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

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April 12, 2006

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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, April 12, 2006

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

Dear Mr. de Rato,

As you know, the Liberian economy has suffered significant setbacks during the past fifteen years on account of civil conflicts, and economic mismanagement by successive governments. The task of reconstructing the Liberian economy is immense, but we believe that we will succeed in this important undertaking.

A key element of the government's strategy is to demonstrate a decisive departure from historical practices in order to maintain public support for the difficult challenges that lie ahead. In support of this, the Liberian government is committed to implementing an economic and financial program to be monitored by IMF staff for the period through September 2006, with a view to commencing the task of rebuilding key public institutions, restoring credible financial management, and accelerating structural reforms. Such a program should facilitate our dialogue with multilateral and bilateral donors and the eventual de-escalation of the remedial measures previously imposed by the IMF on Liberia. We also hope that the successful execution of the program would pave the way toward a subsequent Fund-supported arrangement and eventually lead to the resolution of Liberia's debt overhang.

The policies and measures set forth in the attached memorandum (Attachment I) reflect the understandings reached with the IMF staff during the February 2006 Article IV 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 that it requests to assess the implementation of the staff-monitored program. A Technical Memorandum of Understanding defining the indicative targets of the staff-monitored program and the data to be reported is also attached (Attachment II).

Sincerely yours,

/s/
Joseph Mills Jones
Governor of the CBL

/s/
Antoinette M. Sayeh
Minister of Finance

Attachments: Memorandum on Economic and Financial Policies
Technical Memorandum of Understanding
Summary on the Governance and Economic Management Assistance Program
(GEMAP)

Liberia

Memorandum on Economic and Financial Policies

The Government's Economic Program
for the period February – September 2006

I. INTRODUCTION

1. Following the signing of the peace agreement in Accra, the National Transitional Government of Liberia (NTGL) took office in October 2003. In parallel, the UN established a peace-keeping mission in Liberia (UNMIL), and security in the country gradually improved. Economic management, however, did not improve due to the lack of cooperation within the NTGL. Presidential elections in October and November 2005 took place in a relatively secure environment. Mrs. Ellen Johnson-Sirleaf, who won the run-off election on November 8, was inaugurated as President of Liberia on January 16, 2006. The new government inherited a severely mismanaged economy, characterized by endemic corruption and dysfunctional public institutions. The new government is formulating a “150-day plan” of priority short-term reforms and deliverables. The plan is fully consistent with the Governance and Economic Management Assistance Program (GEMAP)¹, and underpins the economic program for the period February-September 2006 described in this Memorandum on Economic and Financial Policies (MEFP) that will be monitored by the staff of the IMF. The key features of the GEMAP are described in Attachment III.

II. CURRENT ECONOMIC SITUATION

2. Liberia's recent history has left deep marks on the population and economy. Poverty is pervasive; real GDP per capita (in 2005 prices) is estimated to have declined by almost 90 percent from US\$1,269 in 1980 to US\$163 in 2005; unemployment is estimated to be over 80 percent; a large share of the population was displaced by conflict; the most recent household survey, conducted by the United Nations Development Program (UNDP) in 2000, indicated that 76 percent of the population was living on less than US\$1 per day; malnutrition and disease, including tuberculosis, cholera, malaria, and yellow fever are prevalent; and about one-fourth of infants die before reaching the age of 5. Liberia's HIV/AIDS prevalence rate is estimated at about 10-12 percent. The destruction of both physical infrastructure (roads, railways, electricity and water, and telecommunications) and human capital (through armed conflict, emigration, lack of access to education, and poor health) have serious consequences for Liberia's growth potential. In addition, efforts to

¹ Prior to the elections, the NTGL agreed with key international partners on a long-term international assistance program to strengthen governance and financial management in light of increasing concerns over public financial management and the indiscriminate granting of concessions for Liberia's timber and mineral sectors.

formulate and implement consistent macroeconomic policy is severely hampered by the lack of management capacity in government institutions and accurate and timely data.

