

## International Monetary Fund

[Liberia](#) and the IMF

### **Liberia:** Staff-Monitored Program: Letter of Intent

**Press Release:**

[IMF Executive Board  
Discusses Liberia's  
Progress Under the  
Staff-Monitored  
Program](#)

July 13, 2007

June 28, 2007

[Country's Policy  
Intentions Documents](#)

**E-Mail Notification**

[Subscribe](#) or [Modify](#)  
your subscription

The following item is a Letter of Intent and a Memorandum of Economic and Financial Policies 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 staffmonitored 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, June 28, 2007

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

Dear Mr. de Rato:

The outlook for the Liberian economy continues to improve. The maintenance of macroeconomic stability and strong growth prospects, lifting of UN sanctions, and increasing investor interest in Liberia are signs that progress in implementing our ambitious reform program is translating into positive outcomes. This progress, which was recognized by our development partners at the February 2007 Partners Forum, has resulted in renewed commitment of both financial and technical support, including pledges to support debt relief for Liberia. We remain strongly committed to continuing our reform efforts, including making progress on the SMP objectives and implementing technical assistance recommendations provided by the IMF and other partners.

The government has made good progress in meeting SMP benchmarks. All but one of the end-December 2006 and end-March 2007 quantitative benchmarks were met. Public revenues substantially exceeded program targets and more progress was made in improving the central bank's finances. On the structural side, we have made good progress in achieving the outstanding 2006 and end-March 2007 benchmarks, including the introduction of the Harmonized CPI, commencing implementation of the government's domestic debt strategy, and adoption of audit selection criteria to ensure that audits of the central bank will be conducted by a qualified firm of international repute. The external audit of the CBL's 2006 accounts was conducted, and we are hopeful it will be completed soon. We will also continue to work with the legislature to seek passage of legislation to integrate the Bureau of the Budget and Bureau of Maritime Affairs into the Ministry of Finance.

Adherence to a transparent budget timetable enabled us to submit the 2007/08 budget to the legislature on May 17, 2007. Our cash-based balanced budget targets revenues (excluding grants) of US\$182.5 million. We see this target as achievable in view of a one-off payment of US\$15 million and the first annual payment of US\$3 million for community development to the government following approval of the Mittal Steel agreement, and our continued efforts to enhance revenue efficiency and broaden the tax base. On the expenditure side, our budget is aligned with the developmental priorities identified in our interim poverty reduction strategy paper. To this end, the total allocation for ministries and agencies that are expected to deliver direct social services, such as education, health, agriculture, public works, and water and sanitation, has been increased by 39 percent (US\$42.5 million) from the 2006/07 budget. The budget also provides for an increase in the civil service wage bill (by 43 percent compared with the previous year). This greater allocation will enable the

government to raise the minimum civil service wage to US\$50 per month from US\$30 per month, as well as to begin addressing wage compression. Finally, the 2007/08 budget fully provides for implementation of our domestic debt resolution strategy (US\$12.7 million) and allocates US\$3.9 million for arrears payments.

The primary objectives of the government's economic program for 2007, monitored by the IMF staff, are described in our letter of intent and accompanying memorandum of economic and financial policies of January 18, 2007. The main objectives of our program are to continue efforts to strengthen public financial management and the financial sector, and to begin implementing our domestic debt resolution and anticorruption strategies. During the March 29–April 11, 2007, SMP review mission, we agreed on revised quantitative benchmark targets for 2007 based on 2007/08 fiscal budget targets, the 2007 budget for the central bank, and a revised monetary program consistent with price stability. We also agreed to a revised structural benchmark relating to the implementation of our anticorruption strategy (submit required legislation for establishment of an independent anticorruption agency for legislative approval) and to add a new benchmark (prepare a medium-term national statistical plan by end-September 2007).

Resolving Liberia's debt overhang remains a high priority for the government. Debt relief under the HIPC Initiative and the MDRI is essential if we are to normalize our relations with creditors and assume a path to sustainable development. The IMF staff has concluded that the policies under the 2007 program meet the standard of an upper credit tranche Fund arrangement, apart from program financing assurances. We believe that Liberia's performance under the SMP continues to be good, and apart from financing assurances from donors to fund debt relief, could be counted toward a track record to reach the decision point under the HIPC initiative. We urge management and the Executive Board to take this into consideration when determining the track record Liberia needs to reach the HIPC decision point.

The policies and measures set forth in the letter of intent dated January 18, 2007, the accompanying MEFP, and this letter, reflect the understandings reached with the IMF staff during the November 2006 mission and are consistent with understandings reached in the April 2007 SMP review mission. We believe these measures will allow us to achieve the objectives of the program, but will, take any additional measures that may become necessary

for this purpose. We continue to consult closely with the IMF staff on our 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 the information it requests to assess implementation of the SMP.

