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[Liberia](#) and the IMF

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

Press Release:

[IMF Executive Board
Completes First
Review Under the
Extended Credit
Facility Arrangement
for Liberia and
Approves US\\$11.1
Million Disbursement](#)
June 3, 2013

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The following item is a Letter of Intent of the government of Liberia, which describes the policies that Liberia intends to implement in the context of its request for financial support from the IMF. 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.

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LETTER OF INTENT

Monrovia, June 3, 2013
Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Madame Lagarde,

1. The attached Memorandum of Economic and Financial Policies (MEFP) outlines the implementation of Liberia's economic program supported by the Extended Credit Facility (ECF) through April 2013, and summarizes recent economic and financial policy actions and commitments of the government of Liberia for FY 2013/14 (July–June).
2. Despite continued weakness in the global economy, the Liberian economy continued its solid performance in 2012. Real GDP growth reached an estimated 8.3 percent, somewhat lower than projected for the year, but still stronger than the 8 percent growth recorded in 2011. Mining, agriculture and services sectors remain the main drivers of economic activity in Liberia. For 2013, Real GDP growth is expected reach between 7–8 percent. Weak external demand and moderation in the prices of Liberia's primary commodity exports on the global market represent the main downside risks to the positive growth outlook. Inflation remained in single digit in 2012, averaging 6.9 percent in 2012 compared to 8.5 percent recorded in 2011 reflecting increased domestic food production and prudent management of monetary policy. The exchange rate remains stable and reserves coverage reached 3.2 months of imports. Revenues reach record levels in FY 2011/12 increasing 21.4 percent compared to previous fiscal year; nonetheless, there were some shortfalls in contingent revenues, while expenditure outturn was in line with budgeted amounts, resulting in an overall overdraft of US\$20 million at the Central Bank of Liberia, of which US\$10 million have already been repaid.
3. All but one performance criteria for end-December 2013 were met under the ECF arrangement and all indicative targets were met. The ceiling on CBL gross direct credit to central government was breached by a small margin as a result of a government overdraft during the first half of FY 2012/13. We have taken corrective actions to avoid future recourse to overdraft financing and are requesting a waiver for this performance criterion. All but one structural benchmarks were met for end-December 2013. The move toward a treasury single account (TSA) has been reprogrammed for end-June 2013.
4. The government has already repaid half of the CBL overdraft and is committed to repaying the outstanding overdraft balance of US\$10 million by end-June 2013. We are also

committed to paying the bridge financing of US\$12.5 million (on lent to the National Port Authority for Ports rehabilitation) to the CBL as quickly as possible. However, during the course of FY 2012/13 the government has had to contend with unforeseen and unbudgeted capital expenditure for Roberts International Airport, where urgent repairs to the runway are required; international airlines are already threatening to pull out until the issue is resolved. This pressure coupled with the non-realization of the amount budgeted for borrowing and some contingent revenues have significantly limited our fiscal space.

5. In order to avoid compromising ongoing national priority infrastructure projects, while still ensuring prudent management of its debt stock, and safeguarding the CBL's reserves, the government commits to repaying US\$4.5 million of the bridge financing by end-June 2013 and the remainder US\$8 million by end-June 2014. We will make a provision in the FY 2013/14 budget for the bridge finance repayment in discussion with the legislature, before the budget is signed by the President.

6. We also commit to conduct a mid-term budget review by end-December 2013 and submit our conclusion and recommendation to the Legislature in February 2014. If the resource envelope is determined to be different than presently anticipated, spending plans will be adjusted accordingly to safeguard priority spending and debt repayments, including to the CBL, and a revised budget submitted to legislature in early 2014.

7. In addition, the government commits to limiting domestic borrowing for FY 2012/13. Combined t-bill issuance and domestic bank borrowing should not exceed US\$15 million at end-June 2013. The borrowing from domestic banks is earmarked for infrastructure, including the rehabilitation of the Mount Coffee hydroelectric dam, where government disbursements are required by June-2013 in order to ensure the timely disbursement of donor grants and credits. Provision will also be made in FY 2013/14 and over the medium term for the financing costs of the domestic bank borrowing.

8. On the basis of the performance registered in implementing the economic program and on the strength of our future policy commitments we request that the first review under the ECF arrangement be completed and the second disbursement in the amount of SDR 7.382 million be approved. In completing the first review, we are requesting a waiver for the PC on ceiling on CBL gross direct credit to central government. We are also requesting modifications to PCs for end-June 2013 with respect to: (i) the floor on total revenue collection of the central government; (ii) the floor on CBL's net foreign exchange position; (iii) the ceiling on CBL's gross direct credit to central government; and (iv) a modification to continuous performance criterion on the ceiling on new nonconcessional external debt of the public sector. We are also requesting approval of performance criteria set for end-December 2013 and end-June 2014. We are also requesting approval of additional structural benchmarks that have been agreed with Fund's staff for the second and third reviews under the ECF arrangement (Attachment 1 Table 2). The structural benchmarks relate to further measures to strengthen PFM, develop the financial system, and enhance national account statistics, and improve project implementation.

9. To monitor progress in implementing our reform agenda, the program includes a set of quantitative performance criteria, indicative targets, and structural benchmarks, outlined in the MEFP and the Technical Memorandum of Understanding (TMU).
10. We believe that the economic and financial policies set forth in the attached memorandum provide an adequate basis for achieving the objectives and targets of our program, but we will take any additional measures that may become necessary for this purpose in close consultation with the IMF staff on the adoption of such measures, and in advance of any revisions to the policies contained in the MEFP. We will provide the Fund with all information necessary to monitor implementation of the program supported by the ECF in a timely manner as outlined in the TMU.
11. We consent to the publication on the IMF website of this letter, the accompanying MEFP, TMU, and the related staff report for the First Review under the ECF.

Sincerely yours,

/s/

Amara Konneh
Minister of Finance
Ministry of Finance

/s/

Joseph Mills Jones
Executive Governor
Central Bank of Liberia

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

ATTACHMENT 1. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES OF THE GOVERNMENT OF LIBERIA FOR FY 2013/14

Introduction

1. **The Government of Liberia remains committed to achieving sustained economic growth and poverty reduction and consolidating macroeconomic stability.** The strategies to achieve these goals are set out in the Agenda for Transformation—Poverty Reduction Strategy 2 (PRS2)—and the medium-term priorities set in the long term national vision “Liberia Rising 2030”. The Government and the International Monetary Fund (IMF) are cooperating on a second three-year Extended Credit Facility (ECF) to support prudent macroeconomic policies and structural reforms that underlie strategies in the PRS2 and Liberia Rising 2030.
2. This memorandum of economic and financial policies (MEFP) reviews recent economic developments and performance during 2012; and updates policies and targets for 2013/14 (July–June) and the medium term (2014/15).

