International Monetary Fund

Liberia and the IMF

Press Release:
IMF Executive Board Approves Three-Year, US$78.9Million ECF Arrangement for Liberia
November 19, 2012

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

November 2, 2012

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Letter of Intent

Monrovia, November 2, 2012

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

Dear Madame Lagarde,

1. The attached Memorandum of Economic and Financial Policies (MEFP) summarizes the economic and financial policies of the government of Liberia for the period July 2012– June 2015. These policies are anchored in the government's Agenda for Transformation—the new Poverty Reduction Strategy (PRS2), which the government intends to formally launch in November 2012.

2. The government requests that the MEFP be supported by the International Monetary Fund (IMF) under a three-year Extended Credit Facility (ECF) and requests the first disbursement under the ECF. We hereby request the approval by the Executive Board of a three- year ECF arrangement in an amount equivalent to SDR 51.68 million (40 percent of Liberia's quota). To monitor progress in implementing our reform agenda, the program includes a set of quantitative performance criteria, indicative targets, and structural benchmarks, outlined in the attached Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU).

3. The previous ECF-supported program, approved in 2008, was successfully completed on May 31, 2012. Over the last four years, Liberia made substantial progress: macroeconomic and financial stability was achieved, key institutions were largely rebuilt, external debt profile improved and a mechanism was put in place to ensure a sustainable position going forward, and social conditions were improved. Nonetheless, important challenges remain. This MEFP outlines our recent economic performance and economic and social policies planned for FY 2012/13 (July–June).

4. The outlook for the second half of 2012 and over the medium term remains favorable. We expect the expansion of Government spending to provide additional employment and increase household incomes. The global economic outlook still presents risks, especially with the slowdown in China and continued economic problems in Europe. These factors largely present risks to the continued growth in the export sector.

5. Macroeconomic performance in 2011 and during the first half of 2012 has been strong. Growth is estimated to have reached 8.2 percent in 2011, U.S. dollar-denominated inflation closed at 10.2 percent. Gross official reserves rose to 3 months of imports at end-2011. These positive results have carried over into the first half of 2012. Growth is estimated at close to 9 percent this year due mainly to the resumption of iron ore exports. Inflation has declined to 4 percent year-on-year at end-June 2012.

6. Liberia's new Poverty Reduction Strategy 2 (PRS2)–the Agenda for Transformation–focuses on investment in human development, infrastructure and institutions. The focus of PRS2 will be on laying the foundation for broad-based and inclusive growth; taking the achievements we have made under the first PRS and using those as an opportunity to work on reforms that will promote business activity, rebuilding educational institutions, enhancing governance reforms and borrowing to invest in large capital projects that will open up Liberia to industry. Developing the Liberian private sector is a priority goal of the Government's transformation agenda. The budget for FY 2013 focuses on this agenda, and there has been a large expansion of capital investment to at least 25 percent of the budget. It has been prepared in the context of a Medium Term Expenditure Framework (MTEF) to maintain the Government's focus on critical investments in infrastructure and capacity building. This year's budget introduces a multi-year budgeting framework, and ensures resources are aligned to the policy priorities in the Agenda for Transformation. It focuses on the main fiscal challenges including containing recurrent spending and boosting capital spending.

7. Monetary policy over the medium term will focus on containing inflation by maintaining stability in the exchange rate. The CBL aims to build reserve coverage to about three months of imports over the medium term to buttress the macroeconomic stability, giving due consideration to the high opportunity cost of holding reserves in the face of strong development needs and massive infrastructure gaps. The government also intends to strengthen policies aimed at improving confidence and widespread use of the Liberian dollar.

8. The Government of Liberia and the CBL believe that the economic and financial policies set forth in the attached memorandum provide an adequate basis for achieving the objectives and targets of our program, but we will take any additional measures that may become necessary for this purpose. We will consult closely with the IMF staff on the adoption of such measures, and in advance of any revisions to the policies contained in the MEFP. We will provide the Fund with all information necessary to monitor implementation of the program supported by the ECF in a timely manner as outlined in the Technical Memorandum of Understanding.

9. We remain committed to transparent policy-making and are willing to make the contents of this letter and those of the attached MEFP and Technical Memorandum of Understandings (TMU), as well as the Staff Report for the 2012 Article IV consultation discussions available to the public.

Sincerely yours,

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

Attachments: Memorandum on Economic and Financial Policies

Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

I. INTRODUCTION

1. The Government of Liberia remains committed to achieving poverty reduction through sustained economic growth and inclusive development while maintaining broad macroeconomic stability. The strategies to achieve these goals are set out in the Agenda for Transformation—Poverty Reduction Strategy 2 (PRS2)—and the medium-term priorities set in the long term national vision "Liberia Rising 2030". The Government and the International Monetary Fund (IMF) are cooperating on a second three-year Extended Credit Facility (ECF) to support prudent macroeconomic policies and structural reforms that underlie strategies in the PRS2 and Liberia Rising 2030.

2. This memorandum of economic and financial policies (MEFP) reviews the main achievements since 2008 under the previous ECF arrangement, recent developments during 2012, and describes policies and targets for 2012/13 (July-June) and the medium term (2014/15).

II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE BUTTRESSED UNDER PREVIOUS EXTENDED CREDIT FACILITY (ECF) ARRANGEMENT

3. In 2011, economic growth continued its solid performance with an estimated growth of 8.2 percent. The growth forecast for 2012 is put at 8.7 percent, expected to be largely driven by the restart of the iron ore and higher quantity of timber exports, as well as growth in the construction and services sectors.

