International Monetary Fund

Liberia and the IMF

Liberia: Staff-Monitored Program: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

Country's Policy Intentions Documents

January 18, 2007

The following item is a Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding of the government of Liberia. The document, which is the property of Liberia, is being made available on the IMF website by agreement with the member as a service to users of the IMF website. This memorandum describes the policies that is implementing in the framework of a staff-monitored program. A member's staff-monitored program is an informal and flexible instrument for dialogue between the IMF staff and a member on its economic policies. A staff-monitored program is not supported by the use of the Fund's financial resources; nor is it subject to the endorsement of the Executive Board of the IMF.

Monrovia, January 18, 2007

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431
USA

Dear Mr. de Rato:

Steadfast implementation of economic reforms since the government took office in early 2006, including a strengthening of the public financial management and the monetary policy framework, has supported an improvement in macroeconomic outcomes. Projections for 2007 suggest continued strong growth and single-digit inflation. In this context, we appreciate the IMF's recognition of our efforts through the lifting of the declaration of noncooperation and the initiation of de-escalation of remedial measures against Liberia in October of last year. We also appreciate the extensive technical assistance provided by the IMF.

The government remains committed to further strengthening public institutions and policies to ensure macroeconomic stability and improved governance in order to reverse the economic decline inflicted on Liberia during the recent civil conflicts. Key to these efforts are further strengthening public financial management and the financial sector, and implementing the recently approved anticorruption strategy. Our policy framework for 2007 will be guided by the interim Poverty Reduction Strategy Paper that we are now finalizing.

We view performance under the 2006 staff-monitored program (SMP) as evidence that we are now in a position to implement an upper credit tranche program in order to establish the necessary track record for debt relief under the HIPC Initiative and MDRI-type relief. While we understand that financing assurances for debt relief, which are necessary for approval of a rights accumulation program (RAP), are not yet in place, we hope that the government's program for 2007 set out in the attached Memorandum of Economic and Financial Policies (MEFP) (Attachment I) can form the basis for the Board's approval to convert the Staff-Monitored Program into a RAP once such assurances have been obtained. We also trust that Fund Management and Board will agree to consider performance under our entire 2007 program – rather than only from the date of its transformation into a RAP – as part of the track record required for the HIPC Decision Point.

The policies and measures set forth in the attached MEFP reflect the understandings reached with the IMF staff during the November 2006 SMP review mission, which we believe can achieve the objectives of the program. We will, however, take any additional measures that may become necessary for this purpose. We will remain in close consultation with IMF staff on the adoption of such measures, and in advance of any revisions to the policies contained in the MEFP. The government will provide the IMF staff with all information it requests to assess implementation of the SMP. A Technical Memorandum of Understanding defining indicative targets of the SMP and the data to be reported is also attached (Attachment II).

Sincerely yours,

/s/	/s/
Antoinette M. Sayeh	Joseph Mills Jones
Minister of Finance	Governor of the CBL

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

Attachment I – Memorandum of Economic and Financial Policies

I. Introduction

1. After taking office on January 16, 2006, the government of President Ellen Johnson-Sirleaf quickly took a number of actions to strengthen the performance of the Liberian economy. The government endorsed the Governance and Economic Management Assistance Program (GEMAP) that was agreed in September 2005 between the National Transitional Government of Liberia (NTGL) and key international donors.[1] Under this framework, international experts were deployed to key revenue-generating agencies, the Central Bank of Liberia (CBL), the Ministry of Finance, the Ministry of Lands, Mines and Energy, and the Bureau of the Budget (BoB). With support from donors, the government strengthened public expenditure management through an interim commitment control system, established the Public Procurement and Concessions Commission, and a framework for reviewing all contracts and concessions that originated under the NTGL. The government introduced a number of steps to address widespread corruption: it adopted revised guidelines on foreign travel by government officials consistent with the recommendations of an ECOWAS-sponsored audit, and approved an anticorruption policy that, inter alia, provides for the establishment of an independent anticorruption agency.

2. Good progress was made in achieving the ambitious objectives set under the government's 150-Day Action Plan for the first five months of its tenure (February-June 2006), including substantially strengthening public revenues and expenditure management; the lifting of UN timber sanctions; emergency repairs to important national roads; restoration of water and electricity provision to parts of Monrovia; and launching the Truth and Reconciliation Commission. The government also adopted a zero tolerance policy on corruption, commenced an exercise to eliminate ghost workers in the civil service, drafted a Civil Service Code of Conduct, and required all serving Cabinet members to publicly declare their assets and liabilities.