Performance under the ECF

3. In 2012 economic growth continued its solid performance despite continued weakness in the global economy. Real GDP growth is estimated at 8.4 percent for 2012, slightly lower than projected for the year, following 8 percent growth in 2011. Growth continues to be driven largely by the mining, agriculture and services sectors. Real GDP growth is expected at 7–8 percent in 2013. However, weak external demand and moderation in the prices of Liberia’s primary commodity exports on the global market are risks to the growth outlook.
4. Inflation remained largely contained in single digit in 2012, averaging 6.9 percent in 2012 compared to 8.5 percent recorded in 2011. Core inflation, defined here to exclude food and transportation, amounted to 3.0 percent at the end of 2012 as compared to 4.0 percent in 2011. This large improvement in price developments can be attributed to improved domestic food production and prudent management of monetary policy. The low inflation reflects the broad stability of the Liberian-US dollar exchange rate during 2012. The end-of-period exchange rate stabilized at L\$72.50/US\$1.00 while the period average exchange rate depreciated by 1.8 percent to L\$73.51/US\$1.00 at the end of 2012 as compared to L\$72.23/US\$1.00 at end-December 2011. Consequently, the nominal exchange rate of the Liberian dollar vis-à-vis the United States Dollar appreciated by 0.6 percent and 0.5 percent for buying and selling, respectively. Inflation is expected to remain in lower single-digit at around 7 percent in 2013. The country’s gross international reserves position, excluding SDR holdings, at end-December, 2012 was US\$257.5 million, representing about 3.2 months of import cover.
5. The Government of Liberia met all but one of the performance criteria as at end-December 2012. The Government breached the ceiling on the CBL’s gross direct credit to

central government. This breach occurred as a result of the unexpected overdraft in the accounts with the Central Bank of Liberia (CBL) that was noticed during the reconciliation process at the end of FY 2012. The Government is taking measures to strengthen cash management and prevent future overdraft in its accounts with the CBL.

6. Steady progress has been made against the structural benchmarks. Most of the end-December 2012 deliverables have now been completed. The recruitment process for staff of the new State Owned Enterprises (SOE) Unit and Project Management Office is now complete and the units have commenced their work. The connection of the GAC to IFMIS is completed including full access to perform audits of the government budgetary operations. The implementation of the Treasury Single Account (TSA) is also progressing. In order to improve monitoring of cash balances held by GOL with the purpose of reducing idle balances and inactive accounts, the Ministry of Finance has asked all Ministries and Agencies (M&As) and commercial banks that operate central government accounts to provide relevant details on all accounts held for operational purposes,¹ with regular reporting requirements to follow. Government Treasury bills (T-bills) program was launched on May 2, 2013 and will offer the opportunity to help smooth revenue during the course of the year and help build depth in the Liberian financial markets.²

7. During FY 2011/2012, revenue was a record US\$458.9 million compared to FY 2010/2011 which recorded US\$384.1 million; representing a 21.4 percent increase which can be attributed to a boost in international trade. However, there were shortfalls in budgeted contingent revenues, while expenditure outturn was in line with budgeted amounts, resulting in an overall overdraft of US\$19.9 million with the CBL. In part, the absence of sufficiently regular reconciliation of commitment data with cash expenditure data from the bank accounts held by the CBL meant that expenditure was able to exceed revenue at the end of the 2011/12 fiscal year, resulting in said overdraft at the CBL. In response to this, the Ministry of Finance has already taken action to strengthen cash management. Reconciliation of commitments with cash expenditure is now performed on a weekly basis, with reports provided to the Minister of Finance, while monitoring of government balances will continue on a daily basis. In addition, to improve cash management and avoid recourse to CBL overdraft, as of end-March 2013, the CBL has started daily sweeping of the government's revenue account into the treasury operations account to ensure adequate resources are available in its operations account before disbursements are made. These changes will ensure that decisions regarding allotments and commitments are taken with certainty regarding the balance of the Government's accounts and unintentional use of the overdraft

¹ Ministries and agencies hold accounts at commercial banks for project management and operational purposes as they offer additional functionality, though there is now a focus on opening any new accounts with the CBL.

² The offering of 90-day Treasury bills (US\$2 million) was oversubscribed by 100 percent. Among the bids, 16 out of the 28 were accepted, with the lowest and highest interest rate bids at 1.09 percent and 5 percent, respectively. The average effective yield was 2.22 percent. T-bills will be issued on a regular basis the first Thursday of each month.

facility will be prevented. Additionally, the Ministry of Finance has already made an initial repayment of the overdraft in the amount of US\$10 million with remaining expected to be completed by end-June 2013.

8. During FY 2012/13, fiscal resources have so far fallen short of budgeted amounts (including core revenues, contingent revenues, and borrowing). Expenditures have been constrained, especially capital expenditures. There are also fiscal pressures to repay the CBL overdraft (US\$20 million), and repay a CBL bridge finance (US\$12.5 million) that is due end-June 2013.³ The Government of Liberia is committed to make savings on recurrent expenditure (goods and services) in FY 2012/13 to repay the overdraft with the CBL by end-June 2013. As for the CBL bridge finance, we have agreed with CBL to repay US\$4.5 million by end-June 2013 and to reschedule the repayment of the remaining US\$8 million by end-June 2014.⁴

Objectives and Economic Policies for FY 2013/14

9. The economic outlook remains relatively unchanged with a slight weakening in the near term, before picking up over the medium term. Economic activity is expected to grow between 7–8 percent in 2013, down from the previous estimate of 8.3 percent driven by downward revision in non-resource activity, particularly in the construction sector as public investment is below the budget. Economic growth, especially non-resource activity, is projected to pick up in 2014 and 2015 driven by the increase in public investment. In the medium term, inflation in Liberian dollars is expected to remain moderate around 5–6 percent, subject to global fuel and food prices. Fiscal policies will continue to focus in containing current spending to create space for much needed capital spending, which we estimate to average (including IDA financed projects) 8 ½ of GDP over a four year period. The expansionary fiscal framework, shaped by the increase in capital spending, will contribute to address the country's main infrastructure gaps and developmental needs while also playing a countercyclical role to the expected activity in the mining sector.

A. Fiscal Policy

10. Core tax and non-tax revenue is expected to continue to grow strongly during the three-year MTEF period, driven by the growing economy and improvements to tax policy and administration. Taxes on income and profits, property taxes, domestic goods taxes and property income are projected to perform strongly. However, taxes on international trade are at risk of poor performance, partly due to the fall in import duty collected from essentials.

³ The bridge finance was on-lent to the national Port Authority (NPA) for the rehabilitation of the Port of Greenville.

⁴ The NPA did not have sufficient resources in FY 2012/13 to repay the government for the on-lending, owing to a moratorium on timber exports, its primary business activity.

11. The latest information from donors suggests that budget support, in the form of grants will also grow in FY 13/14,⁵ before falling again slightly in the outer years, FY 14/15 and FY 15/16.