4. The Government of Liberia continued on its path of commitment to sound macroeconomic management underpinned by transparency and accountability. Performance buttressed by the previous ECF arrangement was strong and very constructive. The Government implemented an Integrated Financial Management Information System (IFMIS), passed a new PFM law, and set out rules for controlling debt. Also, bank regulation and supervision were strengthened and efforts are in place to regulate and supervise the insurance companies and microfinance institutions. Concrete steps were taken to improve the credit environment with the passing into law of a commercial code and the subsequent establishment of a commercial court, in addition to the credit reference system established at the CBL. These, inter alia, have led to expansion in commercial deposits and credit. Exchange rate broadly stabilized and inflation remained largely contained with strong growth continuing even during the global financial crisis. The Government rebuilt internal audit capacity and strengthened the General Auditing Commission (GAC) ability to conduct audits of all Government Ministries and Agencies. The Automated System for Custom Data (ASYCUDA) system was rolled out at the major entry ports and the Government increased the level of tax revenues coming from domestic sources. During the course of the last five years the overall budget increased from around US $185 million in

2007/08 to US $516 million in 2011/12. Despite Liberia's progress so far, important challenges remain. The largest of these remains the huge infrastructure deficit (i.e., electricity, roads, and sea and air ports). The Mount Coffee Hydroelectric plant and much of the road system outside of Monrovia are still incomplete, even though much progress has been made in expanding the road and power networks. The Government has demonstrated commitment to improve the power system; this is demonstrated by the US $45.3 million allocated to energy in the FY2013 budget. Liberia has also joined the West African Power Pool scheme (WAPP). Despite the efforts that have already been put in place to control recurrent spending and set a minimum level of capital spending within the budget at 25 percent, the infrastructure funding needs far exceed the available resources requiring external assistance.

5. The Government introduced an interim policy measure, the 150 Day Action Plan with the objective of making short-term, high impact policy interventions aimed at creating temporary jobs at different entities in Government; expanding the service network of the national transit authority, and developing the MTEF and the associated budget.

6. The government is still in the process of reconciling GoL accounts for FY2011/12 using the newly-installed Integrated Financial Management Information System (IFMIS). On the basis of IFMIS data, revenue collection for 2011/12 is estimated at US $475.2 million, including a carry forward (re-appropriation from unspent funds from previous fiscal year) of US $8.6 million from FY2010/11 and US$ 7.5 million in borrowing from the CBL. Excluding these two items,[1] revenue for FY2011/12 amounted to about US $460 million, compared to the ECF 8th Review target of US $470.2 million. According to IFMIS, government expenditures for FY2011/12 amounted to US $488 million (including expenditures made during July–September in line with the 90-day rule to cover commitments from the previous fiscal year).[2] In addition, US $21 million was spent on off-budget projects including road construction and rehabilitation financed by multilaterals. There was also US $12 million spent on dredging the port which was not included in the budget and executed off-budget, financed by direct borrowing from the central bank. These off-budget expenditures are not included in IFMIS. Including the off-budget items, total expenditures amounted to US $514 million, compared to the 8th review ECF target of US $473 million.[3] The full extent of the FY2011/12 budget outturn will be known once the on-going reconciliation of the GoL accounts is finalized.

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[1] Carry-forward of re-appropriations and borrowing from CBL are recorded as domestic financing in ECF macroeconomic framework.

[2] Expenditures made during the 90 day period are not included in the ECF macro framework. IFMIS in 2011/12 (US $488) includes US $10 million in amortization and arrears payments that are recorded as financing in the ECF macro framework, and does not include US$ 2 million in interest payments which are included as expenditures in the ECF framework.

[3] The 8th Review included the off-budget items in government expenditures.

III. OBJECTIVES AND ECONOMIC POLICIES FOR THE THREE-YEAR ECF PERIOD

7. Over the next three years, the successor ECF arrangement will help support our new Poverty Reduction Strategy 2, the Agenda for Transformation (AfT), which builds on the gains made from the previous PRS1. Under this AfT, investment will be made in infrastructure; institutions and in people with efforts exerted at directing a significant portion of expenditure towards capital projects, which is expected to double in the 2012/13 budget. The AfT aims to consolidate the gains made at maintaining macroeconomic stability and building a foundation for strong economic growth. The AfT sets out to ensure stable, strong economic growth with the end objective of meeting middle income status by 2030. Our current estimates suggest that this would require around 8 percent real growth annually. In the context of the Agenda for Transformation (PRS2), the strategy for economic growth and poverty reduction is anchored in a six-point strategy:

- Investing in infrastructure, particularly in energy and roads. This is the key to the economic renewal; transforming Liberia into a West African hub and a major trading partner in the region.

- Investing in people. An educated population is the key to innovation, growth, good business, and good governance. There will be an expansion of vocational and technical training, of business apprenticeship and university training.

- Invest in agriculture. Investing in agriculture is the key to generating incomes for the poorest households, stable and low-priced food and to controlling inflation and reducing poverty. With investment in agriculture, we can build a consumer base amongst the poorest, and we can reduce the insecurity that holds back investment.

- Developing the private sector with emphasis on Liberian entrepreneurship. Steps will be taken to remove impediments to private sector growth as well as to provide the necessary investment incentives for small and medium businesses.

- Prioritizing policies that facilitate job creation, especially for the young. This will promote stability and the building of skills. This year the Government has set aside $15 million for training and creating employment opportunities entirely focused on youth.

- Reducing inequality. We must ensure that the proceeds of growth benefit all of society, and that the abundance of natural resources is used wisely to create economic and employment opportunities.