3. The government quickly requested support from the IMF to design a sustainable macroeconomic policy framework, and to monitor implementation of policies within this framework, inter alia, to begin building a track record of policy implementation that would be required for the eventual clearance of Liberia's arrears to the IMF and seeking debt relief under the HIPC Initiative and MDRI-type relief. The government successfully achieved the key objectives under the staff-monitored program (SMP) during 2006. It met with one

[1] The GEMAP consists of six components, namely: (i) strengthening financial management and accountability; (ii) improving budgeting and expenditure management; (iii) improving procurement practices and granting of concessions; (iv) establishing effective processes to control corruption; (v) supporting key institutions; and (vi) supporting capacity building.

exception, all the SMP's quantitative benchmarks through end-September (Table 1).[2] However, progress toward achieving all the structural benchmarks under the program was limited by even more serious capacity constraints than had originally been anticipated, a challenging working relationship with the legislature, and delays in deploying the international experts required under the GEMAP. Key achievements include: (i) implementing the commitment control system; (ii) strengthening the Large Taxpayers Unit (LTU); (iii) developing a strategy to deal with overdue tax obligations; (iv) strengthening monetary policy implementation by resuming regular bi-weekly foreign exchange auctions; and (v) finalizing a framework for reviewing contracts and concessions granted under the NTGL. Significant progress has been made in meeting the outstanding benchmarks, including: (i) completing the review of contracts and concessions; (ii) verifying the stock of domestic debt, and developing a domestic debt resolution strategy consistent with a debt restructuring plan for the CBL; (iii) approving an anticorruption strategy; (iv) submitting a status report on GEMAP implementation, endorsed by the Economic and Governance Steering Committee (EGSC); and (v) posting the financial statements of key state-owned enterprises on the Ministry of Finance's website.

II. Current Economic Situation

4. Despite the promising start, the economic challenges facing the government are monumental. Socio-economic indicators in Liberia are amongst the worst in the world: real GDP per capita declined by about 80 percent during 1987-2003, unemployment is estimated at about 85 percent, around three-quarters of the population lives on less than US$1 per day, and approximately 90 percent of the population is considered to be food insecure. Liberia's population also suffers from high incidence of diseases such as tuberculosis, cholera, malaria and yellow fever, and high under-5 and maternal mortality rates. Liberia furthermore suffers from significant deficiencies in both physical and human capital; almost two decades of civil war severely damaged infrastructure, including electricity generation, transportation (roads, railways, airports and seaports), telecommunications, water supply and sanitation. It also slowed human capital formation and caused an exodus of skilled workers.

5. Economic activity benefited from the cessation of conflict in 2003 and large-scale external support. Supported by a recovery in rubber production, reconstruction activities, and the contribution of a large donor presence to the services sector, real GDP growth is estimated to have risen gradually from 2½ percent in 2004 to 5½ percent in 2005, after having declined by over 30 percent in 2003. Although rubber production in the first nine months of 2006 declined more rapidly than earlier projected on account of occasional incidents of violence on the plantations, the recovery in construction activity has been

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[2] The continuous quantitative benchmark on the nonaccumulation of domestic arrears could not be met in July and August 2006 as civil service wages could not be paid in the absence of an approved budget for fiscal year 2006/07. These payments were made in September after legislative approval of the budget in late-August.

stronger than previously projected. Real GDP growth in 2006 is estimated to have increased to around 8 percent. While the lifting of the UN timber sanctions did not have a significant impact on real output growth in 2006, the timber industry is expected to make a significant contribution to growth and government revenues in the medium-term.

6. Price and exchange rate volatility have subsided since 2004, benefiting from the reestablishment of peace, and a strengthening of the CBL's monetary policy framework.[3] The exchange rate of the Liberian dollar to the U.S. dollar remained broadly stable during the first 11 months of 2006, depreciating by 0.9 percent from a level of L$56.5/US$1 at end-December 2005. The year-on-year growth in broad money fluctuated in a range between 30-40 percent, while growth in Liberian dollar broad money (in percent of beginning-period broad money) slowed to 9.5 percent in October from 13.5 percent in January 2006.[4] Inflation, benefiting from the easing of supply constraints and relative exchange rate stability, remained in single-digits throughout 2005 and the first 10 months of 2006. Year-on-year inflation was 5.9 percent in October 2006, compared with 7 percent in December 2005.

7. The CBL took a number of steps in 2006 to strengthen the monetary policy framework and the financial sector. It established a strengthened Money Management and Policy Review Committee, with primary responsibility for guiding monetary policy decision making, as well as a regular program of bi-weekly foreign exchange auctions. While the size of the auctions, at times, has been limited by the availability of foreign exchange and reserve accumulation targets under the SMP, it has broadly achieved its objectives. Progress was also made with efforts to strengthen weak domestic banks. Memoranda of understanding (MOU's) were finalized for restructuring two undercapitalized banks, resident supervisors were placed in these banks, and a moratorium was placed on the licensing of new banks during the SMP. Significant progress was also made in improving the financial position of the CBL. Internal management and financial systems and controls were strengthened, and the CBL achieved a smaller budget deficit than originally projected.