12. The medium term budget strategy is aligned to the Agenda for Transformation. The primary focus of this fiscal year is to consolidate strategic activities embarked on in the previous year and focus interventions towards achieving the AfT priorities. These are key to achieving the 8 percent economic growth per annum targeted over the medium-term and will require:

- Faster completion of infrastructure development projects which have already been launched during the last few years,
- Clearer prioritization of new development projects considering particularly the development needs in the counties, and
- Stronger focus in mobilizing foreign and domestic resources to make most effective their timeliness.

13. The resource envelope is projected to be \$553 million for FY 13/14 (including a \$10 million budget support loan from the World Bank International Development Association. To maintain fiscal discipline and ensure macroeconomic stability, the GoL is employing key principles to guide revenue forecasting and claims on revenue:

- Request cash/spending plans and procurement plans from all Ministries and Agencies at the time of the budget submission to the Legislature.
- Ensure that revenue envelope includes only resources that have high degree of certainty, with a view to issue a revised budget at mid-term in the event that additional resources are received. For this reason, highly uncertain contingent revenue has been forecast as zero for the next MTEF period.
- In order to ensure that overall current expenditures are held constant at previous year's outturn, allowing sufficient resources for capital expenditures, the draft FY 2013/14 budget submitted to the legislature includes lower spending on goods and services, compared to the FY 2012/13 Approved Budget, by approximately US\$20 million on domestic travel, workshops, printing, stationery and other non priority spending, to make room for higher compensation in the form of special allowances to senior staff; there will be no general salary increase in FY 2013/14.

⁵ Budget support grants in FY 2013/14 include: African Development Bank \$12.2 million, European Union \$27.9 million, and USAID \$11 million. Excluding 100 million Euros in grants from Norway and Germany to finance the rehabilitation of the Mount Coffee hydropower plant.

- Only include projects where financing is secured.
- No transfers from capital to current expenditures.
- Total debt remains at sustainable levels and within limits established by the PFM law.
- Provisions will be made in the FY 2013/14 budget for the repayment of the remaining CBL bridge finance (US\$8 million). The allocation will be incorporated in the FY 2013/14 budget in discussion with the Legislature, before the budget is signed by the President.

14. The Government is focused on increasing the core tax base in a sustainable and growth-enhancing way through a number of measures that will commence or continue over the next fiscal year. On the administrative front, the Department of Revenue will continue with the automation of tax administration, particularly through the use of Standard Integrated Government Tax Administration System (SIGTAS), and customs modernization, including the continuing roll out of Automated System of Customs Data (ASYCUDA).

15. There is the potential for increases in core revenue, particularly in areas such as real estate, overdue taxes, and income tax, if they can be tapped into to yield better results. The Department of Revenue is already improving tax compliance through tax payer education, particularly for small and medium businesses and taxpayers outside Monrovia, and strengthening internal audit functions. A modernized taxpayer's service center to improve tax compliance has been established with support from the IMF and USAID. Actual audits for all firms, including banks and insurance companies, have commenced, and we expect to complete audits for FY 2011/12 by July 2013. At customs, we are strengthening post clearance audits to ensure taxes due are paid correctly and we plan to deploy anti-smuggling units throughout the country. A 'block-mapping' exercise commencing in quarter four of FY 2012/13 will help to uncover gaps in the real tax base which we expect to lead to an increase in revenue. The implementation of the Value Added Tax (VAT) system will boost revenue and widen the tax base in the medium term. The VAT policy paper has now been completed and its implementation is expected to be further progressed as the new Revenue Authority becomes operational (the Revenue Authority Act was submitted to the Legislature in May 2013).

16. Total budgeted expenditure in FY 2014 is expected to increase to around US\$553 million (\$416 million current, net of amortization,⁶ and US\$111 million investment,⁷ based on the draft National Budget), from around US\$549 million (US\$390 million current and US\$115 million investment spending) in FY 2012/13. The FY 14 draft budget includes resources for security sector to prepare for UNMIL drawdown (US\$10 million for training, logistics and deployment of

⁶ Current spending excluding PSIP related recurrent spending.

⁷ PSIP current and capital spending on national priority and sector projects, and excluding US\$93.6 million in IDA financed projects.

Liberia National Police, the Bureau of Immigration and the Drug Enforcement Agency, in line with the joint GOL/UNMIL transition roadmap) and support to LISGIS to provide the necessary resources to ensure implementation of the Household Income and Expenditure Survey, planned to start in August 2013, and completion and publication of the enterprise survey.

17. As specified in the Finance Act, we will undertake a mid-term budgetary review and submit our conclusion and recommendation to the Legislature in February 2014. If the resource envelope is determined to be different than presently anticipated, spending plans will be adjusted accordingly to protect priority spending and debt repayment and a revised budget submitted to the Legislature.

B. Governance and Public Financial Management

18. The Government is taking further steps to implement the Treasury Single Account. A pilot phase of the TSA will start at end-June 2013 with monthly monitoring and sweeping of balances in operational accounts of eight M&As⁸ held at the CBL into the treasury's operational account (structural benchmark) with a view to eliminate idle accounts. Daily monitoring of operational accounts of all M&As held at the CBL into the treasury's operational account will commence end-December 2013 (structural benchmark). Going forward, the government plans to convert the payroll account into a sub-account of the main treasury operations account by end-June 2013. The Office of the CAG is also piloting the migration of donor funded projects to the Government's financial management system (IFMIS), which implies the streamlining of project bank accounts within the central treasury accounts; this effort is targeted for June 2013. The Ministry of Finance will adopt a banking arrangement that will allow all government accounts to be managed from a single perspective. Terms of reference for a high-level treasury liquidity committee have been completed and endorsed by the Ministry of Finance and other key stakeholders, including the Central Bank of Liberia.

19. The Government is rolling out the Integrated Financial Management Information System (IFMIS) to an additional ten (10) ministries and agencies by June 2013,⁹ bringing the total number of M&As included in IFMIS to 19. The General Auditing Commission (GAC) has been fully connected to the IFMIS which will enable it to conduct audits using the system. The GAC will conduct the first audit using IFMIS on the FY11/12 budget, to be completed by December 2013 (Structural benchmark). The Government will introduce the Civil Service Management (CSM) module within IFMIS and the Human Resource Management Information System (HRMIS) sub-module within the CSM, both by end-June 2013 (structural benchmark). The activation of the

⁸ Ministries of Finance; Education; Health; Public Works; Agriculture; State; Lands, Mines and Energy; and Planning.

⁹ Ministry of Internal Affairs, Ministry of Justice, Ministry of National Defense, Ministry of Youth and Sports, Judiciary, National Legislature, Public Procurement Concession Commission, General Auditing Commission, General Services Agency, and the National Elections Commission.