8. The Government, under the AfT, aims to ensure that we target interventions that will promote incomes among the poorest households. The key objectives of AfT as seen below are set out in 4 main pillars and cross-cutting considered as the 5th pillar:

Security and Rule of Law: the Government will invest in the security sector in preparation for the UNMIL drawdown; this will include developing a strategy for the necessary areas of security investment to meet the major areas of UNMIL activity. Together with the Ministry of Justice, we will prepare by October 31, 2012 a proposed budget for FY 2014 which we will discuss with UNMIL by November 30 to finance training needs and start assuming some non-peace keeping and other related activities. Spending on security will be part of the MTEF starting with FY 2014.

Governance and Public Institutions: the Government will work to promote reforms to enhance governance and economic management, including continuing the program-based MTEF budget next year; and reforming the reporting mechanism to ensure that, prior to allotments being disbursed, the Ministry of Finance is aware of performance and shortfalls by Ministries and Agencies. The Government will continue to roll out reforms to our budget process, and our expenditure management, support the work of LACC and the GAC in monitoring government activities and continue to ensure we provide operational support to M&As.

Human Development: education and an expansion of vocational training will be funded and free access to basic education for all children will be enhanced. The easiest way to lift people from poverty is to provide the opportunity for growth; the Government will work on developing work readiness training, and eradicate illiteracy.

Cross Cutting: funding has been put aside in this budget for youth schemes to promote youth empowerment; the Government will support the Ministry of Gender Development in its efforts to ensure workplace fairness. We will fund anti-HIV programs and implement the new Children's Law and establish National Council for Children's' Well-being.

9. The cost of the AfT/PRS2 is estimated at around US $2.2 billion over the period of the IMF program. This will be funded by the Government and donor partners with externally funded donor efforts aligned with the PRS. The MTEF budget sets out the major priorities for funding of the Government. This includes: the rebuilding of the Mount Coffee Hydroelectric plant (which will be co-financed between Government and Donors); the construction of new roads and bridges in line with the Transport Master Plan. Generally, however, the Government priorities are: rebuilding power infrastructure and generation (and connecting to the West African Power Pool), rebuilding roads, controlling recurrent spending and rebuilding educational institutions (and expanding the role of vocational education).

IV. THE POLICY AGENDA FOR 2012/13

A. Fiscal Policy

10. The budget for FY 2013 has been prepared in the context of the recently introduced Medium Term Expenditure Framework (MTEF). This year budget introduces multi-year budgeting framework, and ensures resources are aligned to the policy priorities in the Agenda for Transformation. It focuses on the main fiscal challenges including containing recurrent spending and boosting capital spending.

11. Over the medium term, we plan to continue to gradually increase capital spending as a share of the budget through further reallocation from current spending. To support this objective, already this fiscal year, we have put in place a current spending savings policy to reduce spending on gasoline, foreign and domestic travel, as well as other non-priority spending. Savings will be allocated to priority spending, particularly capital investment. For FY 2014 plans are being made to collapse public sector employees' basic salary with the current special allowances to better control payroll spending. We will create a Liberia Development Fund in FY 2013 to save the unspent investment appropriation ensuring that unfinished infrastructure projects' funding is not constrained in the upcoming fiscal years.

12. The budget for FY 2013 was built around fiscal rules. These rules included efforts to promote capital spending, reduce transfers between spending lines, and control recurrent expenditures. The key rules (see details in the Budget Framework Paper) are as follows:

a. No more than 34 percent of FY 2013 budget should be allocated to salaries and wages. And we are committed to reducing it further down by FY 2015 as a way to create the necessary fiscal space to increase capital spending.

b. At least 25 percent of the budget must be capital spending, of which at least 10 percent must be on the energy sector.

c. 25 percent of GoL expenditure on goods and services will be spent on Liberian businesses (25 percent of furniture spending must also be on Liberian sourced products).

d. no more than 15 percent of capital spending must be on administrative overheads.

e. transfers from investment to recurrent must be no more than 5 percent of investment appropriations.

13. Revenue collection will be strengthened by a combination of additional tax policies and tax administrative measures. These include the migration from General Sales Tax (GST) to Common External Tariff (CET); taxation on inbound calls; strengthening tax enforcement and compliance by conducting comprehensive audits of the largest 20 taxpayers including commercial banks, logging and insurance companies, as well as by launching a robust anti-smuggling campaign; and strengthening taxpayers services by establishing a one-stop customer care center, with technical assistance from the IMF, which will include a special call center to answer tax questions that would be accessible to all Liberians within and out of the country. For FY 2012/13, total revenue collection (including grants) is projected at 27 percent of GDP.

14. There are also contingent revenues—where there are uncertainties in the timing of their collection and are currently not included in the revenue projections. Among these, US $45 million is expected from the sale of the contract for Block 13 and is dependent on the finalization of the

contract negotiation. If received, and assuming that total revenue collection is on track, these resources will be aligned to specific expenditures under the PSIP.

15. Some of the money in the grant revenue is 'at risk'; this year the Government has developed a measure of risk for the grant revenue, and has put in place a strategy to minimize the risk of the grant revenue which is tied to specific deliverables. This will include regular reporting from M&As responsible for the deliverable areas, and monthly follow up by the Ministry of Finance Aid Management Unit to determine interventions required to meet targets.

16. Total expenditure in FY 2013 are expected to increase to around 33 percent of GDP from around 31 percent of GDP in the last fiscal year, reflecting a 3.7 percentage point increase in capital spending. For FY 2013, all investment projects had to be justified, scored and aligned with Government and Ministry priorities. Efforts will be exerted to improve the efficiency and execution in the implementation of projects. To do this, we plan to set up the Project Management Office (PMO) by end-December 2012 (structural benchmark) which will focus on the evaluation (project costing and appraisal) and selection process of investment projects and reviewing feasibility studies for projects. This Unit will monitor the implementation of the PSIP and capital spending component of the Agenda for Transformation. Ministries and Agencies will develop timelines for sector projects and itemized spending plans to ensure that allotments and releases of funds occur in time for them to be useful for Ministries and Agencies, and itemized plans will help with outturn reporting at the end of the fiscal year.

