 03/28/1962; Article XIV.

II. General Resources Account:	SDR Million	% Quota
Quota	71.3	100.0
Fund holdings of currency	272.1	381.6
Reserve position in Fund	0.0	0.0

III. SDR Department:	SDR Million	% Allocation
Net cumulative allocation	21.0	100.0
Holdings	0.0	0.0

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
Stand-By Arrangements	166.1	232.9
Contingency and Compensatory	34.7	48.7
Trust Fund	22.9	32.1

V. Latest Financial Arrangements:

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
Stand-By	12/07/1984	12/06/1985	42.8	8.5
Stand-By	09/14/1983	09/13/1984	55.0	55.0
Stand-By	09/29/1982	09/13/1983	55.0	35.0

VI. Projected Obligations to Fund¹ (SDR million; based on existing use of resources and present holdings of SDRs):

	<u>Overdue</u>	<u>Forthcoming</u>			
	12/31/2001	2004	2005	2006	2007
Principal	223.7				
Charges/interest	<u>279.7</u>	<u>5.2</u>	<u>5.2</u>	<u>5.2</u>	<u>5.2</u>
Total	503.4	5.2	5.2	5.2	5.2

VII. Exchange rate arrangement

The currency of Liberia is the Liberian dollar. The U.S. dollar is also legal tender. The current exchange rate arrangement is an independent float. The exchange rate of the Liberian dollar is market determined, and all foreign exchange dealers, including banks, are permitted to buy and sell currencies, including the U.S. dollar. Liberia's exchange rate at end-December 2003 was L\$50 = US\$1. A Certificate of Deposit (CD), whose conditions on issuance in late 2002 had given rise to a multiple currency practice, was redeemed at end-2003.

VIII. Article IV Consultation

The 2002 Article IV consultation discussions were held in Monrovia during December 2002. The staff report (EBS/03/20; 2/20/03) was discussed by the Executive Board on March 5, 2003.

IX. Technical Assistance

<u>Subject</u>	<u>Department</u>	<u>Date</u>
Mission: currency and exchange arrangement reform	MAE	1995
Mission: currency arrangement and financial system reform	MAE	1998
Advisor: banking commission	MAE short term	1998
Advisor: general operations	MAE long term	1998–2000
Advisor: audit and accounting	MAE long term	1998–2000
Advisor: research	MAE long term	1998–2000

^{1/} The projection of charges and interest assumes that overdue principal at the report date (if any) will remain outstanding, but forthcoming obligations will be settled on time. The estimates of amounts of charges and their due dates are estimates and subject to change.

Advisor: bank supervision	MAE long term		1999–2001
Mission: budget preparation and expenditure execution	FAD		1997
Mission: strategy for fiscal reform	FAD		1998
Advisor: budget preparation and classification	FAD short and long term		1998–2000
Advisor: budget execution	FAD short and long term		1998–2000
Mission: reform of tax system	FAD		1999
Mission: preparation of tax code	FAD		1999
Mission: tax administration	FAD		1999
Advisor: tax administration	FAD short term		2000
Mission: preassessment for multisector statistics	STA		1997
Mission: multisector statistics	STA		1998
Mission: money and banking statistics	STA	Feb.	1999
Mission: money and banking statistics	STA	Nov.	1999
Mission: money and banking statistics	STA	May	2000
Advisor: balance of payments compilation	STA short term	Sep.	2000
Mission: balance of payments statistics	STA	Nov./Dec.	2000

X. Resident Representative

There is currently no resident representative in Liberia.

Liberia: Relations with the World Bank Group
(As of January 22, 2004)

The World Bank suspended disbursements to Liberia in December 1986 as a result of mounting arrears. Liberia's loans were placed in nonaccrual status as of June 1, 1987. To that date, disbursements had totaled million US\$141.3 million from 22 loans and US\$91.5 million from 17 IDA credits; only US\$43.6 million owing on these disbursements has been repaid.

By January 22, 2004, Liberia's arrears to the World Bank had mounted to US\$414.7 million, reflecting further interest charges. Liberia had an unmet obligation of US\$2.2 million to the World Bank, as of June 30, 2003, to fulfill the Maintenance of Value (MOV) clause in the Bank's Articles of Agreement.

Since the Liberian Peace Agreement was signed in June 2003, the World Bank has participated in multidonor assessment missions and is co-hosting the International Conference for Reconstruction in Liberia in February 2004, preparing a reengagement strategy, and exploring possible use of post-conflict/LICUS grants in the areas of social assessment and support to economic management.