Sincerely yours,

/s/

Antoinette M. Sayeh  
Minister of Finance

/s/

Joseph Mills Jones  
Governor of the CBL

Attachments: Quantitative Indicators for 2006-7  
SMP for February-September 2006-Structural Benchmarks  
Structural Benchmarks for 2007 SMP

Table 1. Liberia: Quantitative Indicators 2006-07 (Cumulative basis from end of fiscal year, unless otherwise noted)

(Millions of US dollars)

	Jun. 06 <sup>3/</sup>	Sep. 06	Dec. 06		Mar. 07		Jun. 07		Sep. 07		Dec. 07	
	Act.	Act.	Rev.	Prog.	Act.	Prog.	Act.	Prog.	Rev.	Prog.	Act.	Prog.
<b>Fiscal</b>												
Floor on revenue collections	84.6	28.5	50.9	60.8	84.5	105.9	120.9	120.9	30.1	37.5	62.5	79.9
Floor on cash-based fiscal balance <sup>1/</sup>	19.5	8.6	-19.5	7.0	-19.5	24.0	-19.5	-19.5	0.0	0.0	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	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	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	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	0.0	0.0	0.0	0.0	0.0
<b>CBL</b> <sup>2/</sup>												
Ceiling on expenses	2.6	4.6	6.0	6.2	1.3	1.0	2.6	2.6	3.9	3.9	5.3	5.3
Ceiling on payments arrears (continuous basis)	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Floor on CBL's cash-based budget balance	-0.4	-1.1	-1.9	-0.9	-0.1	0.7	0.0	0.0	0.1	0.1	0.0	0.0
Floor on the CBL's net foreign exchange position	13.6	17.7	19.8	21.8	22.7	24.3	25.7	26.8	28.9	29.3	31.6	31.6
<b>Other</b>												
Floor on token payments to the Fund (in US\$) (continuous basis)	680,000	180,000	360,000	360,000	540,000	540,000	720,000	720,000	180,000	180,000	360,000	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 2006. Most of the latter amount represents 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
<b>Fiscal Management</b>		
Strengthen the Large Taxpayer Unit (LTU) <ul style="list-style-type: none"> <li>• Create a large taxpayer audit unit inside the LTU with reallocation of staff within MoF</li> <li>• Introduce a monthly information exchange to the LTU from BIVAC</li> </ul>	End-March 2006	Implemented by end-March 2006
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 2006
Develop a timetable to ensure approval of the 2006/07 budget	End-March 2006	Implemented by end-March 2006
Submit budget for legislative approval before the fiscal year's start	End-June 2006	Implemented by end-June 2006
Develop a strategy to deal with overdue tax obligations	End-June 2006	Implemented by end-July 2006
Implement an interim commitment control system in accordance with FAD TA recommendations: <ul style="list-style-type: none"> <li>• The Bureau of the Budget to allocate only to line ministries in line with monthly cash plans</li> <li>• The line ministries to ensure that their commitments do not exceed allotments</li> <li>• The MoF to issue a public announcement that only purchase orders with the Bureau of General Accounting's special seal would be valid</li> </ul>	Continuous from end-June 2006	Implemented from end-June 2006
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 2006
Finalize the domestic debt resolution strategy, consistent with a restructuring plan for the CBL	End-September 2006	Implemented by end-January 2007
<b>CBL Operations</b>		
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 2006
Publicize the final Monetary Policy Framework paper on the CBL website	End-March 2006	Implemented by end-March 2006
Formulate a financial restructuring plan for CBL in collaboration with GOL, supported by IMF TA experts	End-September 2006	Implemented by end-December 2006
Hold regular weekly or biweekly foreign exchange auctions	Continuous from end-March 2006	Implemented from end-March 2006

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

Measures	Target dates	Status
Conduct an external audit of the CBL by auditors with an international reputation	End-September 2006	Ongoing – expected to be completed soon
<b>Governance and other issues</b>		
Finalize the program for prioritizing and reviewing all concessions, contracts, and licenses granted under NTGL, and identify associated revenue flows, with assistance from international partners	End-April 2006	Implemented by end-April 2006
Complete review of concessions, contracts, and licenses granted under the NTGL, with assistance from international partners	End-September 2006	Implemented by end-December 2006
Implement recommendations of audit of travel expenses, including revision of policy on travel allowances	Continuous from end-March 2006	Implemented from end-March 2006
Develop a national anticorruption strategy for the GOL, including a policy matrix for implementation, with assistance from international partners	End-May 2006	Implemented by end-December 2006
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 2006
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 2006

Table 3. Structural Benchmarks for 2007 SMP

<u>Measures</u>	<u>Target dates</u>	<u>Status</u>
<b>Fiscal Policy</b>		
Commence implementation of the domestic debt resolution strategy, and develop a plan to settle cross-debts between the government and state-owned enterprises	End-March 2007	Implemented by mid-April 2007
Submit a balanced cash-based budget for 2007/08 for legislative approval	End-May 2007	Budget submitted to legislature on May 17
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 the code, which allowed the government to enter into ad hoc tax concession agreements with individual investors	End-June 2007	Draft legislation has been developed and is being prepared for presentation to cabinet
Reorganize administration of domestic taxes by taxpayer segmentation	End-June 2007	Good progress has been made
<b>Financial Sector</b>		
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	Implemented by mid-June 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	
<b>Other Areas</b>		
Submit required legislation for establishment of an independent anticorruption agency 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	
Develop a comprehensive medium-term national statistical plan	End-September 2007	
Replace the Monrovia CPI with the Harmonized CPI	End-February 2007	Implemented by end-February 2007