17. Government treasury bills in Liberian Dollars will be launched by end-December 2012 (structural benchmark) to be used for cash management purposes and for the Government's domestic financing needs.

18. Private investment promotion is a key aim of this Government's agenda, fully recognizing the importance of increasing the level of private investment as part of the effort to meet the Vision 2030 objective of middle income status. This objective cannot be achieved by borrowing and Government investment alone. With this in mind, there are planned interventions in the short to medium term which include:

a. Working with development financing institutions to provide SME guarantees: the Government will work with development partners to set up a fund to offer guarantees to small and medium size enterprises, to reduce their capital costs.

b. Promoting SMEs representative organizations: the Government has taken steps towards promoting the views of the business organizations within Liberia. This has included setting up a communication between the Minister of Finance's office and the Liberian Chamber of Commerce to find out what they believe could encourage business activity.

c. Work to equalize fees for Liberian and Non-Liberian businesses, a commitment of the Government under its WTO accession plans.

B. Governance and Public Financial Management

19. We plan to introduce a Treasury Single Account approach by end-December 2012 (structural benchmark) as a tool to strengthen the central government's cash management capacity. Line ministries and agencies (M&As) accounts will be monitored on a monthly basis to provide consolidated cash balances held by the GoL with the purpose of reducing idle balances and inactive accounts to improve liquidity management. In line with the new cash flow planning approach, line ministries have been asked to submit their rolling plans for the preparation of a consolidated annual cash plan.

20. As part of the PFM reform agenda, the introduction of IFMIS has been completed in 8 Ministries, including the 5 largest (Education, Health, Public Works, Finance, Foreign Affairs, and Agriculture); and the General Auditing Commission (GAC) has also installed the IFMIS infrastructure. The GAC should be fully connected to IFMIS, giving GAC full access to IFMIS, by the end of December 2012 (structural benchmark). The GAC will then start conducting the auditing of the FY 2011/12 budget by January 2013 using IFMIS, beginning with the 8 ministries currently connected to IFMIS. Prior to this action, full testing of the system in the above mentioned M&As will be completed by October 2012. The GAC will complete audits of the FY2011/12 budget for the eight (8) big ministries and agencies using IFMIS by end-September 2013. We will continue to rollout IFMIS to an additional 8 M&As by the end of FY 2013.

21. The Government will continue its effort to remove ghost names from the payroll system and has started work in this regard including the introduction of biometric technology to strengthen payroll controls. This will continue with all employees eventually expected to be covered by the system by end-June 2014.

22. The Government will introduce the Civil Service Management (CSM) module within IFMIS and the Human Resource Management Information System (HRMIS) sub-module within the CSM, both by end-June 2013 (structural benchmark). Currently, 22 out of 29 M&As payrolls have been cleaned up and the personnel records will be uploaded to IFMIS. Cleaning up of the remaining 7 institutions[4] will be completed by end-June 2013 (structural benchmark), including in the Ministry of Education where an attendance monitoring system with TA support from USAID is also being launched in January 2013. By end-June 2013, the payrolls of all M&As will be uploaded to IFMIS and used for payroll payments.

23. Progress has been made at initially strengthening of internal audits of high spending M&As, consistent with the Government's internal audit strategy. Currently, 8 out of 16 institutions have their system (institutional and human capital) in place and we plan to

[4] Ministries of Education, Health, Public Works, Justice, Internal Affairs, Lands and Mines, Agriculture.

complete an additional 8 institutions by September 30, 2012 and fully rollout the process to all M&As by June 30, 2013.

24. The Code of Conduct Executive Order was signed by the President on the 9th of January 2012 and the Government has begun an effort to implement the Code, including having staff throughout the Government, sign copies to signify their commitment to comply with this Executive Order.

25. The Civil Service Agency (CSA) and the General Auditing Commission carried out a joint audit of the pension system to verify all people on the pension payroll. Schemes like this will continue in the future including all other payrolls.

26. The government is advancing on the introduction of the Public Expenditure Tracking System (PETS), which is expected to be in place by end-2012. It links public resources to outcomes; the framework would allow the Ministry of Finance and line ministries and agencies to track spending levels and deliverables.

27. In order to improve financial oversight of SOEs/public financial entities, an SOE unit within the Ministry of Finance will be set up by end-December 2012 (structural benchmark) which will be responsible for collecting quarterly financial reports from the 8 largest SOEs/public financial entities[5] and ensuring they are in line with the PFM law. By end-June 2013, the 8th largest SOEs will be required to report to the SOE unit within the Ministry of Finance their financial performance for the quarter January–March 2013 (Structural Benchmark). Thereafter, SOEs will regularly report their quarterly financial performance, three months after the end of each quarter. In the meantime, the Government is improving governance of SOEs by ensuring that SOEs which do not provide financial reports will not receive any subsidies. Steps will also be taken to work with SOEs to build their reporting capacity. The SOE Unit will also strengthen oversight of SOE performance to ensure timely and accurate transfer of revenues to the Ministry of Finance. By end-December 2012, the Unit, working with other GoL stakeholders, will also prepare a strategy to manage fiscal risks of SOEs and determine which SOEs should be privatized and whether or not Government subsidies should remain for enterprises.