World Bank Group
Statement of Loans/Credits/Grants for Liberia
Summary in U.S. Dollars at December 31, 2003

	IBRD	IDA	Total
Original principal	155,950,000	114,500,000	270,450,000
Cancellations	14,693,266	22,765,013	37,458,279
Disbursed	141,256,734	91,541,500	232,798,234
Undisbursed	0	0	0
Repaid	42,874,103	723,744	43,597,847
Due	97,977,632	107,870,130	205,847,762
Exchange adjustment	54,347,781	0	54,347,781
Borrowers' obligation	152,325,411	107,870,130	260,195,541
Sold third party	405,000	0	405,000
Repaid third party	405,000	0	405,000
Due third party	0	0	0

Source: World Bank, Integrated Controller's System.

Contact person at World Bank: Nichola Dyer 202-473-8742.

The Afghanistan Reconstruction Trust Fund

Background

The Afghanistan Reconstruction Trust Fund (ARTF), set up in May 2002 to provide donor assistance in a coordinated, transparent, and accountable fashion, has emerged as one of the main instruments for financing the country's budget and is set to evolve into a major source of technical assistance and investment support for Afghanistan. The ARTF is managed by the World Bank and currently receives funding from 21 donors.

Characteristics of the ARTF

1. **Coverage.** Within the framework of the government budget, the ARTF provides pooled foreign financing for: salaries and other recurrent costs; investment activities and programs, including quick-impact recovery projects; and costs associated with the return of expatriate experts and training programs for local officials.

2. **Governance.** The ARTF promotes good governance through the following requirements:

- Support for a government-owned program, discussed and agreed with donors and reflected in a transparent budget.
- Close integration of the ARTF into the government budget and development program.
- Close partnership of the key agencies.
- Donor involvement in reviewing performance and providing strategic guidance to the ARTF.
- Separation between the policy/allocation aspects of ARTF operations and the fiduciary/administrative responsibility.
- Full transparency and openness in ARTF processes, external management and audit.

3. **Contributions.** All donor contributions to the ARTF are grants, and no earmarked contributions are accepted.

4. **Administration.** The ARTF is administered as follows:

- World Bank is the administrator of the ARTF. The ARTF is supervised by a management committee comprising the Asian Development Bank (ADB), Islamic Development Bank (IsDB), United Nations Development Program (UNDP), and World Bank.
- The administrator has the authority to deny ARTF funding to any activity where doubts about the effectiveness or purpose of requested funding exist.

- The administrator regularly monitors the procurement of goods and services and the disbursement of funds.

The administrator is charged with ensuring maximum efficiency and effectiveness in administering funds while promoting sound financial management and accountability. Administrative charges of 2-3 percent of contributions are being applied

Statement by the IMF Staff Representative
March 1, 2004

1. This statement reports on policy decisions taken by the authorities since the issuance of the staff report. This information does not alter the thrust of the staff report.
2. The Liberian authorities have expressed their concurrence with the staff's recommendation for a comprehensive audit of the Central Bank of Liberia (CBL), and their interest in conducting audits for all commercial banks. However, they have not yet indicated their agreement with the terms of reference for the CBL audit, proposed by the staff in line with international best practices.
3. Regarding the pricing of petroleum products, the authorities have agreed with the staff's suggestion to move to competitive bidding, and guidelines for its implementation have been submitted to the recently constituted board of directors of the Liberian Petroleum and Refining Company.
4. On cooperation with the Fund, the authorities have continued to make monthly token payments (US\$50,000 per month), and have also indicated their consent to the publication of the staff report. A budget for February—June 2004 has been submitted to parliament, in line with the understandings reached with the staff. The staff has also been broadly kept informed about other fiscal developments. The CBL has provided monetary information and prudential data for the banking system to the staff, albeit with some delays.



INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 04/22
FOR IMMEDIATE RELEASE
March 18, 2004

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Discusses Liberia's Post-Conflict Situation and Prospects Through June 2004

On March 1, 2004, the Executive Board of the International Monetary Fund (IMF) concluded the discussion of a report on Liberia's post-conflict situation and economic prospects through June 2004.