8. In a sharp break with the past, fiscal management improved significantly during the first year of the government's term in office as a number of actions were taken to increase revenue and strengthen public expenditure management. On the revenue side, these include better enforcement of preshipment inspections for imports, strengthening tax collection, and eliminating noncash payment of taxes. Mainly reflecting these measures, actual revenue

[3] This framework recognizes that in a highly dollarized and open economy, the exchange rate is the key variable through which monetary imbalances affect prices. Against this background, the CBL uses the exchange rate as an indicator of domestic monetary conditions, and gears its management of Liberian dollar liquidity to maintaining broad stability in the exchange rate.

[4] Broad money includes all deposit liabilities of commercial banks denominated in U.S. dollars and Liberian dollars and currency outside banks in Liberian dollars. While the amount of U.S. dollar currency is likely to be large in the highly dollarized and cash-based economy, the CBL has no means to measure it.

collection, excluding grants, rose by 82 percent in the first five months of fiscal year 2006/07 (compared with the same period in 2005/06). The level of revenue at end-November was consistent with the government's target for 2006/07. On the expenditure side, the government introduced, with donor support, a commitment control system to ensure that allotments to line ministries were in line with available revenues. While no new expenditure requests were approved in July and August due to a delay in legislative approval of the 2006/07 budget, line ministries were able to operate on the basis of expenditure approvals in late May and June, although salary and wage payments were delayed. Spending picked up in September to December 2006, but delays in expenditure processing by line ministries remain a concern.

9. External developments have been characterized by a substantial widening of the trade deficit since 2004, mostly on account of strong growth in donor-funded imports. While exports also increased, they remained well below the pre-war levels on account of the UN ban on timber and diamond exports. In this environment, little progress was made in restoring net official reserves, which rose by only US$8 million from 2003 to 2005. However, reserves rose more substantially by US$13 million in 2006, to a level covering about half of monthly imports. Liberia's external debt has been in arrears for more than two decades, and is unsustainable; at end-2005, the ratio of debt to exports was estimated at about 2,000 percent, while the ratio of debt to GDP amounted to almost 600 percent.

III. The Government's Economic Program: 2007

10. The program for 2007 is based on the draft Interim Poverty Reduction Strategy Paper (I-PRSP) for the period July 2006-June 2008. The draft I-PRSP is centered on the consolidation of peace and stability, and positioning Liberia for sustained poverty-reducing economic growth and development, and is based on four pillars, namely enhancing security, revitalizing economic growth, strengthening governance and the rule of law, and rehabilitating infrastructure and basic service delivery.

11. The government's development strategy confirms the private sector's role as the main engine for growth. To this end, the economic policy framework aims at providing an enabling environment for private sector development, including maintaining macroeconomic stability, strengthening economic governance, and addressing impediments to private sector development. The government's program for 2007 will build on progress made during the first year of its administration.

12. For 2007, the government is projecting growth in real GDP at 7-8 percent, about the same as that estimated for 2006, while annual inflation is targeted to remain at around 7 percent. Despite a worsening terms of trade in 2007, the trade balance, relative to GDP, is projected at about the same level as in 2006 as rice imports are expected to return to the historical average, and exports are expected to be boosted by the resumption of timber exports.

A. Fiscal Policy

13. The government's fiscal policy in 2007 will be formulated within the constraint of maintaining a cash-based balanced budget. The government recognizes that unsustainable public debt levels exclude the possibility for a more active fiscal policy stance, and that it will have to pursue balanced budgets for some time to come. It is nevertheless expected that continuing progress in strengthening fiscal transparency and governance will allow donors to increasingly channel grant aid through the budget to help meet unfunded I-PRSP goals as substantial additional resources are required to address critical reconstruction needs. The government will continue to focus on policies to broaden the tax base and further strengthen revenue administration, and to improve public expenditure management, with an increased emphasis on poverty-reducing expenditures.

14. To this end, the government developed an ambitious budget for fiscal year 2006/07, with total public revenues, including contingent revenues, targeted to rise by 52 percent. While the government is confident that this target will be achieved, line ministries have developed prioritized monthly cash plans to identify areas where expenditure can be cut should the need arise.

15. The government has implemented a number of measures to support its revenue target for 2006/07, including: (i) increasing the penalty for not undertaking pre-shipment inspection to ensure larger coverage, including at Roberts International Airport and some rural ports of entry; (ii) reducing import tax exemptions and improving management of those granted to NGOs and others to limit abuse; (iii) redefining the base for the goods and services tax on imports in line with the provisions of the Liberia Revenue Code; and (iv) increasing the excise tax on beer and cigarettes, and eliminating the differentiation between imported and domestic products in the application of excise taxes. With assistance from the IMF, the government also has reviewed the Liberia Revenue Code and regulations and will take steps to rationalize existing exemptions and adopt an administrative procedure law to establish a transparent process for the issuance of new regulations. A plan to reform the investment incentive code has been developed, inter alia, to eliminate the granting to individual investors of ad hoc tax exemptions outside the Liberia Revenue Code.