3. Economic developments in 2003-2005 closely mirror political events; driven by domestic instability and a UN ban on exports of timber and diamonds², real GDP declined by about 31 percent in 2003. Real output growth is estimated to have been 2.6 percent and 5.3 percent respectively in the subsequent two years in line with the gradual improvement in security in rural areas, and restoration of activity in those sectors benefiting from donor assistance (mainly the service sector). The volatility in prices and the exchange rate declined following the cessation of hostilities in mid-2003. Recently, however there have been signs of a rise in prices, in part reflecting higher donor expenditure. The exchange rate vis-à-vis the U.S. dollar has returned to preconflict levels (following a depreciation of about 23 percent in 2002), and is currently trading in a range of 55–57 Liberian dollars per U.S. dollar.

4. Fiscal management deteriorated markedly toward the end of the NTGL's period in office. Revenue collection stagnated towards end-2005, largely reflecting a breakdown of controls in customs, while expenditure decisions were taken in a non-transparent manner, circumventing the Cash Management Committee (CMCo) which had been established earlier. Excessive allotments granted for some ministries by the Bureau of the Budget and the indiscriminate issuance of vouchers by line ministries undermined a balanced cash-based budget. As a result, sizeable domestic arrears were accumulated. At end-January 2006, domestic arrears accumulated under the NTGL (excluding those to the Central Bank of Liberia (CBL) and commercial banks) amounted to US\$20 million, about 25 percent of the annual budget.

5. Governance concerns arose as new concessions and contracts, mainly in the mineral sectors, were granted in a nontransparent manner and on unfavorable terms. In addition, in 2004–05, EU-sponsored audits of the main revenue-generating agencies and an ECOWAS audit on travel expenses also revealed pervasive mismanagement of public funds prior to and during the transitional government's term of office.

6. The banking sector continues to be weak. Commercial banks remain fragile due to low profitability and poor asset quality. Nevertheless, operating banks are liquid, reflecting an increase in donor-related deposits and the low demand for loans from the private sector in the fragile economic environment. The CBL, incurring an income shortfall on account of substantial unserviced claims on the government, has drawn on its international reserves to finance outlays, resulting in a slower accumulation of foreign reserves than had been expected.

7. The external environment remains difficult, even though donor assistance has increased to levels substantially higher than during the pre-conflict era. While imports almost

² The UN sanctions were imposed because of the role which proceeds from these sectors played in fueling conflict in the region and of concerns over the gross mismanagement of economic resources.

doubled in 2004, and remained at that level in 2005, exports have remained at low levels on account of the UN ban on the export of timber and diamonds. The overall balance of payments deficit rose further in 2004 and 2005, financed largely by a further accumulation of external payments arrears. 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 3,040 percent, while the ratio of debt to GDP amounted to about 790 percent.

III. THE GOVERNMENT'S ECONOMIC PROGRAM: FEBRUARY – SEPTEMBER 2006

8. Following about fifteen years of intermittent civil war, Liberia faces daunting challenges to put in place a policy framework that will support economic recovery, and begin to address the pervasive poverty. To meet these challenges, the government established the Liberia Reconstruction and Development Committee (LRDC) to implement a broad development strategy under four pillars: (i) economic revitalization; (ii) infrastructure and basic services; (iii) governance and the rule of law; and (iv) security. A key element of the government's strategy in the short run will be to achieve significant progress in rebuilding key government institutions. It will aim to: (i) re-establish a functioning budgetary process (planning, execution, internal and external controls, and regular reporting); (ii) rebuild the main revenue-generating agencies so that they can fulfill their role in a fully transparent and accountable fashion; and (iii) make the operations of the CBL and the banking system fully market-based and transparent. To this end, the government has already implemented a number of important measures to improve public finance management and enhance transparency, including: (i) fully enforcing pre-shipment inspections by the pre-shipment verification company, BIVAC; (ii) ensuring prudent allotments by the Bureau of the Budget for line ministries in collaboration with the Ministry of Finance; (iii) reestablishing the CMCo to contain spending commitments within available cash revenues; and (iv) developing a plan for reviewing all concessions and contracts signed by the NTGL, and placing a moratorium on awarding new concessions until a transparent bidding process has been established.