28. Management of natural resource revenue: the Government notes the importance of ensuring that natural resource revenues are properly managed. The Government will: (i) create a resource revenue sub-unit in the large taxpayers unit of the Ministry of Finance by June 2013 (structural benchmark) to improve the monitoring of concessions to more accurately determine the quality and quantity of natural resource production, and exports and estimate royalty

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

requirements; and (ii) begin reporting natural resources revenues separately in fiscal outturns starting in FY 2014.

29. The Government will prepare monthly reports (to form part of the consolidated monthly fiscal report) by December 2012, on off-budget externally financed projects reconciling data with the Budget and Expenditure offices at the Ministry of Finance.

C. Monetary Policy and Financial System

30. Monetary policy over the medium term will focus on containing inflation in Liberian dollar-denominated prices by maintaining stability in the exchange rate through the weekly foreign exchange auctions. The CBL recognizes the need to build up foreign exchange reserves to mitigate adverse shocks especially given the vulnerabilities to food and fuel price spikes and sluggish global economic growth. However, the CBL is also taking into account the high opportunity cost of holding reserves given the strong development needs and massive infrastructure gaps. To this end, the CBL aims to maintain adequate reserve coverage of about three months of imports over the medium term to buttress the macroeconomic stability while creating some policy buffers.[6]

31. An orderly and market driven de-dollarization is a strategic objective of the Government. The ongoing measures being taken to improve confidence and to promote widespread use of the Liberian dollar, including improving the quality of notes and issuing higher denomination bills, will be strengthened. Moreover, the Government will set a plan to de-dollarize public expenditure including paying all public sector salaries in Liberian dollars over the medium term. Additionally, the Government's issuance of treasury bills by December 2012 will help mop up excess Liberian dollar liquidity in the system and to encourage mobilization of Liberian dollar deposits.

32. The CBL is taking active measures aimed at strengthening the banking system and other financial institutions. Specifically, the CBL is engaging banks below minimum capital requirements to oversee recapitalization plans. As a result of this engagement, affected banks received capital injections from their foreign parents in 2011 and 2012. The CBL will continue working with banks remaining below minimum capital requirement to ensure full compliance with the capital and provisioning regulations by end-2012. Moreover, the current risk-based supervision regime of the CBL, whose first cycle of bank inspections successfully ended, will focus on emerging credit risks, aggressive monitoring of banks to ensure that they remain healthy, and improving banks' risk management. In addition, the CBL will submit to legislature a revised Insurance Act by end-June 2013 (structural benchmark) to streamline regulation in the insurance sector and establish the central bank as the sole regulator of all insurance agencies.

[6] Excluding UNMIL and iron ore related imports.

33. In order to strengthen financial inclusion and promote lending to small borrowers, the CBL will seek to improve the credit environment through: (i) strengthening the commercial court; ii) enhancing the credit reference system by widening its database and improving its accessibility; iii) establishing, by end-June 2013, a collateral registry to support execution of collateral on bad loans and improve the credit culture (structural benchmark). The monetary authority will also work together with donors to mobilize long-term financing of bank's lending to agriculture and small- and medium-sized enterprises and to improve financial literacy and business practices.

D. Debt Management, Resolution and External Policies

34. The Government has put in place fiscal rules to guide borrowing, to ensure that we never again have to ask the world for forgiveness from our debt. This Government has achieved in the last six years remarkable write downs on our debt stock of around US $4.7 billion. We will ensure, through sensible management of our finances and never again build up debt with nothing to show for the cost. Our borrowing rules will ensure that:

a. We use borrowing to boost capital, and where the cost is borne by future generations so will the benefit;

b. Total public sector borrowing (including public, publicly guaranteed debt and debt of SOEs) in foreign currency (including concessional and nonconcessional borrowing) will be limited to 4 percent of GDP in NPV terms averaged over three years.

c. The Government will seek nonconcessional borrowing, with agreement with the Fund, for specific economic viable projects with high economic and social returns and assessed by an independent entity, should the need arise.

d. Borrowing is managed sustainably and we never build a debt stock too high for repayment; the Government has set as its fiscal rules for borrowing:

    i. All borrowing must be undertaken for the purposes of investment, consistent with the Public Sector Investment Plan (PSIP)

    ii. Total debt stock must not exceed 60% of the previous year's GDP as contained in the PFM regulations.

    iii. Prior to new borrowing being undertaken a Debt Sustainability Analysis (DSA) must be carried out and presented to the Debt Management Committee (DMC) to ensure debt rules are not breached

35. SOEs taking on debt will be conditional on SOEs providing full and accurate reports of finances, as well as the presentation of an economically beneficial project with good loan terms. SOE and SOE guarantees will be included within our debt stock, in line with the PFM law.

36. The Debt Management Unit will develop a forward looking medium-term debt strategy to identify specific borrowing plans and negotiate new debt in line with the fiscal rules to achieve borrowing targets in the most cost effective way by the end of 2012. The three year strategy will be refreshed in line with annual Budget preparations to enable timely execution of new borrowing upon Budget approval.

37. We will continue making progress on finalizing bilateral and multilateral debt agreements. The debt rescheduling with BADEA has been signed, increasing the maturity of the loan to 40 years with a 5-year grace period and zero percent interest rate. The debt with Saudi Arabia has been finalized as the negotiation has been concluded and signed.

38. We are making efforts to ensure timely and accurate reporting of debt and off-budget project financing. The IDA credits have been incorporated into measures of debt accumulation in the Budget Framework Paper and have been included in sustainable debt profiles produced by the Ministry of Finance. Both IDA debt and the IMF reserves support are included in published measures of debt stock.