16. Efforts will continue to strengthen tax and customs administration. Important measures in this regard include: (i) strengthening enforcement of tax collection, including collection of overdue taxes (ii) continuing efforts to strengthen the LTU; and (iii) reducing tax exemptions further as a result of the review of contracts and concessions granted under the previous government. The government will also implement recommendations from ongoing IMF TA to strengthen revenue administration, including effectively employing the revised Tax Identification Number, and commencing with organizational changes based on taxpayer segmentation. These reforms should increase the efficiency of revenue administration and help widen the tax base through better coordination between tax collection, auditing and enforcement. While revenues from customs have increased sharply

in the first six months of the fiscal year, continued efforts to strengthen customs administration will lead to further increases. In this regard, with assistance from the European Commission, the government is considering the possible outsourcing of customs administration.

17. In the area of expenditure management, the government will continue to strengthen the interim commitment control system to ensure that public expenditure is consistent with actual monthly revenue, and follows the prioritized cash plans. While the system ensures that transactions with the government are well documented and adhere to the new Public Procurement and Concessions Act, further efforts will be undertaken to accelerate the pace of expenditures, including by providing further training on the process to the procurement committees within individual line ministries. While the 2006/07 budget has started the process of refocusing public expenditure toward critical poverty-reducing areas, the government will continue its efforts to direct more resources to health, education, infrastructure and rural development. To this end, the government will seek to create fiscal space by continuing to remove ghost workers from the public payroll, and initiating a comprehensive civil service reform program, including the reform of civil service compensation.

18. The government will further strengthen budget planning and reporting. In this regard, legislation has been submitted to the legislature to integrate the BoB and the Bureau of Maritime Affairs into the Ministry of Finance. The Ministry of Finance and the BoB have developed a budget calendar for fiscal year 2007/08 to ensure timely submission of the budget for legislative approval. The government has also taken initial steps to develop a multi-year fiscal framework to guide line ministries in expenditure planning. Initial steps have been taken to implement the GFSM 2001 framework to improve the reporting of fiscal data and facilitate macro fiscal policy analysis. To further improve transparency, the 2006/07 budget and first quarter fiscal report have been posted on the Finance Ministry's website, and publication of monthly revenue outturns has begun. Publication of monthly expenditure outturns will commence shortly.

19. To regularize relations with domestic creditors and strengthen the CBL and commercial banks, the government will commence implementation of the domestic debt resolution strategy. To this end, it will discuss its strategy with the different categories of creditors, and issue instruments consistent with it. Subject to legislative approval, the government will provide sufficient resources for implementation of the strategy.

B. Monetary and Exchange Rate Policy

20. The primary objective of monetary policy is the maintenance of price stability. Given that the scope for monetary policy in the current dollarized environment is limited, and recognizing that the exchange rate represents the main transmission mechanism through which monetary imbalances affect prices, the CBL will continue to use the exchange rate as

the main indicator of domestic monetary conditions. The CBL will therefore gear its management of Liberian dollar liquidity to maintaining broad stability in the exchange rate. To strengthen its ability to conduct monetary policy in this environment, the CBL will: (i) begin using the revised liquidity framework; (ii) improve the reserve requirement system; (iii) revise the foreign exchange auction rules, and introduce procedures for purchase auctions; and (iv) broaden the collection of data on foreign exchange volumes traded in the foreign exchange market and the flow of remittances.

21. The CBL is currently targeting its net liquid foreign exchange position to reach a minimum of US$31.6 million by end-December 2007 (Table 1). However, the accumulation of foreign reserves will be consistent with the objective of maintaining broad exchange rate stability.

22. The Liberian economy continues to operate under a dual currency arrangement. However, the pursuit of credible macroeconomic policies, development of Liberia's financial system, and improving the health of the banking sector, together with ongoing efforts to strengthen governance and secure peace and stability, will in due course allow for a market-driven de-dollarization of the economy.

23. Looking forward, the CBL will continue refining its operational framework for monetary policy. In this regard, it will establish the rules and procedures for the introduction of credit and deposit auctions which could be used to manage liquidity on a short-term basis, as well as the preferred strategy for the development of money and interbank markets and the introduction of monetary instruments.