CSM module will contribute to ensure that the illegal introduction of new staff to the payroll is effectively restricted. The Government of Liberia has migrated data for both regular and supplementary payrolls (34,948 and 10,383 employees respectively) onto the Civil Service Management (CSM) Module, within IFMIS. All payrolls will be printed off the system for the May 2013 pay period.

20. Currently, 24 out of 29 M&A's payrolls have been cleaned up. The remaining 5 institutions¹⁰ will be cleaned up by end-December 2013 (structural benchmark), though the size and complexity of the remaining payrolls poses some risks, particularly at the Ministry of Education where an external contractor has been engaged to assist with the work.

21. A State Owned Enterprise (SOE) financial reporting unit has been established and recruitment for key positions such as Head, Financial Analyst and Economist completed in early March 2013. General guidelines on SOE reporting as enshrined in the PFM Act (2009) were published on the MoF's website in 2012. The SOE unit will be responsible for collecting and analyzing quarterly financial reports from the 8 largest SOEs/public financial entities¹¹ and ensuring they are in line with the PFM law. By end-June 2013, the 8 largest SOEs will be required to report to the SOE monitoring unit within the Ministry of Finance their financial performance for the quarter January–March 2013 (Structural Benchmark). Thereafter, SOEs will regularly report their quarterly financial performance, three months after the end of each quarter. The SOE Monitoring Unit will also strengthen oversight of SOE performance to ensure timely and accurate transfer of revenues to the Ministry of Finance. At the request of the Government, the IMF has provided technical assistance on the SOE reporting and analytical framework for the newly created unit. In addition to ensuring the improvement in SOEs financial reporting, the Government of Liberia is committed to improving SOEs governance, by ensuring that SOEs which do not provide financial reports will not receive any subsidies. Steps will also be taken to work with SOEs to build their reporting capacity. A proposed matrix defining functions has been agreed with the other stakeholders that oversee the SOEs, including the National Investment Commission, the Bureau of State Enterprises, and the Office of the President. By December 2013, the SOE Monitoring Unit, working with the other GoL stakeholders, will prepare a strategy to manage fiscal risks of SOEs. The SOE Monitoring Unit will also have an input into an overall government SOE reform strategy which will determine which SOEs should be privatized and whether or not Government subsidies should remain for enterprises. Already the SOE monitoring unit at the MoF has conducted a workshop, which was attended by 14 SOEs including the 8 largest SOEs, with the exception of NOCAL who met the SOE team separately. The SOE

¹⁰ Ministries of Education, Health, Justice, Internal Affairs, and the Legislature.

¹¹ National Ports Authority (NPA), Liberia Electricity Company (LEC), Liberia Petroleum and Refinery Company (LPRC), National Oil Company of Liberia (NOCAL), Liberia Telecommunications Authority (LTA), Liberia Maritime Authority (LMA), Robert International Airport (RIA), Liberia Water and Sewerage Company (LWSC).

monitoring unit has provided the templates for financial reporting and is assisting them to provide the information requested.

22. The newly created Project Management Office (PMO) in the Ministry of Finance has created a Project Management Template and accompanying User Manual which is being used to assess all projects under consideration for inclusion in the Public Sector Investment Program (PSIP) starting in FY 13/14. The template will be used by Ministries and Agencies to ensure that all proposed projects meet the eligibility requirements (i.e., aligned to the AfT, includes social and economic impact, feasibility studies, etc.); training in the use of the template has commenced. Together with the Department of Budget, the PMO will ensure that Ministries and Agencies provide by end-June 2013 (structural benchmark), detailed cash and procurement plans of the individual investment projects included in the FY 2013/14 budget.

23. The Internal Audit Secretariat commenced the development of an Internal Audit (IA) Manual for use across government Ministries and Agencies. The IA Manual is based on the GAC's 76 internal control priorities adopted by cabinet in 2010. To date, Internal Audit function has been rolled out in seventeen (17) Ministries and agencies.¹² Internal Audit reports are being finalized for the second quarter of 2013 covering these entities. The Internal Audit Strategy will roll out to forty (40) by end of 2015.

24. A Public Accounts Committee Secretariat was established in April 2013. This move will improve legislative oversight. The key brief of the Secretariat is to provide technical support to the Public Accounts Committee of the Legislature with regards to public hearings on the backlog of audit reports. The Secretariat will be funded through the government's budget with effect from FY 2013/14.

25. A Public Expenditure Tracking System survey (PETS survey) was undertaken in February 2013 focusing on the Sectors of Education and Health. The objective of the PETS survey is to determine whether resources reach service delivery points and contribute to better link spending levels and deliverables. The results of the survey will be published in May 2013. While preliminary results show that there is still further work needed to improve understanding of how resources in the education and health sectors are being utilized, and the process through which funds reach service delivery units, the survey is part of the government's efforts to improve transparency and comprehensiveness of the budget and ultimately improve efficiency in the use of public resources.

26. Management of natural resource revenue: The Government has created a resource revenue sub-unit in the large taxpayers unit of the Ministry of Finance (structural benchmark) to

¹² They include Finance, Agriculture, Health, Justice, Foreign Affairs, Internal Affairs, Lands, Mines & Energy, Public Works, Labor, Gender, Commerce, Youth and Sports, Liberian National Police, Bureau of Immigration and Naturalization, National Housing Authority, Forestry Development Authority and John F. Kennedy Medical Center.

improve the monitoring of concessions to more accurately determine the quality and quantity of natural resource production, and exports and estimate royalty requirements and other revenues that will flow to the centralized government account. The unit is receiving TA from AusAID, the Australian Government's Overseas Aid Program, to build capacity to carry out its function. The government will begin reporting natural resources revenues separately in fiscal outturns starting in FY 2014 in order to enhance transparency around this critical revenue source.

27. In other areas, the Government has prepared a new fiscal reporting format in line with the GFSM 2001 and the recommendations in the PEFA assessment and will introduce reporting of donor funds, extra budgetary funds, tax expenditures (and costing) and liabilities in fiscal outturns. The Government will publish on the MoF website (www.mof.gov.lr) fiscal outturn within 90 days of the end of each fiscal year; and mid-term economic reports within 45 days of the end of the first half of each fiscal year.

C. Monetary Policy and Financial System

28. Monetary policy will continue to remain focus on keeping inflation low and stable through the maintenance of exchange rate stability, primarily through the CBL's weekly foreign exchange auctions. The accumulation of foreign exchange reserves to ensure adequate reserves coverage of about three months of imports¹³ is also key to the CBL in helping to address any balance of payments crisis due to adverse shocks arising from hikes in food and fuel prices on the global market and the slow recovery of global economic growth. In this regard, the CBL aims to maintain adequate reserves over the medium term to buttress the macroeconomic stability while creating some policy buffers. The CBL will also continue to take steps along with the technical assistance from the IMF to improve the risk management capabilities of the CBL and commercial banks to ensure a sound and stable financial system.