9. The government's program assumes effective implementation of the GEMAP, prudent macroeconomic policies, the gradual revitalization of exports once UN sanctions are lifted, and post-war reconstruction. Real GDP is projected to grow by around 7–8 percent in 2006. Average annual inflation is projected to remain modest at around 8 percent, anchored on a stable exchange rate. The trade deficit is projected to widen further as the growth of donor-financed imports rise by more than exports. Official reserves, are projected to increase modestly, with the cover of non-donor financed imports rising from 0.5 months at end-2005 to 0.8 months at end-2006. Given Liberia's resource constraints and low level of income, restoration of physical infrastructure and achieving sustained high economic growth will require substantial external support for an extended period.

10. The government will also initiate the development of a poverty reduction strategy aimed at restoring basic social services, and addressing the "Monrovia-bias" that fueled the civil conflict. In this context, the government will prepare an interim Poverty Reduction Strategy Paper (I-PRSP) by end-September 2006.

A. Fiscal Policy

11. The challenge for the government is to convince Liberians and Liberia's development partners that the country's scarce resources are being used efficiently to rebuild the economy and to start addressing pressing social needs. To this end the government will focus on the rebuilding of fiscal institutions to enhance revenue collection, and to strengthen public expenditure management. Recognizing Liberia's significant public debt burden, the government will pursue a balanced budget for the foreseeable future; deficit spending will only occur to the extent that external donor support on grant terms becomes available (see Table 1).

12. The government will implement a broad range of reforms to enhance the efficiency of revenue collection and broaden the tax base (see Table 2). These reforms include enforcing pre-shipment inspections for imports and exports and strengthening the Large Taxpayer Unit. In addition, the government will establish a program to address overdue tax/duty obligations. Furthermore, as envisaged under the GEMAP, transparency of resource flows from revenue-generating agencies is expected to be considerably enhanced with assistance from the external experts at five revenue generating agencies (namely the National Port Authority (NPA), Roberts International Airport (RIA), the Liberia Petroleum Refining Corporation (LPRC), the Forestry Development Agency (FDA), and the Bureau of Maritime Affairs (BMA)).³ The government will integrate the Bureau of the Budget and the Bureau of Maritime Affairs into the Ministry of Finance by end-June 2006. With technical assistance on tax policy from the IMF, the government will also aim to shift gradually revenue from the current trade-based structure to domestic activities.

13. On the expenditure side, the government will ensure that adequate expenditure controls are in place. With assistance from external experts at the Ministry of Finance (MoF) and the CBL, the CMCo will ensure that spending decisions are made within actual revenue collections (to avoid the reemergence of cash deficits) and follow prioritized cash plans for all ministries and institutions. The government will also continue to utilize technical assistance from the IMF, World Bank and others to strengthen public expenditure management capacity, including through the implementation of an interim commitment control system. In addition, the government will ensure full and effective implementation of the newly adopted procurement policy to strengthen public procurement practices. For the remainder of the 2005/06 fiscal year⁴, the government will prioritize expenditures in order to maintain its core functions, and to effectively pursue the 150-day plan; the budget for 2005/06 will therefore be amended accordingly.

14. To improve the budgetary process, the government intends to enhance transparency and accountability. As a first step, the government will take action to limit the discretion

³ In principle, revenue from FDA and BMA should flow directly to the government. Revenues from NPA, RIA and LPRC should flow to the budget through dividends.

⁴ July to June.

granted to the administration to change budget allocations between line ministries without legislative approval. Legislation to this effect will be introduced in tandem with the submission of the 2006/07 budget by end-June 2006. In addition, the budget (including any revisions) will be posted on the website of the Ministry of Finance with regularly updated information on progress with implementation. A timetable for the preparation of the 2006/07 budget will be established by end-March 2006.

15. The government intends to have a balanced budget for some time, reflecting domestic and external financing constraints. Nonetheless, progress with the reform effort is likely to attract grants, also in the form of budgetary support, once the budget process has been sufficiently strengthened. Together with higher revenue, these resources will be channeled toward basic infrastructure and social services in the context of the poverty reduction strategy that will be developed through a consultative process.

16. The government intends to review the strategy for the resolution of domestic debt, that was developed in 2005 with external assistance, and will carefully consider implementation of the options with due consideration to available resources and potential consequences for the domestic banking sector. As an immediate step, the government will establish the stock of domestic debt, and complete the process of verification. Subsequently a domestic debt resolution strategy will be finalized, consistent with a restructuring plan for CBL.