24. The CBL will continue with ongoing efforts to strengthen domestic banks. In this connection, steps will be taken to ensure that restructuring and recapitalization plans developed for banks will be implemented. Accordingly, a Compliance Committee has been established that will, among others, monitor the implementation of the MOU's agreed with the banks. Meanwhile, the CBL intends to strengthen its capacity to undertake timely and effective supervision of domestic banks, an exercise for which external technical assistance will be needed. In this context, the CBL will remain very guarded in granting licenses for new banks. However, consideration may be given to licensing internationally reputable banks from outside Liberia that have the capacity to start operations with a strong capital base, and have a credible plan for contributing to the revitalization and growth of the Liberian economy. The CBL has commenced the process of bringing to final resolution non-operating and abandoned banks. The legal counsel has prepared documentation to submit individual cases to the courts for final resolution, which has been endorsed by the Board of Governors.

25. Building on the progress made in 2006 to strengthen its financial position, the CBL Board of Governors has approved a balanced budget for 2007. In this connection, the CBL will adopt travel guidelines consistent with those of the government (that was adopted in April 2006, and that are currently under review). In agreement with the IMF, the external

audit of the 2005 accounts of the CBL, a structural benchmark under the 2006 SMP, has been rescheduled to focus on preparing the 2006 accounts. This audit is expected to be completed by end-March 2007. Following the recommendations of the safeguards assessment requested by the CBL in September 2006, the CBL has formally adopted the International Financial Reporting Standards (IFRS) as its accounting framework, the transition to be completed by 2008. The CBL will also adopt, with TA, a formal training program on central bank accounting and IFRS; and establish clear criteria for selection and rotation of external auditors with a view to ensure the selection of a reputable firm to audit the CBL's financial statements pursuant to the International Standards of Accounting (ISA).

C. Strengthening Governance

26. The government accords high priority to strengthening governance and the rule of law since weaknesses in these areas contributed significantly to Liberia's recent history of civil war. The government's program in this area is multi-faceted, and includes combating corruption, strengthening the judiciary and police, and building capacity and transparency in public institutions.

27. In the area of combating corruption, notable progress has been made in a relatively short period of time, including the ratification of the UN and AU anticorruption conventions, adoption of an anticorruption strategy by the government, and establishment of a Civil Service Code of Conduct. During 2007, the government's focus will be on commencing implementation, with donor assistance, of its anticorruption strategy. An important element of this strategy will be establishing an independent anticorruption agency by end-September 2007, as provided for in the government's anticorruption strategy.

28. Under the GEMAP, progress has been made in strengthening capacity and enhancing transparency in public institutions through the deployment of international experts, technical assistance to ministries and agencies, and the posting of government reports on the internet and in the local media. In the year ahead, the government will continue with international support to strengthen capacity for policy formulation and implementation, further improve public sector management, and develop adequate economic and social data bases.

29. The lack of reliable and timely data is an important impediment to the government's ability to formulate policies and monitor their implementation. In this regard, it has been receiving extensive support from donors. A key challenge in the year ahead (in the context of preparatory work for the full PRSP) will be to formulate a national strategy for the development of the statistical system, and to strengthen the capacity of the Liberian Institute for Statistics and Geo-Information Services.

D. Other Reforms

30. To support private sector development, the government will begin addressing the impediments identified in the World Bank's recent FIAS analysis of the investment climate, including: (i) the large informal sector; (ii) energy supply; (iii) access to finance; (iv) land ownership and tenure; (v) tax policy; (vi) the investment code; and (vii) administrative and regulatory issues. Recognizing the importance of agriculture, forestry, and mining as potential sources of growth, the government will finalize policy frameworks to guide development in these sectors. Building on progress to date, the government will implement the reforms required to achieve the removal of sanctions on diamond exports. To further reintegrate Liberia into the world economy and promote economic efficiency, the government will initiate a comprehensive tariff reform aimed at adopting the ECOWAS common external tariff.

31. While some progress has been made in repairing some roads and providing electricity and water services to selected parts of Monrovia, a major challenge will be rebuilding Liberia's infrastructure that was nearly destroyed during the civil wars. The government's aim in the short run is to restore basic services to facilitate economic activity and combat poverty. While the government will work closely with the international community, it will also seek to secure private sector participation in view of the substantial investment required. Access to education and health facilities will also be improved.

IV. Relations with the IMF and other International Donors

32. The government will continue to make progress toward normalizing relations with the international community with a view to the eventual resolution of Liberia's debt overhang. It will therefore continue to make monthly payments of US$60,000 to the IMF, US$25,000 to the World Bank, and US$15,000 to the African Development Bank. While the government recognizes that the current level of payments to the IMF is not sufficient to stabilize its arrears, Liberia's status as a post-conflict country with significant reconstruction needs, limited external budget support, and very low international reserves, will make it difficult to increase payments beyond the current level.