29. The CBL will continue to pursue reforms aimed at a stable, safe, efficient and accessible banking sector. In discharging its mandate, the Bank will continue in the short to medium term to pursue the goals of enhancing the overall health of the banking system; strengthening the legal, institutional framework and financial infrastructure; and strengthening the regulatory and supervisory capacity of the Central Bank. The CBL is currently expediting work on the draft Insurance Act for submission to the Legislature by end-June 2013 (structural benchmark). The CBL is also developing its capacity to commence stress test of prudential banking sector data for assessing and addressing risks to the financial system during 2013 in line with its Risk-Based Supervision (RBS) framework. The Securities Market Act has been drafted and is being reviewed by relevant stakeholders for their input before finalization and submission to the Legislature in 2013.

¹³ Excluding UNMIL and iron ore concessions-related imports.

30. In working towards strengthening the legal, institutional framework and financing infrastructure, the CBL will support a review of existing legal and regulatory framework to address weaknesses or gaps; develop frameworks for financial safety nets in 2013, including the establishment of a deposit insurance scheme to provide greater protection for depositors, develop a crisis management framework to manage crisis at both individual and systemic levels, and develop a framework for CBL's liquidity support to troubled banks; and further enhance the existing credit reference system and continue ongoing engagement with the IFC for the establishment of the collateral registry by end June 2013 (structural benchmark). The Collateral Registry Regulations to guide the operations and management of the registry has been published.

31. The CBL with funding from the African Development Bank (AfDB) has embarked on a project to modernize the country's payments system. Payments system modernization will play a crucial role in financial deepening in the country and will help put the country's financial system on par with other countries in the sub-region and beyond by transitioning the country's economy from a cash-based to a cash-less one. The payments system development project is expected to be concluded in June of 2014.

D. Debt Management, Resolution and External Policies

32. The Three Year Debt Strategy initiated by the Government sets out the primary objective of ensuring that the funding gap of the Government is met at the least cost to the tax payers in the short, medium and long term through astute budget management and borrowing on concessional terms. Should the conditions be right, any nonconcessional borrowing must be for projects that have positive NPV over the period of the loan with a high return on investment. The three-year debt strategy will be finalized by end-December 2013 (structural benchmark), to support the timely execution of new borrowing following the approval of the FY 14 Budget.

33. The debt management strategy will cover the government borrowing strategy for FY 2013/14, including steps to:

- Take early and proactive steps to raise concessional financing with potential bilateral and multilateral partners. The Government has already commenced these discussions with a showcase of the Agenda for Transformation and discussion of key investment opportunities with potential creditors during the IMF-World Bank Spring meetings.
- Pursue syndicated borrowing from domestic commercial banks for key public projects, allowing financing of large-volume transactions for better returns, providing additional avenues for banks to invest some of their excess liquidity. Such borrowing will be undertaken within the ceiling on new domestic borrowing of the central government.

34. After falling substantially due to debt forgiveness and restructuring as part of HIPC, total debt has risen from \$0.5 billion in 2010, by 20.8 percent in 3 years, to US\$0.6 billion in 2013, in

part as a result of investment efforts and the IMF program. The stock of domestic debt has moderated over the period and hovers around US\$287.7 million in 2013.

35. The Government will continue to make progress on finalizing bilateral and multilateral debt agreements. The debt rescheduling with BADEA has been signed, increasing the maturity of the loan to 40 years with a 5 year grace period and zero percent interest rate. The debt rescheduling with Saudi Arabia has also been signed, with the accrued interest charges capitalized into the stock, to be paid over 40 years. Although these rescheduling arrangements have a reduction factor (grant element) of 68.7% and 49.13% respectively, below the HIPC common reduction factor of 90.2%, they contribute to the Government's efforts to complete restructuring of its inherited debt portfolio and will free up resources in the short-term which can support public investment.

36. The Government has negotiated and signed: a new loan with the Government of Kuwait to rehabilitate the Freeport of Monrovia for US\$14.0 million; a loan agreement with the European Investment Bank to rehabilitate the Mount Coffee Hydropower Plant for US\$65.0 million;¹⁴ and loan agreements with the African Development Bank (US\$6.4 million) and International Fund for Agricultural Development (US\$18 million) for small tree crop revitalization. All the loans have been submitted for ratification to the Legislature and are awaiting ratification. In addition to these negotiated loans, the government obtained Legislature ratification of two loans from the World Bank on IDA terms, including US\$50 million for roads and US\$15 million going towards the small tree crops program. The Debt Management Unit will continue to strengthen the technical capacity of existing staff to support management of the growing debt stock and in raising new debt. Specifically, it will strengthen capacity to negotiate loans and ensure the implementation of the guidelines of the debt management committee, including conducting DSA to ensure external loans, as well as loans negotiated with domestic commercial banks, and are negotiated on the best possible terms.

37. The Ministry of Finance is working to ensure better management of grants and off-budget aid programs ongoing in Liberia. The Aid Management Platform is scheduled to be launched in May 2013. We are following up with our partners to make funding available to conclude the final configuration phase of the platform.

38. The Ministry of Finance commenced risk assessments of all budget support triggers in November 2012 as a way of systematically tracking and following up on "at risk" triggers with the

¹⁴ The government has also secured grants from Norway and Germany for US\$97.5 million and US\$32.5 million respectively, for the Mount Coffee Hydropower Plant. It is expected the government will provide the remaining US\$47 million to fully implement the project. The grant element of the EIB loan is 80 percent.

responsible line ministry or agency. Risk analyses have been completed for approximately 75 percent of the triggers.

39. We are making progress towards the WTO accession: we have submitted answers to initial questions the WTO sent in response to our memorandum on foreign trade and have begun technical meetings with the WTO. The Government will submit legislation for the implementation of the Common External Tariff (CET) following final agreement by the ECOWAS Council of Heads of State, expected in June 2013, and work to remove the final tariffs on internal ECOWAS trade in line with the liberalization scheme. The CET will then form the basis for the negotiations with the WTO.

40. The Memorandum of Understanding between the CBL and the government to clarify the rights and obligations for Liberia's accounts and transactions with the IMF has been signed by the two parties.

E. Other Structural Reforms

41. The Government of Liberia is in the process of redrafting the Petroleum Act to separate responsibility for revenue collection, oversight and regulation; and ensure that petroleum agreements are in line with the redraft. The revised Petroleum Act will be submitted to the Legislature by end-December 2013 (structural benchmark).

42. Risk analysis in the budget: the Government will begin producing a risk management handbook, to be included as an annex to the Budget Framework Paper required to be published alongside the draft National Budget by the Public Financial Management Act 2009. It will include details of likely risks to budget execution, revenue collection and debt levels.