Background

Intermittent civil wars have largely destroyed Liberia's physical and economic structures and the government's capacity to devise and implement policies. As a result of hostilities, about one-third of the population is estimated to be internally displaced, and government functions have largely collapsed, owing to the departure of most civil servants. Following the signature of a peace agreement and the departure of President Taylor in August 2003, Mr. Gyude Bryant was named in mid-October head of the New Transitional Government in Liberia (NTGL). The UN Security Council has established the United Nations Mission in Liberia (UNMIL) with a broad mandate. The UNMIL's primary objective is the reestablishment of security throughout Liberia through the deployment of 15,000 peacekeepers.

The intense hostilities during 2003 further worsened an already dire economic situation. Real GDP is estimated to have contracted by 30 percent. While agriculture and forestry have suffered most from widespread violence and the UN sanctions on timber exports (since July), commerce and services recovered somewhat after security in Monrovia was re-established and donor activities on the ground picked up.

Monetary and external developments reflected the decline in economic activity while the fiscal situation was characterized by falling revenue and no access to credit. International reserves fell to negligible levels at end-September, and there was some draw-down of Liberian dollar deposits. The exchange rate, which showed considerable volatility throughout 2003, has appreciated somewhat since the end of hostilities and the resumption of external assistance. A higher trade deficit, caused by sharply lower exports, was financed through remittances and renewed inflows of humanitarian assistance.

The government has made progress in implementing measures (announced in October 2003) to strengthen revenue collections and resume an orderly budget process. The centralization of revenue collections at the Ministry of Finance has put an end to practices under which government institutions levied and retained taxes and fees at the margins of the budgetary process. It led to an increase in average monthly collections to US\$5 million in the period October 2003—January 2004, three times more than monthly collections in the third quarter of 2003. The centralization of government accounts at the Central Bank of Liberia (CBL) has also largely taken place. A “mini-budget” for the period through end-January 2004 provided for payment of current civil service wages, the refurbishing of some looted government structures, and a small part of envisaged demobilization expenses.

To strengthen governance, the NTGL has taken a number of key first steps to address some long-standing issues. Imports of rice were liberalized, and important measures have been taken toward the full liberalization of imports of petroleum products. A pricing formula for petroleum products has been introduced to reflect international price movements in the domestic market. An exercise to purge “ghost workers” from the payroll is expected to be concluded shortly, and comprehensive audits of the major revenue-generating agencies and the CBL are being prepared, with foreign assistance.

Economic prospects for the first half of 2004 depend crucially on the establishment of security outside Monrovia and the pace of donor activities. The deployment of UN peace-keepers throughout Liberia is expected to help trigger the return of internally displaced persons and disarmed soldiers to their homes. Donor activities already provide an economic stimulus to the Monrovia area as delivery of humanitarian aid is increasing. Reconstruction activities that could begin in 2004 could bolster economic activity further.

The government has drawn up a basic macroeconomic framework, including a budget based on conservative revenue projections, for February—June 2004. The budget is cash-based since foreign budgetary assistance is uncertain at this stage. Spending will continue to focus on the current wage bill and further rehabilitation of government institutions.

Monetary and external prospects for the first half of 2004 should largely mirror the expected upswing of donor activities, contributing to some build-up of deposits and international reserves, and higher imports. Exports are expected to stagnate at low levels as long as UN sanctions on timber exports remain in place.

Liberia's banking system, which has suffered from the hostilities in 2003 and the sharp decline in economic activity, will require considerable strengthening so that it can play its role in the country's reconstruction. Also, the CBL needs to move toward more transparent and market-based instruments of monetary policy, including for foreign exchange transactions, and eliminate ceilings on lending rates.

Despite the largely devastated physical infrastructure, some institutional capacity remained in a few key areas. The formulation and implementation of a sound macroeconomic framework, however, would still require substantial and continued technical assistance in various areas.

In the fiscal area, it is critical to strengthen tax and customs administration and the budget process; in the monetary area, technical assistance should focus on central bank operations; and Liberia's capacity to produce statistics on national accounts and prices needs to be rebuilt.

Liberia has been in continuous arrears to the Fund since 1984. As of end-January 2004, Liberia's arrears to the Fund amounted to SDR 503 million. Liberia's forthcoming obligations—consisting only of charges and interest on principal and net SDR charges—are estimated to amount to about SDR 5.2 million annually. The Executive Board decided to suspend the country's voting and related rights in March 2003 owing to a protracted lack of cooperation, including as regards payments to the Fund.