33. Achieving rapid progress toward clearing Liberia's arrears to the international financial institutions and receiving comprehensive debt relief from its international creditors are critical steps in securing the progress that has been made thus far, and in supporting the government's reconstruction efforts. The government has been consulting extensively with official creditors, and has also started reconciling debt records to prepare for the preliminary debt sustainability analysis that is required under the HIPC Initiative. The government continues to plead for flexibility and creativity in addressing Liberia's arrears to the multilateral institutions. With bilateral assistance, the government appointed international financial advisors to assist with the reconciliation of private sector external debt, and is

appointing a highly experienced legal counsel to assist the government in the event of legal action from these creditors.

34. Implementation of the program for 2007 will be monitored on the basis of the quantitative benchmarks described in Table 1. The structural benchmarks, which build on progress under the 2006 SMP, are described in Table 3.

Table 1. Liberia: Quantitative Indicators 2006-2007 (cumulative basis from end of fiscal year, unless otherwise noted)

(Millions of US$)

	Jun. 06 [3/]	Sep. 06		Dec. 06	Mar. 07	Jun. 07	Sep. 07	Dec. 07
	Act.	Rev. Prog.	Prelim. Act.	Prel. Proj.	Prog.	Prog.	Prog.	Prog.
Fiscal								
Floor on revenue collections	84.6	24.7	28.5	50.9	84.5	120.9	30.1	62.5
Floor on cash-based fiscal balance [1/]	19.5	-19.5	8.7	-19.5	-19.5	-19.5	0.0	0.0
Ceiling on new noncash tax/duty payment (continuous basis)	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0
Ceiling on new domestic borrowing (continuous basis)	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0
Ceiling on new external borrowing (continuous basis)	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0
Ceiling on new domestic arrears/payables (excluding the arrears arising from the current debt outstanding) (continuous basis)	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0
CBL [2/]								
Ceiling on expenses	2.6	5.0	4.6	6.0	1.3	2.6	3.8	5.3
Ceiling on payments arrears (continuous basis)	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0
Floor on CBL's cash-based budget balance	-0.4	-1.8	-1.1	-1.9	0.0	0.0	0.1	0.0
Floor on the CBL's net foreign exchange position	13.6	16.1	17.7	19.9	22.7	25.7	28.8	31.6
Other								
Floor on token payments to the Fund (in US$) (continuous basis)	680,000	180,000	180,000	360,000	540,000	720,000	180,000	360,000

1/ The fiscal balance, on a cash basis, is defined as the difference between (a) total central government revenue plus budget support (excluding project grants), and (b) total current expenditure plus investment expenditure (excluding foreign-financed investment expenditure).

2/ The original program data for September 2006 reflects actual outturn at end-June, plus the original flow targets for September.

3/ The floor on revenue collections is total revenue for FY05/06 and the floor on cash-based fiscal balance is accumulated government surpluses at the CBL as of end-June. Most of the latter amount respresents checks approved and issued by the CMCo prior to end-FY05/06 that were not cashed prior to end-FY05/06. After taking into account commitments made, but not cashed, the uncommitted balance of the government account at the CBL at end-June 2006 was $2.1 million. Under the cash-based budget, expenditures are recorded when they are cashed at the CBL.

Table 2. SMP for February-September 2006—Structural Benchmarks

Measures	Target dates	Status
Fiscal Management		
Strengthen the Large Taxpayer Unit (LTU) • Create a large taxpayer audit unit inside the LTU with reallocation of staff within MoF • Introduce a monthly information exchange to the LTU from BIVAC	End-March 2006	Implemented by end-March
Increase the number of large taxpayers from 60 to 110 by auditing hidden taxpayers and/or lowering the threshold value	End-June 2006	Implemented by end-July
Develop a timetable to ensure approval of the 2006/07 budget	End-March 2006	Implemented by end-March
Submit budget for legislative approval prior to commencement of fiscal year	End-June 2006	Implemented by end-June
Develop a strategy to deal with overdue tax obligations	End-June 2006	Implemented by end-July
Implement an interim commitment control system in accordance with FAD TA recommendations: • The Bureau of the Budget to only allocate to line ministries in line with monthly cash plans • The line ministries to ensure that their commitments do not exceed allotments • The MoF to issue a public announcement that only purchase orders with the Bureau of General Accounting's special seal would be valid	Continuous from end-June 2006	Implemented from end-June
Integrate the Bureau of the Budget and the Bureau of Maritime Affairs into the Ministry of Finance	End-June 2006	Ongoing – legislation expected to be considered during 2007 legislative session
Establish the stock of domestic debt of the GOL, and complete the verification process	End-June 2006	Implemented by end-December
Finalize the domestic debt resolution strategy, consistent with a restructuring plan for the CBL	End-September 2006	Ongoing – draft strategy completed by end-December
CBL operations		
Revise the terms of reference for the money management committee to reflect the new responsibility of monetary policy, and ensure the committee operates in accordance with its ToR	Continuous from end-March 2006	Implemented from end-March
Publicize the final Monetary Policy Framework paper on the CBL website	End-March 2006	Implemented by end-March
Formulate a financial restructuring plan for CBL in collaboration with GOL, supported by IMF TA experts	End-September 2006	Implemented by end-December
Hold regular weekly or biweekly foreign exchange auctions	Continuous from end-March 2006	Implemented from end-March

Table 2. SMP for February-September 2006—Structural Benchmarks (cont.)