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

- Ensuring that LISGIS have the required resources in FY 2014 to implement the planned household income expenditure survey, providing us with the data required for Government policy development, the government has allocated US\$1.1 million in FY 2013/14 draft budget.
- Commencing by end-August 2013 the household income expenditure survey (structural benchmark) and compile and publish the establishment survey (covering all registered business enterprises) by end-June 2013 (structural benchmark) as these are integral parts of the efforts towards better data collection and we will ensure that we work with donors to complete this.

- Complete household income expenditure survey by August 2014 and compile national accounts for 2013 by December 2014 using the results of the completed household income expenditure and enterprise surveys.

F. Program Monitoring

44. Program implementation will be monitored with quantitative financial targets and structural benchmarks (Tables 1 and 2 below), and semi-annual reviews. The second review is expected to be completed on or after November 15, 2013 based on the end-June 2013 PCs, the third review is expected to be completed on or after May 15, 2014 based on end-December 2013 PCs, and the fourth review is expected to be completed on or after November 15, 2014 based on end-June 2014 PCs. Definitions of key concepts and indicators, as well as reporting requirements, are set out in the accompanying Technical Memorandum of Understanding. The second review will be completed on or after November 15, 2013 based on the end-June 2013 PC and third review on or after May 15, 2014 based on end-December 2013 PCs.

Table 1. Liberia: Quantitative Performance Criteria and Indicative Targets, 2012–13

(Millions of US dollars, unless otherwise indicated)

	Dec. 12		Status	Mar. 13 ^{11/}		June 13 ^{11/}		Sep. 13 ^{11/}		Dec. 13	March 14	June 14
	Program	Actual		Program	Est.	Program	Revised	Program	Revised			
Performance criteria ^{1,2}												
Floor on total revenue collection of the central government ³	203.0	214.5	Met	325.7	325.0	460.0	447.5	120.3	120.3	230.3	347.8	492.1
Ceiling on new external arrears of the central government (continuous basis)	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new non-concessional external debt of the public sector (continuous basis) ^{4, 10}	0.0	0.0	Met	0.0	0.0	0.0	14.2	0.0	14.2	14.2	14.2	14.2
Ceiling on new domestic borrowing of the central government ⁵	15.0	0.0	Met	15.0	0.0	15.0	15.0	15.0	15.0	20.0	20.0	20.0
Floor on CBL's net foreign exchange position ^{6,7}	210.0	216.3	Met	207.0	212.2	226.0	232.0	226.0	232.0	237.0	241.0	253.0
Ceiling on CBL's gross direct credit to central government ⁷	290.0	293.3	Not met	290.0	293.3	270.0	268.9	270.0	268.9	268.9	268.9	260.9
Indicative Targets												
Ceiling on gross external borrowing by the public sector ⁸	126.7	0.0	Met	126.7	118.2	126.7	118.2	126.7	118.2	118.2	118.2	118.2
Ceiling on net domestic assets of the CBL ^{6,7}	-10.0	-49.0	Met	-19.0	-25.0	-12.0	-17.0	4.0	-17.0	-17.0	-17.0	-25.0
Ceiling on new domestic arrears/payables of the central government (continuous basis)	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Floor on social and other priority spending (percent of total budgeted expenditure, excluding contingencies) ⁹	30.0	30.6	Met	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Memorandum items:												
Memorandum item: Programmed receipt of one-time signing bonuses and Social Development Fund contributions from new iron ore projects ²				
Memorandum item: Programmed receipt of external budget support grants and committed external loans ^{2, 12}	4.4	15.0	30.9	49.8	33.5	...	12.6	53.3	55.9	83.5
Memorandum item: Overall fiscal balance ²												

¹ Test dates for performance criteria at end-December 2012, end-June 2013, end-December 2013, and end-June 2014, otherwise indicative targets.

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

³ Total central government revenue collection includes all tax and non-tax receipt but excludes all contingent revenues.

⁴ Nonconcessional financing will be adjusted by amount of agreed nonconcessional borrowing tied to projects independently evaluated as of high economic return.

⁵ Includes issuance of treasury bills, domestic loans, advances, and any government debt instrument such as long-term securities issued in the domestic market.

⁶ Includes SDR holdings net of ECF liabilities. SDR holdings converted at program exchange rate of 1 SDR=1.5844 US dollar.

⁷ Bridge financing from the CBL is available under the program for shortfalls in programmed receipt of external budget support and committed external financing up to a maximum of US\$20 million. In this event, floors will adjust downwards and ceilings adjust upwards by the extent this financing is utilized, up to a maximum of US\$20 million.

⁸ Three-year average annual ceiling in NPV terms.

⁹ For July-December 2012 program and actual include spending on education, health care, social development services, and energy. Revised program includes only education, health,

¹⁰ The modification of this PC was requested to include US \$14.2 million loan which was signed between the authorities and the Kuwaiti Development Fund for the rehabilitation of Port Greenville. At the time of the First Review the loan did not come into effect. The grant element of the loan is 34 percent (1 percent below the concessionality threshold).

¹¹ The overall ceiling on gross external borrowing over 2012-15 has been revised downward to \$355 million (compared to \$378 million in the program) due to lower concessionality on already contracted loans in the first half of FY2012/13. The program assumes all external borrowing on IDA terms.

¹² The end-June 2013 target has been revised downward to reflect the recent cancellation of the US\$ 5 million budget support loan operation by the World Bank as well as shortfalls in budget support grants.

Table 2. Liberia: Structural Benchmarks and Prior Actions, 2012–2013¹

Measure	Target Date	Justification	Current Status
Enhancing budget programming, control and monitoring			
Submit FY 2013/14 draft budget to legislature for approval	End-April 2013 (prior action)	To ensure timely approval and execution of the budget.	Met.
Set up the state owned enterprises (SOE) Unit at Ministry of Finance (MoF).	First Review	Improve monitoring of public sector contingent liabilities and total public sector borrowing.	Met. Staffing and training completed in March-April 2013.
Fully connect the General Auditing Commission (GAC) to the Integrated Financial Management Information System (IFMIS) giving GAC full access to IFMIS.	First Review	Improve expenditure control for effective budget implementation.	Met. Connection completed in March 2013.
Set up the Treasury Single Account approach at Ministry of Finance.	First Review	Move towards stronger central government liquidity management to reduce idle balances at line ministries and agencies accounts.	Not met. M&As have provided to the Ministry of Finance relevant details on all accounts held for operational purposes at the Central Bank and commercial banks, awaiting further action.
Implement monthly sweeping of balances in operational accounts of eight M&As held at the CBL into the treasury's operational account.	End-June 2013	Improve cash management with a view to eliminate idle accounts.	Newly proposed. In process. Pilot phase of monthly sweeping to begin by end June 2013.
Commence daily sweeping of balances in operational accounts of all M&As held at the CBL into the treasury's operational account.	End-Dec 2013	Improve cash management with a view to eliminate idle accounts.	Newly proposed. Daily sweeping to begin by end December 2013.