39. The Aid Management Unit within the Ministry of Finance will work to ensure better management of grants and off-budget aid programs ongoing in Liberia. As part of this effort we will:

a. Introduce new aid management software to track aid projects; eventually this will be rolled out to a public facing platform which will allow donors to log in and include and edit their ongoing projects.

b. Introduce a system by end-2012 to follow up on conditional grant aid: the grants which are tied to specific conditions will be identified with responsible Ministries and Agencies and will be required to provide monthly reports on progress and correcting measures to reduce future deviations.

40. We are making progress towards the WTO accession: we have submitted answers to initial questions the WTO has sent in response to our memorandum on foreign trade; and have begun technical meetings with the WTO. ECOWAS trade: the Government will work to implement the Common External Tariff (CET) by early next year, and work to remove the final tariffs on internal ECOWAS trade in line with the liberalization scheme. The CET will then form the basis for the negotiations with the WTO.

41. The CBL will implement the recommendations of a safeguards assessment that was finalized in October 2011 and will undergo an update assessment in relation to the new arrangement. In this context, we will finalize by December 2012, a Memorandum of Understanding between the CBL and the government to clarify the rights and obligations for Liberia's accounts and transactions with the IMF. These formalized institutional arrangements will be reflected in the CBL financial statements beginning with the 2012 annual accounts.

E. Other Structural Reforms

42. Concessions: we will strengthen the role of the National Bureau of Concession within negotiations and ensure it has the resources to operate effectively; and we will redraft the Petroleum Act to separate responsibility for revenue collection, oversight and regulation; and ensure that petroleum agreements are in line with the redraft. The revised Petroleum Act will be submitted to Parliament in the first quarter of 2013.

43. Risk analysis in the budget: the Government will begin producing a risk management handbook, with details of likely risks to budget execution revenue collection and debt levels. The Government will begin publishing regular reports of risk, and monitoring the risks presented to the overall macro economy.

44. Data collection and forecasting: we will expand the Government's data collection. As we recognize the importance of good data in the implementation of effective policies, measures we will take to improve data gathering will include:

a. Ensuring LISGIS has the required resources in FY 2013 to complete the planned national accounts surveys, providing us with the data required for Government policy development.

b. Commencing the household income expenditure survey and compile and publish the establishment survey (covering all registered business enterprises), both by end-June 2013 (structural benchmarks) as this is an integral part of the efforts towards better data collection and we will ensure that we work with donors to complete this.

c. Compiling national accounts for 2013 by June 2014 using the results of the completed household income expenditure and enterprise surveys.

F. Program Monitoring

45. Program implementation will be monitored with quantitative financial targets and structural benchmarks (Tables 1 and 2 below), and semi-annual reviews. Definitions of key concepts and indicators, as well as reporting requirements, are set out in the accompanying Technical Memorandum of Understanding. The first review is scheduled to be completed by May 15, 2013 based on the end-December 2012 PC and the second review by November 15, 2013 based on the end-June 2013 PC.

Table 1. Liberia: Proposed Quantitative Performance Criteria and Indicative Targets, 2012–13
(Millions of US dollars, unless otherwise indicated)

	Dec. 12	Mar. 13	Jun. 13	Sep. 13
Performance criteria[1/2/]				
Floor on total revenue collection of the central government	203.0	325.7	460.0	120.3
Ceiling on new external arrears of the central government (continuous basis)	0.0	0.0	0.0	0.0
Ceiling on new non-concessional external debt of the public sector (continuous basis) [3/]	0.0	0.0	0.0	0.0
Ceiling on new domestic borrowing of the central government [4/]	15.0	15.0	15.0	15.0
Floor on CBL's net foreign exchange position[4/, 5/]	210.0	207.0	226.0	226.0
Ceiling on CBL's gross direct credit to central government [4/]	290.0	290.0	270.0	270.0
Indicative Targets				
Ceiling on gross borrowing by the public sector in foreign currency [6/]	126.7	126.7	126.7	126.7
Ceiling on net domestic assets of the CBL[4/5/]	-10.0	-19.0	-12.0	4.0
Ceiling on new domestic arrears/payables of the central government (continuous basis)	0.0	0.0	0.0	0.0
Floor on social and other priority spending (percent of total budgeted expenditure, excluding contingencies) [7/]	30.0	30.0	30.0	30.0
Memorandum items:				
Memorandum item: Programmed receipt of external budget support and committed external financing [2/]	4.4	…	49.8	…

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

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

3/ Non-concessional financing will be adjusted by amount of agreed non-concessional borrowing tied to projects independently evaluated as of high economic return.

4/ Bridge financing from the CBL is available under the program for shortfalls in programmed receipt of external budget support and committed external financing up to a maximum of US$20 million. In this event, floors will adjust downwards and ceilings adjust upwards by the extent this financing is utilized, up to a maximum of US$20 million.

5/ Includes SDR holdings net of ECF liabilities. SDR holdings converted at program exchage rate of 1 SDR=1.5844 US dollar.

6/ Three-year average annual ceiling.

7/ Includes spending on education, health care, social development services, and energy.