B. Monetary and Exchange Rate Policy

17. The principal objective of the CBL is to maintain price stability. Given that the role of monetary policy in a highly dollarized economy is very limited, the CBL will continue to use the exchange rate as a key indicator of demand for local currency. The current system of regular foreign exchange auctions will be used to control the pace of increase in domestic liquidity. The CBL will therefore resume the program of regular foreign exchange auctions, using the supply of U.S. dollars from the government for the payment of civil service salaries and wages in Liberian dollars. The use of the statutory reserve requirement system will also be explored in the event that additional actions are required to manage domestic liquidity.

18. The CBL will build up foreign reserves, consistent with the objective of maintaining stability in the exchange rate. It will target strengthening its net foreign exchange position to a minimum of US\$13.2 million by end-September 2006 (see Table 1). In light of the scarcity of liquid foreign assets, the CBL will not use its resources to defend the local currency in the event of downward pressures on the currency.

19. Over the longer-term, the CBL expects to develop the capacity to manage liquidity in the banking sector through monetary instruments in order to provide an additional means of managing the exchange rate, particularly given the scarce availability of foreign reserves. In this regard, the CBL will gradually introduce a range of reforms, including strengthening the framework for liquidity monitoring, and preparing the framework for the eventual issuance of short-term securities.

20. Given the extent of dollarization, the CBL will continue to maintain the present dual currency arrangement, with both the Liberian and U.S. dollar as legal tender. However, the government believes that the pursuit of a credible monetary policy, complemented by sustainable fiscal policy, together with efforts to develop Liberia's financial system and improve the health of the banking sector, will in due course increase the demand for local currency, and consequently allow for a gradual de-dollarization of the economy. In the meantime, the expansion of domestic currency will be carefully managed to be consistent with the demand for Liberian dollars and maintaining a stable exchange rate.

21. In the banking system, the CBL will strengthen supervision in accordance with the Bank Restructuring and Resolution Policy which was adopted in January 2005. Consistent with IMF recommendations, the CBL will also implement the following additional measures to strengthen the regulatory environment and the capacity of banking supervision: (i) no new banks will be licensed for the time being; and (ii) the CBL will place resident supervisors with troubled banks.

22. The CBL will continue with current efforts to strengthen its financial position. Strategically, the CBL may not achieve a balanced budget in 2006, but will eliminate the cash deficit over the next few years to complement other efforts to rebuild Liberia's international reserves. To strengthen management capacity and governance at the CBL, the newly appointed Chief Administrator at the CBL, with binding co-signature authority for operational and financial matters, assumed his position on February 6, 2006, and is expected to make considerable contributions in these areas. In addition, the recently appointed Executive Governor is also expected to further strengthen management of the CBL. Moreover, the CBL will commission an external audit of its accounts for the 2005 financial year by an auditor of international repute.

C. Structural Reforms

23. The government recognizes that economic recovery requires not only a consistent macroeconomic framework, but also a clear and transparent legal and regulatory environment that can support a revival of both domestic and foreign direct investment. To this end, the government will approach the international community to provide further policy advice and technical assistance to support capacity building in the public sector, including civil service reform, and strengthening of the judicial system.

24. The government will stand firm against corruption. It will request support from international experts in the investigation of serious fraud, corruption and economic crimes. Additionally, the government also plans to develop by end-May 2006 a comprehensive anti-corruption strategy inclusive of a policy matrix for implementation.

25. The government will strengthen economic governance, as envisaged under the GEMAP. As a first step, it is conducting a stocktaking exercise for all the concessions given and contracts made under the NTGL and, with external assistance, will formulate a strategic plan to deal with these concessions. In addition, the government will improve controls over the granting of concessions and contracts, implementing a basic procurement system through the establishment of the Public Procurement and Concessions Commission, and joining the

Kimberley Process Certification Scheme and the Extractive Industries Transparency Initiative (EITI). The government will pursue trade reform and will seek to become a member of the WTO. Furthermore, in cooperation with the World Bank and other international partners, the government will develop a concrete plan of action to meet the conditions for lifting of UN sanctions on exports of timber and diamonds.