Executive Board Assessment

The transitional government has inherited a largely devastated economy, dysfunctional government institutions, and deeply rooted governance problems. Economic recovery will therefore depend critically on the re-establishment of security, and on concerted and sustained efforts of the international community to assist Liberia.

Directors noted that the authorities have quickly begun to address all of the issues described in the Managing Director's letter of April 2002. They urged them to identify a set of concrete actions to achieve the highest priority reforms in improving fiscal and monetary management and governance. In view of Liberia's recent record of cooperation and sound policies and its limited technical capacities and overwhelming reconstruction needs, Directors supported the resumption of Fund technical assistance.

Directors endorsed the authorities' macroeconomic framework for the first half of 2004, which envisages some economic growth and a modest recovery of international reserves, based on the use of a cash-based government budget and a prudent monetary policy. In view of the critical importance of the timber industry in Liberia's economy, Directors looked forward to the international community setting in motion a process that will lead to a lifting of the UN sanctions on exports of timber.

To restore budgetary operations, Directors commended the swift implementation of measures to strengthen revenue collection and improve budgetary management. They welcomed in particular the centralization of revenue collection at the Ministry of Finance and the removal of tax exemptions for petroleum products and rice, and supported additional measures to continue expanding the base of the sales tax, and to improve tax and customs administration. They welcomed the centralization of all government accounts at the Central Bank of Liberia, and recommended setting up a transparent and accountable mechanism to receive and manage all timber-related revenue and donor funds for social and humanitarian purposes.

They emphasized the critical importance of strengthening relations with donors and integrating donor financing into the budget process. In recognition of the overwhelming scale of Liberia's debt problems, they commended the government's efforts to settle domestic debts and arrears, and urged them to begin developing a strategy for dealing with external arrears.

Directors called on the authorities to make fundamental improvements in the area of governance. They urged that the planned external audit of the CBL be conducted in line with international best practices. They also welcomed planned audits of the main revenue-generating agencies, steps to demonopolize rice and petroleum imports and provide a mechanism for enhancing competition, and the development of a system for tracking “ghost workers” in the civil service.

Liberia’s financial sector will need to be substantially strengthened to fulfill its role in economic recovery and support a unified currency system. Directors urged the monetary authorities to improve the efficiency and accountability of the CBL, and to develop more diversified and transparent instruments to operate monetary and exchange rate policies. They urged the authorities to improve the provision of monetary data to the Fund.

Directors observed that broad-based technical assistance will be essential to rebuild capacity in economic management. They urged the authorities to work with the Fund and other international institutions and donors to establish a coherent and fully coordinated strategy in this area.

Directors welcomed the NTGL’s resumption of regular token monthly payments to the Fund. Directors discussed the modalities of future Fund engagement with Liberia, as well as its catalytic role going forward. They stressed that a continued track record of cooperation and strong policies will be needed to lay the basis for normalizing relations with the Fund and other creditors over time. If these conditions are met, Directors supported a flexible application of the Fund’s policy on de-escalation of remedial measures. Directors also suggested that continued improvement in Liberia’s cooperation with the Fund, implementation of sound policies, and establishment of the necessary administrative capacity—including to collect and disseminate data—should facilitate the development of a Staff-Monitored Program.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF’s assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Liberia: Selected Economic and Financial Indicators, 1999-2004

	2001	2002	2003	2004
		Est.	Est.	Proj. Jan-June
(Annual percentage change, unless otherwise indicated)				
Output and prices				
Real GDP 1/	4.9	3.3	-29.5	16.4
Consumer prices (annual average)	12.1	14.2	15.0	...
(In percent of GDP)				
Central government operations (calendar year)				
Total revenue and grants	13.0	12.9	10.8	13.5
<i>Of which</i> : tax revenue	11.4	12.5	9.5	11.9
Total expenditure and net lending	13.7	14.2	10.2	15.7
<i>Of which</i> : current expenditure	7.6	4.6	5.5	...
capital expenditure	6.1	9.6	4.6	...
Overall fiscal balance (cash basis)	-0.7	-1.3	0.7	-2.2
External sector				
Current account balance, including grants (deficit, -)	-20.3	-1.1	-7.6	-11.2
<i>Of which</i> : public interest payments due	-12.7	-8.0	-10.1	-14.0
Current account balance, excluding grants (deficit, -)	-26.6	-12.7	-12.0	-24.1
Trade balance (deficit, -)	-12.9	-4.6	-11.4	-24.6
Exports, f.o.b.	23.9	26.2	21.4	9.8
Imports, c.i.f.	-36.9	-30.7	-32.8	-34.3
Public sector external debt outstanding (total)	486.4	497.6	649.1	703.3
(In millions of U.S. dollars, unless otherwise indicated)				
Current account balance including grants (deficit, -)	-108.5	-6.1	-33.5	-23.2
Trade balance (deficit, -)	-65.9	-15.3	-50.4	-50.8
Nominal GDP	534.4	561.8	442.2	206.8
Official exchange rate (Liberian dollar per U.S. dollar; end of period)	49.5	65.0	50.0	...