Table 2. Liberia: Proposed Structural Benchmarks, 2012–13

Measure	Target Date	Justification
Enhancing national accounts statistics		
Commence Household Income Expenditure Survey.	Second Review	Survey needed to validate national accounts data needed for macroeconomic policy.
Compile and Publish Results of Establishment Survey	Second Review	Survey results needed to validate national accounts data needed for macroeconomic policy.
Enhancing budget programming, control and monitoring		
Set up the state owned enterprises (SOE) Unit at Ministry of Finance.	First Review	Improve monitoring of public sector contingent liabilities and total public sector borrowing.
Reporting by 8 largest State Owned Enterprises (SOEs) on their financial performance to the SOE unit at Ministry of Finance for the quarter January–March 2013.	Second Review	Improve monitoring of public sector contingent liabilities and total public sector borrowing.
Fully connect the General Auditing Commission (GAC) to the Integrated Financial Management Information System (IFMIS) giving GAC full access to IFMIS.	First Review	Improve expenditure control for effective budget implementation.
Set up the Treasury Single Account approach at Ministry of Finance.	First Review	Move towards stronger central government liquidity management to reduce idle balances at line ministries and agencies accounts.
Create the Resource Revenue Unit in the Large Tax Payers Unit in the Ministry of Finance.	Second Review	Support effective taxation of the natural resource sector.

Improving capital spending execution and curbing current expenditure		
Establish Project Management Office (PMO) at Ministry of Finance	First Review	Monitor progress in capital spending associated with PRS2 and debt sustainability.
Introduce the Civil Service Management (CSM) module within IFMIS and the Human Resource Management Information System (HRMIS) sub-module within the CSM.	Second Review	Reduce payments to ghost workers and increase fiscal space for capital investment.
Complete clean-up of payrolls of 7 remaining Ministries and Agencies (M&As) and upload payrolls of all M&As to IFMIS	Second Review	Reduce payments to ghost workers and increase fiscal space for capital investment.
Developing the financial sector		
Issue government treasury bills.	First Review	Support financial market development and add a liquidity management tool to the central bank, and for treasury cash management purposes.
Establish a collateral registry at CBL	Second Review	Support more secure lending practices and prevent borrowers from contracting loans from multiple banks based on the same collateral.
Submit to legislature a revised Insurance Act	Second Review	Streamline regulation in the insurance sector and establish the central bank as the sole regulator of all insurance agencies.

Attachment II. Technical Memorandum of Understanding

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

I. QUANTITATIVE PERFORMANCE CRITERIA AND BENCHMARKS

A. Test Dates

1. Quantitative performance criteria have been set for end-December 2012 and end-June 2013 and quantitative performance benchmarks have been set for end-March 2013 and end-September 2013.

B. Definitions and Computation

2. **For the purposes of the program**, **the Government is defined as the Central Government of Liberia (GoL)**. This definition excludes legally autonomous state-owned enterprises whose budgets are not included in the central government budget. The operations of the central government will be presented in U.S. dollars with all revenues and expenditures that are denominated in Liberian dollars converted at the end of period exchange rate. The public sector comprises the central government, the Central Bank of Liberia, and public enterprises (enterprises and agencies in which the government holds a controlling stake—typically owns more than 50 percent of the shares, but which are not consolidated in the budget).

3. **Total Central Government revenue collection** includes all tax and nontax receipts transferred into the U.S. dollar GoL accounts at the CBL, including income and transfers from state-owned enterprises and public institutions (excluding external loans and grants). The GoL accounts at the CBL include the GoL General Account No. 2, the GoL Special Rice Fund, and the Liberian dollar account at the CBL comprising the GoL General Account. Any new accounts opened by the GoL at the CBL or at any other local financial agency shall be reported to the IMF as well. For the purposes of the program, the revenues of the GoL are measured on the basis of cash deposits in the four accounts specified above converted to U.S. dollars using the end of period exchange rate.

4. **For end-December 2012 and end-June 2013**, **social and other priority spending is defined as education, health, social development services, and energy sector spending** from the FY2013 budget of the units listed below (payment vouchers approved by the Ministry of Finance) excluding contingent expenditure. It is evaluated as a share of total budgeted expenditure, where total budgeted expenditure excludes contingent expenditure and off budget expenditure.

Education, Health, Social Development Services, and Energy Spending

	End Dec. 2012	End June 2013
Total Education and Health		
Education		
Ministry of Education		
University of Liberia		
Monrovia Consolidated School System (MCSS)		
Lofa Community College		
Nimba Community College		
Booker Washington Institution (BWI)		
Gbarnga Central High		
Forestry Training Institution (FTI)		
Cuttington University (CUC)		
National Commission on Higher Education (NCHE)		
W. V. S. Tubman Technical College (WVSTC)		
West African Examination Council (WAEC)		
Liberia Institute for Public Administration		

Education, Health, Social Development Services, and Energy Spending (concluded)

	End Dec. 2012	End June 2013
Health		
Ministry of Health and Welfare JFK Medical Center (JFKMC) Phebe Hospital LIBR Jackson F. Doe Medical Hospital		
Social Development Services		
Energy Sector		
Thermal diesel (HFO) power station Transmissions and distribution Mount Coffee rehabilitation, transmission, and distribution to Bushrod Island		

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

6. **New domestic borrowing of the Central Government** is defined as new domestic claims on the central government since the start of the program. It will be measured by the change in the stock of all outstanding claims on the central government (domestic loans, advances, and any government debt instruments, such as long-term government securities issued in the domestic market) by the banking system. The definition also includes the issuance of debt instruments by the GoL to the nonbank sector. For the purposes of measurement, all claims in Liberian dollars will be converted at the end of period exchange rate.

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

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

9. **The concessional nature of debt** will be determined on the basis of the commercial interest reference rates published by the Organization for Economic Cooperation and Development (OECD). A debt is defined as concessional if, on the date of signature, the ratio between the present value of debt computed on the basis of reference interest rates and the face value of the debt is less than 65 percent (equivalent to a grant element of at least 35 percent).

10. **The ceiling for contracting and guaranteeing nonconcessional external debt by the public sector will be set at zero continuously throughout the program period except as agreed with Fund staff**. The ceiling for contracting and guaranteeing nonconcessional debt excludes short-term (debt contracted for the period less than one year) import-related credits, rescheduling arrangements, and borrowing from the Fund.