26. The government has initiated a comprehensive program for the first 150 days of its administration to rehabilitate public infrastructure (roads, electricity generation, provision of water, renovation of Monrovia port, schools, and health clinics); to improve education and health services through assignment of more teachers and health workers, and strengthening programs to combat malaria, HIV/AIDS, and other diseases; to promote employment, inter alia, through targeted public works programs; to continue preparatory work for a civil service reform program; to improve security; and to support revitalization of agriculture through targeted support to farmers.

IV. TECHNICAL AND FINANCIAL ASSISTANCE

27. The government's efforts to rebuild the economy, facilitate economic growth, and reduce poverty will require a functioning and efficient public administration. The short-term objectives are to build program implementation and monitoring capacity, and put in place the necessary administrative capacity to lay the foundation for monitoring a Fund-supported program, as well as programs of assistance of other development partners. To this end, the objective of this program is to achieve significant progress with strengthening key government institutions; as envisaged under GEMAP, attention will initially be focused on the Ministry of Finance, other key agencies, and the CBL. The government has requested technical and financial support for this purpose from the IMF, World Bank, and other development partners.

28. The government currently lacks accurate and timely data required to formulate economic policy, and to monitor its implementation since much of the database was destroyed during the period of conflict. Significant support from international agencies will be required for an extended period to rebuild Liberia's database. In this context, support will be required for improving basic economic indicators, such as the national accounts, consumer price index and balance of payments, as well as basic data on social indicators, inter alia, through support for a national census and household survey.

V. RELATIONS WITH THE IMF AND OTHER INTERNATIONAL CREDITORS

29. The government recognizes the need to make swift progress toward normalizing relations with the international community with a view to the eventual resolution of Liberia's debt overhang. The government will therefore make every effort to establish a sufficient track record of sound economic management under the staff monitored program (SMP) and to continue with monthly payments of US\$60,000 to the IMF, as well as US\$25,000 to the World Bank and US\$15,000 to the African Development Bank. The government expects sustained progress in these areas to lead to a de-escalation of the IMF's remedial measures imposed on Liberia, and to a subsequent IMF-supported program.

30. Given the urgency of meeting Liberia's social and reconstruction needs, a substantial reduction in the external debt burden will be an important element of the country's economic strategy. To this end, the government intends to contact its bilateral and commercial creditors, and inform them of the government's desire for a comprehensive resolution to the debt overhang problem. The government also intends to consult with the multilateral institutions (including the IMF, World Bank and African Development Bank) on modalities for eliminating arrears with those institutions, with a view to eventually seeking comprehensive debt relief through the HIPC and the Multilateral Debt Relief (MDR) Initiatives. The government recognizes that developing a strong track record under the SMP is an important first step in achieving this goal.

Table 1. Liberia: Quantitative Indicators (flow basis)

	Oct.-Dec. 05		Jan. 06		Feb.-Mar. 06		Apr.-Jun. 06		Jul.-Sep. 06	
	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.
Fiscal										
Floor on revenue collections	13.6		8.1	14.1	24.7	20.3				
Floor on cash-based fiscal balance ^{1/}	-1.1		5.2	0.0	0.0	0.0				
Ceiling on new noncash tax/duty payment	n.a.		n.a.	0.0	0.0	0.0				
Ceiling on new domestic borrowing	0.0		0.0	0.0	0.0	0.0				
Ceiling on new external borrowing	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)	n.a.		n.a.	0.0	0.0	0.0				
CBL										
Ceiling on expenses	n.a.		1.2	0.9	2.2	0.9				
Ceiling on payments arrears	n.a.		n.a.	0.0	0.0	0.0				
Floor on CBL's cash-based budget balance	n.a.		-1.0	-0.3	-1.2	0.1				
Floor on the changes in CBL's net foreign exchange position	2.7		-0.9	0.2	1.8	3.1				
Other										
Floor on token payments to the Fund (in US\$)	170,000		60,000	120,000	180,000	180,000				