Measures	Target dates	Status
Conduct an external audit of the CBL by auditors of international reputation	End-September 2006	Ongoing – target date was postponed to end-April 2007 to allow audit of 2006 accounts
Governance and other issues		
Finalize the program for prioritizing and reviewing all concessions, contracts, and licenses granted under NTGL, and identify associated revenue flows, with assistance provided by international partners	End-April 2006	Implemented by end-April
Complete review of concessions, contracts, and licenses granted under the NTGL, with assistance provided by international partners	End-September 2006	Implemented by end-December
Implement recommendations of audit of travel expenses, including revision of policy on travel allowances	Continuous from end-March 2006	Implemented from end-March
Develop a national anti-corruption strategy for the GOL, including a policy matrix for implementation, with assistance provided by international partners	End-May 2006	Implemented by end-December
Post on MoF's website complete financial statements of revenue-generating agencies (National Ports Authority, Roberts International Airport, Liberian Petroleum Refining Corporation, Forestry Development Authority, and Bureau of Maritime Affairs), endorsed by financial controllers	End-September 2006	Implemented by end-December
Submit a status report, endorsed by the Economic Governance Steering Committee, on implementation of the Governance and Economic Management Assistance Program	End-September 2006	Implemented by end-December

Table 3. Structural Benchmarks for 2007 SMP

Measures	**Target dates**
Fiscal policy	
Commence implementation of the domestic debt resolution strategy, and develop a plan for settlement of cross-debts between the government and state-owned enterprises	End-March 2007
Submit a balanced cash-based budget for 2007/08 for legislative approval	End-May 2007
Develop and implement a comprehensive plan to reform the investment incentive code and submit legislation to repeal Section 204(e) of the Liberia Revenue Code of 2000, as well as the 2004 Act amending it, which allow the government to enter into ad hoc tax concession agreements with individual investors	End-June 2007
Reorganize administration of domestic taxes by taxpayer segmentation	End-June 2007
Financial sector	
Establish clear audit selection and rotation procedures and criteria for the CBL to select an internationally reputable audit firm to conduct the CBL's future external audits, pursuant to ISA, beginning in financial year 2007	End-March 2007
Appoint an auditor, consistent with the criteria above, to audit the CBL's financial accounts for 2007	End-September 2007
Develop a restructuring plan for the remaining undercapitalized banks consistent with the CBL's Bank Reconstruction and Resolution Policy	End-June 2007
Other Areas	
Establish an independent anticorruption agency, including submission of the required legislation for legislative approval, consistent with the government's anticorruption strategy	End-September 2007
Submit for legislative enactment an administrative procedure law that establishes a transparent process for the issuance of regulations pursuant to the Liberia Revenue Code of 2000, and submit legislation to repeal other laws and revoke regulations that are inconsistent with the law	End-September 2007
Replace the Monrovia CPI with the Harmonized CPI	End-February 2007

Attachment II – Technical Memorandum of Understanding (TMU) for the Staff-Monitored Program for 2007

1. 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 program for 2007, 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

2. Quantitative performance benchmarks have been set for end-March, end-June, end-September, and end-December 2007.

B. Definitions and Computation

3. **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 US dollars with all revenues and expenditures that are denominated in Liberian dollars converted at the end of period exchange rate.

4. **Government revenue** includes all tax and nontax receipts transferred into the US dollar GoL accounts at the Central Bank of Liberia (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 Timber Revenue Account and the Liberian dollar account at the CBL comprising the GoL General Account. For the purposes of the program, the revenues of the GoL are measured on the basis of cash balances posted in the four accounts specified above converted to US dollars using the end of period exchange rate.

5. **The cash-based fiscal balance** is defined as the difference between (a) government revenue defined in paragraph 4 of this TMU (including budget support grants, but excluding earmarked external loans and grants); and (b) government current expenditure plus capital expenditure (excluding foreign-financed expenditure for earmarked purposes). For the purposes of measurement, the monthly cash-based balanced outturn will be measured by the net change in the balances of GoL accounts held at the CBL (including budget support grants, but excluding earmarked loans and grants and expenditures funded by these loans and grants). GoL accounts at the CBL shall be defined as comprising the US dollar GoL General Account No. 2, the GoL Special Rice Fund, the Timber Revenue Account; and Liberian dollar GoL/CBL Civil Servant Payroll Account No.2, 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. For the purposes of measurement, all holdings in Liberian dollars accounts will be converted at the end of period exchange rate.