11. **The government undertakes not to incur payments arrears on external debt that it owes or guarantees**, with the exception of external payments arrears arising from government debt that is being renegotiated with creditors, including Paris Club creditors. Arrears on external debt are defined as any unpaid obligation on the contractual due date. In cases where a creditor has granted a grace period after the contractual due date, arrears are incurred following the expiration of the grace period.

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

13. **CBL gross direct credit to central government** is defined as the sum of claims on central government, including loans, advances, accounts receivable, and any government debt instrument as defined in the monetary survey template excluding CBL purchases of treasury

bills in the secondary market and non-competitive purchases in the primary market. The gross credit to government is expressed in U.S. dollars. Claims denominated in Liberian dollars are valued at end-of-period exchange rate.

14. **The net foreign exchange position of the CBL** is defined as the difference between (a) the CBL's gross foreign reserves including SDR holdings, and (b) the sum of its gross foreign liquid liabilities, ECF arrangement liabilities, and liquid liabilities denominated in U.S. dollars. The net foreign exchange position floor at end-December 2012 and end-June 2013 is US $15 million below the projected net foreign exchange position. The net foreign exchange position of the CBL is presented in the U.S. dollar. SDR holdings are valued at a fixed rate of the U.S. dollar against SDR, 1.5844 as of June 30, 2012. Other currencies are valued at cross-rates against the U.S. dollar as of June 30, 2012.

15. **The net domestic assets of the CBL** are defined as base money minus the net foreign assets of the CBL converted into United States dollars at program exchange rates as defined in paragraph 14. Base money is defined as the stock of currency in circulation plus reserve deposits of commercial banks at the CBL, plus sight deposits of commercial banks at the CBL and plus vault cash of commercial banks. The net foreign assets of the CBL are defined as foreign assets minus foreign liabilities of the CBL balance sheet.

16. **External financing adjustor**. The program ceilings for CBL gross credit to government and CBL net domestic assets will be adjusted upward and the program floor on the net foreign exchange position of the CBL will be adjusted downward, by the amount of the difference between actual and programmed external budget support and committed budgeted external loan disbursements up to a maximum of US$20 million. The adjuster will be calculated on a cumulative basis from the start of the financial year (July 1).

Cumulative Program External Budget Support and Committed Budgeted External Loan Disbursements

(In millions of U.S. dollars)

September 2012	0.0
December 2012	4.4
March 2013	16.6
June 2013	49.8

II. PROGRAM MONITORING

A. Data Reporting to the IMF

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

- Detailed reports on monthly core and contingent revenue and expenditure on both a cash and a commitment basis by budget line and a completed summary table on central government operations (monthly, within three weeks after the end of the month);
- Outstanding appropriations, allotments and commitments, and disbursements for line ministries and agencies (monthly, within three weeks after the end of the month);
- Disbursements of budget support grants and budgeted and off-budget loans, by donor (monthly, within three weeks after the end of the month);
- End-month balances in the GoL accounts at the CBL. These comprise the U.S. dollar accounts: GoL General Account; and GoL Special Rice Fund; and Liberian dollar accounts: the GoL/CBL Civil Servant Payroll Account, and the GoL General Account. Any new accounts opened by the GoL at the CBL or at any other local financial agency shall be reported to the IMF also (monthly, within three weeks from the date of the statement);
- End-of-month balances of all operating and other accounts of the line ministries and agencies receiving budgetary appropriations (monthly within three weeks after the end of the month);
- A table providing the end-of-period stock of domestic arrears accumulated and payments made on arrears during the program period, by budget category (wages, goods and services, etc) (monthly, within three weeks after the end of the month);
- The amount of new external debt contracted or guaranteed by the public sector (monthly, within three weeks after the end of the month);
- The amount of new domestic debt contracted or guaranteed by the public sector (monthly, within three weeks after the end of the month);
- A detailed report on monthly payments on external debt by category and creditors and the stock of external debt (monthly, within three weeks after the end of the month);
- A detailed report on monthly payments on domestic debt by category and the domestic debt stock (monthly, within three weeks after the end of the month);

- The balance sheet of the CBL in the monthly monetary survey (monthly, within three weeks after the end of the month);

- The full monthly monetary survey of the monetary sector (monthly, within three weeks after the end of the month);

- The detailed table of commercial banks loans and advances by sector (monthly, within three week of end of month);

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

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

- Regular sale of U.S. dollars by the Ministry of Finance to the CBL, including amount date, and rate of exchange (monthly, within three weeks after the end of the month);

- Indicators of overall economic trends, including but not limited to:

  - detailed tables of the monthly harmonized consumer price index (within three weeks after the end of the month);

  - daily foreign exchange rates (monthly);

  - export volumes and values by major commodity, import values by standard international trade classification (SITC), import volumes of rice (by commercial and noncommercial use) and petroleum products (monthly, within three weeks after the end of the month);

  - interest rates and commercial bank remittance inflows and outflows (monthly, within three weeks after the end of the month); and

  - production data in value and volume (monthly, within six weeks after the end of the month);

- Quarterly reports of state owned enterprise financial operations submitted to Ministry of Finance;

- The report on the status of implementation of the structural performance criteria and benchmarks specified in Table 2 of the MEFP (monthly, within three weeks after the end of the month).

18. The above data and reports will be provided in hard copies and electronically to the IMF Resident Representative to Liberia, with copies to the local IMF economist, Mr. Deline (adeline@imf.org) for further transfer to the African Department of the IMF in Washington, D.C.

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

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

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

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

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

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

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

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