Sources: Liberian authorities; and IMF staff estimates and projections.

1/ For 2004, growth rates compared to second half of 2003.

Statement by Ismaila Usman, Executive Director for Liberia
March 1, 2004

Key Points:

1. *Physical and Economic structures have largely been destroyed by the war;*
2. *Administrative and technical capacities have been significantly weakened;*
3. *About one third of the population is estimated to have been internally displaced;*
4. *Poverty is extreme and widespread with more than three quarters of the population living on less than US\$1 per day;*
5. *Real GDP is estimated to have declined by 30% in 2003;*
6. *Exports contracted sharply due to UN sanctions and ban on some export commodities;*
7. *Banking sector is weak, and there is a high degree of dollarization in the economy;*
8. *Authorities have resumed token monthly payments to the Fund;*
9. *A medium-term economic framework titled Results-Focused Transitional Framework (RFTF) has been drawn up to guide reconstruction efforts through 2005;*
10. *Government accounts have been transferred to the Central Bank of Liberia (CBL) and Revenue collection has been centralized;*
11. *At a donors conference in New York in February 2004 significant pledges were made for humanitarian and reconstruction aid;*
12. *The budget for February–June 2004 is before the National Transitional Legislative Assembly for approval. Meanwhile, the Assembly has passed a continuing resolution authorizing spending by the National Transition Government, up to one third of last approved budget to cover essential categories of expenditure pending the main budget approval;*
13. *The authorities request for a resumption of the Fund's technical assistance in light of pressing capacity constraints and capacity building needs.*

Introduction

The National Transitional Government of Liberia (NTGL) under Chairman Gyude Bryant, expresses its deep appreciation to the Executive Board and Management, as well as the staff of the Fund for their understanding and support in the administration's current efforts to resume cooperation with the institution, and in the enormous challenges facing the Liberian economy.

It will be an understatement to say that the last eight months have been anything but very challenging to the new administration in Liberia, having inherited an economy that has been almost completely destroyed by the many years of internal conflict. With nearly one third of the population estimated to have been internally displaced and real GDP contracting by about 30% in 2003, there is pervasive poverty. There were also supply shortages arising from the displacement of rural population which has led to the disruption of agricultural activities and the slowing down of commerce.

2. The new authorities are committed to reforms and restoring relations with the Fund

The new Liberian authorities, in the last few months, have been consistent in implementing policies, that have resulted in some significant progress on the economic front, as well as improvement in the country's political and security conditions.

In particular, the authorities have demonstrated a strong commitment to resume and further strengthen cooperation with the Fund on economic policies and payment obligations, by beginning to address the many issues mentioned in the Managing Director's letter of complaint to the Executive Board before the suspension, including some of the conditions for lifting the suspension of voting and related rights. Indeed, immediately upon assumption of office, the new administration expressed the desire to begin dialogue with the Fund staff.

Constructive dialogue followed both at home and in Washington and this has contributed immensely to the success of the New York donors conference in February 2004. The authorities have also resumed the token monthly payments of US \$50,000 to the Fund, despite Liberia's fragile balance of payments and fiscal positions, in order to re-affirm their strong commitment to implement and sustain sound policies, as well as establish a good track record.

3. Recent Developments

On the political front, the transitional government started off with cabinet posts being assigned to the previously warring parties, based on a power-sharing formula. The new government will direct the affairs of the country towards democratic elections in October 2005. To complement the new authorities' efforts the UN Security Council established the United Nations Mission in Liberia (UNMIL) to re-establish security throughout Liberia, support the demobilization and reintegration of former combatants and help with the formation of a new army and police force.

The UN has made steady progress in the demobilization effort. About 12,000 of the 35,000 former combatants have already been disarmed. However, as a result of sporadic fighting, other areas of Liberia outside Monrovia are still suffering from lack of UN presence. As a result, many internally displaced persons had not yet begun to move back to the countryside, and the year-end planting season has been largely lost.