¹ Starting with the second review, the target dates have been revised to reflect "test dates".

Table 2. Liberia: Structural Benchmarks and Prior Actions, 2012–2013 (Cont.)

Measure	Target Date	Justification	Current Status-Risks
Enhancing budget programming, control and monitoring			
Regular reporting by 8 largest State Owned Enterprises (SOEs) on their financial performance to the SOE unit at Ministry of Finance, starting with the quarter ending March 2013.	End-June 2013	Improve monitoring of public sector contingent liabilities and total public sector borrowing.	On-track. SOE Unit has been set up and is being given TA to prepare for this reporting.
Create the Resource Revenue Unit in the Large Tax Payers Unit in the Ministry of Finance.	End-June 2013	Support effective taxation of the natural resource sector.	Met. Operational since early 2013.
Ministries and Agencies submit to the Department of Budget and the Project Management Office of the MoF by end-June 2013 their cash and procurement plans for investment projects included in the FY2013/14 budget.	End-June 2013	Improve execution rate of public sector investment projects by ensuring that cash and procurement plans are ready at the start of the new fiscal year (July 1, 2013).	Newly proposed.
Activate the Civil Service Management (CSM) module within IFMIS and the Human Resource Management Information System (HRMIS) sub-module within the CSM.	End-June 2013	Reduce payments to ghost workers and increase fiscal space for capital investment. The activation of the CSM module will contribute to ensure that the illegal introduction of new staff to the payroll is effectively restricted.	Modified to reflect activation of CSM module. All regular and supplementary payrolls have been transferred, but not all payrolls have been cleaned up.
Complete clean-up of payrolls of 5 Ministries and Agencies (M&As) and upload the cleaned payrolls to IFMIS	End-Dec 2013	Reduce payments to ghost workers and increase fiscal space for capital investment.	Modified and reset. There are now 5 payrolls that remain to be cleaned up, but the process of cleaning up has been extended to December 2013 due to the size and complexity of remaining payrolls. There are risks of further delays given the size and complexity of the remaining payrolls.

Table 2. Liberia: Structural Benchmarks and Prior Actions, 2012–2013 (Cont.)

Measure	Target Date	Justification	Current Status-Risks
Improving capital spending execution and curbing current expenditure			
Establish Project Management Office (PMO) at Ministry of Finance	End-Dec. 2012	Monitor progress in capital spending associated with PRS2 and debt sustainability.	Met. Staffing completed and office became operational in March 2013. PMO assisting implementing M&As in preparing public investment projects for inclusion in FY2013/14 budget.
Complete forward looking medium term debt strategy consistent with fully costed PRS2.	End-Dec. 2013	Ensure consistency between borrowing plans and PRS2 and maintaining debt sustainability.	Newly proposed. Already started, but TA might be needed.
Submit to the Legislature the draft petroleum sector law and the amendments to the revenue code.	End Dec. 2013	Ensure the tax regime for the petroleum sector generates the appropriate level of revenues to the GoL based on international best practice.	Newly proposed.
General Auditing Commission (GAC) to complete audit of the FY 2011/12 budget using the Integrated Financial Management Information System (IFMIS).	End Dec. 2013	Improve expenditure control for effective budget implementation.	Newly proposed. GAC has full access to IFMIS to start audit and staff is trained in the use of IFMIS information.

Table 2. Liberia: Structural Benchmarks and Prior Actions, 2012–2013 (Cont.)

Measure	Target Date	Justification	Current Status-Risks
Enhancing national accounts statistics			
Compile and Publish Results of Establishment Survey	End-June 2013	Survey results needed to validate national accounts data needed for macroeconomic policy.	On-track
Commence Household Income Expenditure Survey.	End-Aug. 2013	Survey needed to validate national accounts data needed for macroeconomic policy.	Allocation made in FY2013/14 budget. Possible risk of logistical delays in the administration of the Multi Donor Trust Fund.
Developing the Financial System			
Issue government treasury bills.	First Review	Support financial market development and add a liquidity management tool to the central bank, and for treasury cash management purposes.	Met. T-bills issued on May 2, 2013.
Submit to Legislature a revised Insurance Act	End-June 2013	Streamline regulation in the insurance sector and establish the central bank as the sole regulator of all insurance agencies.	On-track
Establish a collateral registry at CBL	End-June 2013	Support more secure lending practices and prevent borrowers from contracting loans from multiple banks based on the same collateral.	On-track. The Collateral Registry Regulations to guide the operations and management of the registry has been published.

ATTACHMENT 2. TECHNICAL MEMORANDUM OF UNDERSTANDING

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

Quantitative Performance Criteria and Benchmarks

A. Test Dates

1. Quantitative performance criteria have been set for end-June 2013, end-December 2013, and end-June 2014 and indicative quantitative performance benchmarks have been set for end-September 2013 and March 2014.

B. Definitions and Computation

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

3. **Total Central Government revenue collection** includes all tax and nontax receipts (excluding contingent revenues) transferred into the GoL Revenue accounts at the CBL, including income and transfers from state-owned enterprises and public institutions (excluding external loans and grants). The GoL accounts at the CBL include the GoL Revenue Accounts in U.S. dollars, the Revenue Accounts in Liberian dollars, the Civil Servants Payroll Accounts in Liberian dollars, the General Operations Accounts in U.S. dollar, the General Operations Accounts in Liberian dollars, the GoL Special Rice Fund, and all Ministries and Agencies operational and other accounts. Any new accounts opened by the GoL at the CBL or at any other local financial agency shall be reported to the IMF as well. For the purposes of the program, the revenues of the GoL are measured on the basis of cash deposits in the Revenue Account in U.S. dollars, the Revenue Account in Liberian dollars, and the GOL Special Rice Fund converted to U.S. dollars using the end of period exchange rate.

4. **For end-June 2013, end-December 2013, and end-June 2014, social spending is defined as education, health, social development services, and energy sector spending** from the FY 2013 budget of the units listed below (payment vouchers approved by the Ministry of Finance) excluding contingent expenditure. It is evaluated as a share of total budgeted expenditure, where total budgeted expenditure excludes contingent expenditure and off budget expenditure.