6. **Noncash tax/duty payment** is defined as any noncash settlement of duty/tax obligations to the GoL through the exchange of goods or services.

7. **New domestic borrowing** is defined as new 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 (loans, advances, and any government debt instruments, such as long-term government securities) 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.

8. **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 officially stamped with the Bureau of General Accounting (BGA) seal, and other non-discretionary expenditure that are now automatically approved, namely, wages and salaries, pensions, capital notes, and CBL bank charges.

9. **Contracting or guaranteeing of new external debt by the public sector.** For the purposes of the program, external debt applies not only to the meaning set forth in point No. 9 of the "Guidelines on Performance Criteria with Respect to Foreign Debt" (see Decision No. 12274-00/85, August 24, 2000 attached in **Annex I**), but also to commitments contracted or guaranteed for which value has not been received. In this memorandum, the public sector consists of the central and state-owned enterprises, including the CBL.

10. **The CBL's expenses** are defined as the sum of (i) recurrent expenditures and (ii) capital expenditure, on a cash basis.

11. **Payment arrears of the CBL** are calculated as the difference between payments due on commitments from the start of the program and actual payments made on those commitments. For the purpose of this memorandum, the CBL's commitments due include all expenditure for which goods and services have been delivered but have not been paid for.

12. **The CBL's cash-based budget balance** is defined as the difference between (a) total revenues (the sum of interest income and non-interest income) on a cash basis; and (b) total current expenditure plus capital expenditure, on a cash basis.

13. **The CBL's net foreign exchange position** is defined as the difference between (a) the CBL's gross foreign liquid assets, as currently defined in the monthly monetary survey and (b) the sum of its gross foreign liquid liabilities and liquid liabilities denominated in US dollars, as currently defined in the monthly monetary survey.

14. **The token payments to the IMF** are defined as monthly payments to the IMF. These payments shall, unless otherwise instructed by the GoL, be applied to the oldest maturing General Resources Account debt obligations owed by Liberia to the IMF. The IMF reserves the right to request the authorities to deposit payments into an escrow account established at another institution overseas.

II. PROGRAM MONITORING

A. Program–Monitoring Committee

15. The Liberian authorities shall maintain a program-monitoring committee composed of senior officials from the Ministry of Finance, the CBL, and other relevant agencies. The IMF Resident Representative will have observer status on this committee. The committee shall be responsible for monitoring the performance of the program, recommending policy responses, informing the IMF regularly about the progress of the program, and transmitting the supporting materials necessary for the evaluation of benchmarks. The committee shall provide the IMF with a progress report on the program on a monthly basis within four weeks of the end of each month, using the latest available data.

B. Data Reporting to the IMF

16. 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 revenue and expenditure 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 loans, by donor (monthly, within two weeks after the end of the month);

- Daily balances in the GoL accounts at the CBL. These comprise the US dollar: GoL General Account No. 2, the GoL Special Rice Fund, the Timber Revenue Account; and Liberian dollar accounts: the GoL/CBL Civil Servant Payroll Account No.2, 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 (daily, within three days from the date of the statement);

- 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 four weeks after the end of the month);

- The amount of new domestic debt contracted or guaranteed by the public sector (monthly, within two weeks after the end of the month);

- The amount of new external debt contracted or guaranteed by the public sector (monthly, within two 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 six weeks after the end of the month);

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

- The monthly reports on CBL cash revenues and expenditures in US dollar and Liberian dollar terms, on an aggregated basis (including both recurrent and capital expenditure) (monthly, within three weeks after the end of the month);

- Outstanding commitments and disbursements of the CBL expenses (monthly, within three weeks after the end of the month);

- The detailed report on foreign exchange auctions and the CBL's direct foreign exchange transactions with the government, including amount, date, and rate (monthly, within three weeks after the end of the month);

- Indicators of overall economic trends, including the monthly consumer price index, the monthly harmonized consumer prices index, daily foreign exchange rates and interest rates, monthly trade data, monthly imports of petroleum products, commercial bank inflows and outflows, production data (monthly, within six weeks after the end of the month);

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

17. The above data and reports will be provided in hard copies and electronically to the IMF Resident Representative to Liberia (Mr. Tharkur) for further transfer to the African Department of the IMF in Washington, D.C.

Annex 1: Guidelines on Performance Criteria with Respect to Foreign Debt

Excerpt from Executive Board Decision No. 6230-(79/140), as revised on August 24, 2000

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

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

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

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