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

Table 2. SMP for 2006—Structural Benchmarks

Measures	Target dates
Fiscal Management	
<p>Strengthen the Large Taxpayer Unit (LTU)</p> <ul style="list-style-type: none"> • 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
<p>Increase the number of large tax payers from 60 to 110 through auditing hidden taxpayers and/or lowering threshold value.</p>	End-June 2006
<p>Develop a timetable to ensure approval of 2006/07 budget.</p>	End-March 2006
<p>Submit budget for legislative approval prior to commencement of fiscal year.</p>	End-June 2006
<p>Develop a strategy to deal with overdue tax obligations.</p>	End-June 2006
<p>Implement an interim commitment control system in accordance with FAD TA recommendations:</p> <ul style="list-style-type: none"> • 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 make public announcement that only purchase orders with the Bureau of General Accounting's special seal would be valid. <p>Integrate the Bureau of the Budget and the Bureau of Maritime Affairs into the Ministry of Finance</p> <p>Establish the stock of domestic debt of the GOL, and complete process of verification.</p> <p>Finalize the domestic debt resolution strategy, consistent with a restructuring plan for the CBL.</p>	<p>Continuous from end-June 2006</p> <p>End-June 2006</p> <p>End-June 2006</p> <p>End-September 2006</p>
CBL operations	
<p>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.</p>	Continuous from end-March 2006
<p>Publicize the final Monetary Policy Framework paper on the CBL website.</p>	End-March 2006
<p>Formulate a financial restructuring plan for CBL in collaboration with GOL, supported by IMF TA experts.</p>	End-September 2006
<p>Hold regular weekly or bi-weekly foreign exchange auctions.</p>	Continuous from end-March 2006
<p>Conduct an external audit of the CBL by auditors of international repute.</p>	End-September 2006

Table 2. SMP for 2006—Structural Benchmarks (concluded)

Measures	Target dates
<p>Governance and other issues</p> <p>Finalize the program for prioritizing and reviewing all concessions, contracts, and licenses granted under NTGL, and identifying associated revenue flows, with assistance provided by supported by international partners.</p> <p>Complete review of concessions, contracts, and licenses granted under the NTGL, with assistance provided by supported by international partners.</p> <p>Implement recommendations of audit of travel expenses, including revision of policy on travel allowances.</p> <p>Develop a national anti-corruption strategy for the GOL, inclusive of a policy matrix for implementation, with assistance provided by supported by international partners.</p> <p>Post on website of the MoF 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.</p> <p>Submit a status report, endorsed by the Economic Governance Steering Committee, on implementation of the Governance and Economic Management Assistance Program.</p>	<p>End-April 2006</p> <p>End-September 2006</p> <p>Continuous from end-March 2006</p> <p>End-May 2006</p> <p>End-September 2006</p> <p>End-September 2006</p>

Technical Memorandum of Understanding for the Staff-Monitored Program for 2006

Liberia, April 12, 2006

1. This memorandum describes the definitions of the quantitative and structural indicators for the staff monitored program (SMP) for 2006 (Tables 1 and 2 of the Memorandum on Economic and Financial Policies (MEFP) as agreed between the authorities of Liberia and the staff of the IMF. It also specifies the agreed periodicity and deadlines for transmission of data to the staff of the IMF for program monitoring purposes.

I. QUANTITATIVE INDICATORS AND ADJUSTORS

A. Quantitative indicators

2. The quantitative indicators (Table 1 of the MEFP) are the following:

- a. floor on government revenue;
- b. floor on the fiscal balance (on a cash basis);
- c. ceiling on noncash tax/duty payment;
- d. ceiling on new domestic borrowing;
- e. ceiling on new domestic payments arrears of the government;
- f. ceiling on new external debt contracted or guaranteed;
- g. ceiling on the CBL's cash expenses;
- h. ceiling on new payments arrears of the CBL;
- i. floor on the CBL's cash balance (on a cash basis);
- j. floor on the net changes of CBL's net foreign exchange position; and
- k. token payments to the Fund

3. Quantitative indicators have been set for end-March, end-June, and end-September 2006.

B. Definitions and computation

4. **For the purposes of the SMP, the government is defined as the central government of Liberia.** This definition excludes public entities with autonomous legal personality whose own budget is not included in the central government budget.

5. **The government revenue** includes all tax and non-tax receipts transferred into the GOL general accounts at the CBL and excludes external loans and grants. It is measured on a cash basis.

6. **The fiscal balance**, on a cash basis, is defined as the difference between (a) total central government revenue (excluding grants) defined in paragraph 5 of this TMU; and (b) total current expenditure plus investment expenditure (excluding foreign-financed investment).