Education, Health, Social Development Services, and Energy Spending

	End June 2013	End Dec. 2013	End June 2014
Total Education, Health, Social Development Services, and Energy Spending			
Education			
Ministry of Education			
University of Liberia			
Monrovia Consolidated School System (MCSS)			
Booker Washington Institution (BWI)			
Gbarnga Central High			
Forestry Training Institution (FTI)			
Cuttington University (CUC)			
National Commission on Higher Education (NCHE)			
W. V. S. Tubman Technical College (WVSTC)			
West African Examination Council (WAEC)			
Liberia Institute for Public Administration			
Agricultural and Industrial Training Bureau			
Zorzor Rural Teacher Training Institute			
Webbo Rural Teacher Training Institute			
Kakata Rural Teacher Training Institute			
Bassa County Community College			
Bomi County Community College			
Nimba Community College			
Lofa Community College			
Gboveh Community College			

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

	End June 2013	End Dec. 2013	End June 2014
Health			
Ministry of Health and Welfare JFK Medical Center (JFKMC) Phebe Hospital LIBR Jackson F. Doe Medical Hospital Liberia Medicines and Health Regulatory Authority National Aids Commission			
Social Development Services			
Ministry of Youth & Sports Ministry of Gender & Development Liberian Refugee Repatriation and Resettlement National Commission on Disabilities National Veterans Bureau Liberia Agency for Community Empowerment			
Energy Sector			
Thermal diesel (HFO) power station Transmissions and distribution Mount Coffee rehabilitation, transmission, and distribution to Bushrod Island			

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

6. **New domestic borrowing of the Central Government** is defined as new domestic claims on the central government since the start of the program. It will be measured by the change in the stock of all outstanding claims on the central government (domestic loans,

advances, and any government debt instruments, such as treasury bills and long-term government securities issued in the domestic market) by the banking system. The definition also includes the issuance of debt instruments by the GoL to the nonbank sector. For the purposes of measurement, claims in Liberian dollars will be converted at the end of period exchange rate.

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

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

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

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

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

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

13. **CBL gross direct credit to central government** is defined as the sum of claims on central government, including loans, advances, accounts receivable, overdrafts, and any government debt instrument as defined in the monetary survey template excluding CBL purchases of treasury bills in the secondary market. The gross credit to the government is expressed in U.S. dollars. Claims denominated in Liberian dollars are valued at end-of-period exchange rate.
14. **The net foreign exchange position of the CBL** is defined as the difference between (a) the CBL's gross foreign reserves including SDR holdings, and (b) the sum of its gross foreign liquid liabilities, ECF arrangement liabilities, and liquid liabilities denominated in U.S. dollars. The net foreign exchange position floor at end-June 2013, end-December 2013, and end-June 2014 is US\$15 million below the projected net foreign exchange position. The net foreign exchange position of the CBL is presented in the U.S. dollar. Assets and liabilities denominated in SDR are valued at a fixed rate of the U.S. dollar against SDR, 1.5844. Other currencies are valued at cross-rates against the U.S. dollar as of end-June, 2012.
15. **The net domestic assets of the CBL** are defined as base money minus the net foreign assets of the CBL converted into United States dollars at program exchange rates as defined in paragraph 14. Base money is defined as the stock of Liberian dollars in circulation plus reserve deposits of commercial banks in Liberian dollars at the CBL, plus sight deposits of commercial banks in Liberian dollars at the CBL and plus vault cash of commercial banks in Liberian dollars. The net foreign assets of the CBL are defined as foreign assets minus foreign liabilities of the CBL balance sheet.
16. **External financing adjustor.** The program ceilings for CBL gross credit to government and CBL net domestic assets will be adjusted upward and the program floor on the net foreign exchange position of the CBL will be adjusted downward, by the amount of the difference between actual and programmed external budget support and committed budgeted external loan disbursements up to a maximum of US\$20 million. The adjuster will be calculated on a cumulative basis from the start of the financial year (July 1).

Cumulative Program External Budget Support and Committed Budgeted External Loan Disbursements

(In millions of U.S. dollars)

December 2012	4.4
March 2013	28.2
June 2013	33.5
September 2013	12.6
December 2013	53.3
March 2014	55.9
June 2014	61.6

Program Monitoring

A. Data Reporting to the IMF

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

- Detailed reports on monthly core and contingent revenue and expenditure on both a cash and a commitment basis by budget line and a completed summary table on central government operations (monthly, within three weeks after the end of the month);
- Outstanding appropriations, allotments and commitments, and disbursements for line ministries and agencies (monthly, within three weeks after the end of the month);
- A detailed report on disbursements of budget support grants and budgeted and off-budget loans, by donor and by project (monthly, within three weeks after the end of the month);
- End-month balances in the GoL accounts at the CBL. These comprise the GoL Revenue Accounts in U.S. dollars, the Revenue Accounts in Liberian dollars, the Civil Servant Payroll Accounts in Liberian dollars, the General Operations Accounts in U.S. dollars, the General Operations Accounts in Liberian dollars, and the GoL Special Rice Fund. Any new accounts opened by the GoL at the CBL or at any other local financial agency shall be reported to the IMF also (monthly, within three weeks from the date of the statement);

- End-of-month balances of all operating and other accounts at the CBL of the line ministries and agencies receiving budgetary appropriations (monthly within three weeks after the end of the month);
- End-of-month balances of all operating and other accounts at the CBL of all other public institutions (monthly within three weeks after the end of the month);
- A table providing the end-of-period stock of domestic arrears accumulated and payments made on arrears during the program period, by budget category (wages, goods and services, etc.), including payment and stock of existing arrears from the previous ECF Arrangement, (monthly, within three weeks after the end of the month);
- The amount of new external debt contracted or guaranteed by the public sector (monthly, within three weeks after the end of the month);
- The amount of new domestic debt contracted or guaranteed by the public sector (monthly, within three weeks after the end of the month);
- A detailed report on monthly payments on external debt by category and creditors and the stock of external debt (monthly, within three weeks after the end of the month);
- A detailed report on monthly payments on domestic debt by category and the domestic debt stock (monthly, within three weeks after the end of the month);
- The balance sheet of the CBL in the monthly monetary survey (monthly, within three weeks after the end of the month);
- The full monthly monetary survey of the monetary sector (monthly, within three weeks after the end of the month);
- The detailed table of commercial banks loans and advances by sector (monthly, within three week of end of month);
- The core set of financial soundness indicators for the banking system, including the overall profitability of the banking sector (quarterly, within three weeks after the end of the quarter);
- The report on the results of foreign exchange sales/purchases by the CBL through foreign exchange auctions held by the CBL (weekly) and other currency exchange facilities;
- Regular sale of U.S. dollars by the Ministry of Finance to the CBL, including amount date, and rate of exchange (monthly, within three weeks after the end of the month);
- Indicators of overall economic trends, including but not limited to:

- detailed tables of the monthly harmonized consumer price index (within three weeks after the end of the month);
 - daily foreign exchange rates (monthly);
 - export volumes and values by major commodity, import values by standard international trade classification (SITC), import volumes of rice (by commercial and noncommercial use) and petroleum products (monthly, within three weeks after the end of the month);
 - interest rates and commercial bank remittance inflows and outflows (monthly, within three weeks after the end of the month); and
 - production data in value and volume (monthly, within six weeks after the end of the month);
- Quarterly reports of state owned enterprise financial operations submitted to Ministry of Finance;
 - The report on the status of implementation of the structural performance criteria and benchmarks specified in Table 2 of the MEFP (monthly, within three weeks after the end of the month).

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

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