At the recent international donors' conference in New York from February 5-6, donors pledged US\$440 million for reconstruction and US\$85 million for humanitarian assistance. Further pledges are likely as a number of donors were unable to make multi-annual commitments at the meeting, but have agreed to provide support under a common, government-led framework, while the efforts of others have already begun to stimulate economic activities in Monrovia.

On the economic front, the Liberian economy worsened further in 2003. Real GDP is estimated to have contracted by 30 percent, and the fiscal position deteriorated with the collapse of revenue to about 60 percent of its 2002 level, owing largely to the UN ban on timber exports that has been in effect since July. Timber production and export is a major industry in Liberia, accounting for about 18 percent of real GDP and tax revenue, 60 percent of export earnings, and employs about 8,000 workers. Consequently, total exports fell sharply, while imports declined much less because they were sustained by larger remittances and some donor-financed humanitarian aid flows.

However, since the inception of the current regime, substantial progress has been made in the implementation of measures to increase revenue, centralize revenue collection at the Ministry of Finance and transfer all government accounts at the Central Bank of Liberia (CBL). Also, a mini budget for the period, October 2003 to January 2004 was drawn and approved by the legislative Assembly. The budget for February–June is before the Assembly for approval. Meanwhile, however, the Assembly has passed a continuing resolution authorizing spending by the National Transitional Government up to one third of last approved budget to cover essential categories of expenditure pending approval of the main budget. The removal of import monopoly for rice and petroleum products and the revision of the retail prices, including the reinstatement of general sales tax have led to significant drop in retail prices and an increase in tax revenue.

Development in monetary aggregates and the external sector in the first nine months of 2003 mirrored deceleration of economic activities.

4. Reforms Undertaken

The new government has also implemented several of the previous recommendations of the IMF and other international organizations. Specifically, it has undertaken many far-reaching measures that will support and sustain the rebuilding of an orderly budget process, increase revenue collections, and improve governance issues towards entrenching a sustainable and viable economic management and effective reconstruction efforts. The measures that have been taken in these regards include the following:

- b) The government has, in collaboration with external partners, developed a time-bound plan called, *the Results-Focused Transitional Framework (RTFT)*, which will guide reconstruction efforts through 2005. The framework will be updated as donor support is realized, and there is a plan to establish a monitoring unit to facilitate this.
- c) Despite severe constraints the authorities have been able to maintain a public expenditure management (PEM) system that has a number of good features, and are therefore able to produce timely end-of-month revenue, and cash and commitment expenditure reports.
- d) The Finance Ministry has instituted procedures for reconciling its own records with financial statements provided by the CBL, as well as update and reconcile outstanding debts with creditors, thus, establishing a database on external and domestic debt. In this wise, rather than payment of debt and salary arrears, refurbishing government buildings and payment of current salaries will be a priority, in the expenditure for the first half of 2004.
- e) The authorities have re-introduced the general sales tax that was suspended for rice and petroleum, and has removed tax exemptions on the two products, while abolishing the issuance of custom duty drawbacks and tax credits for imports. A formula has also been introduced to adjust retail prices every quarter, in line with international price movements.
- f) The independent audits of the Bureau of Maritime Affairs (BMA), the Forest Development Authority (FDA) and the Liberia Petroleum and Refining Corporation (LPRC) will soon be conducted with assistance from the EU. A voluntary audit of the CBL for the period January-August 2003 has been conducted, which will greatly help in establishing some of the data required for an assessment of CBL's capitalisation needs.
- g) The authorities have assigned a GDDS Coordinator to facilitate Liberia's participation in the Fund's GDDS.
- h) To minimise its current financial difficulties and eliminate operating deficits, the CBL has taken steps to reduce costs, while the Ministry of Finance has resumed some limited payments on the government's liabilities to the bank.
- i) To eliminate ghost workers, all civil servants are now obliged to present proper identification before receiving their pay cheques.

These efforts have started to impact positively on the economy.

5. Outstanding Challenges and Proposed Reforms

Enormous challenges remain in addressing capacity and governance issues, as well as the pervasive poverty in the country, the deplorable state of social and economic infrastructure, and resettling about a third of the population. There are also the daunting problems of the

sizable liabilities to the CBL, commercial banks and other suppliers, which were accumulated over the years, as well as the salary arrears to civil servants that have not been paid for almost two years. Of equal significance is also the problem of Liberia's external debt burden, which is an impediment to long-term economic viability.