7. **The noncash tax/duty payment** is defined as settlement of duty/tax obligations by delivering goods or services without cash paid by taxpayers.

8. **The new domestic borrowing** is defined as new claims on the central government by the banking system (including the CBL) starting February 1, 2006. It comprises 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, less all deposits held by the central government with the banking system.

9. **New domestic payments arrears of the government** are calculated as the difference between payments due on commitments engaged since February 1, 2006 and actual payments made on those commitments. Government payments due include all expenditure for which commitment vouchers have been officially approved by the Bureau of General Accounting of the Ministry of Finance, non-discretionary expenditure (such as wages and salaries, pensions, utilities, and other expenditures for which commitments are automatic and not at the discretion of the government, including domestic debt).

10. **The indicators for external debt** are cumulative ceilings on new external debt contracted or guaranteed by the government from February 1, 2006. For the purposes of the SMP, the indicator for external debt applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the Executive Board of the IMF on August 24, 2000 but also to commitments contracted or guaranteed for which value has not been received. For purposes of these guidelines, the term "debt" is understood to mean a current, that is, 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, that is, 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, that is, 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, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property. Under the definition of debt set out 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. For the purposes of monitoring the SMP, arrangements to pay over time obligations arising from judicial awards to external creditors do not constitute nonconcessional external borrowing.

11. **The CBL's cash expenses** are defined as the sum of (i) recurrent expenditures and (ii) capital spending, on a cash basis. The ceiling on the expenses will be fully adjusted for the CBL's cost of the forthcoming external audit of the CBL by auditors of international repute.

12. **New payments arrears of the CBL** are calculated as the difference between payments due on commitments engaged since March 1, 2006 and actual payments made on those commitments. For the purpose of the Memorandum, the CBL commitments due include all expenditure for which goods and services have been delivered but not been paid.

13. **The CBL's cash balance** is defined as the difference between (a) total recurrent revenues of the CBL (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.

14. **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 Monetary Survey Data, and (b) the sum of its gross foreign liquid liabilities and liquid liabilities denominated in US dollar, as currently indicated in the table on monetary sector.

15. **The token payments to the IMF** is defined as a monthly payment of US\$60,000. The IMF staff may request the authorities to deposit payments into an escrow account established at another institution overseas.

II. PROGRAM MONITORING

A. Program-Monitoring Committee

16. The Liberian authorities shall maintain a program-monitoring committee composed of senior officials from the Ministry of Finance, the Central Bank of Liberia, 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 Fund regularly about the progress

of the program, and transmitting the supporting materials necessary for the evaluation of performance criteria and benchmarks. The committee shall provide the Fund 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 FUND

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

- The detailed reports on revenue and expenditure by budget line and a completed summary table on central government operations (monthly, three weeks after the end of the month);
- The outstanding appropriation, allotment, commitment, and disbursement of the fiscal year 2005/06 and 2006/07 by ministries and agencies (monthly, three weeks after the end of the month);
- The monthly cash plan (monthly, before the beginning of the month);
- Disbursements of budget support grants and loans, by donor (within two weeks after the end of the month);
- A table providing the end-of-period stock of domestic arrears accumulated during the program period, by budget category (wages, goods and services, etc.; within four weeks after the end of the month);
- The amount of new domestic debt contracted or guaranteed by the government (within two weeks after the end of the month);
- The amount of new external debt contracted or guaranteed by the government (within two weeks after the end of the month);
- The balance sheet of the central bank from the monetary survey (monthly, within three weeks after the end of the month);
- The monetary survey, combined with the balance sheet of the commercial banks, (monthly, within six weeks after the end of the month);
- The detailed reports on CBL cash revenues and expenditures in US dollar and Liberian dollar terms, and on aggregated basis (including both recurrent and capital spending) (monthly, within three weeks after the end of the month);
- The outstanding commitment and disbursement of the CBL expenses (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 to assess overall economic trends, such as the consumer price index, foreign exchange rates, trade data, production data (monthly, within six weeks after the end of the month);
- A table with a description of the status of implementation of the structural indicators in Table 2 of the MEFP (within two weeks after the end of the month).

18. The above data will be provided to the local office of the IMF in Liberia (Mr. Tharkur) for further transfer to the African Department of the IMF in Washington D.C.