Furthermore, the new administration, is still faced with weaknesses in the preparation, implementation and monitoring of the fiscal and monetary programmes, in spite of recent efforts. The inadequacy of instruments for monetary management and the general weakness in the banking system are also major concerns for the government. They realise that a rapid economic recovery will be key to strengthening the financial system. The authorities are therefore, focusing on a carefully prioritised set of concrete actions to tackle these challenges frontally.

6. Prospects for the First Half of 2004

Economic prospects have been predicated, among other factors, on the speed of deployment of UN peacekeepers throughout the country, as this will determine the rate at which displaced persons and disarmed combatants return to their homes and resume productive activities, especially in agriculture. It should be noted, however, that the UN current ban on timber exports, will constrain progress on the revival of the industry, which has been a major industry in Liberia in terms of production and export revenue.

In collaboration with staff, the authorities have drawn a cautious macroeconomic framework, that envisages a cash-based budget and some modest recovery of deposits and international reserves. Within this framework, a mini budget for February to June, 2004 has been drawn which refrains from the use of domestic financing, but projected increasing donor activities and sustained remittances. This revenue projection for the first half of the year was based on an agreed growth scenario.

On expenditure, payments of current salaries will remain a priority, as will outlays for refurbishing government buildings. For the longer run, contingent plans would be drawn up in the event that revenue collections were higher than expected, or external budgetary support is forthcoming.

The external accounts will be dominated by increasing foreign assistance, strong remittances, and associated imports, while exports are likely to stagnate at low levels, owing mainly to the continued UN sanctions on timber exports. A building up of international reserves to about US\$6 million (about ½ month of imports) could be achieved by mid-2004. US dollar-denominated deposits are expected to increase modestly through that period, owing to the expected increase in donor assistance and continued strong remittances. Based on this outlook, real GDP is envisaged to recover modestly in the first half of 2004. It is projected to grow by 16.0 percent, compared with the second half of 2003, mainly on the strength of manufacturing and services (related to donor activities).

7. Need for More and Sustained International Support

While the authorities express their appreciation for the significant pledges made for reconstruction and humanitarian aid at the New York donor conference, they would appreciate increased and sustained support from donors at this critical period.

One of the veritable options for accelerating Liberia's reconstruction, rehabilitation and growth process is through increased export earnings. However, it is projected that exports are likely to stagnate at low levels owing mainly to the continued sanctions on timber exports. The authorities, therefore, hope that the UN Security Council will lift the ban on timber exports as soon as possible, especially in light of the important progress being made in meeting the requirement of a transparent accounting system for timber-related revenue.

The country's stock of external debt amounted to US\$2.9 billion (650 per cent of GDP at the end of 2003), and has increased during the year by US\$74 million, owing to a further accumulation of arrears and the depreciation of the US dollar. Nearly all of Liberia's debt, amounting to \$2.6 billion is in arrears at end-2003, due to lack of external financing and international reserves to service official debt obligations. Even the payment to the Fund of the token sum takes an effort in view of difficult financial and budgetary constraints, and in particular, now that a large proportion of the authorities' budget is currently focused on immediate humanitarian and reconstruction needs.

Although resolution of the external debt situation would be a complex and lengthy process that would require urgent and coordinated international support, the circumstances underscore the need to address urgently this problem by exploring potential options for its resolution.

In light of inherent capacity constraints, Liberia also requires massive TA in various areas. The authorities are ready to work with and maintain an open and continuous dialogue with the staff and other external partners to establish necessary capacity support in identified areas. In this connection, the Liberian authorities are requesting for a resumption of the Fund's technical assistance to address the urgent capacity building needs of the country.

8. Conclusion

The economic and financial conditions of the Liberian economy are precarious and require the concerted efforts of the international community to move the country forward. It is clear that prospects for economic recovery in Liberia will depend not only on the re-establishment of security throughout the country alone, but on the volume and pace of donor activities and support. The Fund's role in this regard will be to hasten the process of establishing an economic programme with the authorities that could be monitored by the staff in order to open up debt relief opportunities that will free up much needed resources for Liberia's economic development and poverty reduction. The Liberian authorities appreciate all the support and assistance they have received so far from the international community. A lot more, however, needs to be done, and they hope they can continue to count on the goodwill, understanding and the continuation of this support and assistance from the international community.